NIIT

"NIIT Limited Post Q1 FY10 Results Investor Conference Call"

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NIIT

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MR. G. RAGHAVAN – PRESIDENT
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Moderator Ladies and gentlemen good evening and welcome to the NIIT Ltd Post Q1FY10 Result Investor Conference Call. As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference, please signal an operator by pressing * and 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vijay Thadani. Thank you and over to you sir.

Vijay Thadani Good evening. Thank you very much for joining us on this call. I have with me Mr. Rajendra Pawar – Chairman of the company and we have the President of the Businesses, Mr. Ashish Basu, Mr. G. Raghavan, and Mr. L. Balasubramanian. We have Investor Relations – Kapil Saurabh as well as CFO – Jitendra Mahajan and Mr. Vijay Kumar.

We will be discussing the first quarter result. I will give a quick overview. The results have been on the web for a while now and in case you have any difficulty in accessing that you could now try to go to www.niit.com and you would be able to pick up the results.

What I would do as usual is give you a brief overview of the environment followed by the overall business and financial highlights and then a little bit of detailed initial of the businesses and thus leave a lot of time for Q&A.

Overall if I was to summarize the environment, the environment continues to remain volatile which means that there were good things as well as some challenging times but overall the consumer sentiment continues to be weak across sector. Customer sentiment if I was to say in corporate and consumer sentiments in the individual learning business continued to be weak. Unemployment in the US is still rising. Global markets continue to remain sluggish and the IT services sector growth rate have come down. So these were the parts of the environment which were challenging.

There were some good parts in the environment. The education and skills development are a significant part of the stimulus package which is being provided by government across the world. We saw this happening in India. We saw this happening in US. We saw this happening in Malaysia. We saw this happening in China. India itself had a new government and a progressive education and skills policy coming out which will accelerate changes in the education sector including public/private partnership. India also announced a new budget with a 20% higher allocation to education with a support across the board and predominantly on employability skills.

IT sector result showed some positive indications and there is an increase in hiring, that we are noticing. The job market for specialist skills continued to remain robust as we could see. We started with an April and May which were quite slow, in fact much slower than normal but we saw rebound coming up in June and we do believe that that earlier two months could have also been an addition to the economic environment due to other distractions such as elections, etc.

Overall in the business level individual learning solutions, we saw at a highlights level, strong growth in infrastructure management space 92% and China 63%, growth in enrollment. Placements continue to be strong and we also initiated our first step getting into ERP training, which is again a huge opportunity. School learning solutions we started the quarter with a largest order from Gujarat government for government schools as well as we saw some improved traction in Math Lab as well as adding new private schools in our eGuru Solution. We added 114 new schools. In corporate learning solution while the environment continued to remain volatile we did see positive growth in online learning products as well as the actions that we had taken on cost management yielding improvement in operational efficiency.

NIIT got a number of recognitions from technology partner as well as from a number of surveys.

In financial terms the EBITDA improvement is the highlight of the quarter 286 million which is up 53% year-on-year. The margin improvement is 373 basis points, improvement year-on-year and it is at 11%. Last year same quarter we were at 7%. Consolidated system wide revenues are at 3.688 billion and that is a growth of 1% year-on-year which is nearly flat. Net revenues are also in the same rate 2.61 billion which is also just 1% growth nearly flat. Net profit is 99 million which is down 42%, part of which was expected but a large part impacted by solid volatility. Solid volatility affected us in Post-NIIT Ltd. operations but as you know at the PAT level we also include the share of profit from associates. We had an impact from there also. From NIIT Operations an impact of Rs. 41 million, from associate profits Rs. 67 million.

Our revenues in ILS, individual learning solutions were 856 million which is flat year-on-year but there was an EBITDA margin improvement of 115 basis points year-on-year. Our corporate learning solutions the revenues were Rs. 1.3 billion, EBITDA margin improvement was 739 basis points, we had a decent order in take of 31 million (dollars). School learning solutions, revenues were up 43% year-on-year and we had an EBITDA margin of 18% which was 447 basis points improvement and an order intake of Rs. 1.07 billion.

So if you look at our P&L the revenue growth is flat. We have had a significant improvement in EBITDA coming out of better product mix on one hand, more IT based product sales. The second coming out of very aggressive cost management which included managing our head count which details I will share in a minute. We had a 53% growth in EBITDA. The depreciation was higher at 168 million compared to the same period last year. Though the depreciation was on lower side compared to the last quarter but higher depreciation was predominantly due to new government schools which have been implemented over the period. I think the real change came in other income. In other income we had two strong changes. One change was the FOREX impact of an inter company loan which is from NIIT to NIIT USA which had to be mark-to-market, an impact of 24 million. There was some impact of FOREX receivables and payables transaction compared to last quarter, so that was another 7 odd million, so totally of 31 million impact here. 9.5 million impact in Revenue there, for a total of 41 million impact of FOREX in the profit of NIIT Ltd.

At share of profits from associates was lower by 36% and that is also caused by if we take the FOREX impacts on associate profits 25%, share of that would come to Rs. 67 million, so that is the 67 that I was talking about. That is the reason our PAT is at Rs. 99 million which is (-42%).

