NIIT Limited
Quarter Two Earnings Conference Call – Financial Year 2010
October 26, 2009

Moderator: Good evening Ladies and Gentlemen. I am Sandhya, the moderator for this conference. Welcome to the NIIT Limited conference call hosted by IDFC-SSKI Securities. For the duration of the presentation, all participants' line will be in the listen-only mode. I will be standing by for the question and answer session. Now, I would like to handover to Mr. Nikhil Vora. Thank you and over to you sir.

Mr. Nikhil Vora: Thanks Sandhya. It is a pleasure to welcome you all for the Q2 FY'10 Earnings Conference Call of NIIT. We have with us the senior management team of NIIT led by Mr. Vijay Thadani, CEO. I will hand it over to Mr. Vijay Thadani for making the initial remarks and also the way forward in what apparently appears to be start of an interesting period for NIIT. Over to you Mr. Thadani.

Mr. Vijay Thadani: Thank you Nikhil. Thank you everybody for being here on the call. We are discussing the quarter two financial results. I will just, as usual, get into the environment and then get on to the financials, deeper into each business and then talk a little bit about going forward. So, in terms of environment and before that, I have with me the usual suspects we have in our management team, Mr. Rajendra Singh Pawar, who is our Chairman; P. Rajendran; Ashish Basu; G. Raghavan; and Vijay Kumar; and Kapil Saurabh; and of course Jatinder Mahadev. So, we will start with the environment. Last quarter was an interesting quarter characterized by what I call greenshoots optimist. There were a lot of discussion on greenshoot optimism in conversation, but in terms of realization on ground, I think we still saw the sentiment returning but not converting enough into business, but the positive traction was definitely visible. Hiring in IT and BFI sectors continued to be low though our own placements in this 6-month period have grown fairly robustly, 45%. State government decisions were delayed, before election and after election, a number of things. Consumer sentiment has improved, but delays in decision was still seen. Cost conservation by corporates continues and in the government scenario while we have a stable government, we have 6.5% plus projected GDP growth, everyday a new announcement on education and skills policy, but on the other hand these are punctuated H1N1. Our Bombay centers were closed for 9 days. Pune Centers were closed for 20 days during the quarter. Drought, floods, and State elections which were some other distractions. Overall, going forward, the general contentious seems to be that worst is over, robust labor market forecast of net employment outlook to be bright at 34% up, 11% Q-o-Q. IT spending world over to increase by 3.3%. I think this is quite significant interest back in IT. We could see new product announcements in recent times. IT-ITeS sector and bank insurance companies announcing definitive hiring plans, I think everyday newspaper talks of how the hiring season is picking up. We see this as a very positive sign. So, overall, on one hand, we have India and the developing economies investing in education still both at an individual and government levels. On the other hand, US and Europe corporates struggling to manage the economic downturn. Some of the indicators are coming in positive, but I think overall mood continue to remain negative as far as that was concerned. In terms of its impact on us and financial highlights. Consolidated system-wide revenue is up 19% year on year to 5.5 billion. Net revenue is up 16% at 3.6 billion. EBITDA is nearly half a billion rupees, up 22% year on year. EBITDA margin has improved by 67 basis points and 283 basis points sequentially. Net profit on the other hand was down compared to last year, lower associate profit, and some impact of one-time adjustment last year, which was not visible this year, 262 million net profit. I think the key drivers which drove the revenue growth was aggressive actions in India and emerging economies which we will talk about. While