NIIT Limited
Quarter Two Earnings Conference Call - Financial Year 2008-2009
October 21, 2008

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

Vijay Thadani: Okay, good evening. My apologies, there was some disconnect between me and the operator. So, thank you very much for being here on the call. My apologies for this small delay which happened because of technical reasons. What I would quickly do like I always, give you a quick overview of the last quarter's results and then on that basis, we can get into a question and answer session. I have with me the whole management team of NIIT, Mr. Mr. R.S. Pawar, the Chairman of the Company; Mr. P. Rajendran, Chief Operating Officer; Mr. G. Raghavan who heads the individual learning business; Dr. Smarajit Dey who handles the new businesses, Finance and Management Training. Mr. Balasubramanian is unfortunately not here with us, but Mr. Rajendran will make up for that, and Mr. Ashish Basu who would handle questions on corporate learning solutions as well as the new joint venture we have with Genpact. We are discussing the quarter two of NIIT Limited financial results and consolidated financial results. Like always, I would talk about the environment for a minute and then get into the real results. I don't think anyone of us requires an introduction to the current environment which is the whole global economy is in turmoil. We have a crisis of confidence happening in the banking sector. There is a fear of recession which is looming large. There is very low liquidity, very tight credit market. The corporate sector is operating in a state of uncertainty and the consumer sentiment as well as spending is affected across sectors and many believe that the expectations, that the recovery will take very, very long to happen. We don't know how long but in that volatile environment is how we spent the last quarter. Our own economy, Indian economy was also affected, is also affected, but we believe we are relatively better off. Our GDP growth, even though estimates are lower, is still 7% plus and actually a slower growth is the general theme which we hear across the industry. Even the IT spend in the country, while it will be robust, 17% to 24% as per the latest study which came out yesterday, it would be…it is lower than what the original estimates were. So, I think a slower growth expectation is what is settling in in the economy. On specific sectors, there are some special events happening like banking sector is under a recruitment freeze. Other parts of financial services and industry are also showing restricted recruitment, though for specialist positions, there are still lot of jobs. The retail consumer sentiment is also affected by the BFSI industry and economy and in general weight and watch seems to be the other of the day . So, those are the bad news on the Indian side, but the good news on the Indian side is government's focus on education and improving employability is increasing dramatically.

