NIIT Ltd.
Investors/Earnings Conference Call
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Moderator: Good evening Ladies and Gentlemen. I am Sandhya, the moderator for this conference. Welcome to the NIIT Ltd conference call for the duration of the presentation all participant line will be in the listen only mode. I will be standing by for the question and answer session. I would like to handover to Mr. Vijay Thadani. Thank you and over to you sir.

Vijay Thadani: Good evening everybody this is Vijay Thadani and I have joining me in this call are Mr. Rajendra Singh Pawar as Chairman, Mr. P Rajendran, Chief Operating Officer and all the IBU Heads and people from finance as well as investor relations I would not get into all the names. I will quickly give a brief about Quarter 2 results and then we can open it up for question and answer.

So as usual I will start with the business environment that we faced in Quarter 2 essentially education has become a much talked about subject in the last quarter including the Prime Ministers speech at the Red Fort on the Independence Day. And I think all this are pointers to the fact that the nation is feeling the crunch of not fully equipped workforce to look after it growth challenges. So we do see and increasing spend on higher education. And we also hear the word public private partnership being talked about a lot. And there are some orders which I have been tried out. We also saw that IT and ITES companies irrespective of dollar fluctuation continue to remain on there $60 billion target for 2010. And to meet their requirements they are now looking at Tier 2 and Tier 3 cities very-very seriously. There is a whole lot of activity which is taking place in towns outside the metros. And there are some opportunities for us there. We also see that the Indian Corporates have started looking at talent management specially talent development as a retention tool.

And last but not the least, outsourcing is now covering sectors other than information technology. And there are already large numbers as far as Financial, HR, Legal outsourcing is concerned. All these are pointers to large requirements for training in our current setup here as well as large opportunities for us to grow our business. So it is in this context that if we look at the last quarter I will just quickly run you through the financial highlights. On consolidated system wide revenues grew 24% year-on-year to reach Rs. 3.98 billion, the net revenues grew 33% year-on-year to reach Rs. 2.7 billion, EBITDA has grown by 50% to reach Rs. 358 million. This obviously is on a better operating margin which has an improvement of 152 bases point. The net profit is up by 31%, the difference between the growth rates of EBITDA and net profit coming out of taxation given the large Indian part of the revenue which is taxable. The earnings per share on the new denominator of shares given the fact that we went for a split as well as bonus is now Rs. 1.30 per share. But if you want to do a like-to-like comparison with the same number of shares earlier or the denomination of shares earlier then it will be Rs. 9.50 which is up 16% year-on-year.

The systemwide order in take was Rs. 4.35 billion. In terms of the highlights of the business Quarter 2 is traditionally the quarter for individual learning solutions business and truly it was. So, individual learning solutions clocked at revenue growth of 31% with an operating profit growth of 76% year-on-year which is obviously at the back of higher capacity utilization and the operating leverage setting in.

The second highlights was that new businesses which have not yet completed one full year actually achieved their break even, on quarter earlier than our previous projection. Our projection was that they will do it in Quarter 3. But given the enrolment and good enrolment that they both saw, we were able to achieve and EBITDA break even in this quarter itself. The school learning solutions business has also registered fresh growth with non-GSA segment growing 37% in revenue year-on-year. The corporate learning solutions which consist of our organic business and Element K the integration exercise got further enhance during the quarter we have now large number of engagements on which we are working together. And overall since the comparison with last year may not be appropriate, given the fact that Element K was not there for the full quarter, Corporate learning solutions achieve the revenue of Rs. 1.4 billion within operating profit of 90 million and a closing order book of Rs. 2.47 billion. I must mention here that the revenue and margin in their dollar denominated business got affected further by the dollar depreciation which we faced during the quarter.

Overall, the revenue of growth was contributed by two factors, the growth in new businesses as well as the individual learning solutions as well as the fact that we had Elements K for three full months this year compared to two months last year. The margin expansion came essentially out of operating leverage which we were able to derive in the individual learning solutions and the margin which Element K has been able to built during the quarter. And a fact that new business, last year at this time we are loosing money and this time they have a break even operation. So these are the contributors which have led to higher EBITDA margin of 152 bases points. Depreciation has increased given the Capital Expenditure that we have been incurring over the year. The provision for tax is substantially higher than same period last year in this quarter, last quarter I must remind we had some tax credit which we took advantage of. But this quarter since most of the profit is on India based operation there is a tax applicable and that is Rs. 41 million provision for tax that we have made this quarter. Overall the PAT was at $211 million which is 31% growth over same period last year. I already go down now to individual businesses before that just let me share a revenue mix picture. If we look at a systewide revenue individual business is 56%, corporate business is 35%, institutional 5% and new business 2%.

