NIIT Limited
Quarter Four and Annual Earnings Conference Call - Financial Year 2008
June 11, 2008

Moderator: Good evening Ladies and Gentlemen. I am Manjula, 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 like to hand over to Mr. Vijay Thadani. Thank you and over to you sir.

Vijay Thadani: Thank you Manjula and welcome to the conference call for talking about the annual results of NIIT Limited. This is Vijay Thadani here and I have with me Mr. R. S. Pawar, Chairman of the company; Dr. Dey; Mr. Rajendran; Mr. Jitendra Mahajan, the CFO; Mr. Sapnesh Lalla who looks after the Enterprise Training Solutions; Mr. Ashish Basu; Mr. Paul Krause who is the President of Element K, CEO of Element K; Mr. Vijay Kumar; Mr. Raghavan who runs the Individual Learning Business; and Mr. Sanjay Mal who looks after Finance and M&A Activity. So, the purpose of this call and the large audience was so that we can answer all your questions and just before I forget I must mention that we do have an analyst meet on 14th at 5 p.m. at Hilton, I am sorry, on 13th at 5 p.m., I repeat 13th at 5 p.m. at Hilton at Bombay, when we would get…when you would get an opportunity not only to listen to some more detail on what we are talking about today but also get to meet in person these gentlemen that I talked to you about and interact with them. We also want to showcase some of the work that we are doing so that you get a better understanding of the company. Just now, the purpose of the call would be to share with you the financial highlights of fiscal 08 which is April to March 2008 and also talk about some…in some depth about each of the businesses and what we achieved and then we will open it up for Q&A and we expect this call to be on till about 7:15 p.m. Indian Standard Time. The highlights of last year, I think it was a very important year for NIIT as NIIT successfully transitioned itself from being known as an IT training company and a leader in IT training space to now being positioned for leadership in the global talent development scenario. Global talent development is a theme which we talked about last year, and I have been discussing over the last few quarters. In the last year, we think we have successfully transitioned ourselves and positioned ourselves for a possible leadership position in the global talent development space, but in that context, I would like to talk about the financial highlights first. The net revenues of the company were up 27% to now reach 10 billion rupees revenue and this is also an important landmark to cross the 1,000 crore mark in the training space. The system-wide revenues were up 26% year on year and they were at 14.016 billion rupees. The profit after tax was up by 32% to be at 756 million rupees. An interesting part is that the PAT that comes from operations of the company grew by 74% to touch 422 million rupees and the rest came from the minority interest that we have through investments in other associated companies. The EBITDA was up by 34% at 1.036 billion rupees and the operating margin had an improvement over last year. So, in a sense if you look at the performance of NIIT over the last few years, you would see a trend of accelerating revenue which means the growth in revenue each year has been better than what was there the previous year and the margin has been constantly improving, so an improved profitability. So, we did see a year of robust revenue growth which was coupled with profit improvement. The earnings per share were at 4.7 on the revised capital structure and therefore on a like-to-like basis after bonus and split normalization, it showed a 19% year-on-year growth. This was contributed by the three important segments of business that we work in and in the global talent development space, we see NIIT playing a role in either improving employability of young adults which is our individual learning solutions business, improving the productivity of corporate executives which is our corporate learning solutions business and improving the academic performance being in education of our school children and that is our school learning solutions business. So, in all the three businesses, we did see some major changes. The individual learning business net revenue which is including the IT part of the individual learning business as well as the new businesses (Finance and Management Training) that we had talked about for the last four or five quarters, we were up 40% year on year to be at 3.5 billion rupees, the operating margin improved by 452 basis points to be at 18%. This was contributed by IT net revenues of 31% year on year with operating margin improving by 291 basis points and finance and management training where our net revenues grew by 323% to be at 308 million rupees. The school learning solutions recorded a revenue growth of 19%. This is after we came up with a new thrust in the school business space on a conducive government policy as well as a large opportunity that we saw in the private schools business, and we recorded a revenue growth of 19% with an EBITDA margin of 13% which was 134 basis points better than last year. In the corporate learning solutions, we recorded a revenue growth of 21% and an EBITDA margin of 5%. This was effected by the currency fluctuation and if that was not to be taken into consideration, then the revenue would have grown in volume terms by 29% and operating margin would have been 7%. Going into a little bit of detail on consolidated financials, the 10 billion rupees of net revenues was at an expense level of 9.03 billion rupees, which was an increase of 26% year on year and this resulted in an EBITDA growth of 34%. This was primarily contributed by a better product mix and a gross margin improvement because of the favorable product mix, which contributed to the EBITDA growth. We were able to contain our SG&A expenses, mostly G&A much better than the previous year. On the other hand, we did invest much more in marketing, sales and marketing specially, for specially the new businesses where it is important to invest in the early stages. The depreciation has gone up by 12% from 473 million to 529. In terms of other income, we did have the interest burden for the loan we had taken for Element K acquisition for the full year and therefore there was an increase in the interest charges and at the end of which the profit before taxes was up by 63%. Provision for tax was a negative 20, given the creation of deferred tax at credits in US, especially in Element K and NIIT, USA, and therefore profit after tax from operations was up by 74%, a data point which I shared with you a little while ago. The share of profit from associates was static, it had a 1% growth at 334 versus 330 last year and that is why the PAT grew from 572 million to 756 million, growth of 32%. If one looks at the business mix and how it has transformed over the year, we started the business mix in system-wide revenues with the IT training business contributing 51% of system-wide revenues which remains the same in this year as well. However, the new businesses which were finance and management training which was 1% has grown up to 3% in this year, schools remained at 7%, and corporate has dropped from 41% to 39% in the overall mix. We also have the EBITDA mix as to who contributed how much. The individual learning solutions grew by 86% and now contributes 61% of the total EBITDA mix, schools contributed 13% of the total EBITDA mix, and the corporate learning solutions, the balance 26%. Of course, the finance and management training business which was characterized as new businesses, the EBITDA improvement was from -91 million to -26 million for the year. In terms of geography mix, last year, India had contributed 41% to the overall revenue, that has grown to 46%. US and Europe have dropped from 40% to 35% and the rest of the world have also dropped from 19% to 16%. So, while there was growth in all three, the important part is the India growth was much larger than the growth in the other businesses. In terms of EBITDA, now 72% of our EBITDA comes out of India, 26% from US and Europe, and just balance 2% from the rest of the world. So, if I look at the quarter highlights in this context, the EBITDA margin is up by 50% to be at 304 million rupees on net revenues of 2.7 billion rupees this quarter. The growth in revenue was modest this quarter at 6%. The consolidated software or system-wide revenues of course grew 14% year on year to be at 3.8 billion rupees. Operating margins improved 325 basis points to 11% and net profit was up 47% to touch 252 million. In short, a healthy revenue with an improved profitability. During the quarter, the major contributor to the business was the accelerating revenue growth of 34% year on year with EBITDA margin improvement of 193 basis points in the IT training business. The finance and management training business recorded a revenue growth of 223% year on year with an EBITDA margin of 5%. So, this business which broke even in the second quarter has been constantly improving its margin by about 200 basis points each quarter. The corporate learning solutions achieved a revenue of