So, I talked about the environment and essentially I talked about the government focus on education and improving employability training. I also talked about the skills development initiative of the government and I see those as very welcome signs for opportunities that would fit NIIT's core competencies and have a strong match there. Coming to NIIT's own financial highlights, before I start with the financial highlights, I thought I will share with you a data that came out with the recent ranking of training companies in the country. NIIT as expected and as has been the case from the first year of the inception of these rankings has been ranked number one, but what is interesting is that NIIT has improved its market share in the last year as well. We are now nearly four times our nearest competitor, actually more than four times our nearest competitor and that lead has increased in the last one year. Coming to our financial highlights, I would like to consider this as yet another quarter where we had accelerated revenues coupled with profit improvement. Our system-wise revenues were up 17% to 4.68 billion rupees. Our net revenues were up by 15% and for the first time we crossed in our quarterly numbers the 3 billion rupee mark. We were at 3.095 billion rupees. Our EBITDA is up by 13% to 406 million rupees. Coincidentally, the EBITDA percentage is also 13%. Our PAT is up by 41%, and I will explain that in a short while, to 297 million rupees. The operational PAT is up by 64% which also I will explain to touch 208 million rupees. Our EPS is at 1.80, 40% growth year on year. Now, all this is on the back of a few very important development. One is the global enrollment in our individual learning space. The global enrollment in the individual learning space grew by 22%. I will give you further breakups of that as I go forward. In corporate sector, which is one of the areas which has been a cause of concern, we had a very robust order intake of 39.47 million dollars and we launched NIIT Uniqua which is by the way the name of the joint venture which we have had with Genpact for BPO training. Uniqua commenced their operation towards the early part of…towards the later part of August, early part of September and in fact as we speak now have some enrollments to their credit with three centers operational, two in NCR, Delhi, one in Gurgaon, one in Noida, and one center in Bangalore. Overall financials for the quarter essentially show that the net revenue grew on the basis of growth in each of the businesses and I will get into each of the businesses, but predominantly led by the individual learning solutions, IT part of it which had a substantial growth. In terms of operating expenses, if you were to compare year on year, we have grown at approximately the same level as revenue. However, on a quarter-on-quarter basis, you would see that there has been some conservation of cost because we were operating at a much higher cost structure the previous quarter, which we…at about 13% and our operating margin is at 13% . Compared to last year, there has been a very small change in depreciation. Given the fact that we did add new assets but we had also large number of assets whose life was over, so those had gone out of the balance sheet. In other income, we have a positive impact. I will explain that positive impact in a short while. Overall, in operations, net profit from NIIT operations, we saw a 64% growth at 208 million, share of profit from associates was at 89 million and therefore we have a PAT of 297 which represents a basic EPS of 1.8, 1 rupee 80 paisa for every share. In terms of the revenue mix, if you look at our system-wide revenue, the system-wide revenue has improved in favor of the IT training part of the business. ILS IT is now 59% of the revenue, having grown 24% year-on-year. ILS finance and management training business is at 3% of the revenue having grown 40% year on year and schools business which has grown 32% year on year and corporate which has grown 3%. Schools now contribute 7% of the system-wide revenue mix and corporate 31%. In terms of geographies, geography mix, the India geography or India-based revenues have grown 26%. US, Europe was nearly flat and the rest of the world grew at 29%. Moving on to…before I move on to individual businesses, let me talk about the entry called other income. In other income, we had four components, we had the component of foreign exchange benefit which would have got accounted, which was offset by the hedging losses on one hand. We also had a one-time entry which as a transfer of land or the consideration which we got out of transfer of land which was standing in NIIT's name to NIIT University which as you know is in the process of being set up and would perhaps start to commence operations in the next academic year. There was also an interest payout on the basis of the loans that we have on our balance sheet. So, that is the reason we have a positive 21 million other income in our P&L account. Now, let's talk of the individual learning solutions and let's start with the overall number. At the overall level, we have a 26% growth and an operating margin of 26% as well. Within which, the IT part itself had a 26% growth and 26% margin. The revenue growth has a geography mix of India contributing 64%, China 16%, and rest of the world 20%. The revenue growth essentially came out of a robust growth in enrollment. In India, the overall enrollment growth was…oh sorry…in IT, the overall enrollment growth was 21%. Within India, the GNIIT series had 24%, Edgeineers at 25%. While we increase the seat capacity in India during the quarter, we had a higher utilization and therefore we had an improvement in operating margin of 170 basis points and therefore the operating margin in this quarter was 26%. We have a closing net order book of 1.90 billion rupees, 68% of which is executable in the next 12 months. Some of the highlights of the last quarter were NIIT launching new courses in partnership with SAS which is a leading organization in business analytics and business intelligence systems and the second was Cisco where we launched the Cisco certification curriculum as a part of NIIT offering. We also launched Sun courses in key international geographies such as Vietnam and Ghana. So, on one hand, the growth looks very impressive. On the other hand, we also realized that this was also a quarter when we had a large number of national calamity during the quarter with floods in Bihar on one side, certain bomb explosions and stuff like that which did disrupt proceedings and we measure our availability on the basis of center days that we get and we did see a reduction in center days available to us to attract a large number of students. The situation did stabilize towards the third part, I mean the third month of the quarter and that is the reason you see this. Of course, we also noticed slower decision making cycles and students hesitating to figure out what they should do or not do given the fact that there was a big debate in the news media as to the future of IT, IT outsourcing, and the jobs, but I think over a period of time, we were able to convey and are continuing to convey a strong message saying that generalists will find difficult to compete for job even though the jobs are increasing in number, the important question is you need to specialization and special competencies and NIIT has the solutions which you need to get those specialization. Moving on to the finance and management training space, this was, as you can see in the last quarter, was chugging on very well, has been obviously affected by the changes in the banking environment. As I mentioned before, there is a recruitment freeze in nearly all the banks that we are talking of and this does have an effect on the new enrollments in this place given the fact the students were, for a particular part of our offering, were being given appointment letters at the time of joining the call. Having seen this, the team was quick to come up with and have been actually in anticipation of that preparing alternate course offerings and were able to get some of the newer courses going. For example, a course in business communications and personality for BFSI professionals or given the current volatility in the market and lack of confidence of the retail investor, a course in personal finance which we have recently launched. We also continue with partnership with organization, the latest one to enter was Reliance Retail who want to offer a certificate program in financial services to a part of their staff and because they would like to have financially literate staff as well as have counters at their retail stores who would help people with financial products. NIIT Imperia continued with its growth programs and launched two new programs at IIM Lucknow on executive, an executive general management program and a special program designed for IT and ITeS professionals. In school learning solution space, we had started the quarter with a huge order book which came because of the Andhra Pradesh order for 2005 schools. This quarter, not too many tenders which were opened would get decided. So, it was not a quarter where large number of orders got placed, but it did become a quarter in which we had huge implementations of existing contacts happening. This led to a revenue growth of 32% year on year with an EBITDA percentage of 14 which is in line with what we have done earlier. Our non-GSA revenues grew 36% year on year. The important thing was the launch of eGURU comprehensive solution and the word comprehensive is to be underlined and this solution has received very good acceptance; in fact, has been referred to by a number of…as a benchmark and as the best available solution for a private school along with its contemporaries. So, this successful eGURU product launch should give us much more traction in the private schools as we go forward. The total number of school service during the quarter are at 7,803 which includes 1,131 non-GSA schools. In corporate learning solution, we had talked about the fact that we were reorganizing our product portfolio. The custom project part of our product portfolio was experiencing degrowth because of reduction in discretionary spends and delayed decision making cycles in corporate America as well as Europe and therefore our focus was increasing on learning products where we have a unique advantage, thanks to our Element-K product library as well as training outsourcing where NIIT's spread and reach contributes a lot to our competitive advantage. Both those strategies have worked very well. We saw a 15% year-on-year growth in training outsourcing and learning product revenues. However, our sluggish custom content revenues balanced a part of this and therefore the overall growth which we got was 3%. It is important for me to talk about the fact that the custom content size now seems to have bottomed out because we actually had a flat quarter compared to a degrowth which we had experienced in the previous quarters. The India part of the corporate learning solutions continues to grow at a robust rate of 48% year on year and we do see this trend to continue. While quarter-on-quarter comparisons are not very valid in our business given the seasonal nature, I just felt that for corporate, I should point out that our quarter-on-quarter margin expansion has been to the order of 279 basis points. Given the fact that we are an organization in transition because of our product portfolio change, I thought this would be relevant to explain that the corporate learning solutions is gaining momentum in terms of stabilization of its new strategy. We got a very decent order intake of 39.47 million dollars which caused a pending order book of more than 93.5 million dollar, 65% of which is executable in the next 12 months. Moving on to some elements of the balance sheet, we generated 327 million of cash from operations. We did have a higher fixed asset spend given the large project of Andhra Pradesh and Maharashtra that got implemented in the last two quarters as well as a small spend on new initiatives and capacity expansion. So, overall spend of 486 million in this quarter. Our DSOs are at a higher level which is natural given the fact that we just implemented the Andhra and Maharashtra projects and those payments are on their way as we speak. So, overall DSOs have increased by 6 days on LTM revenues to 85 days. Overall debt has also increased since we had a new borrowing to fund some of the CAPEX that we spent, so the new borrowing has caused the overall debt to increase to 2.89 billion rupees, which obviously includes new debt as well as forex impact on dollar borrowing given the fact that dollar in this quarter had moved on. Overall, at a headcount level, we added 55 people in the quarter, primarily in the new business which is Uniqua as well as new projects which is the Andhra Pradesh project of the school learning solution. Going forward, if I was to summarize, if we look at the current economic situation, the impact of current situation on economies across the world, industries across the world has been fairly severe, but what you saw from these results, while we are affected, I think we have been able to contain the effect of these….of the economic volatility on our business, primarily (a) because of the diversified nature of our business, given the fact that we have a number of offerings in our portfolio on one hand and the second that we could, given our past experience of having been through it before, we could be proactive about a few issues and start taking a few actions rather than waiting for the whole volatility to descend on us and that is the reason we have been able to contain the impact of that and show the growth as well as profitability that we are talking about. Going forward, we have a number of plans recognizing the volatility in the situation, which I have to do with, becoming more aggressive in the market place on one hand and launching more appropriate products which have to do with today's times coupled with very high degree of prudence in terms of cost conservation, cash conservation, and the number of initiatives which we have launched in that direction. One such would be capacity increase. We have made sure that different product lines had unique needs to start creating independent capacity, we could perhaps contain a little bit of that and therefore…for example, for Uniqua, we have launched three new centers and in the other centers they would share capacity with the existing IFEI, FMT, NIIT Imperia or NIIT centers. So, capacity consolidation is one such move which is to contain cash and conserve the cost as we go forward. The third is a high degree of transparency. When times are volatile, there are different impressions people can form, so our connect with our people and constant communication with our people is an important part of the exercise, connect with our partners and customers and more important than anybody else, a constant dialogue with shareholders is also something which we have not only planned but are doing. At this time, I would also like to invite all of you to join us for an investor meet which we have kept in Mumbai, for which individual invitations would have been received by most of you, but if they have not been received, I would like to invite you for an investor meet which has been kept at Indian Merchants Chamber at Churchgate at 4:30 p.m. on 23rd of October in Mumbai. In case you would like some details of logistic or more information, please do not hesitate to contact Kapil Saurabh who looks after investor relations or Vijay Kumar or myself or anybody else that you know of the management team in NIIT, and we would be very happy to have you there. At this time, I would like to pause here and invite questions from you, so that we can get into a meaningful discussion. Thanks once again for a patient hearing.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. First in line, we have Ms. Divya from JM Financial. Please go ahead with your question ma'am.