On the net revenue basis, the picture is slightly different. Corporate is 52%, individual 36%, institution is 9% and New Business 3%. We also have the geographic mix this time, India constitutes the single largest portion of revenue at 46% US and Europe are number two at 33%, China at 11% and rest of the world at 10%. We saw 41% growth in India operations that is visible in the individual learning solutions business results. China clocked 17% growth; US and Europe saw 16% growth though in that we have to assume that Element K was not there for full 3 months last year. In the individual learning solutions so I am getting down to each of the businesses in more detailed. We have a 28% growth year-on-year in the system wide revenues. The net revenues have gone up by 31%, operating margin has improved by 614 basis points over last year and is at 24% now, compared to the 18% same period last year. The geography mix in this is India is 64%, China 19% and rest of the world 17%. India revenues within this overall have grown the fastest 37% year-on-year. The enhanced EBITDA margin comes out of the fact that even though we had a capacity enhancement of 17% year-on-year, a better utilization of the enhanced capacity 66% utilization of the enhanced revenue capacity is contributed the 614 basis point improvement that we saw in this year. Obviously this was backd by an aggressive marketing campaign and those of for us who have been in India all this while would have seen the impact of this marketing campaign and the improved capacity utilization that we have from 52% to 66%. Going one level lower to some of the lead indicators, the career registrations were up by 35%. In China the enrollments were up by 69%. As I mentioned China has, for China this quarter and the next quarter is the cusp, the time when we have a growth in enrollment. So while we did have a growth and enrolment we did not get the same amount of revenue because of courses would not have started but those effects we will see in the coming quarters.

Networking and infrastructure management programs that we started 2-3 Quarters ago have now caught up and are being offered in 176 centers. We had more than 126,000 enrollments this quarter did a system wide order booking of Rs. 3.09 billion and a closing net order book of Rs. 2.09 billion, 67% of it being executable in next 12 months. If you are watching these slides you can also see a few new names in the number of in the technology partners that we have, you haven't seen Cisco written before. But now we have Cisco, Compia, Oracle, EMC, Sun, Intel and Microsoft amongst the others. The engineering students has grown by 30% that was a statistic some of your callers like to track, but I will share that with you year-on-year. Moving on to school learning solutions, in the school learning solutions now that we have restructured the business there has been a growth we have a 9% year-on-year growth this time and the Non-GSA business, the non-government business has contributed 32% of revenues as compared to 25% last year same time and has grown 37% year-on-year. Total number of school centers have grown to 4689 this quarter of which we have 232 new centers in the government school business itself and 20 work centers added in the Non-GSA segment, pending order book is at 825 million for 44% is executable in the next 12 months.

Moving on to the corporate solutions one way of looking at corporate solutions will be to do a like-to-like comparison. So we have a Rs. 14 million uptick, Rs. 1409 in revenue with an EBITDA of 90 million and an operating margin of 6%. This needs to be looked at in the contexts of first the dollar impact, so the dollar impact itself on the revenue is 162 million in revenue which is 11% of revenue, and in EBITDA Rs. 29 million which is 33% of the EBITDA. The second, we have to take out the element K on a year-on-year basis for the same period, so element K in the same period would have grown about 6% which is consistent with the growth that we have seen in the previous year in dollar terms, of course in rupee terms there will be a different number because of the different dollar to rupee conversion ratios and the rest being contributed by the organic corporate business.

We added 10 new significant customers, 6 in US, 1 in Europe, 3 in India. We had very significant improvement in the number of technology partnerships that we are discussing with. However, we did see that there was, in implementation of these technology partnerships there was a lag during this quarter. Our content library, as I mentioned one of the specific strategies which we are following was in element K becoming the #2 provider of e-learning content library to the world. So one of the conscious decisions we had taken during the last 6 months was to upgrade the content library. And we have added 963 courses in this quarter alone over the 3500 odd that we had at the beginning of the year. I am sorry, 963 are over the 6 months period. That puts the Element K content library in very strong position. There has also been additional recruitment in element K, of strong sales force for selling solutions as well as the content library the subscription based content library during the quarter. We added 3 new technology partnerships and 3 new reseller arrangements to carry this content library to our customers.

Another interesting point is in India. We normally do not talk about the corporate business in India, which is now becoming very attractive and we are looking at it very seriously. One aspect of that was the induction training business. We have been talking to you about numbers from time to time but now that we have been tracking this item. You will be pleased to know that from the top 5 employers in the IT and IT Services space and these includes captive as well as non-captive. We have been able to train more than 3000 people in the last 6 months. And the India induction training part of our revenue has grown more than 49% year-on-year. Our order intake for the quarter was $28.5 million. Pending order book is $61.7 million, 65 to 67 could be in the next 12 months.

New business has had a major highlight during the quarter in all axis in terms of reach, the reach increased from the 10 centers that we were talking about to 14 centers in 11 cities. This all also includes tier-2 cities. So therefore we are able to see the rapid penetration of both IFBI and imperia in Tier-2 and Tier-3 cities which is where the large numbers lie as we go forward. The second was in terms of curriculum in IFBI we added Post Graduate Diploma in Financial Planning which is a financial planning and wealth management and this is in tie-up with ICICI Securities. We started insurance training in partnership with ICICI Prudential. And in the number of banks for banking operations training we now also have a strategic tie-up with HDFC which is on the same line as we had with ICICI Bank. Overall IFBI since its introduction has placed 1000 students, nearly 1000 students in the banking industry, there are another 1000 who are in the last stages of their internship and they have trained about 4000 professionals to undergo corporate training. NIIT Imperia on the other hand also added a new corporate tie-up and that was in the form of a tie-up with the Institute of Management Technology Ghaziabad, it is IMT Ghaziabad, this is the fourth one in addition to the IIM Ahmedabad, Calcutta and Indore that we had earlier. We have also added some new programs in our portfolio more specifically I would like to talk about the general management program that we have added for young executives in contrast to the advance general management program we used to have for middle and senior level manager. There are programs in Retail Management, HR Management and Supply Chain Management which are becoming very popular.