1.3 billion rupees, 1.334 billion rupees and at an EBITDA of 60 million rupees affected by partly the exchange rate fluctuation and partly by a longer sales cycle that we saw in some parts of our business in US. However, towards the end of the quarter, we did make up in terms of the order intake. Our order intake was at 45 million dollars which is 39% year on year growth over the same period last year. This quarter was particularly good for the school learning solutions where in the government tendering business we won both the major tenders which were out from the state governments, Maharashtra and Bihar, ant that contributed to some revenue in this quarter and SLS revenues grew by 66% year on year to reach 379 million rupees at a margin of 12% which was improvement of 56 basis points on last year and on the back of an order intake which was 839 million rupees in this quarter and which resulted in adding 941 new schools in the quarter. In terms of overall financials, again gross margin improvement was a major thrust area and followed by indirect cost management which contributed to EBITDA improvement, even though sales and marketing expenses were at levels higher than previous year. Other income, we had some favorable changes in exchange rate, about 11 million rupees and a lower interest cost because of return of some loans which we had during the quarter which was 16 million. The effective tax rate has reduced from 17% to 12% due to creation of deferred tax…deferred tax assets. Given the number of businesses and the feedback that we have been receiving from all of you, we have now combined our businesses into three categories, one which offers employability solutions to young adults also known as the individual learning solutions business, and we now call it individual learning solutions business which has two components, IT and finance and management training which are the two components right now, but as we go along and just after our Board meeting this afternoon, we also announced a new venture which I will talk a little bit about. All these will contribute to the individual learning solutions. Essentially, the target segment that we are looking at is the 13 million students and graduates who come out of colleges every year. We have a huge problem of employability as far as these are concerned where only 10% to 15% of them are considered employable. They require a range of skills for them to pick up careers in different sectors, and NIIT's thrust as you can make our from our last few moves is to make sure that we offer a wider choice of career options for these young students so that they can pursue career in various parts of the industry. We started by showing our success in IT which indeed has contributed a great deal to the individual learning solutions growth even this quarter and this year, but over the last 18 months, we have added financed, insurance, banking, and management…executive management education as a few other alternative which we offer to these…to this segment of society. This afternoon, we announced a venture with Genpact. Genpact, as you know, is a leader in the IT-enabled services space with both in BPO and