New businesses, I talked about the individual schools and corporates I thought I will spend a minute on new businesses as well. New businesses are impacted by the slowdown as well so the growth rates have not been in high in individual segment. Of course the banking part of the business continues to remain at the same place because of the hiring freeze which the banks have.

In overall business mix, individual learning solutions now contributes 52% of our revenues followed by corporates, and followed by schools which contribute 10% and new business is 2%. Similarly in terms of share of profits individual business continues to contribute the largest share of profits followed by corporates, followed by schools, and of course new businesses given the fact that they are in the investment phase, they are still in a loss. Though the loss is reducing as we go quarter-on-quarter. Individual business contributes 53% of the total profits.

If I move onto individual segment then in individual IT we saw system-wise revenue growth of 1%, net revenue was just flat. The geography mix was, India 71%, China 15%, and Rest of the World 14%. The lead indicator enrollments grew 6% globally. Now normally 6% growth in enrollment should have had some impacts on revenues as well but as I explained we started with a very slow April and May and then the traction picked up in June. So April and May the enrollment levels were very-very low, much lower than last year but in June we saw a positive growth. So therefore we got the enrollment but obviously we could not execute on all those enrollments and therefore to that extent the impact in revenue was not visible.

Placements were up 87%. We did not add any capacity on a sequential basis. However, if we compare it to the same period last year there was a 9% increase in capacity. Last year at this point of time we were still adding capacity so that is the capacity which we would have got added. The new capacity utilization was same at 56%. Similar capacity utilization we were able to deliver a better margin in EBITDA terms and that was out of overall cost management measures and I must also point out that sales and marketing expenses would have been on a higher side but the overheads and other expenses would have been better managed.

IMS, Infrastructure Management Solution is part of the business on which we had a strong focus during the quarter, grew by 92%. Short term program by and large did better. GNIIT had a very slow traction in the beginning. I think this year because of elections and other considerations perhaps even the examination schedules were disturbed, but towards the end of the quarter we saw a strong traction in those as well. But overall we saw growth in engineers' enrollment, we saw growth in short-term courses, and we saw a growth picking up in June in the longer term courses.

China saw an enrollment growth of 63%. Overall revenues grew at 57%. One model which we have implemented of the public-private partnership is doing particularly well in China which resulted in our launching one more center in Wuxi in addition to Chongquing which we had earlier.

In school the order intake of Rs. 1.075 billion was the highlight. We got government schools, 1870 schools from Gujarat. In addition we added 114 non-GSA schools, math lab product continue to have a strong traction. Non-GSA now contributes 30% of their revenue as well as grew 30% year-on-year. Pending order book is very strong, Rs. 3.97 billion of 28% year-on-year and 32% executable in the next 12 months. We also saw 447 basis points improvement in EBITDA margin which is based on improvement in product mix as well as the new orders that we got.

Corporate learning solutions, we continue to see a challenging environment in US as far as custom solutions are concerned but our online learning product had a very good traction. We had a 23% growth year-on-year in our online learning product. Got a number of competitive takeaways and we think we have improved our overall market share in this area. Cost management focus and better product mix as we sold more of high margin products resulted in an improvement in margin of 739 basis points and thus we had an 8% operating margin given the fact that last year was about flat.

We had an order intake of 31 million. We are beginning to see some traction now in customer buying, in terms of online learning products and we added 17 new significant customers so that gives us an indication that, may be there is a shift taking place in buying behavior. But custom learning solution continues to remain weak and our focus has been just to make sure that we keep enough capacity to look after the orders as and when we get them.

We continue to increase our efforts on back end integration between Element-K and NIIT. NIIT's organic operation that resulted in some more operational efficiency and we continue to increase the variabilization of expenses to make sure that we can handle volatility in the market place as we go along.

In terms of new businesses, in the banking training which is IFBI our focus has been to reignite ourselves in the current environment and in that we have launched some new courses like a Diploma in Financial Accounting as well as some new banking courses in career segment. These did result in Q-O-Q growth which is important in this context given the fact that last year's comparison would not be valid because at this time last year they were at their peak.

In Imperia we saw a continued enrollment trend. We have seen a positive growth year-on-year as well as Q-O-Q so we do see management training and executive speaking on management training. Coming back we saw some new functional programs with IIM Lucknow and in Uniqua which is a Business Process Outsourcing Training, our joint venture with Genpact. It reached a certain milestone because our first 100 students which completed the batches have been placed successfully in the top BPO companies.

BPO segment, the employer segment is still under pressure and the recruitment acceleration is not yet taking place but I think we are now well-positioned after testing the product and gaining acceptance to continue to grow in this.

In overall sense, if I would recall, we had decided to pursue a three-pronged strategy to look at the volatile economic environment. First was aggression and market share improvement in select products. We have been very successful in each one of these whether it was infrastructure management training solutions in individual learning business, private schools, in school learning solutions, and online learning products in corporate solutions. Our second focus was on aggressive cost control as well which is what we called prudence using being very strict on cost management that has resulted in a quarter-on-quarter saving itself of nearly 10%. And that is one of the reasons you also see an improvement in operating margin but it is essentially to streamline processes, reduced G&A expenses, improve productivity, reduce working capital requirement, reduced discretionary spend, and make sure that we do a wage moderation in line with the strength of the business. All these cost control measures did result in higher cash as well as lower cost and we will continue to pursue these as we go along.