US and Europe faced challenges, that is what contributed to revenue growth. Market share gains in focused segments, higher execution efficiency as well as very aggressive cost management led to higher revenue growth in operating profits, which is 22% year on year improvement in EBITDA. One important milestone I think which we achieved is successful implementation of 3,500 schools in 6 months. The highest ever. It demonstrated our capability in execution excellence but also was visible in our revenue growth. Most of that was large amount of hardware and software which got implemented, it is low margin, but it led to a very large topline growth of 175% year on year in school learning solutions. Getting into some more details. ILS, Individual Learning Solutions, net revenue was up 7% year on year to 1.311 billion rupees. EBITDA margin improved as we had talked about, 149 basis points, year on year. Now, 7% revenue growth is at the back of the flat quarter last year, so you can see that the consumer sentiment recovery is visible in these numbers. Corporate learning solution was flat quarter on quarter, but EBITDA margin was at improved 492 basis points year on year. So, there our focus is to swim with the current and see what is the challenge in learning product. We had an interesting point there. We will talk more about it, and order intake of 31 million dollars in corporate learning solutions. School learning solutions, also the EBITDA grew by 76%. On the other hand, the operating margin overall was low. We will discuss how and what contributed this. In individual learning solutions, enrolments grew 8% and in this 8% growth are behind that is 15% growth in the engineer segment, so obviously definitive interest in engineer as one would imagine as their courses are getting over. They have to be ready for the job season next year. 43% growth in infrastructure management services. Enrolment once again easily staying because of the outsourcing trends in this area. Our placement continued to be very robust taking the growth to 45%. I already talked about the government school business but in private schools, we added 82 private schools. eGuru interactive class is being received well in the market as is visible. We also had a teacher training business which we had talked about for a while. We saw growth in that in terms of new orders for 25,000 plus teachers to be trained. Corporate learning solutions, order intake was at the same level as last quarter. Revenue was at the same level as last quarter, but learning products grew faster, and continuing benefit of cost action helped us achieve a much higher degree of profitability. This was also a quarter where we received a large number of awards and recognitions. They are available on the website if you would like to have a look at them, enough to say ever since the inception of the best IT training company in the country award, we have been recipient the best and the largest award, we have been recipient of that, and as expected received the same award this year. What is also heartening to know is we also received most respected IT or best IT training institution in China this year. We got a gold medal for ICT education in Vietnam, and some other acknowledgments in United States as well. All this I would say contributes to overall acceptable of NIIT brand in the market place. Talking a little bit about revenues, while we had a 16% growth in revenues, there was a small impact of forex hedging of 7 million rupees, not very significant worth mentioning. EBITDA grew 22% on the basis of strong cost management. Employee numbers were lower by about 15 this quarter, kind of stabilizing or had stabilized or bottomed out at that level. We have higher depreciation because of hired government project, and the other income actually had the 99-million rupee swing which is what I talked about one time benefit which we had got last year, which we don't have this year. So, overall impact of this on bottomline was 262 million profit after tax versus 297 million the previous year.