Divya Nagarajan: Hi. Just wanted some sense on the enrollments that you expect in IT, we had strong enrollments this quarter, but given the slowdown, we have heard earnings cuts from IT companies as well. Do you think that we could see some sharp dip in the enrollments for the rest of the year, how do you feel it panning out?

Vijay Thadani: Okay, I will answer a part of it and then maybe Raghu will just supplement. First of all, the clarion call that we are giving to the youngsters who are in their final years in college, final year in college or those who are graduating because a number of them would have been waiting for campus placements which may have been slower because their previous batch may not have finished joining the organization on one hand, so our clarion call is that being a generalist will not take you anywhere, you have to create unique differentiators for yourself. So, therefore we have launched a large number of certification courses which will give them. modular certification courses which will give them that unique differentiator which will help them get those jobs. I do want to point out that number one, there are…the industry will continue to hire as Infosys recently pointed out that they are hiring nearly 25,000 people in the next 12 months and so on and so forth, the hiring numbers may have been lower but it is much, much higher than what it was…much higher than what it was last year. What people would require is first-day first-hour ready professionals, what people would require is professionals who have certain specialization and certain skills, so we believe if we continue with that, yes, the mood does create delayed decision making cycles, we may be able to get a good growth as we go forward. Raghu, you want to add something?

Mr. G. Raghavan: Yeah, I think those points are correct. Essentially, we are only hearing of lower hiring, no freeze on hiring or new resentment, therefore we think that the hirings will continues and to cite our own experience in the last quarter, we have placed about 49% or more people in the IT industry than comparable quarter last year and given the cost and productivity pressures, we think that the IT organizations will look increasingly for readymade talent like Vijay said first-hour first-day ready talent and that augurs well for individuals to go ahead and get them to feel better to be job ready, so when the jobs are there, they get the opportunity to be there. So, that is the environment for you. So far, the only reflection that we have seen is a little bit of a delay in terms of decision making cycles, but there is nothing beyond that that we have seen so far.

Divya Nagarajan: Raghu, I also understand that the last time around when IT went through a downturn with the recession in the US, we saw the IT training market itself almost halved. What are your indicators that, you know, something like that will not happen this time, is there anything different in the dynamics that we have seen this time around?

Vijay Thadani: Okay, Vijay here, let me answer since last time Raghu was not there. First question, first thing, first indicator of that was, you know, people take breaks for exams and we saw a large number of students didn't come back from the break. This time, we have been through that and we saw that didn't happen. In fact, a larger number of students came back than the small number that kind of who do not. The second issue is in this case, at that time, there was not too much of formal sector in information technology or computer science education. Now, you have nearly 450,000 engineers who may or may not have qualified to or qualified formally to take on a career in computer science, but 90% of them wanted to do that. So, their aim is very clear that maximum number of them would like to find job in this sector. Third indicator of these are some competitive exams which we do. We discuss with you the NIIT IT aptitude test which had received a very good response, nearly 42%...

Male Speaker: 14% increase in the application.

Vijay Thadani: No, now I am talking of the Bhavishya Jyoti scholarship where we again saw an increase in the number of students who have taken the test….