We had also said we will improve our gross margins by having a higher share of IP based revenue so we had started reporting that. Last two quarters we had mentioned how it had grown from 35% (in FY07) to 37% (FY08) to 40% (FY09). This quarter the percentage of revenue from IP-led revenue was 41%.

At a balance sheet level our DSO days have improved marginally and our overall debtors have come down. Return on capital employed quarter-to-quarter has improved by about 170 basis points and the fixed asset addition which was another data point which we normally shared was Rs. 297 million of which Rs. 175 million or actually Rs. 199 million for school learning solutions and about Rs. 110 million on renewal of software licenses, etc.

Headcount, we closed the quarter with a headcount of 3514 which is reduction of 127 on a quarter-on-quarter basis. So what we are doing is making sure that we maintain our headcount in line with the requirements and that we see from our customers on a continuous basis.

So I will stop by just adding the last line which is to say that as we go forward we are seeing traction now building up in the individual learning solutions in terms of enrollment. We are seeing increased hiring, causing a consumer sentiment to recover. We are seeing the school learning solutions being into many more tenders and government policies opening up to increase employability training. We are seeing the government making specific moves to increase their investment and spends on employability and we beginning to get some of those projects. So while the uncertain economic environment still remains and I think that will continue to affect the corporate sector recovery, at the government spending level we are definitely seeing a positive traction and at a consumer spending also going by the experience of June we do see that the sentiment is returning back.

So I will stop here and we will now address questions from everyone.

Moderator Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. At this time if you would like to ask a question please press "*" and "1" on your touchtone phone. Please use only handsets while asking a question. The first question is from the line of Mr. Manik Taneja from Emkay Global, please go ahead.

Manik Taneja Hi sir, just wanted to understand a number of things. First of all congratulations on the good numbers that you have shown in your corporate business as well as the school business. Just wanted to understand what is the sustainability of margins in both these segments? Secondly, your outlook on the individual learning business and a couple of data points in the form of cash on books and a debt on the balance sheet as of 30^{th} of June.

Vijay Thadani Okay, So first your question was whether the margins in schools and corporate learning solutions are sustainable? The answer is yes and let me explain you why I feel so. In terms of the profit learning solutions as we see a higher share of learning products coming into the play and if there is no further FOREX volatility which for example results in a strengthening of rupee very dramatically, I do not think there will be a pressure on margins because the operation has got sized itself to deliver the margin levels that we are talking about. In terms of schools the newer projects that we are getting are at better margin and I think the new government approach is also to look at the financial terms more favorably, provided the quality of delivery is good and we are seeing that in some of the newer projects. So that is what I see is an answer to the first part. As far as the outlook for the individual learning solutions is concerned, a 6% growth in enrollment globally. Last quarter it was 3% growth in India out of that is an indicator that which came out of a very slow April and May but a recovery in June. So if you were to extrapolate from the June recovery we do see that the positive momentum of the kind that we had anticipated would continue. The question which remains to be answered is whether we would be able to recover the shortfalls of April and May in the balance 10 months or not? I think will be dependent no the July-August-September quarter traction that we will see because that is the big quarter. Then on data points, I think you wanted to know the cash on books which was 673 million and you wanted to know the debt was 3808 million.

Manik Taneja Sure sir and just wanted to understand given that we have been winning lot of government orders in the recent past as well as the visibility in terms of new government schools order continues to be high. Is there a plan that we would let you, we would look to raise funds in the coming few quarter?

Vijay Thadani It is going to be an opportunistic issue because we are being selective given the fact that the government orders exposure would actually load our balance sheet a bit too much and if the government payment keeps coming out we do not have to raise too many funds. However, if the order deluge is much higher then obviously we have to be prepared in today's environment. At the same time that fund raising will not be in the form of equity.

Manik Taneja Sure sir. Thank you.

Moderator Thank you. The next question is from the line of Ms. Divya Nagrajan from JM Financial, please go ahead.

Divya Nagrajan Hi this is Divya Nagrajan. Congrats on the quarter. With regards to the margin sustainability question, one thing that we have noticed in both your segments it has done well on the margins. Of course school learning we have seen revenue grow as well but in CLS we continue to see I think in dollar terms still a drop in dollar revenue. Given that the US continues to be kind of uncertain and if you look at your order book you are not really looking at growth returning may be over the next two-three quarters. What will then lead to margin sustenance in the corporate learning solutions from the current levels? I understand that one thing is that the online solutions picking up and that could drive margins but I understand you will also have to make investments to drive up revenue if you are preparing for recovery businesses.

Vijay Thadani Yeah, See the first question is, if the product mix is changing towards a higher margin product, if you just retain our discussion at the product mix. The total is not moving up, yes you are right and going by what the people are talking about next one or two quarters perhaps the recovery will start. But that is completely out there in the air. So the good news is that the part of the operation where the revenue is declining is 1) variabalized which means you can actually right sized yourself, increase or decrease the size of the operation matching with the revenue stream at a very short notice. 2) that is also comparatively the lower growth margin part of the operation. That is what is contributing to an improved margin on one hand. The one which you rightly mentioned that to scale up the operation of learning products we could also require an additional spend in terms of sales and marketing but that is already cuffed and that is already built into the numbers that we are talking about.