Switching on to our balance sheet, our balance sheet is looking much healthier. Return on capital employed this year, this quarter improved to 17% from 14% in Quarter 1. Cash generated from operations was 358 million. Asset addition was 78 million during the quarter. Primarily on new initiatives and products such as Imperia and IFBI as well as capacity addition and upgradation in our other centers, our debt reduced by 140 million and overall the cash balance has improved by 48 million to 649 million at the end of the quarter. In terms of headcount we added 201 people during the quarter as well as in terms of the number of centers our total number of centers is now at 469 , we added 22 more centers during the quarter, 21 in India and 1 overseas. Institutional centers we added 250 to that I have already talked about. So overall we had a good quarter and I would now like to open this for Q&A. Operator can you pass this on for Q&A please.

Moderator: Sure sir. 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 question on a first in line basis. Participants are requested to use only handset while asking a question. To ask a question please press *1 now. The first question comes from Mr. Sunit from Credit Suisse, over to you sir.

Sunit: Hi good evening sir. I just wanted to know more details on international performance of Element K, because I could not find much in the releases.

Vijay Thadani: Yeah Element K financial performance part of our corporate business and as I said the integration exercise has been on. And now there are lesser and lesser ways by which we can separate out the two performance. So you have to look at Element K as a part of the overall corporate business, but if you want as a notional level I can talk about on a like-to-like basis. Element K in dollar terms would have grown about 6% year-on-year, but remember this is I am assuming they were with us for all the three months last year, though they were only there with us for two months. So in the financial numbers this number will appear much different. In fact in financial numbers in dollar terms it will be 104%.

Sunit: Okay, thank you sir.

Moderator: Thank you very much sir. The next question comes from Ms. Priya of Enam Securities, over to you ma'am.

Priya: Yeah good evening to the management and congratulations on good set of numbers. Couple of questions from my side. One, if you could give us an update on the pricing scenario which is seen in the business, especially with corporate training, induction training also commencing at your end. Second thing is you know you have a corporate order intake of $28.5 million in the current quarter, which is a little, minor lower compared to last quarter. Is it more of a season trend and also if you could give a breakup of content LD and LT which typically you used to give earlier.

Vijay Thadani: Okay, so the first question was relating to the ….

Priya: Pricing scenario in individual business and …

Vijay Thadani: So the pricing scenario in the individual business we had already shared last quarter. We normally do not change our fee structure during the year. We follow an academic year structure, so we had revised our fee in the month of May this year and we had done it for both GNIIT as well as the AE segment. And we had shared those numbers with you. Raghu you can give me those numbers again. It is a 11% if I remember that right. 11% in the engineering and 18% in the GNIIT segment. Now the induction training is being done as a part of the corporate lining solution exercise, which means here it is not as per person trained to a certain sense, it is on a per batch. And it is also sometimes conducted in the client premises, sometimes in our premises, so there are multiple complex situations there, but that is more like a corporate training program.

Priya: Sure. Just as a follow up question, given that GNIIT is a three year course.

Vijay Thadani: Yeah.

Priya: If I were to say Rs. 100 is what I pay, this is an example for full complete 3 years. How does it spread across year 1, year 2, and year 3.

Vijay Thadani: Okay I can give that answer to you in just a jiffy, but let me try it, so first year selected the fee of the cost let us take the real numbers.

Priya: Sure.

Vijay Thadani: Our total fee if you do the full GNIIT program is Raghu, full GNIIT program 3 years is Rs1,24,000, this consists of 4 semesters of coming to the class and 1 year of doing internship. So typically the fee in the 1st year is about 40% of this and in the subsequent year it is 60% of this.

Priya: Okay and the 3rd year it is typically the internship. Yeah so just trying to understand, see when we started seeing price uptakes this is the complete first year, like this FY2008 is a complete year, 2nd year of pricing uptakes right. We started this price uptake from FY2007 onwards

Vijay Thadani: Very right.

Priya: Yeah so will you say that in the current year those people who were added in FY2007 they would pay approximately 60% of their pricing in FY2008. So the implied pricing which you will get in FY2008 will be higher. Of course there will be new additions which have come on the increase pricing.

Vijay Thadani: Yeah but I must say that this 40-60 ratio has come in only now.

Priya: It was not prevalent earlier.

Vijay Thadani: Earlier it was more like 48-52, the reason for this change is because now in the 3rd and 4th Semester we have added electives as well as certification exams.

Priya: Sure, also if you could give a flavor of this $28.5 million order book.