KPO space and this venture will now train students and therefore offer a wider choice to students to take up career in this industry which itself has a large requirement over the next three to four years. I will talk more about this venture in the later part. The overall enrollment if you look at the individual learning solutions business, given the target that we are looking at as 13 million of those who are in colleges or who have graduated this year, we are now servicing nearly 400,000 of them and that is the number of enrollment that we crossed this year. Over a period of time, our aim will be to address a larger section of the society. So, if we look at the combined individual learning solutions, the growth over last year was 30% in system-wide revenues, 40% in net revenues, 86% improvement in EBITDA, and a 452 basis points improvement in operating margin. This was contributed by ILS-information technology training, which grew at 26% in system-wide revenues, 31% in net revenues, an improvement of 291 basis points in operating margin, and 53% growth in EBITDA. In the year, the geography mix was India contributed 66% in system-wide revenue, China 17%, and the rest of the world is 17%. The rest of the world in this case is typically the developing world which is Africa, Asia Pacific, those aspects of Asia, Africa, Asia Pacific, and to a lesser extent Middle East, Eastern Europe, and Latin America. India revenues were up by 37% year on year. This is a data point which we normally share with you which is what contributed this growth. The analysis of that is that 20% of this growth came out of volume, 7% came out of a better mix and higher realization, and 7% more came out of better pricing, better pricing power which we could have during last year. The overall enrollments during the year were up by 25%, India career enrollments were up by 24% year on year. We added 46 new centers, 29 in India and 17 overseas. I will also at this time talk about what this business did last quarter. The geography mix was 65% from India, 17% from China, 18% from rest of the world. India revenues were up during this quarter by 42% year on year, the enrollment were very good at 29% and this is one very important data point given the overall concern that may exist in some quarters about the impact of US slowdown on the training business and training enrollment specially in the IT services spaces. The 29% growth is actually a very good indicator of the fact that that part of the business in fact is improving with the recent economic developments which are taking place in the country and the changes which are taking place in the world. We added 15% new capacity year on year. We are now at 189,000 Seat Years. The revenue capacity utilization also improved by about 100 basis points and was at 55%. We had a closing net order book of 1.586 billion rupees versus 1.3 which we closed the previous year which means we are opening the next year with a stronger order book with 68% executable in the next 12 months. The highlight of this was a strong thrust in infrastructure management training space where tie-ups with Cisco, EMC, and CompTIA partnerships contributed to this growth. We are now offering infrastructure management training in more than 60 centers and we are also deploying a very successful technology from Element K called vLabs in offering these courses. We were able to improve our productivity through contact center expansion as well as Herakles, the network that connects…the virtual private network that connects most of the centers of NIIT. In the international space, we set up a net center in Shanghai which we term as the most modern NIIT training center that exists in the world. At the same time, we also set up a very interesting business model with the Province of Wuxi where Wuxi Government has contributed with land and building as well as a subsidy for infrastructure and with the local partner, we were able to create a new business model of an IT training center. We continue to get strong recognition in the geographies outside of India as well. In China, we were rated as the best IT training company. In Nigeria, we got the Titans of IT Award and in Vietnam, the ICP Gold Medal. We opened a branch in South Africa during the quarter. We will spearhead the thrust which we have in Africa going forward. During the quarter, we also had the largest square feet center in the world that NIIT has and that happened to be in a country called Botswana and where NIIT training is "recognized by the Tertiary Education System of the Country" and where young students get scholarship both from the government as well as otherwise to pursue education and skills training in these centers. In the finance and management training space, we had a 274% growth year on year with net revenues growing 323%. The EBITDA for the year was at -26, but as I mentioned, we had broken even in the second quarter and in this quarter we had an operating margin of 5%, but the strong negative EBITDA of the first quarter still had an effect in terms of determining the overall EBITDA number. We had an order intake of 341 million rupees and we have a pending order book of 78 million rupees. We added 7 new centers to reach 22 centers in 19 cities. I must mention here that as per the original plan, we should have been in 20 centers, but we did decide to add two more centers based on the strong response that we were receiving in each of the cities that we had opened new centers in. Over 10,000 students were trained during financial year 08 and we can now say that IFBI has gained universal acceptance amongst the banking community where we offered…where we added nearly 3000 plus fresh employees to the industry during last fiscal and as we speak now, another 1200 are due to graduate in the next few weeks. We also launched general insurance program along with ICICI Lombard as well as IFBI tied up with Kotak Mahindra Bank. NIIT Imperia also increased their tie-ups and this time added IIM Lucknow and now six out of the top ten management institutes offer programs through NIIT Imperia. We have a rich portfolio of 20 odd programs covering General Management and other functional areas. Moving on to school learning solutions, during the year we had an order intake of 1.3 billion rupees, we added 1821 new schools of which 175 were non-GSA schools. GSA contributed…GSA stands for government schools, contributes 72% of revenues versus 71% last year. That was strongly due to the last quarter intake of Maharashtra and Bihar which contributed to this higher percentage of revenue. Non-GSA revenue also grew during the year 17%. For non-GSA segment, we launched some new products which have been received extremely well. We launched eGuru solution, which offers a comprehensive solution for a school management and can therefore align itself to being learner centric, teacher centric, or school centric depending on the application, and therefore offered much more flexibility and much more robust model of offering education to the students compared to our competition. We also offered a tie-up with the shared computing platform called NComputing and that was also received very well. The most successful launch was in March when we launched Math Lab, a mathematics lab which is indeed a very unique concept in the school education system and we immediately could secure a few orders which tells us that the product has got very good acceptance. The pending order book at the end of the year was at 1.3 billion rupees with 42% executable in the next 12 months. In corporate learning solutions during the year, we had a 21% growth and we closed at 5.5 billion rupees. EBITDA on the other hand was at 266 which was reflecting an EBITDA margin of 5%, which is lower than last year by 295 basis points. The US dollar movement did impact our revenues as well as our EBITDA significantly. Product and sales force expansion also contributed to a lowering of the margin to an extent. Element K integration was handled extremely well. Element K had a very good year and on a like-to-like basis had a 7% growth year-on-year in revenues and improved their margin also by nearly 200 basis points over the previous year. During the quarter, the order intake was higher at 39%. However, the longer sales cycle taken for custom projects did result in a lower revenue number for this quarter and therefore that contributed to a lower growth than what one would have liked to see during the quarter. We took a controlling interest in a company in India called Evolv Services and that gives us access to the large English and professional life skills training space which is a huge opportunity once again in the employability segment and in the productivity segment. Overall corporate learning solutions had a fresh order intake of 150 million dollars during the year which was up 34% year on year. We finished the year with a pending order book of 74 million dollar, 62% of which is executable in the next 12 months. Moving on to the balance sheet for the year, we ended the year with a much stronger balance sheet. We generated 1.5 billion rupees from our operations, cash from operations. We deployed 8 million rupees towards fixed assets which included projects, new initiatives, capacity expansion, land and buildings, some normal CAPEX, and some work which is still in progress. We had substantial improvement in debtors in accounts receivables where our DS or days are down at 74 compared to last year 101 days which we closed the last year with. The improved collections happened in all segments of the business but specially from the government receivables in the school learning solutions business. Given this strong cash position, our overall debt has reduced from 2.698 million to 2.057 million. Our ROC, return on capital employed, has improved from 13% to 16% during the year and net cash has also improved by 720 million rupees. So, overall, on cash and asset management, we had a much better year than the previous one. In terms of head count, we added 637 people during the year. So, based on this track record, we have shared with you the plans that we have for the future. In the employability space, our thrust will be to cover a larger cross-section of society or cross-section of 13 million odd target segment we have. Frankly, even that 13 million in India is not the full target segment. About 20 million people join an employable age every year, but many of them drop out of school, many of them don't join college after school, and our focus so far has been on the college going students only by and large. Given the fact that this is a large space and given the fact that India's demographic dividend will create a strong opportunity for India to play in this space and given the fact that government is giving special thrust to this area as well, we have decided to enter into a number of verticals so that we can service a larger cross-section of this society. It is in this context that the NIIT Institute of Process Excellence which was launched this afternoon, which is a 75:25 joint venture between NIIT and Genpact, NIIT having the 75%, Genpact with 25%. The real advantage of this joint venture is to create a gold standard for an employee to be in the IT-enabled services space and build career very much like we could do so in the software engineering space through the GNIIT title that we launched many years ago. Genpact brings with themselves a tremendous understanding of the intricacy of the IT-enabled services space, the strong knowledge of verticals, and a very, very strong position in the market in addition to being one of the largest employers in this space. NIIT brings with itself its core competencies of strong pedagogy, strong usage of technology, and of course a very wide reach in terms of addressing a large cross-section of society. The idea is for this joint venture to start with seven centers in the first year, but slowly grow on or very quickly grow on to reach nearly 200 locations in the next three to five years. The centers would be those which NIIT Institute of Process Excellence owns as well as leveraging the existing NIIT reach in India as well as outside of India. There is also a plan to enter into China and Philippines very quickly because those are also large markets for the IT-enabled services people requirement which is a very strong felt need. In the employability space, we will continue to have this thrust by announcing new products while making sure that the existing products gain larger market share, and we attack…we address new geographies as we go along. In the corporate learning space, our focus will be to leverage the opportunity in learning products which has become available to us due to the position which Element K enjoys today having the largest library of e-learning and published material content in the world and taking advantage of that opportunity, being the number two in the space, to gain market share very quickly. While the training business worldwide may be growing at a single digit space, IDC report suggests that training outsourcing will grow at 18% plus in the coming few years and our aim is to align ourselves to this opportunity and take advantage and be a strongly positioned player to take advantage of this opportunity. In the school learning solutions, it is believed through the government plants with the 5X allocation for education in the 11th Five-Year Plan that nearly 40,000 schools…30,000 to 40,000 schools will come up for public-private partnership of various kinds including the ones that we are doing right now which is BOOT and BOT models, and we want us to be very strongly placed in taking advantage of this opportunity on one hand. The second, the private school space as it is offers a very interesting opportunity and with the new product launch that we have, we are very well positioned to grow fairly quickly in this space as well. So, I have covered the ground both in terms of last year's performance as well as the thrust in the next few years in each of the three spaces. I would now like to open this for Q&A and then my colleagues will join me in answering these questions. So, Manjula, may I request you to please open it up for Q&A.