Divya Nagrajan Right and in terms of your individual learning solutions we have seen enrollments probably the lowest at about 6% year-over-year in a long time. Of course we have seen IT numbers also and you have also spoken about it in your presentation but going forward do you expect enrollments to pick up from here on?

Vijay Thadani Okay, so let me hand you over to Raghu who should perhaps explain you how the last quarter went and how we are there for getting that indication.

G. Raghavan Okay hi. Basically if we look at the last quarter we are posted at 6% global enrollment growth and 3% in India. Going into the quarter we were expecting a challenging time given the sentiments that we were experiencing in terms of low campus recruitments, delayed job joining date as well as generally hiring being very soft. So we were expecting and therefore we had right from the beginning of the quarter decided that we will focus on one area which is very robust such as the infrastructure management services training area and there we did a lot of work and we could see the results in terms of a 92% increase in the enrollments on a quarter-to-quarter basis. Now if you look at the overall quarter April and May were pretty bad and what really helped us was an improvement in the environment under sentiments in July. So, if what we saw in July that was just sign and we think that we probably have hit one of the lowest quarter-on-quarter improvements in enrollment. So we have this particular quarter, which is a very large quarter to see through and we are taking certain actions to ensure that we do not lose any opportunity in the quarter.

Divya Nagrajan On your new businesses again Vijay we have seen a sharp decline in both revenue and margins. I understand the environment is also kind of picking up with some of your key initiatives there, banking especially, do you think that you can probably return to some kind of a breakeven here by the end of the year?

G. Raghavan Yes, basically compared to the same levels last year we are obviously operating at a much lower level, courtesy the environment in terms of recruitment in banks. Having said this if we look at sequentially on a quarter-over-quarter basis we have had about 18% growth in the banking finance training enrollment this quarter over the last quarter. In terms of management training as Vijay alluded before basically we have almost done enrollments which are double the enrollments that we did in the previous quarter and year-over-year as well. So we are finding that there are improvements happening. Not withstanding this, what we have done is to ensure that during the year we do not lose money in the business. Our plan and the goal is to ensure that we breakeven in this segments of the finance and management training.

Divya Nagrajan Right. One last bookkeeping question. Vijay, what was the cash and debt numbers that you gave out earlier?

Vijay Thadani 673 million was cash, 3808 million was the debt.

Divya Nagrajan Right. Do you expect this number to go up further in the year, the debt number?

Vijay Thadani The debt number, no. Marginally may go up during the year for a while .By the way some part of the Gujarat Project Expenditure is also included in this debt number which has already been incurred, for which the revenue will come next quarter onwards and the payment the following quarter. So part of this money will come back.

Divya Nagrajan Right. Thanks and all the best for the year.

Moderator Thank you. The next question is from the line of Ms. Priya Rohira from Enam Securities, please go ahead.

Priya Rohira Yeah, just one question on individual learning segment. Last quarter we had the placement is going up by 41% that was Q4. In the current quarter we have seen a phenomenal increase of 87%. One is it a like-to-like comparison and second if you could just give us in terms of the salary levels how they are inching upwards and third if you could just give us the pricing how it is in IMS offering and would it be fair to assume that once you reach 60% utilization that is your typically bidding capacity and since you mentioned that June was a month when you saw a pickup what were the utilizations for June month compared to the quarter average of 56%?

G. Raghavan Placements, yes we have had a significant growth in placements. Yes it is like-to-like primarily because we have been adding a lot of clients to our placement industry collaboration cell. We currently have about 2000 companies small, medium, and large which recruit from us. So that has been one of the fundamental works that we have been doing over the years and as you can see companies prefer to take pre-trained people on a just-in-time basis and that was really helping us grow the placement numbers phenomenally. In terms of IMS you asked the pricing levels, we have got basically three kinds of products, not to confuse you but I need to give you the total picture because we have entered into this pace in a very robust and a comprehensive manner. We have a 2-year program GNIIT which is, given a track specifically aimed at this. So the pricing is the same as GNIIT is about 137,000 plus taxes. We have a 13 month global network career program again. That is priced at about Rs. 50,000 and we have very short-term modular program which are in the Rs. 10,000 range. So we have multiple range of programs and at the lowest then it is kind of on par with the competition but in the medium and the higher level we are at a premium compared to the rest of the players but nothing compared to the value that we are giving because the curriculum is a very robust curriculum. You asked about the capacity utilization in June. I am afraid I do not have the specifically cut capacity utilization for June but this course is run across months run across the quarters. So let me give you capacity utilization specifically for June. And what is the question I am missing to answer?

Priya Rohira You are typically a building a capacity when you reach around 60% capacity rather. So if you could just throw highlight over there? I mean you are at 56% average, I would put it in this way that when would you actually improve your capacity rather?

G. Raghavan If you look at our several quarters going back. There have been quarters then we have 59-60% capacity utilization. Every quarter we kind of balance between capacity utilization, capacity expansion, and margin management. These three are important variables which we continue to manage for two quarters. So we cannot at the same time lose growth. So we are continuously balancing all of them. All I can say is that we are continuously improving margins between 100 and 150 basis points. In the last quarter we improved margins say 115 basis points even though capacity utilizations were static at 56%. So you have to look at this in an overall sense with the multiple variables that are going into the operation of the business.