Vijay Thadani: I had mentioned it in the last quarter as well, this $28.5 million is Element K and NIIT organic business put together. And I had mentioned it in the last quarter as well that for Element K this is a particularly strong quarter for order intake, that is this as well as the October, November, December which are typically the strong quarters for them. That is when their renewals and orders take place. Even in the case of our organic business, the 1st Quarter is typically a stronger quarter, because any renewals of previous arrangements came in at that time.

Priya: Sir typically Q1 1st Quarter is seasonally a stronger quarter are you implying that.

Vijay Thadani: Yeah in order intake.

Priya: Okay good. And how does it spread across between content LD and LT.

Vijay Thadani: Yeah I will just share with you. So content LD and LT what we would have, if you take the Element K and us together will be…

Priya: See last quarter you had given us a breakup of 71% sorry that was….

Vijay Thadani: We had given you 79% in content…

Priya: Yeah that was for revenues, so just trying to take on a ….

Vijay Thadani: It is also revenue only, are you wanting to know in order intake?

Priya: If you give us both it will be great.

Vijay Thadani: No I can give you revenues right away but order intake we will have to get back to you.

Priya: No issues perfectly fine.

Vijay Thadani: It is little lower in learning contents 77%, learning delivery is 11% and learning technology is 12%.

Priya: Okay that really helps. Also any revision on your target, which you are looking in the new businesses because we seem to be going much stronger than what you expected earlier?

Vijay Thadani: We are going much stronger on profitability and that is why we have had the breakeven a little earlier. We are on track as far as the revenue is concerned.

Priya: And is it possible to give an update on cash balance, debt and also the 25% stake which you hold in NIIT Tech.

Vijay Thadani: Let me answer that 25% first. The 25% stake, which we have hold in NIIT Tech we still hold it?

Priya: No I am saying in terms of any progress over there rather.

Vijay Thadani: I think you were there on the previous call and NIIT Technologies call the same question was asked. And there is no change in the status.

Priya: Okay good.

Vijay Thadani: And there is no change in status since then either. One moment let me give you the cash balance, yeah so our cash is Rs. 649 million, our debt is 2171.

Priya: So there is a repayment on debt rather.

Vijay Thadani: Yeah there is a 140 million repayment of debt.

Priya: Okay, thank you very much.

Vijay Thadani: Actually our cash collections have been very good we got some of our government, our favorite government outstanding cleared.

Priya: Yeah also just as a follow since you mentioned on that. Just on going on the private school progress if you could give us on that as well.

Vijay Thadani: Yeah this is not the best quarter for that because the school sessions have already started and last quarter if you remember we had talked about 100 new schools which have been added. And so this quarter we have been essentially implementing those and that is what you will see in the revenue increase as well as, we did add 20 more schools in that category.

Priya: Okay thank you very much and wish you all the best.

Vijay Thadani: Thank you very much ma'am,

Moderator: Thank you very much ma'am. The next question comes from Mr. Ruchir Desai of Pioneer, over to you sir.

Ruchit Desai: Hi good evening, congrats on the numbers. Just on the individual business, utilization rates have gone to 66% this increased quite significantly in spite of you know capacity increasing by 17% year-on-year also your margins are around 24% and you mentioned that on a steady state margins could be between 24% and 25%. So I just wanted what is your outlook on, where can margins go from here and what would be the utilization level or what range could they be going forward. I understand that Q3 is a soft quarter but you know, 2-3 quarters down the line what is the outlook that you have on both these fronts.

Vijay Thadani: If you notice every year on a year-on-year basis we have been improving our utilization by about 100 to 200 basis points sometimes more than that. We will continue to remain on that path as we go for a overall capacity increase. Capacity utilization in a quarter is definitely a good indicator of how the enrollments went during the quarter and how we could service that, but yes Quarter 3 and Quarter 4 are not exactly the strongest. Quarter 3 is a soft quarter, Quarter 4 will be a slightly better than Quarter 3. So over all we still remain positive about the fact that there will be improved capacity utilization in the range of 200 to 300 basis points.

Ruchit Desai: Also on your corporate business, since you are not giving the breakup with been Element K and the organic corporate revenues operating margins, you know going forward currently the margins is around 6.5% you know going forward where can you expect the margins to go, you had said earlier when you were Element K numbers that you want to take margins Element K to 8% to 10%, so now that you are consolidating both these numbers where can we expect margins to move in the next say 3 to 4 quarters.

Vijay Thadani: Okay so first of all I want to clarify what we had talked about Element K. So on Element K dollar revenue growth we had talked about a growth of 5% to 6% even it could be 6% to 7% and we had talked of margins between 4% to 5% because that is the way we turn around the Element K as happening. The problem is in dollar terms those numbers remain valid in fact Element K is little ahead on their profitability. If one was to do nostal breakups of what Element K is doing and what NIIT organic is doing. On the other hand NIIT organic business is also on track though a little slower than what it should be, given the technologies synergy issue that I have to talk to you about with technology orders exist but we are not in a position to execute them as quickly as we would like them too. And issues are more to do with the partnership bring in place but the SOWs the Statements of Work that you get are not coming at the same page. So in a certain sense that would be a little slower than the Element K site of the business.