Male Speaker: 42…

Vijay Thadani: Yeah, you can give those numbers. And these are indicators of the fact. So, what has happened is IT is still appearing to be a very, very strong choice for a career. All research, all reports, all writings on the wall are in that direction. Having said that, let's also understand the time of the year that we are in. Quarter two is our best quarter. It is the highest enrollment and I think if you have been able to capture your highest enrollments in the peak quarter, the next two quarters enrollments are by design much, much lower. So, the good news is we are getting into the leaner quarters for getting the balance enrollments that we need. Last but not the least, we are also discussing a much larger IT industry. We are discussing a much larger IT outsourcing industry. We are discussing a more mature industry. So, I think all these factors with the overall GDP growth in the country, all points to the positive. Having said that, we don't expect the…we do expect that there will be an impact of the sentiment which will affect the growth, but we are trying to make sure that that impact is minimized.

Divya Nagarajan: Right. Could you also just give me the number of schools that you added in government and private sectors respectively during the quarter, the new addition.

Vijay Thadani: Okay, I will give that to you separately. I gave you I think the total number of schools. We didn't add too many schools in government because there were no new tenders, maybe 30 or 35, but we did add government schools. We started already delivering education in schools which we had added last quarter which is Andhra Pradesh, but I will give you the schools which we added.

Divya Nagarajan: Fair enough, fair enough. And there has been a sharp deceleration in your growth rates for the FMT side of the training business. Growth rates in this quarter were as low as 40%. Do you see the economic slowdown also affecting this business going forward?

Vijay Thadani: Yes, and I will explain to you…well, yes and no. First, let's see what causes the deceleration. As I mentioned, the retail, the banking retail, the part of the community where we were creating professionals who would get appointment letters at the beginning of the call, that part of the enrollment process this year, this quarter has not been there because we had students which were already studying and all the banks that we had tied up with are honoring their commitment, but they have recruitment freezes, so they obviously cannot take any more. So, what we did was to compensate that by launching new courses and a part of that compensation phenomenon has already happened, and I guess Dr. Dey will tell you more.

Dr. Smarajit Dey: Yeah, as Vijay mentioned just now, the deceleration is on account of the banking retail programs which was led by recruitment by the banks and that while it has slowed down significantly in the last quarter bringing down what was 105% growth in our revenue for the quarter one down to as you said about 37% for quarter two. However, our other programs which are in the management and other financial series programs that we have are continuing to grow well and do well. In fact, in the last quarters, they have shown about than a 100% improvement in terms of enrollments and we are, going forward, strengthening those set of programs very significantly. As we just talked about the consumer program that we have launched which is applicable for everyone which is a personal finance series of programs, we will have other domain-specific programs, NIIT Imperia management programs and so on in this area and thus able to compensate to some extent the slowdown that will happen on account of the banking retail programs staying virtually flat compared to previous year.

Divya Nagarajan: Are you also seeing slowdown in Imperia, the enrollment strength?

Dr. Smarajit Dey: No. In fact, we are not seeing…we are seeing the growth as planned and projected initially and there is no slowdown there.

Divya Nagarajan: Okay, okay. One last question and maybe I will take it offline. Are you expecting any contribution from Uniqua this fiscal in revenue and what losses that you are factoring in?

Vijay Thadani: Well, Uniqua will definitely have a contribution, it got going on

Divya Nagarajan: So, what is the kind of revenue and contributions you are looking at and their losses?

Vijay Thadani: We will share those numbers with you. I don't have them right away. Do you have them Ashish? Okay, we will just pull them out and give you the answers.

Divya Nagarajan: Thanks and all the best.

Vijay Thadani: Yeah, and I mentioned about the training outsourcing of Genpact, so I may have said complete, what I wanted to say was most of what the training that they do, there is still some training which they do internally.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Ruchit Mehta from HSBC. Please go ahead with your question sir.

Ruchit Mehta: Yeah, hi, good evening. Congratulations on your numbers. I just wanted to understand the growth momentum in the corporate side of the business. Could we get a sense of what was the actual dollar revenue growth for the business?

Vijay Thadani: Okay. At a volume level, our growth would have been flat if we had all the India and the US and Europe and all of them.

Ruchit Mehta: How much is that sir?

Vijay Thadani: I am sorry…

Ruchit Mehta: How much is the volume growth?

Vijay Thadani: It was flat.

Ruchit Mehta: It was flat, okay.

Vijay Thadani: Yeah, yeah.

Ruchit Mehta: So, how do you see this business going forward, I mean especially concerning that lot of people tend to believe that corporate training tends to be one of the most discretionary expenditures.

Vijay Thadani: Yeah.

Ruchit Mehta: So, how do you see it at least panning out over the next say two to four quarters?

Vijay Thadani: So, if you remember, last few quarters we have been talking about the fact that we are changing the product portfolio and we have been talking about reducing our dependence on custom projects and increase the annuity and learning product part of the business. So, while the custom project part of the business has been shrinking year on year, but on a quarter-on-quarter basis, it has now flattened out. So, if you saw that we have a quarter-on-quarter growth in numbers on one hand, on the other, in learning products and training outsourcing, we are seeing a positive growth of nearly 15 odd percent this quarter result. So, we see those to be the two drivers and we do see the growth picking up in the following quarters given the fact that in the last two quarters, last quarter also we had received nearly 39 point odd million dollars of fresh orders and this quarter also we have got 39 million odd dollars of fresh orders. Their implementation because annuity-based and product-based revenue, you know, you recognize the revenue over a period of the contract which is typically three years, we would see those cumulating to give us benefits in the next two quarters.

Ruchit Mehta: Sure sir. And also in terms of the new business, you know, we have been looking at targeting growth of about, you are doing about 70 to 80 crores of business in the current year, do we still expect the same numbers to flow through?

Vijay Thadani: No. It would be improper to assume that given the fact that the whole banking system is a massive turmoil…

Ruchit Mehta: Okay, okay.