Priya Rohira Sure. I will come back later. Thank you.

Moderator Thank you very much. The next question is from the line of Mr. Yogesh Parikh from Alchemy Shares, please go ahead.

Yogesh Parekh Good evening sir. Actually my question is we have just seen that our margin has expanded considerably, I would like to have the flavor of expenditures, individual segment based on the fixed and the variable cost. What do you consider to be fixed and variable and across the segment, so we can understand the expenditure item more clearly.

Vijay Thadani Perhaps we would not be able to share with you that right away but I can give you some indications on how things have moved. So first of all our variable expenses would have been lower than last year and last quarter because there is an improved product mix because of IT led products. The second, our overheads and fixed cost structure has come down by about 20% on an year-on-year basis because there is a cost control measure where the baseline items we have been monitoring, so over three quarters that is 19% so I can see that four quarters it would be nearly 20 or thereabout. So essentially therefore the contributors would be fixed cost, which would have gone down. It would be lower variable cost because of product mix and the reverse action would be, higher sales and marketing expenses which would be perhaps 8% to 9% more than last year. This is perhaps an indicator at a high level I can give you.

Yogesh Parekh Sir actually I was trying to come at the, which segment do you consider to be more on the fixed cost side? How is the corporate learning business and the individual learning business and specifically on both of these segments? Which segment you consider which is high on the fixed cost?

Vijay Thadani The individual learning segment is higher on fixed cost.

Yogesh Parekh Okay. And sir, approximately what will be the proportion to the overall expenditure in individual learning?

Vijay Thadani I would say about 45% would be variable, 55%-60% would be fixed.

Yogesh Parekh And corporate learning?

Vijay Thadani Corporate learning, I would say nearly 30-odd percent would be fixed. I am giving you this off the cuff.

Yogesh Parekh And I just missed that other income component.

Vijay Thadani Yeah. So in other income, if you see the changes in the other income, there are two contributors to that, actually three. So, one important contributor is the impact of FOREX changes which is about Rs.31 million which is caused, one part, by an inter-company loan which has to be raised mark-to-market given the fact that it is in foreign currency. And so, that is the largest impact of that. Why am I highlighting the inter-company loan because it is in the consolidation, the inter-company loan gets balanced. The second issue which has contributed to the change would be higher interest because at this point of time, debt in our balance-sheet is higher than what it was last year same time. And the third impact which you would see in the other income would be, actually last year, there was a onetime write-back which we got in Element-K accounts because after acquisition there was a write-back, that would not reappear. So, those are the important changes which took place.

Participant Okay, sir, thank you. That's it from me.

Moderator Thank you. The next question is from the line of Mr. Dipen Shah from Kotak Securities. Please go ahead.

Dipen Shah Vijay, just one question apart from bookkeeping one, in terms of the individual learning business, we have seen growth rate coming down quarter-on-quarter from about 30% as high as 25% in 2nd Quarter last year to just about flattish. Can we see growth rates obviously June and July as it's been said have been better, but are we looking at substantial increase in the growth rates on a Y-O-Y basis over the next three to four quarters?

G. Raghavan Okay. Given the fact that the 1st Quarter, we've had a pretty much flat revenue level and given the indications that we have seen in June, we do believe that for the whole year, we can look at overall growth for the lower-end that is really a forecast in the region of about 10% given whatever we have seen so far and given the fact that this quarter is a very large quarter, we have got a few plans in place, that should lock in a very solid direction for the rest of the year.

Dipen Shah Okay. And a bookkeeping question, you explained the changes in the other income but can you just give out the figures, the breakup of the (-10) Crores?

Vijay Thadani If you compare with last year, the interest burden compared to last year would have shown an increase of Rs.37 million. The impact of FOREX which I explained to you was Rs.31 million and there would be Rs.30 million which was a onetime, I think I mentioned in the last year's same time call that that's a onetime write-back.

Dipen Shah Okay, fair enough, I will come back for more. All the very best.

Moderator Thank you. The next question is from the line of Ms. Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah Yeah, hi, this is Grishma from Envision Capital. Sir, I wanted to know how much have been made in terms of margins on a constant currency basis for CLS this quarter? Last year, we were at around 0% kind of EBITDA margin this quarter for CLS, and this year, we have improved by around 740 bps. So, I wanted to know how much have we improved?

Vijay Thadani What is the impact of currency inpact?

Grishma Shah Yes, basically currency impact.

Vijay Thadani That number would be about Rs.32 million less.

Grishma Shah Yeah. And what is particular reason for the School Learning Segment margin improvement?

Bala This is Bala. See, we are able to get more projects which enable us to manage with same workforce. And there is also the product mix in private school, last year we introduced new product which is on IT, such as Math Lab, Interactive Classrooms in school, they give more margins.

Grishma Shah Okay sir. If I had to just take a level ahead, what was the government and the non-government revenue composition this quarter?

Vijay Thadani 70/30.

Grishma Shah So, we are more or less same at these levels, right? We were at 73/27 last year or were we at 70/30 last year?