Ruchit Desai: Well you know just now I have question on Element K, since Element K's majority I mean majority plans of Element K and based in North America on the US market.

Vijay Thadani: Yes.

Ruchit Desai: What's your take on you know this suppose there is a concern of US economy and what is your taken and how to impact Element K and what clients comes back on such kind of spending, training spend though you know.

Vijay Thadani: Okay I my own guess at this point of time seemed to indicate that Element K at this point of time has a positive situation which can even balance a little bit of economy issues if they were to occur. There is nothing to suggest that there is any issue to do with lower spending by corporate clients today. Having said that Element K as I check is now becomes the second largest provider of the learning libraries. And they are not number 2 to scales up. We see this as a great opportunity for the Element K to improve their market position and grow very-very fast. We have invested as I said in 963 new titles during the first 6 months. And I must also say that they will add it a sales force of nearly 14 people in the last 4 months itself. This is basically to service this need. So what we see is that those factors will weigh heavier than if there is an economy related issue. So at this point of time the improvement in competitive situation of Element K we think it will be a larger contributor.

Ruchit Desai: Great thank you and all the best.

Vijay Thadani: Thank you so much.

Moderator: Thank you very much sir. The next question comes from Sonal Kohli of AIM Capital. Over to you Sir.

Sonal Kohli: Good evening Mr. Thadani. This is Sonal Kohli from AIM Capital, congratulations on good set of numbers. Couple of queries firstly on your involvement/enrolment growth in the career segment you mention you mean 30%. Could you give a number of total numbers of the enrolment in evening segment as well as in the GNIIT segment.

Vijay Thadani: Okay in the engineering segments we had a 30% growth in enrollments just one of my value to this number, yeah. So I mention to you that in this, in the 6 month period we have added nearly 65,317 enrollments in engineers of which 36,385 are in this quarter.

Sonal Kohli: 65,000.

Vijay Thadani: 317 in the 6 month period.

Sonal Kohli: The rest would be basically the GNIIT enrolment, right.

Vijay Thadani: No, no, no the overall GNIIT related enrolment which will be in this period 49,576.

Sonal Kohli: No for this quarter the total number you mentioned is 30% higher than the last quarter, am I right in my understanding in the career.

Vijay Thadani: Yeah let us put the numbers in the right perspective. First we are talking of Global Enrolment going by 35%, sorry 31% just one moment let me fold outside page. Unfortunately this time there are lot of 30%, 31%, 32%.

Sonal Kohli: 35% in terms of career registration.

Vijay Thadani: Career registration have grown by 35%.

Sonal Kohli: Now is that the Indian number or is this the global number including China.

Vijay Thadani: This is the global number.

Sonal Kohli: And historically also there numbers are global or are they pertaining to India or last two quarters.

Vijay Thadani: If we normally talk about India then they pertain to India. Now you wanted to know in India how have the numbers of engineers enrolment grown, correct.

Sonal Kohli: Right.

Vijay Thadani: So the engineers enrolment I just talk to you about in the first 6 months we have 65,317 of which 36,385 are in this quarter.

Sonal Kohli: 36,000.

Vijay Thadani: Yeah 36385 and this is only in India.

Sonal Kohli: And last year this number was 28,000 right?

Vijay Thadani: 28,044 perfectly right.

Sonal Kohli: And in GNIIT what would this number be?

Vijay Thadani: No GNIIT are we referring to India again.

Sonal Kohli: Yeah.

Vijay Thadani: Okay. So in India this year the number is 29,691. And in last year this number was 25,605.

Sonal Kohli: 25,000.

Vijay Thadani: 25605.

Sonal Kohli: Okay I thought it was 24,000. Okay coming to your.

Vijay Thadani: The number I have may be or we can reconcile it separately.

Sonal Kohli: Okay in terms of your growth this quarter your India systemwide revenues grown but China has decrease by 30% any particular reason for this say.

Vijay Thadani: No I don't think China system wide and normal revenue follow the same path. It has grown 19%.

Sonal Kohli: If I look at a mix of your revenues you know base on system wide. Last year India was 57%, China was 35%, rest of the world was 8%. And this year India is 64%, China is 19%.

Vijay Thadani: And rest of the world is 17%.

Sonal Kohli: Yes and base on the total system wide revenues if I multiplied those numbers then what I get is India growing at 44%, China is growing at 31% and rest of the world growing at 172.

Vijay Thadani: No there is one number which seems to be out of place somewhere because China has grown 18% year-on-year. So I have a feeling that this 35% number which you have, figures of China, system wide revenues last year and it doesn't sound to be correct to me because that means if 35% was China and 7% was rest of the world, India was only 58%.

Sonal Kohli: Yeah.

Vijay Thadani: India, in this quarter it would be significantly higher than that.

Sonal Kohli: What would be your India system wide growth this quarter?

Vijay Thadani: India system wide growth this quarter, we will just tell you separately. So what we can do is reconcile this separately, this area of interest to you we have all the cuts available, we will pull this out.