In terms of what contributed to the revenue growth, individual learning solutions increased the revenue by 17% year on year. Schools contributed 175% growth. On the other hand, corporates were -7% year on year. This is what contributed to system-wide revenue of 19%. Individual retained its 60% odd, the important question is schools have improved as share in the overall revenue from 7% to 16%. In profitability as well, EBITDA growth was contributed by highest by corporate, 148% growth. Schools 76%, and individuals mature business has 13%. So, now in the overall profits, corporates contribute 21% of the profits of EBITDA compared to 11% last year same quarter. Schools contribute 16% compared to 11% last year. Individual as approximately the same levels or slightly lower in 77% to 71% as a part of the total. As you can see that while US and Europe were grappling with the economic recession, we increased our focus on other geographies, and the rest of the world which is Nigeria, Vietnam, China, Thailand, Indonesia, Malaysia, and many other countries, that growth in system-wide revenue was 46% compared to last year. India grew 23%, while US and Europe had a negative growth, so you could see that our strategy was that whichever markets are not performing well, instead of putting too much time on them, focus on markets which are performing well to get the benefit of that steadily.

Moving on to a level of retail for individual IT business, system-wide revenue, our geographic mix was 54% from India, 27% from rest of the world and 18% from China. We did see a 149 basis points improvement in EBITDA margins, and I already mentioned to you that the net revenues grew by 7%, system-wide by 17%. Our revenue capacity utilization was constant at same level last year, 67%, improved 11% Q-o-Q though. The infrastructure management track in GNIIT, diploma and financial accounts, and ARP training for small and medium businesses. These are some new product offerings which we launched, which did help us. We are at the public-private partnership model in China. They have been received well, and we launched 2 new centers, Changchun and Dalian in China. An interesting project in South Africa, we have been talking about Africa off late quite often. This is a very interesting project for IT and BPO training in a province called, in a placed called KwaZulu-Natal, where we have to train 10,000 people to get them ready for employment. Our responses in Nigeria and Vietnam were very good. The scholarship exam which we took in Nigeria had nearly 100% growth in applicants, and we had to conduct the exam in a football stadium. In school learning solutions, I think the more important part which we need to understand is that the peaking which you see, the revenue peak or spike which you see is more out of completion of a large government which we had received in the earlier part of the year, and since the milestone that we have completed is to do with installation of hardware and software. It is a low margin part of the contract which has been executed, and now, of course we will receive the benefit of this over the next 5 years, but that caused the peak in revenue, which this revenue did not come with any margins, so therefore to that extent our overall margin looks muted though in overall operating profit terms and other products, our margin has been better. eGuru interactive with classroom solutions acceptable contributed to 82 schools and another issue is they had multiple new tenders, which are at this point of time active, but decision making has been slow last quarter because of a number of reasons including the State elections. We do think that many of those will now start materializing. In any case, our hands were full last quarter completing, at least in our history, the largest implementation ever. In corporate learning solutions, overall the most satisfying part was 492 basis points improvement in operating margin, which led to a margin of 106 million rupees compared to 43 million last year. Even though we had a quarter on quarter flat, a negative year-on-year minus 7%, the silver lining in that was online learning products grew 16% year on year, and this is one of the focus areas that we have been talking about. A significant competitive takeways in that by the way is an important trend in the corporate learning marketplace that people are subscribing, even Indian corporates have now begun to subscribe for large e-learning libraries and e-learning is becoming an order of the day. Order intake was flat quarter-on-quarter at 31 million. Dollar spending order book at 83 million, 67% executable in the next 12 months. Overall, cost management initiatives as well as product mix contributed to the improved EBITDA margins. In new businesses, on one hand, IFBI continued to face challenge, the finance, banking, and insurance training continued to face challenge because of recruitment fees in banks, but they reinvented themselves for there is some new career products which had begun to do well. However, the good news is that in the last few days, the banking sector recruitment has opened up. We have requirements on large banks and some of our large customers and partners earlier coming back in large quantities and therefore as expected though a little delayed, quarter three onwards we do see a massive upswing in enrolments in IFBI. BPO enrolments have also picked up though not to the same level that one would have expected, and I think we still see a weak quarter ahead of us before we see an upswing in BPO. Management programs, again NIIT Imperia, the enrolments growth has begun to happen, and we do see pickup happening as the economy recovers. In terms of cost control and cash conservation, we continued with our cost control and cash conservation exercise. We have been monitoring this. We have a saving of 2% in specific fixed costs quarter on quarter, and 19% on year on year. Our increased focus on IT-led growth strategy has yielded us another 200 basis points improvement in the percentage of revenue coming out of IT-led growth. This quarter or for the 6 months so far, 42% of our revenues are coming from IT-led revenue which also is a contributor to improved profitability. In terms of balance sheet, there were two or three things which happened. One, large implementation of government projects have created a slight increase in receivables, though in overall DSO days we are at 92 compared to 81 in June. Second, we did switch some expensive loans to cheaper loans, and overall, our total debt has increased to 4.17 billion rupees compared to 3.8 last quarter, but so has the cash position from 673 million to 815 million. Return on capital employed on year on year basis has improved by 729 basis points from 5.6 to 12.9%, primarily contributed by individual learning solutions profitability. We added this to 303 million which was essentially for new products and projects in line with what we had mentioned.

Overall, headcount, while in the first part, in the last few quarters, we saw the headcount reduction to be at the level of nearly 200, in the previous quarter, we saw it at about 127. This quarter, it is at minus 15. We think we have now at this point of time bottomed out on headcount and perhaps as we go forward and implement new products and projects, we will see an increase in headcount going forward. In terms of overall outlook, while in individual business, we continue to face the wait and watch approach of consumers, despite larger amount of enquiries, it is important for us to keep making sure that we offer the right set of products, and therefore, continued growth in infrastructure management enrolment space, we think will be an order of the day as we continue. We will enter into higher in training opportunity space with ERP training. We offered ERP for small and medium businesses. We will extend that as we go forward to the larger organizations. We recently announced a partnership with IBM for introducing software curriculum in career courses, and we will see a margin expansion due to growth in revenue as well as cost control. We are back on a growth track. We did have a flat quarter, Q1, we saw a positive quarter in Q2, and we see an acceleration as we go forward.