Vijay Thadani: …and one of the important leads of that business was the banking retail offering where we were training…we placed nearly 4,000 students last year and were aiming to blend double or more of that number and we are barely going to be able to meet the same number as last year and that also because there are commitments made by banks which they have to honor, but maybe Dr. Dey will add…give a little color to it.

Dr. Smarajit Dey: Actually to repeat whatever has been said before, essentially all other parts of the FMT business will grow as was projected, but this particular area will see a flat pattern compared to the previous year and that is how the business will pan out for this year.

Ruchit Mehta: So, would it...

Dr. Smarajit Dey: Therefore, we are talking about a revenue in the range of 450 to 480 million.

Ruchit Mehta: Okay.

Dr. Smarajit Dey: Which is about a 50% growth over the previous year.

Ruchit Mehta: Sure sir. And in terms of the profitability of this business, now because, you know, there has been a slightly slower growth and, you know, one was banking that as growth comes into play, you know, utilization will improve and therefore margins. Where do you see margins for this business heading?

Dr. Smarajit Dey: We expect a margin of about 5% for this year.

Ruchit Mehta: Okay, okay.

Dr. Smarajit Dey: But that should improve to about 10% by FY10 and improve significantly after that.

Ruchit Mehta: Actually I lost you sir, you said 10% by?

Dr. Smarajit Dey: FY10.

Ruchit Mehta: Okay, okay, okay. So, you…but it would be more back-ended like towards the end of FY10, it is for quarterly we should expect 10% or for the year as a whole for fiscal 10, you see a 10% margin.

Dr. Smarajit Dey: I think fiscal 10, you will see a gradual increase…

Ruchit Mehta: Okay.

Dr. Smarajit Dey: …as we increase capacity utilization.

Ruchit Mehta: Sure sir.

Dr. Smarajit Dey: And the essential issue is that the banking professional, part of the capacity is what has to be taken up by other products that we are launching as we go along and that will happen over the next three or four quarters.

Ruchit Mehta: Okay, great. Just finally to better understand the institutional side of our business, you know, EBITDA margins have been fairly stable at about 14% over the last two quarters, do you anticipate them to improve going forward or would they continue to remain at this same broad level?

Vijay Thadani: No, they would improve going forward.

Ruchit Mehta: Okay.

Vijay Thadani: It is an issue of the product mix that we are using.

Ruchit Mehta: Okay.

Vijay Thadani: And as we have mentioned that you would see a 200 to 300 basis point improvement as we go forward.

Ruchit Mehta: On a year-on-year basis?

Vijay Thadani: Yes, in the next quarter, next two quarters.

Ruchit Mehta: Okay. So, next two quarters, okay, broadly you are looking at something like about 15 to 16 percentage point.

Vijay Thadani: Yes.

Ruchit Mehta: Okay. And you are still looking, the overall revenue growth target for that institutional side of the business, about 30% to 40%?

Vijay Thadani: Yes.

Ruchit Mehta: And the same for individual as well in terms of 30 odd percent?

Vijay Thadani: No. We would…we don't think at this point of time it would be prudent for us to look at a growth of 30% plus in individual side of the business. We would perhaps see in the next two quarters an extension of what you saw happening in this quarter.

Ruchit Mehta: Okay.

Vijay Thadani: In fact, we see that there will be volatility, there will be slower decision making cycles. We would like to be more prudent and perhaps like to talk about early to mid 20s rather than 30% plus.

Ruchit Mehta: Sure sir, great. And in terms of capital expenditure plans of the company, I mean are we deferring any of that or we are still holding on to spending about 100 odd crores?

Vijay Thadani: Sorry…the CAPEX, given the current volatility in the market, one of the strategies which we are adopting is to make sure that we conserve cash to the maximum.

Ruchit Mehta: Okay.

Vijay Thadani: And therefore all discretional CAPEX is on hold. We would like to make sure that we only do CAPEX which is project related, which is specific project related. We have done 76 crores of CAPEX as we speak and given whatever we have as work in progress and to be implemented, we do see that we may be within those limits.

Ruchit Mehta: Okay.

Vijay Thadani: If, however, we get into some new order, new project orders which require CAPEX, then obviously you would see the corresponding benefit of revenue as well.

Ruchit Mehta: So, it is also safe to assume 100 crores can be spent for the year as a whole.

Vijay Thadani: Yes.

Ruchit Mehta: Okay, okay. And just on your balance sheet….

Vijay Thadani: No, no, I must also mention 100 crores that have to be spent, lot of that is work in progress already.

Ruchit Mehta: Okay, okay, great. Just to finally get a sense of…can you just give, what is the total debt on the books of the company, gross debt, the cash balance, and what is the cost of debt right now for you?

Vijay Thadani: Okay, we will pull out that data…

Ruchit Mehta: Okay.

Vijay Thadani: …just give us a minute.

Ruchit Mehta: No problem, great. Thank you so much.

Vijay Thadani: I can meanwhile handle the other question.

Ruchit Mehta: Yeah, I am done. Thank you.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir.

Vijay Thadani: Yeah, I have an answer to your question, you wanted to know what will be Uniqua's revenue for this year, we are looking at a revenue of about 80 million this year and Uniqua in this year would have an EBITDA negative of minus 40.

Moderator: Thank you sir. Next in line, we have Ms. Grishma Shah from Edelweiss Securities. Please go ahead with your question ma'am.

Grishma Shah: Yeah, hi. I want to know whether we have reached our peak in terms of margins for the ILS business on the IT side.

Vijay Thadani: In the past, we have always discussed that the steady state margin of 25% and a steady state utilization of about 70%. The good news is you have been able to see margin of 26% at a utilization of 67%.

Grishma Shah: Yeah.

Vijay Thadani: So, on one hand, if utilization was to improve 70%, you should see some improvement in these margins in a quarter in which that would happen. On the other hand, it depends very much on a product mix. Overall, I would like to say we are hovering in the range at which you can get matured margins.