Vijay Thadani: India's system wise growth this quarter. We will just tell you separately. So what we can do is reconcile these separately. These are of interest to you. We have all the cuts available. We will pull this out. I will give you response to this India systemic revenue growth.

Sonal Kohli: Okay. So China has been doing at about 18%. What has been your enrolment growth there?

Vijay Thadani: By the way, I pulled out the last year at the same time of presentation. China has growth 35%. China was not contributing 35%. And it was contributing 21% last year, so we have that clarified as well.

Sonal Kohli: And India would be how much sir ?

Vijay Thadani: I will just give it to you. Okay can we continue the question? I will just give you the rest of the answers.

Sonal Kohli: And in terms of the new business initiatives which you have mentioned above is this quarter an exception in terms of breaking even or as we you know grow during the year would be we investing more and then or we expect to break even in the next two quarters also ?

Vijay Thadani: No, I think we expect to make profit in the next few quarters. We expect to make profits in the next few quarters; in fact our aim is to make profit in the year as possible.

Sonal Kohli: And in terms of the non-metro cities am I right in my understanding that there was a fees hike only for September 1, 2007 or October 1, 2007, while the metro show fees hike from you know beginning of the season.

Vijay Thadani: Raghu.

Raghu: Yeah, the career program fees in the non-metros raised from August 20, 2007.

Vijay Thadani: August.

Sonal Kohli: And same is the case of GNIIT also.

Raghu: Yeah, when I say career programs I do primarily mean GNIIT series. GNIIT fee structure was changed from August 2007 in non-metros.

Sonal Kohli: And how much would be non-metros as the percentage of your revenues, broadly very broadly speaking.

Raghu: System wise revenue spend may be about 60% of career program in a system wise revenue basis.

Sonal Kohli: Okay, thank you.

Vijay Thadani: India's systematic revenues over last year has grown by 43%.

Sonal Kohli: 43%.

Vijay Thadani: Yeah.

Sonal Kohli: Okay, thank you so much.

Moderator: Thank you very much sir. The next question comes from Mr. Devang of MVI Capital Market, over to you sir.

Devang: Hi, good evening. I just had couple of questions. You have shown a trend wherein your even last quarter in the individual business, the career portion just contributed 89% and this time it is 91%, so this is significantly up from the 95% levels we have seen sir, is there any movement in this front ?

Vijay Thadani: No, I think this quarter is the second quarter always last quarter for two reasons, one because the long-term enrolment happen in that which is career enrolment but this is also the time when given the summer vacation there are lot of short-term courses which take up.

Devang: Okay, I mean yeah, last quarter, last year in the similar quarter Q2 FY07 we had 95% in the career section, so this time it is 91%, so is that the only explanation we have for this?

Vijay Thadani: The other explanation will be that if Engineers as a percentage increase then they take shorter term courses, they take more shorter term courses.

Devang: Okay, yeah and on the accounting side your other income is negative. I came in late in the call, so did I miss something or why is it what contributed to the negative other income 48 Million if I am not wrong?

Vijay Thadani: Yeah, other income negative is essentially the interest burden as you know we have a loan balance of about 217 odd Crores and it essentially is contributed to to the interest, second contributor is we have a loan to our subsidiary which has to be revalued in the P&L at the new Dollar-Rupee conversion.

Devang: Okay, so the interest outflow was exactly how much this quarter?

Vijay Thadani: I will give you the break up. I have a full break up of our other income. Okay, our interest outflow was net of Rs. 47 Million.

Devang: Rs. 47 Million.

Vijay Thadani: Yeah.

Devang: Okay. Yeah and could you also give me a figure of the DSO.

Vijay Thadani: 95.

Devang: 95 days.

Vijay Thadani: Yeah.

Devang: Okay, that is it from myself. Thanks.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir. The next question comes from Mr. Ruchit Mehta of HSBC. Over to you sir.

Mehta: Hi, good evening sir and congratulations on a great quarter. Sir want to understand do you have about 24% margins and first half you know it is about 21%, so should we expect about 21 is a good number amount for the full year ?

Vijay Thadani: I think what you should follow is the trend which you see in the previous year, because third quarter is typically a soft quarter, margins will drop substantially because capacity utilization is lower. If you plot our last three years or five years for that matter, you will see a similar pattern across the quarter I mean across the year. That is the sort that we follow.

Mehta: True but if I see like last year the average was about 17.5% and we know in the first half average is about 21%, so just want to figure it out on a full-year basis where are we looking at you know those margins heading towards.

Vijay Thadani: Extrapolation will actually give you good results. I can show you how to do that if you like in a minute.

Mehta: Okay.

Vijay Thadani: So if you see the individual, if you see our last year first quarter the margin was 16%, second quarter it was 18%, third quarter was 17% and the fourth quarter was 20%.

Mehta: Okay.

Vijay Thadani: You have to of course correct it for wherever the price increase comes in.

Mehta: Okay.

Vijay Thadani: Right. So, fourth quarter increased margin according to me was a small attrition last quarter.