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. Kindly note, participants are requested to restrict themselves to one question at the initial round of Q&A. To ask a question, please press *1 now. First in line, we have Mr. Vihang from Motilal Oswal. Over to you sir.

Mr. Vihang: Yeah, hi.

Vijay Thadani: Hi.

Mr. Vihang: Congrats on a good set of numbers. Yeah, I would first of all just like some clarity on the degrowth in the corporate segment, even in dollar terms and you said that it is the lengthening of the sales cycle. Can you throw some more color on it sir?

Vijay Thadani: Yeah. So, as you know that corporate learning solutions business has three components, the learning product side. The learning product side of the business has grown over last year. Then we have the training delivery and administration side of the business. That has a modest growth. It is in the custom projects where we have to bid for projects one after another and once you finish one project, you have to wait for the next project, that is where the longer sales cycle did result in not being able to clock as much revenue as we would have liked.

Mr. Vihang: Right. So, I mean how much does the custom projects actually contribute to the entire corporate segment revenues?

Vijay Thadani: It contributes about 30% between…in the overall corporate learning solutions which includes Element K and our organic business.

Mr. Vihang: Okay.

Vijay Thadani: But it includes perhaps India. India is separately…about 8%.

Mr. Vihang: Right. And almost about 35% of your corporate segment comes from organic business, I mean we don't break it up that way now…

Vijay Thadani: Yeah.

Mr. Vihang: …but that is how it is. So, I mean that is the business that gets most affected by the rupee-dollar exchange rate, right. So, I mean what is the per percentage increase in rupee, what effect does it have on the margins EBITDA level?

Vijay Thadani: Okay. So, if you see the impact that we had during last quarter, in the rupee impact on…okay, last quarter, the dollar impacted us by 141 million rupees in revenue which means we would have had a growth of additional 10% if this had not happened and our EBITDA would have improved by 23 million if we had maintained the dollar rate which we had budged for.

Mr. Vihang: Right. So, the effect in basis points on the margin front, EBITDA level?

Vijay Thadani: So, 1 basis point is about 13 million rupees, so therefore you can say about 200 basis points. 100 basis points is 13 million rupees, so 200 basis points.

Mr. Vihang: Okay, okay. Yeah…and we have after some quarters of negative other income, we have a positive other income this time and could you just give me a breakup of that?

Vijay Thadani: Yeah, I will just give you that. So, other income, there were favorable changes in exchange rates, so we got an 11 million benefit because of exchange rate, improvement over the previous time. Lower interest cost because we had return back of loans which is 16 million and the rest would be changes, small changes which would have taken place elsewhere.

Mr. Vihang: Okay. And one last question, I see that now we are more focused on the ICT business than perhaps we were, you know, same time last year probably because of the improved government spending on it. So, can it have a negative effect on our DSOs?

Vijay Thadani: Well, as I mentioned, one of the reasons we got back into this business and one of the reasons we stayed away from this business for a while was exactly the same concern which you had. Now, in the new tenders one is making sure the government has funds. In the cases in which we got stuck earlier, it was not the unwillingness of the government to pay, but the fact that government didn't have funds and somebody had moved along and placed orders. The second, we have some much more…much improved payment terms and third, of course, we have also learnt over a period of time to manage the process of collection of these receivables which is very different from the one which you would normally use in corporate sector. So, we don't forsee the problem of DSO to be as severe, but having said that, whenever you are dealing with the government, you have to be prepared for DSOs which are slightly better….slightly worse, sorry. We are naturally hedged because a part of the business is cash and carry which is the individual learning solutions business. So, there is literally zero DSOs. So, therefore, to that extent, we do have a possibility to accept a little longer collection cycles as long as the collection are safe.

Mr. Vihang: Okay, that was helpful. Thanks a lot.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Sunil Tirumalai from Credit Suisse. Over to you sir.