Grishma Shah: Okay. So, why have the margins improved this quarter, one, I can see is your revenue utilization has improved. That is one. Second, you also added the capacity, so have we finished our addition for the entire year in terms of capacity at ILS, especially on the IT side?

Vijay Thadani: No, actually they had…ILS had capacity expansion plan, but as I mentioned in my opening remarks, we have decided given the situation which we are seeing in the market place in the last three months to do some capacity consolidation which means see if we can…if products can share capacity with each other.

Grishma Shah: Okay.

Vijay Thadani: So, to that extent, you would see only marginal addition as we go forward. Raghu, you want to add something.

Mr. G. Raghavan: Yeah, that is correct. I think our capacity addition going forward will be limited to unrepresented areas and to accommodate newer products within the existing centers, but we will be looking at the driving productivity more than sheer physical addition of capacity.

Grishma Shah: Okay. And what was your fresh order intake for IT this quarter, ILS IT?

Vijay Thadani: ILS IT fresh order intake, okay, I seem to be at a phase difference on answering questions. I have answer to the previous question now. This is order intake, okay. Order intake for ILS IT this quarter was 1605 million and somebody had, Ruchit I think had a question on the debt on the books. Total debt on the books as on the date was 2891, average cost of that debt is 9% to 10%.

Grishma Shah: Okay. And sir, if you could, you know, also put some light on the corporate side of the business, I mean why have we seen margin improvement this quarter and were there any cost cutting measures that we have taken because I see sales, number of employees in the sales and marketing going down, is it because of that?

Vijay Thadani: Well, no, the number of employees in sales and marketing I don't think have gone down in any part of the business, but yet the following things would have happened. Number one, in the margin, you have the benefit of improved efficiency, improved utilization as well as the product mix as it has changed in the favor of learning products. Learning products are much higher margin products and outsourcing also, once you start utilizing your capacity, gives you better margins.

Grishma Shah: Okay.

Vijay Thadani: And therefore that is the trend which you should see going forward as well, an improvement in margins.

Grishma Shah: Okay. And if you could, you know, just break up the other income in terms of the transfer of land and the interest and etc., that you said was there in this quarter.

Vijay Thadani: Yeah, so I will give you. The total forex benefit was 10 million, the hedging losses were 24 million, the benefit from land transfer was 95 million, the interest payout was 60 million.

Grishma Shah: Okay, okay. And for the private school side, in the ICT, are we facing any execution delay this quarter or anything or we are on track?

Vijay Thadani: No, execution delay will perhaps not be an appropriate word, we did come up with a comprehensive launch of our product which happened in October, which could have happened in mid August or September, but that is the only…that is the only "delay" that I can think of.

Grishma Shah: Okay.

Vijay Thadani: But we launched the product, it has been received very well. We had been receiving orders for components of that solution earlier. Going forward, we would not see full solution implementation.

Grishma Shah: Okay. And can you tell me how many number of students, total number of students are currently enrolled with NIIT, especially on the IT side.

Vijay Thadani: Okay, you want to know total students on rolls in NIIT, on the IT side.

Grishma Shah: Yeah

Vijay Thadani: I don't have that number readily available. I don't think that is a number, data point which we have been discussing in the past.

Grishma Shah: Okay.

Vijay Thadani: But you have the enrollment.

Grishma Shah: Okay. And, I mean, why has the tax rate changed this quarter compared to what it was last quarter?

Vijay Thadani: Tax rate depends on zillions of variables. It is a complex calculation and at this time of the year you have to make provision for tax, which sometimes have to be in excess of what you think the tax would be because there is a penalty if you have not…if you have underprovided. So, we have…we do some conservative provision of those taxes. For the year, we had shared the tax rate with you. In each quarter, the provision is based on a complex calculation.

Grishma Shah: So, but we are at a 26% of tax to PBT ratio this quarter, we were at negative tax to PBT ratio in Q1.

Vijay Thadani: Yeah, as we mentioned before, we had tax assets there, deferred tax assets there, so if you took those out and that provision you make once in a year, right, so then you will come out differently. So, tax is a complex calculation, but overall what we have mentioned to you that our incidence of taxation is about 14% of PBT assuming our profit structure to coming out in a certain mix from India and export operation. The export operation is tax free, Indian operation is taxed, so on and so forth.

Grishma Shah: Okay, one last question. We are 50 crores plus sequentially in terms of our revenue and when I look at our PAT, I am not including the minority part, we are 12 crores plus, so that means we have incrementally, I mean on 50 crores we have earned 12 crores, how does one look at it because your margins shoot up dramatically, so what is that sensitivity which drives the additional 50 crores to give you 12 crores.

Vijay Thadani: Okay. Are you referring to EBITDA or are you referring to PAT?

Grishma Shah: PAT and EBITDA both.

Vijay Thadani: Okay. So, at an EBITDA level, this is the seasonal part of the business, so if you see, if you compare any two times quarter one and quarter two, you will see a very similar pattern. So, that is…there is, of course, a fair degree of efficiency which has been deployed there in this quarter because this quarter we started the quarter with huge financial turmoil in the market. So, we obviously braced ourselves for that and going by past experience, did cut down on a few things which we should have done, but that impact has been marginal. What you are seeing is what is a traditional difference between Q1 and Q2. If you see any of the past years, you will see a similar trend. This year, it will be a little more exaggerated because of the control.

Grishma Shah: Okay. Okay, thank you.

Vijay Thadani: Thank you.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Dipen from Kotak Securities. Please go ahead with your questions sir.

Dipen Shah: Yeah, most of the questions have been answered. Just one clarification on the land which has been transferred to the university, about 75 acres have been transferred for about 20 crores, just wanted to know which area does this land belong to and what were the earlier plans with NIIT in case this land was not transferred to the university?