Vijay Thadani It has an improvement though it is not at the same, it is an improvement.

Grishma Shah Okay. Fine, Thank you.

Moderator Thank you. The next question is from the line of Mr. Ankur Arora from ING Investment Management. Please go ahead.

Ankur Arora Hi, a quick question on corporate learning, you said that the product mix essentially has changed which led to margin improvement, can you just break it up the revenue in this corporate learning between say a custom learning solution and online learning product? And how the growth has been in this segment?

Ashish Basu This is Ashish. So the learning product a year ago was 25%, now it's 32% of revenue, print was 36%, it's now 35%. That is the combination in the learning product, we now separate out print learning products and online learning products. So print had gone from 36% to 35%. Custom solutions business has gone from 24% to 18%. And the training also seems to remain flat at 15%.

Ankur Arora Second is, while you said that the custom learning solution essentially has remained weak, can you give a sense of how much de-growth you have seen in this kind of segment? The reason why I am asking this is, we all know the situation in US has been quite, quite poor; the discretionary spending actually is in a complete halt. Given that scenario, the very fact that we are able to maintain our revenue at the same level and at the same time improve the margins. It's quite commendable. So, I just wanted to get a sense of it, how things are really panning out and how do you really see these things sustaining over a period of time?

Vijay Thadani What he is saying is that overall corporate learning solution, if the custom content is shrinking, learning products are increasing. So, what is the scenario going forward? Will it remain like this? Will it become more learning product, less custom?

Ashish Okay, so as far as custom is concerned, it is still very volatile. We spent the last two or three quarters just making sure that in this business, we variabalized our expenses. So our outlook on this is that it is still soft. We are seeing an occasional order trickling in but it's not firming up. As far as the learning product is concerned, we very clearly have been adjustably pursuing both development of new products as well as enhancement and maturing of the sales team. Now, that beginning to get results and they are beginning to get somewhat substantial wins away from our primary competitor. As far as training outsourcing is concerned, that's the thing which we are also very bullish about. The way that is working is that there are companies who are today in the IT field who are actually interested in us participating with them in doing outsourcing in India and APAC and that's looking very bullish. And as far as the print is concerned, that's pretty much large, it does not sort of reflect very much. So, overall, if I were to look at it, the training outsourcing business is something which is bullish. Learning product business is something which is growing and we expect it to continue. And the custom business is soft we are increasingly making sure that we variabalize the processes.

Ankur Arora All right, thanks a lot.

Moderator Thank you. The next question is from the line of Mr. Nitin Singhal from Bridger Management. Please go ahead.

Nitin Singhal Hi guys, congrats, well done in the tough quarter. I just have a question maybe for Raghu or Vijay. When you are looking at what you have done to the cost base, specifically in ILS, do you think that you have mainly taken out a lot of excess costs that are not going to come back? Whether you say G&A or process improvement or you are going to size the ship for lower growth environment that if you do end up getting growth back, you're going to have to start rehiring and get some of the G&A expense back?

G. Raghavan Basically, what we have done is kind of tone it down to the level at which we are operating. But essentially, when the volumes come back, we wouldn't necessarily have to add at the same level as the volumes grow up in order to protect our operating leverage as we go forward. That's how it is done. One of the important thing is to know is that the environment being tough, one thing we didn't want to do is to pull back things that are required to keep the brand and customer acquisition process in. So, that's something that we have not switched on. We have eliminated many other cost levels which we can do without in the current environment.

Nitin Singhal So, is it fair to say you have basically taken the PAT out of the business? You haven't sort of reduced the effective for PAT, I mean you know your revenue capacity is same but you are not going to have to stop putting those costs back in rehiring the people you don't have any more if the environment somehow becomes stronger.

G. Raghavan No, basically, you should read what I said as variabalizing the cost, which you should know that as much a, there is fixed cost, they have to take **table cost** there is always variabalization possibility because of rationalizing capacities, not back filling attrition and things like that. So essentially, you should read it as the variabalizing of the cost base in response to the top-line opportunity that we have seen or lesser top-line opportunity we have seen.

Nitin Singhal Okay. And then, could you tell us the capacity 9% year-over-year that you mentioned, is that seat or is that revenue?

Vijay Thadani Utilization is revenue capacity. The increase in capacity is seat capacity.

Nitin Singhal So the 9% year-over-year is seat and the 56% is revenue?

Vijay Thadani Very right.

Nitin Singhal Then the last thing is, China you had a strong quarter again this year in the ILS business. When you look at last year in the September quarter, they had relatively weak growth numbers. So does that mean that how does China play out in September? is that continued sustainable strong growth or are we going to step down from where we are today?

G. Raghavan We continue to see strong opportunities in China. The growth that you are seeing is a result of some of the fundamentals that we have been putting in place in the recent quarters. One is the public/private partnership which Vijay talked about in terms of centers being set up in partnership with government where the government is giving us infrastructure and we do the training with our contents and faculty. Second thing is we have introduced the series of technology products similar to the engineers' range that we have in India. These two are adding layers of growth in China. We do not see that that as one-off growth if that is what your query is, we do see sustained growth. That will be like in the same 57% or will it be 45% is the matter that we have to see as we will go forward.