Sunil Tirumalai: Hi sir. I am Sunil from Credit Suisse. Couple of questions, firstly on the IT training side, you had a good run in terms of enrollments this quarter, but going forward for the next one year, what do you think, can you give us some sort of a guidance into that.

Vijay Thadani: Mr. Raghavan, would you like to comment on that.

Mr. G. Raghavan: Yes. Basically, the environment continues to be strong. If you look at the indications we got in the last quarter, the net revenues in fact grew, the enrollments grew even faster than the previous three quarters, number one. Number two, if you look at the NITAT, the aptitude test that we conduct, we had substantially larger number of test takers in the last year than the previous year, and thirdly when economic and cost pressures happen to the industry in general, it pushes the individual to be much more equipped and trained and these are indications that we are clearly seeing, so we do not anticipate the individual IT training sector to slow down anytime soon.

Sunil Tirumalai: Okay. Sir, and my second question is going back to the government school business. Have things really changed so much for you to take a turnaround over the last six to seven months in terms of how the contracts are structured.

Vijay Thadani: Well, I mentioned to you there are two or three changes which have taken place in the government buying pattern. Number one, the availability of funds. Number two, to follow the World Bank kind of tendering norms, which is you get first technically evaluated and you get evaluated for your pricing, so therefore if you are get technically strong you do get a benefit in pricing and third, a more open and transparent system, so I think those are definitely contributors. Having said that, we are not falling head long into getting any and every government order. As we have mentioned, we would like to be selective. We would like to make sure that we manage the capital intensity as well as the risk of receivables before we select in the governments that we would like to play actively with.

Sunil Tirumalai: Okay. And continuing on the same topic, are you seeing a rise in the number of litigations from people who have lost out on say bids or something in the recent past?

Vijay Thadani: Well, I guess, I mean I hate to be philosophical on this, but that is the cost of democracy, so there are litigations which always happen and then they get resolved as well.

Sunil Tirumalai: Thank you very much sir.

Moderator: Thank you very much sir. I repeat, participants are requested to ask one question at the initial round. Next in line, we have Mr. Nitin Saigal from Bridger Capital. Over to you sir.

Nitin Saigal: Good evening Vijay. Thanks for that helpful overview. My questions are in the individual learning segment.

Vijay Thadani: Yeah.

Nitin Saigal: Firstly on the margins, they are up about 200 basis points years over year in the quarter. I am wondering how is the cost base growing because it seems like the incremental contribution margins are lower than they were last year. So, could you give us a little more detail on any onetime cost that you would have had, either sales or marketing and also whether wages are increasing significantly on the cost side of the ILS business.

Vijay Thadani: As I mentioned, in fact we felt that the margins played out much better during the last year and specially in the last quarter. We had 20% contribution from volume, 7% from mix, and 7% from pricing and the rest is capacity utilization which determines the…which determines the ultimate profitability. Yes, it is true that our marketing expenses given the new product launches we had, we had Cisco launch, we had infrastructure management, solutions…I mean infrastructure management training launch, those would have contributed, as well as you always prepare for the next year, but we don't think that was anything out of ordinary.

Nitin Saigal: So, I guess then going forward, where do you think margins will be in the next couple of years, I think before you had said 24-25 would be kind of big margins and a mid 60s utilization, is that still your outlook?

Vijay Thadani: Absolutely. At 55% utilization during last year, we are at 21% margin. So, I think we are well on track to be at the targeted number.

Nitin Saigal: Okay. And then what was the utilization, the 55 you reported was for the year, not for the quarter.

Vijay Thadani: For the year, yes.

Nitin Saigal: Any idea what it was for the quarter?

Vijay Thadani: For the quarter, yeah, I will just share that with you. You can meanwhile ask your next question, we will just pull out off…

Nitin Saigal: Yeah. Just a question on China system-wide, it looks like based on my numbers, that actually was down year over year, China system-wide revenues for the quarter. Did something happen there in this quarter?

Vijay Thadani: No, are you referring to year on year?

Nitin Saigal: Yeah, year on year, but just for the fourth quarter.

Vijay Thadani: Yes, that could be…yes, that is possible because of the Jiangsu last year. We had a peak registration month in March. So, to that extent, we would have had a higher should I say, yeah, impact…base effect on which therefore it would appear to be.

Nitin Saigal: Okay. And then finally just on the Genpact and then I will get out of line. Do you not already provide any of the programs you are going to provide through the JV, is there any overlap there or these are all completely new training programs?

Vijay Thadani: In terms of some modules of the training program, there would certainly be overlap, but that is like a contribution and leveraging factor for us, but a lot of this is from very intricate knowledge of the ITES practices and processes that Genpact follows and these programs are beyond just voice. We are discussing voice, we are discussing finance, we are discussing banking, we are discussing insurance, we are discussing accounting, and we are even discussing logistics and supply chain. So…

Nitin Saigal: Is there a plan for them to then take on employees directly out of the JV?

Vijay Thadani: Obviously, they would have the benefit of getting employed out of the JV and that is one of the attractions for them and so is that true for the other players in the BPO market or ITEF market space as well. Like we had in the case of ICICI Bank, starting point was with ICICI Bank and now we have HDFC, Kotak Mahindra, and so many other banks.

Nitin Saigal: Okay, okay. I will get out of line, maybe we can continue off line. Thanks.

Vijay Thadani: Yeah. Even if you would like, we could obviously continue the conversation in Mumbai if we get to see you.

Nitin Saigal: Okay thanks. I will try a bit later. Thanks. All the best guys.

Vijay Thadani: Alright. And the answer to your utilization question was last quarter it was 65%.

Nitin Saigal: 65?

Vijay Thadani: 55, I am sorry.

Nitin Saigal: 55.

Vijay Thadani: Yes. 65 is my target in my mind, yeah.

Male Speaker: Last quarter as well as for the full year it was 55.

Nitin Saigal: Right.

Male Speaker: And the corresponding last year full year was 54. Corresponding quarter for last year was 52. So, quarter to quarter…in the quarter, there has been a year-over-year improvement of three percentage point.