Vijay Thadani: Okay, answer in very simple words, this land should have always been with the university except the university was not formed at that time, so this land was obtained for university, its sole purpose, use was also that…

Dipen Shah: Okay.

Vijay Thadani: …and that is how it has been done. As per the governance principles as well as the laws of the world as well as income tax, you have to value the land at its current value as determined by valuators and then transfer it to the university and government determines the rate, so that is how it has been done.

Dipen Shah: Okay. So, when was this land bought?

Vijay Thadani: This land was alloted in 2004-2005…2005.

Dipen Shah: Okay, for the sole purpose of the university?

Vijay Thadani: Yeah.

Dipen Shah: Okay, okay, right. Thanks very much.

Moderator: Thank you very much sir. Next in line, we have Ms. Sonal from AIM Capital. Please go ahead ma'am.

Mr. Sonal Kohli: Good evening Mr. Thadani. Congratulations on your numbers.

Vijay Thadani: Thank you.

Mr. Sonal Kohli: Couple of questions, firstly on your depreciation side, you know, in spite of institutional business having grown, we haven't seen an increase of that, what to expect for the year and the reason why it is almost flat for the quarter?

Vijay Thadani: So, depreciation is calculated on the basis of the number of days the asset is in use. So, Andhra Pradesh assets were deployed during the quarter and at various times and are still being deployed as we speak. The complete thing is not over. So, based on how and when they are put to commercial use, you will see the increase in depreciation. Second, over the year, a large number of assets have also completed their lives, so they have gone out of the depreciation cycle completely. So, those are the two contributors. Going forward, the depreciation for the next two quarters, we can share that with you, I have that number somewhere approximately, given the current asset structure that we have. I will just share that with you in a minute.

Mr. Sonal Kohli: On the tax rate front, what kind of tax rate to expect for the year considering, you know, the current environment in corporate business, would your numbers be very different than what you had guided for earlier, you know, of 14%.

Vijay Thadani: Yes, we are, at this point of time, seem to believe it should be at the same 14%.

Mr. Sonal Kohli: Okay. On the corporate business side, you know, a quarter back you had indicated 5% EBITDA margins, you know, in this business, any change on the same?

Vijay Thadani: As you know, the corporate sector by itself is much, much more challenged than it was 90 days ago. Even though we have had good traction in terms of order intake, we still believe that the decision making cycles and the volatility that faces us, it would be prudent for us to revise those estimates, so while we would still like to believe that we can achieve 5% margins, it may be a little lower.

Mr. Sonal Kohli: Okay. Also on the side of, you know, your new business initiatives, could you throw some light on that. I think I missed your call in between where you mentioned something about tie-up with Reliance Retail.

Vijay Thadani: Yeah.

Mr. Sonal Kohli: Could you throw some light on the same?

Vijay Thadani: Okay, Dr. Dey…

Dr. Smarajit Dey: This is a tie-up with Reliance Retial, between Reliance Retial and IFBI to create a number of people on a regular basis who would become what I call relationship associates in the financial products distribution activity that Reliance Retail outlets will go into. So, therefore, this is a program that has been designed which is offered by IFBI and students undergo this program and at the end of that join as relationship associates with Reliance Retail, and this is a…and it is going to be an ongoing activity for the next few quarters and is an example of how we are strengthening other management and financial services programs to compensate for the slowdown that has happened in the banking area.

Mr. Sonal Kohli: So, this would be more on line with your tie-up with Reliance wherein, you know, these guys will get appointment letters at the time of joining the course or this would be different?

Dr. Smarajit Dey: No, they would not get appointment letters at the time of joining, but the numbers and the selection would be controlled such that upon successful completion, they would be able to join there.

Mr. Sonal Kohli: Okay. On the…Mr. Thadani, on the side of your interest cost, you mentioned that your interest cost is 9% to 10%, now the incremental interest cost in this kind of environment would be significantly higher, could you throw some light on the same?

Vijay Thadani: Well, at this time point of time…at this point of time, our interest cost is in the range of 9% to 10% and many of that are locked at the current rate. Of course, if there is a higher volatility in the overseas market, as you know one major part of our borrowing is for the loan in dollars which we have to pay back in dollars, so there the interest rate will be lower.

Mr. Sonal Kohli: On that interest rate, do you have…your spread is fixed or spread would change over a period of time?

Vijay Thadani: It is fixed.

Mr. Sonal Kohli: Okay. On the enrollment side on the individual business, you mentioned that GNIIT students increased by 25%, this is pertaining to India and is this pertaining to all the courses or only to the three-year course?

Vijay Thadani: This is pertaining to India and it is 24%, not 25%, and it is a GNIIT series.

Mr. Sonal Kohli: As far as I remember, this is a high number than, you know, last quite a few quarters, am I right in my understanding or…

Vijay Thadani: No. I don't think…I think it is a comparable number. Raghu…

Mr. G. Raghavan: It is comparable number.

Vijay Thadani: Just read out this if you have the previous quarter's numbers.

Mr. G. Raghavan: Previous quarter's numbers I don't have right now with me.

Vijay Thadani: It is a similar number.

Mr. G. Raghavan: Yeah.

Mr. Sonal Kohli: Okay. Considering your enrollment, that of 25%, and you mentioned that, you know, going forward, you would be expecting revenues to grow in line with, you know, what we have seen this year which is broadly about 25%. So, there is no…you don't expect any, you know, product improvement because enrollment growth is going to be in line with the revenue growth or you would expect the enrollment numbers to fall going forward.