Nitin Singhal And Vijay you said AR and DSOs are down. Could you just give us the number? And that is all I have.

Vijay Thadani 2864 million is the AR.

Nitin Singhal Okay, thanks so much and all the best. Good luck for the times ahead.

Moderator Thank you. The next question is from the line of Mr. Sonal Kohli from AIM Capital. Please go ahead.

Sonal Congratulations on good numbers Mr. Thadani, a couple of queries. Firstly your other income is about (-10) Crore. You mentioned that about 40 million would be on account of various FOREX losses, which means the balance is about 60 million. Considering your debt itself is 3800 million. Even if it I take a 3% quarterly cost, that would amount to about 100 million. So could you give a breakup of what's the other income you make and what is the interest cost you pay on and how does this 60 million add up?

Vijay Thadani So first of all, I was giving you a comparison versus last year. So when I gave you the additional interest cost, that was additional 37 million that we paid this quarter. So our overall interest expense was lower than last quarter, which means sequential quarter.So, on this quarter interest expense was 73 million versus in last year's same quarter, it was 36 million. So that explains you the difference of 37 million.

Sonal Sir, how is our interest cost less than 8% or so because 73 million on a 380 debt, or was our debt at the beginning of the quarter or the middle of the quarter much lower than what it is now?

Vijay Thadani Yeah, because please remember a lot of this debt has come towards the end of the quarter, one. Two, we are using working capital limit so it depends on the usage of working capital during the quarter. That also contributes to that. And third is of course the foreign currency loss.

Sonal In terms of your loans, in the annual report, you have given about 40 Crores loan to the university, do you charge any income on those loans or ….?

Vijay Thadani Whatever is our cost of debt, we charge them back-to-back.

Sonal Okay, so that also gets reflected in other income. Is there any other element of other income in this quarter in terms of any benefits on currency or….?

Vijay Thadani Not benefits, as I said, there is a 31 million foreign currency loss because as you know Dollar moved from 50.86 on March 30th to 47.89 on June 30th. And as I mentioned the part of this is notional because it's an inter-company loan from NIIT India to NIIT USA.

Sonal In terms of your depreciation, has it got reduced because your Element-K gets translated and so the depreciation gets reduced when the currency comes…...?

Vijay Thadani No, Element-K in depreciation is very, very low in any case. The reason that the depreciation is low is because assets retire at the end of the year and do not continue on one hand. So it could be a school project which may have got over, it could be an asset whose life is over, stuff like that.

Sonal In terms of Element-K margins, were there any write-backs or any nonrecurring item of any nature like provision written back or earlier accounted for or…..?

Vijay Thadani No, if there are any provisions written back, they are normally below the line. That is what happened last year because the provision cannot be written back above the line. That's the US GAAP.

Sonal In terms of your outlook for Element-K, is it fair to assume that you mentioned that you are expecting about 7% margins or when you were referring to these margins, you were referring to adjusted for the FOREX currency benefit you would have got? Somewhat like 5% margins.

Vijay Thadani No, at any time whenever we assume anything going forward, what we do not speculate on, is foreign currency. So whatever we are assuming as going forward, assumes that there is no change in foreign currency. Which means, if there is a change for the better, you will see, and better means Rupee weakens, in that case, you will see an improvement. If you see a change for the worst which means Rupee strengthens, then you will see bad impact on Element-K. So when we comment on future, we always assume a flat and as you can see that over the time that we met for our annual results and now which is when the margins are slightly better than what we had at that time projected and that's not because of foreign currency, because foreign currency exchanges rate approximately at the same level, it is just 20-30 paisa difference.

Sonal Is there any seasonality can one extrapolate these margins?

Vijay Thadani There can be seasonality, it depends. But by and large, one can expect these kind of margins for the rest of the year. In this is built three operations, there is our NIIT organic operation, there is NIIT organic US operation which Element-K now more or less integrated, the second part is the Indian operation.

Sonal Okay. In terms of the institutional business, your EBITDA margins have really improved. Has your EBIT margin also improved to that degree because it depends upon whether the order is a boot or a non-boot order and to get a better idea of your operational performance? Could you throw some light on whether your EBIT margin improvement is almost at the same degree or lesser or higher than EBITDA margin?

Vijay Thadani On the newer project, the EBIT margins are better.

Sonal So what I meant was your institutional EBITDA margins are better by about 440 basis points or somewhat around that figure.

Vijay Thadani Yeah.

Sonal So, is your EBIT margin improvement also around that level or it's significantly lower or higher than that number?

Vijay Thadani EBIT margin would be the same improvement, sorry.

Sonal In terms of your new business guidance breaking even this year, what you meant for the whole year or you meant end of the year you would be in the position to breakeven?

Vijay Thadani Our projections were based on the whole year. There is a part of this which is FMT which is Finance & Management Training. For that, it is the whole year. Uniqua, if you remember, we had discussed in the last quarter as well that we expect this business to breakeven in the 3rd quarter I think.

Sonal Lastly, on your individual business, you mentioned about you know expecting 10% kind of growth, is that expectation based on growth from the markets of China and Rest of the World where you have been growing now for last three quarters or so? Or growth returning back to India because this is a second quarter of almost flat growth in Indian business?