In schools, the growth in government business will continue to remain strong. We have a strong order book. In addition to that, we have a large number of tenders. We are comfortably placed. In addition to that, we also see a strong growth in private schools because of an improved offering and larger focus on sales and marketing, so we do see that school business will follow the direction as projected earlier. In corporate market space, we do see that the US and Europe going forward while will be better than previous quarter, will continue to remain weak as we see, and the weakness may continue for some more time, so our focus will be on making sure that we remain more profitable than before to make up for any shortfall that we may have on account of revenue. In new businesses, we expect to recover in this quarter, with bank hiring as private banks and insurance companies hiring coming back as well as the improvement that we see overall in the management training and BPO spaces. So, if I were to summarize in individual segment, improving sentiment, and we expect growth and acceleration as we go forward. In schools, strong foundation and execution excellence and scale, we will make sure that our business will grow. Our growth of course will be a function on decision making by governments on one hand, and our ability to reach the number of private schools that we want to reach on the other. In corporate, I think the growth and profits will make up for as I said any loss of profit because of growth or lack of growth in revenue, and to that extent, we remain positive as far as our achievement of profit numbers that we were looking at.

In international geographies, we expect them to remain weak. We have to see that the discussion on positive sentiment converts into reality. We do think it should happen, but we are unable to say at this point of time, so we will make sure that we do not create an overexposure there. We expect forex volatility to continue. In recent times, rupee has appreciated fairly substantially, and we would like to make sure that we are covered to an extent to look after all this volatility.

Last thing that I wanted to talk about was the changes in the environment, more to do with policies of Indian government, and the announcement and skills development and education, have created opportunities for us to get into some of these businesses at a faster pace than we thought, while for our normal business expansion, we are well looked after in terms of our own internal cash flow generation, going forward today in the board meeting, the board of NIIT Limited has approved raising of Rs. 230 crores or 2.3 billion by way of qualified institutional placement of equity and/or other instrument convertible into equity consisting of 2 billion rupees in QIP and convertible warrants of up to 300 million rupees. As I mentioned, our existing businesses are self sufficient, and their expansion need would primarily be met from internal generation. This proposed funding is to strengthen NIIT's balance sheet to and augment our long-term resources for growth requirement of the various emerging opportunities in the education and training sector. I am sure there will be more questions on this, so I will stop and open the floor for Q&A.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. First in line, we have Mr. Sunil Tirumalai from Credit Suisse. Over to you sir.

Mr. Sunil Tirumalai: Hi, thank you very much. Sir, I had a couple of questions. Firstly, I did not catch your comment on your outlook for the individual learning solutions business, do you still hold on to the 10% Y-o-Y growth which seems like a tough task now, and again within the segment I think a lot of growth has come from outside of India, so a bit of color on what is happening there would be helpful, and secondly, on the school running solutions, the incremental revenues on a Q-o-Q basis has come at very little margins of around 2%. Is that the profitability on the hardware sale and in the Gujarat contract, I just wanted a color on that.

Mr. Vijay Thadani: On your individual learning solutions question, I will let Raghu answer that question.

G. Raghavan: Okay, thanks for the question. During the quarter, we grew 7% on net terms and 17% on gross terms. This was, as you correctly said, receivable largely by growth in international markets which are gaining a certain degree of stability and consistency on their own, which is not to be ignored in the larger context. In terms of enrolments, again this 7% is viewed in light of the 0% which we posted last quarter, and the 7% is, remember, that is a growth over fairly large quarter last year at this time. You might remember that the last year Q2 was one of the last few quarters of a very successful period of time. There, we had grown 26% at that time on an year over year basis. When we are talking about growth on a very quarter, 7%, and enrolment growth has been underpinning this growth at 8%, and if you look at the sentiments that we are observing, we are recognizing an increased activity in terms of enquiries, although like Vijay alluded to the conversion of enquiries into actual enrolments is continuing to take little long time, but the fact that on the grounds well we have a large enquire stretch to draw enrolment from augurs well for the growth. To your specific question about the annual forecast of 10%, we would like to hold the guidance at this point in time, and this is underpinned by the larger enquiries fairly consistent stable revenue stream from the international market, and a 15% growth in the engineers volume, 43% growth in the infrastructure management services area, that is as you may recollected a declared focus area for us, and we are doing pretty well in that, and then the career program's growth starts coming back with a sentiment returning and quicker decision making, we think they will all help to hold our guidance.