Mr. Sonal Kohli: No, no, first question is the enrollment that you have, have been taken in the peak period, okay, and what we have will help us for the next two quarters in any case. The next two quarters are traditionally the low enrollment period which means as it is the desire for students to join a new course is low. At that time, because of a number of factors in the market place, you may be able to get students to enroll. What is not certain this year is whether we would be able to get the enrollment rate that we enjoy in these times the previous year in the coming year. The volatility is only increasing, not decreasing. That is one of the reasons why we have, we believe that talking about a 30% plus growth rate in revenues is perhaps not very prudent. It is possible. We may be able to get an enrollment number, but we may not be able to get the same enrollment mix which will give us the revenue which we are looking for. For example, people are preferring short-term courses, so in which case your product structure will change.

Mr. Sonal Kohli: But, you know, in this quarter, you saw GNIIT growing at 25% and as far as I understand, it is a faster growth than last couple of years, you know, growth of GNIIT, as far as I remember.

Vijay Thadani: It was 24% and it is GNIIT series and it is similar to the numbers…just, you have the numbers…

Mr. G. Raghavan: Yeah, this year, this quarter has been higher than the previous quarter but this is kind of similar, but you should also understand that the mix between shorter term in the GNIIT series and longer term in the GNIIT series has been different and as Vijay mentioned, the preference for shorter term courses is higher and therefore in the GNIIT series, you should take it that the mix of the shorter term courses is higher than you had in the previous couple of quarters.

Mr. Sonal Kohli: Okay. Last three questions, what kind of margins you mentioned, you know, we are already at our peak margins, would you imply this in terms of six month numbers or this quarter numbers, when you say peak margins, do you imply 26 or do you imply 20% to 23% kind of EBITDA margins.

Vijay Thadani: No, no, when you see an improvement in margins on the basis of utilization and the registration as well as the product structure, we always refer to improvement year on year. So, you have a certain pattern on margins during last year, which yield to an annual margin. So, you have seen a 100 to 150 basis point improvement in that margin. In this quarter, to achieve a 26 margin…26% margin at 67% utilization is actually stressing it and that is what I meant when I said that we have reached a mature level of margin for this utilization. Now, next quarter, the utilization is going to be lower as, you know, we are going into a lower quarter, but we do see there will be a margin improvement over previous year as we have been predicting of 100 to 150 basis points.

Mr. Sonal Kohli: Sure, but when you make, you know, obviously some of the quarters would have lower capacity utilization, so when we talk about peak yearly margins, what kind of margins do we imply, you know, let's say one to two years forward.

Vijay Thadani: During the year, your average utilization, let's say capacity utilization is 70% and if at 70% you should get across the year margin of 25%. That is what we have always referred to.

Mr. Sonal Kohli: Okay. Secondly, what kind of cash would you be having on the books?

Vijay Thadani: 681 million.

Mr. Sonal Kohli: And in the Genpact venture, you gave a guidance of revenues and EBITDA losses, could you throw some more light on the EBITDA loss number, I think I missed it.

Vijay Thadani: 80 and -40.

Mr. Sonal Kohli: Okay. Thank you Mr. Thadani.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Neil from Credit Suisse. Please go ahead with your questions sir.

Mr. Sunil: Hi, I am Sunil. My questions have been answered. Thank you very much.

Vijay Thadani: Hello…please go ahead.

Mr. Sunil: Hello…

Vijay Thadani: Yes, thank you, please go ahead.

Mr. Sunil: Yeah, yeah, I said my questions have been answered sir. Thank you very much.

Vijay Thadani: Oh, your questions have been answered.

Mr. Sunil: Yeah.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir.

Vijay Thadani: So, operator, if everybody believes the same, then we can take a last question and then close the call.

Moderator: Sure sir. Last question comes from Ms. Subhashini from JM Capital. Please go ahead ma'am.

Ms. Subhashini: Yeah, this is Subhashini from JM Financial. Just a couple of questions. What is the current foreign currency term loan on our books?

Vijay Thadani: Chetana, what is the current foreign currency term loan on our books? 33 million…33 million US dollars.

Ms. Subhashini: Sure, sure. And is there any other working capital borrowing?

Vijay Thadani: It is all included. All the foreign currency loan includes that.

Ms. Subhashini: Okay, okay. And what is the expectation for full year tax rates for us now?

Vijay Thadani: 14%.

Ms. Subhashini: In FY09, and how about FY10?

Vijay Thadani: Not yet worked out I must say.

Ms. Subhashini: Okay.

Vijay Thadani: But it will be similar. I tend to feel it may be a little lower.

Ms. Subhashini: Lower than 14%?

Vijay Thadani: It will be higher? It also depends on what happens to tax rates this year.

Ms. Subhashini: Sure, sure, sure. One more question, I mean, you had mentioned this earlier, I mean about the new business outlook, I believe you had mentioned a figure of 450 million to 480 million for FY09.

Vijay Thadani: Yes.

Ms. Subhashini: So, have I got it right?

Vijay Thadani: You have got it right.

Ms. Subhashini: And this 450 to 480 is for both, IFB and Imperia put together.

Vijay Thadani: Yeah, they are always treated together because they coexist in the same and they are actually now called FMT, finance and management training.

Ms. Subhashini: Sure, sure. That's all from my side. Thanks.

Vijay Thadani: Thank you Subhashini.

Ms. Subhashini: Yeah.

Moderator: Thank you very much ma'am. At this moment, I would like to hand over the floor back to Mr. Vijay Thadani for final remarks.

Vijay Thadani: Well, thank you very much. As usual, your questions were very engaging and we were able to answer most of them. I do not think we have any questions which have not been answered so far. So, all that remains is to thank you for really being with us and also for your support, cooperation, confidence, and very interesting suggestions. Just to remind you that we do have a full investor meet where all our businesses will be represented at the Indian Merchants Chamber Building at Churchgate, Mumbai, 4:30 p.m. onwards on October 23rd, on the fourth floor. So, we look forward to meeting you there. We would all be there at that time and we would be very happy to interact with you one-on-one or as a part of the audience. Thank you once again. All the best.

Moderator: Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.