Nitin Saigal: Okay, right. Thank you guys. All the best.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Sonal from Aim Capital. Over to you sir.

Sonal Kohli: Hi. This is Sonal Kohli this side. Congratulations on good set of numbers. My query pertains to your individual business. When I see your numbers on system-wide revenue from India is now 66%

compared to 59%. Could you throw some light on what has been your growth for China and rest of the world this year and also for Q4 and what was the currency impact because of the same.

Vijay Thadani: Raghu, you will be able to share that.

Mr. G. Raghavan: The share of the system-wide revenue mix, India was 66, China was 17 and the rest of the world was 17. If you look at the similar period the previous year, the China versus ROW share has not been significantly different. It is about the same, about 17% and 18% to be exact. As far as China system-wide revenue growth is concerned, we answered that question to the previous analyst about the last quarter number being lesser than the previous year primarily driven a larger base in the quarter four of last year wherein we had about one time large order intake during the quarter four of the previous year.

Sonal Kohli: But let's say on a year on year basis, what has China grown at and what has rest of the world grown at, and what would be the currency impact on the same?

Mr. G. Raghavan: I have a currency impact for the overall individual learning solution business, it is about 40 million rupees on the top line for the whole year.

Sonal Kohli: That is on net sales, not on system wide.

Mr. G. Raghavan: Not on system wide.

Sonal Kohli: Okay, but could you throw some light on what has been your year on year growth in China and rest of the world and whether, you know, going forward would you expect this mix to remain at this level with India at 65% or would you expect India to continue to grow at higher rates than China and rest of the world.

Mr. G. Raghavan: Okay. Basically if you look at China, the real growth has to be seen by means of enrollment growth. About 35% has been the year over year enrollment growth in China and on a global basis, we have a growth of about 25% in enrollments for the entire globe and that is accounted for about 35% in China and about 20 plus percentage in India and rest of the world, you know, doing the remaining impact on the overall enrollment growth. So, the China, the real story is expansion in terms of the quality of centers, the number of centers, and the enrollment growth and the kind of spread of curriculum that we are offering across the universities we have partnerships with. So, the real number as far as China is concerned is the significant enrollment growth of 35%.

Sonal Kohli: What about rest of world?

Mr. G. Raghavan: Rest of the world is in the region of about 20% in terms of enrollment.

Sonal Kohli: Okay. So, is there any significant shift in terms of enrollment, you know, career versus noncareer because last quarter I remember the enrollment growth was 40% and we were to see some positive, you know, traction of that coming in the coming quarters, but somewhat that is not visible, at least on the Chinese…China front. Is there any difference in the product mix or you know is the enrollment number like to like comparable, is it career versus career or is it that the mix has changed.

Mr. G. Raghavan: There has not been a significant difference in the mix of career and noncareer as far as China is concerned.

Sonal Kohli: Secondly on your career enrolment growth, you mentioned that the number is about 29%. When you say career enrollment growth of 29%, you mean that is for the IT business or for your total individual business because now you started clubbing the new businesses into that.

Mr. G. Raghavan: This number refers to IT training.

Sonal Kohli: And I see that your career enrollment growth is 21%. So, has there been substantial change or is it due to some reclassification. While your, you know, overall growth is 29, while your career growth is 21%. Have you added some new courses in English or something on those lines?

Mr. G. Raghavan: We have introduced a lot of technology modular program in partnership with leading technology players such as Adobe, such as Cisco, such as EMC and even with Sun we have introduced Polaris courses which are all modular courses. There is an increasing appetite for killing in the area of new technologies and that is why we have gone ahead and gotten many partnerships during the last year to offer technology programs and there you might see a little bit of effect of that.

Sonal Kohli: So, that modular courses don't come in the career segment, am I right in understanding that?

Mr. G. Raghavan: Modular courses do not come in the career segment, you're right.

Sonal Kohli: Okay. And these courses would have similar realizations as your career courses obviously excluding the GNIIT.

Mr. G. Raghavan: Well, for a certain period of time, if you look at the duration, yes, it will be comparable.

Sonal Kohli: Could you also throw some light on your cash and debt levels. Sorry, I didn't get the figure previously and also what kind of interest costs would you have.

Vijay Thadani: Okay. So, let's share the cash and debt levels. The cash at the end of the year was at 820 million rupees and the debt at the end of the period was 2.057 billion rupees…million rupees, I am sorry.

Sonal Kohli: What would be your average interest cost?

Vijay Thadani: Our average interest cost would be 8% to 9%.

Sonal Kohli: Okay, thank you.

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

Vijay Thadani: Maybe we should just Manjula keep the…I think the questions are few more, so may be we should the keep the conversation open for a little while more.

Moderator: Sure sir.

Vijay Thadani: So, if you can please…let's take a few more questions.

Moderator: Sure. Next in line, we have Mr. Pankaj Kapoor from ABN Amro. Over to you sir.

Pankaj Kapoor: Yeah, hi Vijay. Congratulations of a good set of numbers. Just a couple of questions. First on the outlook for the individual learning business, the IT side. Many of these IT companies are talking about some moderation in the hiring and we are looking at probably the off-campus hiring to get affected this year. We have been seeing a good enrollment for our courses though. So, is there any kind of a lag effect which you can see as far as our enrollment is concerned, next year or the second half of the next year. That is the first part. Second, will there be some impact of this on your…the pricing, rather the course fee hike that we can have in the next year, that is the second part.