Mr. Vijay Thadani: Okay, and in responding to the second part of your question, yes, indeed that spike that you saw in revenue is indeed out of achieving a milestone of completing the hardware installation of large government orders as I mentioned to you. In the last 6 months, we have executed nearly 3,500 schools, and when you complete this stage at this point of time, the margin is actually nil in this particular case from the revenue recognition mechanism.

Mr. Sunil Tirumalai: Sir, what would be the margins for the rest of the contract.

Mr. Vijay Thadani: Typically, over the period of the contract, we look for EBIT margins in excess of 15%.

Mr. Sunil Tirumalai: Okay.

Mr. Vijay Thadani: In this particular case, as you know, given the structure of the contract, the expense has also been booked in the P&L above the line. The expense of the hardware has also been booked, which in a boot contract normally booked as a depreciation below the line.

Mr. Sunil Tirumalai: Yeah, I understand that. I will come back for further questions later. Thank you.

Mr. Vijay Thadani: Thank you.

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

Mr. Dipen Shah: Yeah, we are just taking over from the previous question, how much would be the hardware cost in the SLA space last quarter?

Mr. Vijay Thadani: I would say about little more half because that is a peak implementation.

Mr. Dipen Shah: Okay.

Mr. Vijay Thadani: It is, I would say 560 million rupees.

Mr. Dipen Shah: Yeah, okay, and the other part was can you just have the breakup of the other income into interest and rest.

Mr. Vijay Thadani: So, if you look at other income, in this quarter, interest and deposit and loans was 15.6. I am giving you the major component, and interest spread on loans and financial targets was 91.3, so net interest was 75.7, and so that is what made the net other income to 78.4 total.

Mr. Dipen Shah: Okay.

Mr. Vijay Thadani: In contrast to that, last year, the net interest income was 60.2, but as I mentioned we had nonoperating income of 95 million rupees last year same quarter, which was a one-time, which we do not have this year.

Mr. Dipen Shah: Okay, and maybe could you just throw some more light on the corporate learning business as to what is the outlook and whether you can expect may be a flattish kind of trend going ahead or are you seeing any improvement may be for the next half and the next year?

Mr. Vijay Thadani: Okay, on a quarter on quarter basis, though we always measure year on year, but on quarter on quarter basis for corporate learning solutions, you saw a flat trend this year, but I will ask Ashish to respond to you.

Mr. Ashish Basu: Okay, hi.

Mr. Dipen Shah: Hi.

Mr. Ashish Basu: I think of course the largest exposure in the corporate is to the US market. We are as yet not seen any positive trends in the US market. I think strategically, we did a couple of things last year, one of them will be determined to protect our margins, which we have I think successfully achieved over the last 3 quarters, and that trend will continue, so we expecting to beat our margin commitment for the year in absolute terms. However, as far as the topline is concerned, it remains choppy. The two or three areas that we are pursuing which are working well. One of them is the learning product business where there has been growth this quarter, and we expect that to continue to show improvement going forward, but as far as the rest of it is concerned, we are not absolutely sure how the market will play itself out, but we are not seeing any significant improvement. Having said that in India, we do find that there is little bit of positive enthusiasm on government based projects, so there will be a little bit of an impact, but as you know, government is a fairly small percentage of what we do in corporate learning, so we are not seeing any great overall trend, which are positive in the US, but we are seeing on the products that we are pursuing aggressively, those are working, and we have been able to bring our margins under control, and we expect to be able to keep that going.

Mr. Vijay Thadani: So, I think what we have seen is a massive expansion in margin. We have seen a massive expansion in margin year on year, 492 basis points, and that has more than made up for the shortfalls that we would have had in revenues. So, here the focus is on profitability, and I think what you heard Ashish say is that in terms of our overall EBITDA target, we feel comfortable we will achieve it for the corporate learning solutions though on the topline we may not.

Mr. Dipen Shah: So, in terms of the EBITDA margin targets, are we looking at 10% EBIT kind of an EBITDA margin next year, or how should we actually go about reading this margin picture?

Mr. Vijay Thadani: So, the important question is when the market recovers will our EBITDA margins remain at the levels that we say ours, or will they increase in revenue, erode part of the margin, that is the question, Ashish.