G. Raghavan Hi. The enrollment growth in India last year was on a like-to-like basis 3.2%. In the quarter, that we are discussing now which is AMJ quarter, it was 3%. So the guidance that we were talking about earlier is assumption of all the geographies. Your question is specifically about India. I mentioned that the June month was a good month and expecting that situation will by and large hold in the next two months' quarters particularly this quarter which is a very significant quarter and taking all factors into account, I did mention that overall we should be hitting the lower-end of the guidance that we had mentioned earlier.

Sonal But would you expect your non-India business to grow faster than your India business this year, because your last two parts of the previous year, the non-India business had grown significantly compared to the India, so the base is much higher in the remaining half of the year?

G. Raghavan Yeah, I think that did happen but then they have got breakeven average impact on the total number. So yes, they will grow faster than the India business.

Sonal Last query on your China business, your annual report is out and we were going through some numbers, the China business still makes a loss after so many years of operations, how do you plan to scale that up to significant level and make a profit in that geography?

Vijay Thadani I think you have looked at the China business perhaps at a standalone mode and not in a consolidated mode, because China itself is two or three subsidiaries.

Sonal Yeah, I have added all the subsidiary numbers.

Vijay Thadani Yeah but then you have to add the profit that is also available in India. There is a consolidated operation of China. So individual subsidiary number do not reflect perhaps the overall health of the business.

Sonal Sir, how do you plan to grow this business to take it beyond the current size, it is about $5 million-$6 million in size as of now.

Vijay Thadani It is first of all about $30 million size.

Sonal EBITDA and revenue, your share --

Vijay Thadani Yeah, the revenue which gets into ours, so the one easy way of doing that is to change the business model a little and the revenue will rise. The second is to improve our margins. So our focus is on both and I think Raghu talked about the public/private partnership that is a positive step in taking the revenue forward faster. And obviously with increase revenue and lower cost of acquisition in the public/private partnership model, I think we would be improving margins as we go forward plus launching new products.

Sonal You will be launching newer products in China?

G. Raghavan These are the technology products I mentioned earlier like the engineers' products which we have already launched, that is in fashion.

Sonal Your annual report mentioned that more capacity additions through partners, that is commented in particular to China in the annual report, does that imply that you will go for tie-ups with new players rather than going on your own or does that imply that you will increase your capacity through franchises?

Vijay Thadani We have three kinds of partners. We have business partners who open a franchise center very much like we do in India. We have university partners who allow us an NIIT insight center. And then we have provincial government partners, which are the public/private partnerships that we are talking about. So that is what we mean by partnership. And I have response to your question on people cost. Y-O-Y, people cost reduction is (-16%) to (-17%) and Q-O-Q is (-7%).

Speaker This is sir at consolidated level ?

Vijay Thadani Yeah.

Speaker Okay. Is there any one-off in this in terms of deferment of some compensation or bonuses or something?

Vijay Thadani No. All costs are recognized on accrual basis.

Speaker Okay, thank you.

Moderator Thank you. The next question is from the line of Mr. Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai Hi sir, thank you very much for taking my question. I just wanted to check, you mentioned about the June month seeing rebound and enrollments, how was July being so far over the last 25-26 days?

G. Raghavan Well, I did not see anything significantly different in terms of the signals and the sentiment and the trends compared to June. So but in terms of numbers, like Vijay said, we are going to roll that out at the end of the month and look at it. I have not seen anything drastic that should signal different through the kind of trends that we have seen in June.

Sunil Tirumalai And again in the ILS segment, you have spoken about infrastructure management training and then putting a lot of emphases and growing very strongly, what percentage of revenues to ILS that contribute?

Vijay Thadani It is relatively small is all I can say at this point of time.

Sunil Tirumalai Okay, thank you very much.

Moderator Our last question is from the line of Mr. Vishal Agarwal from Citigroup. Please go ahead.

Surendra Sir, this is Surendra here. I was just trying to understand the individual learning business guidance which you talked about, the guidance was given around May end, when as you said that the business environment has been quite challenging for a couple of months and June was clearly a much stronger month. So why has the guidance been revised lower now? Because if the guidance was given during the phase when things were particularly bad and after that, we have seen an uptick, so why is there a case for guidance to be scaled down? I am just trying to understand that.

G. Raghavan Okay. In the late part of May when we gave the guidance, it was for the whole year and we did mention that this quarter is going to be not reflecting the annual average. We did mention that this quarter will be a lower number and our guidance has been for the full year.

Surendra So I was talking of the full year number. If in May end, I think the call was on 27th May if I remember correctly, if you feel that the full year growth will be 10%-15% and after that, there is a strong data point one strong month and then you feel that it is now 10% and not 10%-15%, just trying to really understand the logic behind that.

G. Raghavan Well, the April and May months when we just completed the month they were what we were expecting and we were expecting a certain level of recovery in June anyway. But the point is that the June recovery was not what it was then we would not have reached even where we reached. So, we have a certain assessment of April/May damage in terms of the size of the challenge and that's what kind of went into our computation. So that is what it is.

Surendra Vijay, maybe I will take it offline, thanks.

Vijay Thadani Yeah, okay thanks.

Moderator Thank you very much. Ladies and gentlemen, that was the last question for the day. On behalf of NIIT Limited, this concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.