Vijay Thadani: Raghu…

Mr. G. Raghavan: Okay. As far as the enrollment volumes are concerned, important point is that during the last 12 to 18 months, we had increased our product portfolio and we have also introduced additional career programs in terms of accelerated ANIIT of engineers as well as integrated ANIIT for engineers and therefore we have increased the offering to cover a larger catchment area of students. Therefore, we are lot, lot better prepared and as far as the industry is concerned, like I was mentioning for an earlier question, the real push if towards individual to get themselves and better equipped and therefore we consider this trend as something that is favorable from an individual learning solutions, IT training standpoint, and when you look at college campus recruitment, if there is any challenge, the pressure that comes out of it, if anything, it drives students more to centers like ours to pick up skills before they are even ready to apply for jobs. So, this is the way we interpret it and would it lead to any impact at the end of the day, I think it could lead to sometime delayed decision on the part of the students, but overall net-net we are not looking at negative impact to our growth trajectory. As far as the fee structure is concerned, as you might have observed over the last 24 months, we have had two waves of fee changes both for the career programs as well as the modular programs, and we do not have any plans to touch the fee structure as far as this year is concerned. We are going to be settling down with the fee structures that we have already announced. As far as going forward, if we do increase the value addition to the students by means of a more intense curriculum, our new technologies, those would drive fee changes as we go along. But for a static as-is curriculum, we have no plans to improve or increase the fee structure.

Pankaj Kapoor: Second is on the Genpact joint venture, is there any kind of a commitment from Genpact in terms of hiring similar to what we had in case of IFBI.

Vijay Thadani: Well, given the fact that Genpact is a partner in the joint venture, obviously they are…one of the important advantages they would like to take or have is an ability to hire from this venture and given the fact that they are also contributing with their content and domain expertise, they would also have a benefit of that being visible in the students. And I think the way the system will work is that we would like to make sure that we demonstrate success with Genpact, but open it other players in the ITS industry as well.

Pankaj Kapoor: Okay, fair enough, thanks and all the best.

Moderator: Thank you very much sir. Next in line, we have Mr. Urmil Shah from Kenman Securities. Over to you sir.

Urmil Shah: Yeah, good evening sir. Nice numbers. On a strategic fund like the IT firms and even in the BFSI segment, the companies that is the end markets are going to tier II and tier III cities. Do we see a pressure on the fees when we go on to address the resources over there?

Vijay Thadani: I would ask my other colleagues to answer these questions as well, but my own belief is that the propensity to pay is directly related to the benefit at the end of the tunnel. So, if the jobs are offering salaries of certain kinds and there are various mechanisms by which individuals would like to pay the desire fee.

I think an Indian parent, an Indian youth would like to pay the right fee so as to get the right quality of education, but let's see if there are others...Dr. Dey, you have a view on this.

Dr. Dey: No, I agree with you and apart from that, the kind of arrangements we have with our partners whereby students get an offer of appointment simultaneously with their enrollment of program, the salary structures of that appointment do not vary from town to town or city to city. That is the same across the nation and therefore really this does not become an issue at all.

Urmil Shah: Okay. Thanks. Rest of my questions have already been answered. Thank you.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Ruchir Desai from Pioneer Investment. Over to you sir.

Ruchir Desai: Hi, good evening. Just a couple of questions. First on the schools business, as you are aware that the government is looking to increase its spend on the education in the country, so I was wondering have you seen any increase in pipeline for your potential government school contracts, if you can talk a bit about the pipeline for government school contracts that you are currently in the run for, a little bit on that, and also have the number of players bidding for these contracts increased in the last couple of months considering the kind of potential that this segment holds?

Vijay Thadani: Yes. I think answer to both the questions is yes. However, getting and executing…getting an order for the school and executing that order successfully are two very different capabilities. We are lucky that we have both of them and are able to have demonstrated those in the past in terms of having executed very large and very diversely spread schools in very difficult territories before. Now, there are a large number of new players who are anxious to get into the market, there are few who have got into it, and we do come across five or six players now nearly in every tender. Recently, there was a tender where many believe a dark horse came from the back and took away the tender. So, that will also happen.

Ruchit Desai: So, what is your margin outlook in this business going forward considering the new phase of entering the fray and it is a L1 kind of business. So, what is the margin outlook for the government school business?

Vijay Thadani: Yeah. See, the margin in any government-related tendering business of this kind, we believe should be of the order of 10% to 15%. Now the important question is how you manage the project after that. So, we believe we have very strong capability and be able to retain that margin with us.

Ruchir Desai: Okay. So, currently could you talk about what kind of pipeline do you have on government schools which you are running for, is there any number you can put to that?

Vijay Thadani: There are about 10,000 schools which are at various stages of tendering process. There is a large tender out from Andhra Pradesh where we are extremely favorably placed and we look forward to actually getting a substantial portion of that and given the fact that it is a fairly open and transparent process, we do feel that that would be one of the benefits we will see in the next few weeks or days. In addition to that, there are other tenders which are in various stages of development, but I must point out to you that with the impending elections and the elections which are taking place in each state, elections do delay such decisions. So, while on the outlook, it looks very good, the decision making cycles have to be as fast.

Ruchir Desai: Just a last question on the Genpact JV. Could you talk about what kind of investments you will be making in JV and also what kind of sales initiatives would be put into place, would it also include Genpact sales initiatives for, you know, getting revenues for this JV and…

Vijay Thadani: Ashish, would you like to answer that? So, his first question is how much are you investing and the second is also be contributing to any sales initiatives.

Ashish Basu: Yeah, okay. So, let's answer that question in a couple of parts. The first is that the investment in this joint venture at the start is 25 crores. Both of us will be investing in the overall sales and marketing effort, but of course the company will have its own team of people which is looking at that. We will be leveraging our existing capability and doing sales and marketing that we have been doing in the past both for the individual business as well as our extensive experience now through the IFBI or the finance, banking, and insurance venture with ICICI Bank and this will have a number of elements similar to that, but is of course focused on the ITES industry versus the other one which is more focused towards the banking, finance, and insurance segment.

Ruchit Desai: So, when do you expect execution of the JV to begin and once it starts reporting revenues, will it be reported separately or will it be part of individual learning solutions?

Vijay Thadani: First, it will definitely be a part of individual learning solutions because that is what is the target segment, but we would be happy to share these numbers separately with you. Second part, when will it be operational, we expect it to be operational in about 90 days' time.