Mehta: Okay.

Vijay Thadani: The right way to go about it would be you should assume this quarter to beat the next, next quarter it would drop and the following quarter it would rise again a little bit.

Mehta: Okay, no problem.

Vijay Thadani: Overall, we have talked about 200 to 300 basis points improvement and we would we are on track for that.

Mehta: Okay.

Vijay Thadani: Point improvement is what we had talked about.

Mehta: Okay, sir just talking about new business side you know it should be great to see that it is already broken even, is it sad to assume that now this business has a cost structure of something like about 75 Million a quarter and incrementally you know margins will start improving going forward and to what extent can this business on the sustainable basis there were margins and what will be those levels be.

Vijay Thadani: Okay, I will ask Dr. Deyy to answer your question.

Day: Yeah, the variable cost of this is of the order of about 15%.

Mehta: Okay.

Day: And the cost structure would be accordingly.

Vijay Thadani: The only thing is you must you have this is not a plane flying at 30,000 feet constantly. It is in a growth phase right now, even the fixed cost structure will keep increasing.

Mehta: We have the longer term like.

Vijay Thadani: Yeah, in the longer term we have already talked about getting margins at 25% or so.

Mehta: 25% or so.

Vijay Thadani: Yeah.

Mehta: Okay, that is good and just on the CAPEX plans. Do you have any immediate CAPEX plans of this year pending and what will be the total CAPEX for this year.

Vijay Thadani: We have so far done a CAPEX of about 78 Million Rupees in this quarter as well as 52 in the previous quarter and we have a capital working progress . We have a capital work in progress of about 200 odd Million. Right, so our total plan for the year was about 600 to actually we had started with 900 Million but because our capital projects got delayed a little bit, we were of late talking about between 700 to 800 Million. I have a feeling it will be around that.

Mehta: Sir that is 800 Million Rupees of CAPEX this year.

Vijay Thadani: Yeah.

Mehta: Okay, and sir we also in presentation you mentioned that your equity has now got diluted, so must have been after the conversion of warrants after FCCB ?

Vijay Thadani: Let me explain you, the first change which took place to equity was that the 10% held by Intel Capital as FCCB those were converted.

Mehta: Okay.

Vijay Thadani: The second change which took place was we declared a bonus issue top of that, hold on, before that we added how many options about half a Million option. On top of that we did a 2:1 bonus issue and we did a bid of 2 Rupees share. So if you multiply that with the number which we have got after FCCB and ESOPS multiplied by 7.5 that is the total base and that is about 164.6 Million shares of 2 Rupees.

Mehta: And just tell about 1.6 Million of ESOPS outstanding

Vijay Thadani: Of face value Rs 2.

Mehta: Okay, and on the ESOPS and FBT issue are you going to pass it on to your employees or would it take the cost on your books.

Vijay Thadani: We do not have as of now any implications but on the new plans we will have.

Mehta: On the new plans you may have that.

Vijay Thadani: Yeah, I am sorry it is passed on to the employees, yeah.

Mehta: Okay. And just on the interest cost I missed out that figure, for the full, for the first half what was the total interest cost?

Vijay Thadani: For this quarter it was 47 Million Rupees.

Mehta: Okay.

Vijay Thadani: For the total it was for the first half it was 96.7 Million Rupees. Okay.

Mehta: 96.5.

Vijay Thadani: 96.7.

Mehta: Thank you very much sir.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir. Our next question comes from Mr. Hitesh Shah of City Group . Over to you sir.

Shah: Hello, congratulations on a good set of numbers. Just for a better understanding you said if you could give an absolute number of revenue on EBITDA, I therefore element K or the organic corporate business, probably it would be notional or proforma numbers even that would do ?

Vijay Thadani: Okay, so I will do it at the current exchange rate.

Shah: Sure.

Vijay Thadani: Okay, so I will give you the numbers for element K and then you can do this small subtraction. Just hold on. It is on the basis of it will be about 910 Million Rupees for Element K with a 44 Million.

Shah: Okay, just wanted to understand you know we are seeing a reasonably good profitability improvement in Element K as we were earlier expecting it to be.

Vijay Thadani: Yes.

Shah: However domestic business, organic corporate business profitability is on a down trend. What could be the sustainable profit both at Element K and at our organic corporate business and what can we expect probably for this full year and for the next full year.

Vijay Thadani: Yeah, so first of all I think when we do this notional number, there is one number which is very large so if whether ten moves there or five moves there it does not change dramatically and one number which is small gets massively affected.

Shah: Right.

Vijay Thadani: So, therefore we should stop doing that notional as soon as possible but we will continue to do the notional when as long as you would like us to. So first of all our organic business is more susceptible to exchange rate fluctuation given the fact that the expenses are in Rupees and the revenues in Dollars.

Shah: Right.

Vijay Thadani: Number two a portion of their business is in India which does off a lower margin business.

Shah: Okay.

Vijay Thadani: So, given this the overall profitability which you see if you see an improvement quarter-on-quarter in profitability you will see that the combination has improved by just one moment yeah if you see between AMJ07, see unfortunately July quarter to last year versus quarter to this year is not in appropriate comparison.