Ruchit Desai: Okay. No, I just asked because considering that you would have to make increased sales investments for this new business, I mean for the JV and also your pricing in the individual businesses are going to be flat for this year. So, I am wondering what kind of margin outlook would you have for the individual business considering that there would be some kind of…with respect to these points.

Vijay Thadani: Our outlook for individual learning business, we have already shared. We are looking for a 200 to 300 basis points in margins. You must realize that the FMP part of the business is at a mature stage and therefore margin improvement will be higher. So, therefore overall to manage a 200 to 300 basis points, even with the new business, will not be difficult.

Ruchit Desai: Okay. Thank you and all the best.

Vijay Thadani: Thank you.

Moderator: Thank you very much sir.

Vijay Thadani: Manjula, can we now take the last question please.

Moderator: Sure sir. Next in line, we have Ms. Mythili Balakrishnan from JP Morgan. Over to you ma'am.

Mythili Balakrishnan: Hi. Thank you for taking my question. Just couple of points. I wanted to check whether you have given any guidance at all in terms of growth and margins that you are looking for in the coming year?

Vijay Thadani: The answer is no, but we have talked about the direction which each of the businesses is taking and the opportunities that exist in each of the market places, and we have also mentioned that in each one of the businesses, we are looking at an acceleration in growth and an improvement in profitability.

Mythili Balakrishnan: Okay. And in terms of the school business, could you just tell us a little more about the private schools initiative, currently how many schools are you present in terms of private schools?

Vijay Thadani: We have serviced about 940…981, I am sorry, 981 schools.

Mythili Balakrishnan: And when you say service, see earlier we used to have this whole content CDs thing, but now it has obviously changed a bit. So, could you just comment on how exactly do you…what is the product offering like?

Vijay Thadani: Yeah. We used to be offering an IT training, IT education part of this business earlier, I mean part of the offering earlier to a large number of these schools and that continues to remain a leadership area for us and even some of the schools who work with competition in other subjects, for IT they would still prefer to work with NITT and that we have in a number of cases, but in addition to that, our offering called eGuru which is a comprehensive offering, which competes and in fact does better than many competing products as well as Math Lab as well as the NComputing solution which is a shared computing platform does give us a strong competitive advantage and right now when we are offering solutions to the schools, we are giving them an opportunity to get advantage of the whole product offering that we have.

Mythili Balakrishnan: I wanted to figure out of these 981 schools here, how many are still on mainly IT training and how many have moved to the new set of products?

Vijay Thadani: I can share that number with you, I don't have that number right now.

Mythili Balakrishnan: Okay.

Vijay Thadani: But our offerings in the other subject areas have been primarily in this year…

Mythili Balakrishnan: Correct.

Vijay Thadani: …and we added about 175 schools this year. So, the number in which we are offering the other subjects would not be very, very large.

Mythili Balakrishnan: So, it would be around 175 or it would be less than that?

Vijay Thadani: No, it will be lower than that.

Mythili Balakrishnan: Okay, okay. The other question which I had was basically on the corporate training side. Given the whole weakening economic environment both like, you know, outside and domestically also things seem to be a looking a little stretched. Do you think there is any impact in terms of people cutting, trimming budgets, and do you see that impact in your corporate training business at all?

Vijay Thadani: Not in India. We do see that our custom projects in US, there are delayed sales cycle, but those who had gone ahead with these decision making, we do see those decisions coming forward, but it is still wait and watch to see how the year ends out. In learning product, we see ourselves in a much stronger position that is also a high margin offering for us. We have a huge market to service, so that is a very positive dimension and the training delivery and administration is actually very akin to the IT services outsourcing where actually when there are slowdowns, there is a higher propensity to outsource. So, that is what we are betting on.

Mythili Balakrishnan: Okay. And in terms of debt, what is absolute level of accounts receivable currently?

Vijay Thadani: Our absolute level of accounts receivable is 2048 million rupees.

Mythili Balakrishnan: I have one last question which is basically again on the school side of things in terms of the private school. What do you think is the addressable market size out there and you know how do you define it in terms of how much does the school charge per month or…

Vijay Thadani: Okay. Depending on the product offering that you have, I would tend to feel between 10,000 to 30,000 schools.

Mythili Balakrishnan: Okay. And this is mainly for your curriculum-related products which you are talking about.

Vijay Thadani: I mean strictly speaking, every school can buy a small piece of your offering based on their requirement. However, for you to have a significant possibility, I would say between 10,000 to 30,000 schools. If you were to stretch the argument and for a lower level, then as you know there are about 100,000 private schools or those who fall in private and government aided schools, government-aided private schools.

Mythili Balakrishnan: Correct. And what is the pricing module that you look at?

Vijay Thadani: Typically per school…per student per month.

Mythili Balakrishnan: Okay, thanks. That's all from me.

Vijay Thadani: Thank you.

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

Vijay Thadani: Well, thank you very much for your very encouraging remarks and very good questions. As usual, we learn a lot from the Q&A session. I must remind you that we are available for any followup discussions with you between now and 13th, and on 13th at 5 p.m. at Hilton at the sunset lounge at Hilton Towers at Nariman Point we do have an investor meet, and we would be very happy to showcase some of the offerings that we discussed today. We would like you to meet the business leaders and we have especially Mr. Paul Krause, CEO of Element K, Sapnesh Lalla, who heads the Enterprise Learning Solutions business, and both of them represent the corporate learning solutions. They are both present with us in that meet. We also have Mr. Balasubramanian who heads the schools learning solutions, and of course Dr. Dey and Mr. Raghavan who many of you have met. So, we would be there in a large team and we look forward to interaction with you. Once again, would like to invite you. In case you would like to receive any further details about that event , please do contact Kapil Saurabh in Investor Relations, and he will be very happy to offer whatever help you would require. Thank you once again for your encouraging remarks and thank you once again for being here with us this evening. We looking forward to meeting you in person as many of you as possible in Mumbai on 13th. All the best. Thank you very much.

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.