Shah: Right.

Vijay Thadani: So, if we do last quarter to this quarter, we can see that it has gone up by 275 basis points, the combined profitability.

Shah: Right.

Vijay Thadani: Okay, now obviously Element K has not generated all that profit by itself. It has a lot to do with integration and lots to do with what the domestic business not the domestic the organic business is doing.

Shah: Right.

Vijay Thadani: Overall, we see this year our overall profitability after accounting for the exchange rate variations we at this point of time if we were to look at last quarter we had projected a 7.5 to 8% margin at the end of the year in the combined business.

Shah: Right.

Vijay Thadani: But given the track that exchange has further I mean Rupee had further appreciated compared to Dollar, I think it is more like 7% now which we should look at.

Shah: Right. So, just correct me sir if I am wrong. Is it fair to say that probably for this two combined business, this year we should expect somewhere around 8% EBITDA margins ?

Vijay Thadani: 7%, given if Dollar remains at whatever 39 point odd where it is. Remember about three months ago, when we discussed this subject on that we said 40.5, we should do 7.5 to 8%.

Shah: Right.

Vijay Thadani: Correct. So now it is not 40.5 it is 39.5. So, it has dropped at Rupee more.

Shah: Okay, sure, and in terms of you know are there any levers available to improve the profitability may be not this year but going into FY08?

Vijay Thadani: Yes, actually you raised a very important point. Our aim this year is to focus on those level of revenues which even if you cannot execute but at least will hold us in good stand and one of those is the efforts which Element K team is putting on promoting the content library and the content subscription business and as I have mentioned we have added 963 new titles, we have added 15 new sales people, they will get an order intake which we believe should be very healthy in the next six months except that order intake will take two to three years to burn, so that will be contributing to a better margin, reason being because that is the high margin business to start with.

Shah: Right. So, probably because you will look forward to something like profitability of 9 to 10% beyond FY08, may be in FY09 and FY10.

Vijay Thadani: Yeah, definitely we should look at 100 to 200 basis points improvement every year.

Shah: Okay, sure and also post Skillsoft acquisition of NetG. I believe there would be some retrenchment because of the overlap in the sales staff and you also said that you had recruited some sales staff, could throw light on how does this learning technology business looks like in the U.S. geography and you know is there any kind of pricing power returning to the content library people.

Vijay Thadani: Okay, it is too early to say whether there is a pricing power returning or not because they are still in the integration phase, I am referring to skills NIIT. However, Ashish may want to talk a little bit about it.

Ashish: So, at this point in time, the pricing has sort of hardening is not evident skills have continues to work with the earlier pricing policy, in fact they kind of dropped its prices a little bit in a couple of other geographies, so it is not evident at this point in time but we are expecting that things will change.

Shah: Sure. And just couple of book keeping question, can I get the salary debtor number for as of this quarter end.

Vijay Thadani: Yes, I will just give it to you. What were the others, you can just ask me all the questions, I will 2533.

Shah: 2533 and the other question was basically if we could break the debt that we have in terms of foreign currency dept and the local currency dept and the interest rate that you would paying on that.

Vijay Thadani: Okay, so we have 35 Million Dollars dept which we took for acquisition that in our book stands at 1393 right now.

Shah: Okay.

Vijay Thadani: We have a Rupee loan of 369.

Shah: Okay.

Vijay Thadani: Okay, and we have others which must be the working capital

Shah: Okay, alright and if just you could throw some light on K7 for primary eGURU and accelerate for secondary that you have put in your school learning solution and kind of outlook on that business going forward.

Vijay Thadani: Okay, what we are seeing is some traction building up in the private school business. We talked about the 100 schools that we added in the first quarter. We talked of the 20 more that we have added in this quarter. The eccelerate for secondary K7 for primary and eGURU, K7 is our solution for school which just have primary curriculum because they do not need all the bells and vessels which go with the full curriculum. Similarly there are some schools which only aid solution for secondary which is called accelerate but if you combine accelerate and K7 the total solution is called eGURU.

Shah: And does this cover only IT or it covers all the other subjects as in Maths, Science, History, Geography and languages.

Vijay Thadani: eGURU has two portions. eGURU has an IT wizard and eGURU has a curriculum wizard, so there is a eGURU for IT and eGURU for other subjects.

Shah: Sure and if you could have an absolute number of non-GSA schools that we have as of now.

Vijay Thadani: 926.

Shah: Okay, thanks and all the best.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir. At this moment there are I would like to hand over the floor back to Mr. Vijay Thadani for final remarks.

Vijay Thadani: Thank you very much for being here with us on this call, as usual your questions do give us new ideas and new opportunities to think of how we can improve ourselves. If there are any further questions and I am sure there would be lot of cuts of information that you will be looking forward to. Kapil Saurabh is our investor relations

Manager and he would be happy to handle this. Of course in addition to him Vijay Kumar and myself, we are all available for any further information that you may need. If you would like to meet any of the business heads, we will be happy to organize those meetings as well. Thank you very much once again, goodnight.

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