Mr. Ashish Basu: No, I think we are very comfortable that as the revenues go up, we will see an increase in our EBITDA margin, and that will certainly happen as we go forward. It is subject to recovery of the market and frankly at this point in time, nobody is making a guess on when that will be.

Mr. Dipen Shah: Okay, fair enough, wish you all the best, and I will come back for more if there are any more questions.

Mr. Vijay Thadani: Yeah, surely.

Moderator: Thank you very much sir. Next in line, we have Mr. Sonaal Kohli from AIN Capital. Over to you sir.

Mr. Sonaal Kohli: Congratulations on your numbers. Couple of queries. Firstly, what kind of growth in net revenues you saw in the India side of the business for the quarter in the individual business.

Mr. Vijay Thadani: Year on year, it was flat. Quarter on quarter, it was…I have a feeling we had a better growth this year than we had last year, quarter on quarter.

Mr. Sonaal Kohli: Okay.

Mr. Vijay Thadani: I will just tell you.

Male Speaker: Overall, for ILS, it was quarter on growth.

Mr. Vijay Thadani: India, India. Yeah, we can take another question meanwhile.

Mr. Sonaal Kohli: On your guidance of 10% growth?

Mr. Vijay Thadani: Yes, yes.

Mr. Sonaal Kohli: On your guidance of 10% growth, if you have to maintain that, you need to grow at 16% for the coming two quarters. Considering the base is very high for the international business in the second half of the year, what will lead to this growth because at the fourth quarter, with the India business has grown either in single digits or grown at flat rates?

Mr. Vijay Thadani: Raghu, you want to answer that question. In order to achieve the rest of the year numbers, we will have to grow at 15% plus.

Mr. G. Raghavan: Yes.

Mr. Vijay Thadani: And given the fact that your India growth is at single digit, how will the rest of the world make up for it, that is the question, is that right?

Mr. Sonaal Kohli: Yeah, considering the second half of the year, you know, last year, you had grown quite substantially in the international part of the business.

Mr. Vijay Thadani: Yeah, so I think the answer to the question is yes what we believe is that growth in international business is sustainable for the rest of the year, and second I think on a comparative basis, for two reasons, second half will be better than the first half for the first year in terms of the percentage growth rate. One, last year, first two quarters were the highest quarters, and this year, those are the recovery quarters. Second, last two quarters had begun to become bad, and this year, these two quarters are the recovered quarters, so I think we tend to see a higher growth in, percentage growth terms in India in the second half period.

Mr. Sonaal Kohli: Secondly, could you guide on, you know, what kind of last time, on the concall you mentioned about you know breakeven levels in the new business initiatives. Could you throw light on what kind of losses to expect for this year in the new business, and in which quarter do we see a breakeven in that business?

Mr. Vijay Thadani: Okay, in case of the finance, banking, and insurance side of the business, which is FMP side of the business, I think we should be able to see return to breakeven, they were making profits, and then they went through a bad time, which we should see return to breakeven in Q4, and in fact it will more than return, they will make profits, and I tend to feel the same perhaps would be the case, for BPO we would perhaps breakeven in fourth quarter. It will reach nearly breakeven. I think the recovery in BPO business has been, I mean the recovery of the market place has been slower in BPO business.

Mr. Sonaal Kohli: On your depreciation side, you know, your depreciation has grown considering the quarter, it is quite volatile between various quarters, could you throw light on which segments led to growth in depreciation in this quarter, was it corporate, individual, or you know any new business initiatives?

Mr. Vijay Thadani: Well, assets of the organization are combined, but I can tell you at a broad level, because new products and projects which contributed to this, which would be school learning solutions, and in corporate learning solutions, large number of e-learning products came up in this quarter, so those would be the two contributors.

Mr. Sonaal Kohli: Taking this query further...

Mr. Vijay Thadani: And individual learning solutions also, I am sorry, because quarter two is the time when new product launches happen.

Mr. Sonaal Kohli: So, considering the fact that you know the institutional business also contributed to the depreciation growth, if I were to adjust for the increase in depreciation, then may be the incremental profit on new turnover would be hardly anything or would my overall EBIT margins in institutional business would have funneled for this quarter compared to last year?

Mr. Vijay Thadani: No, they would have improved compared to last year because in fact in this quarter, we have booked more expenses above the line than we have in depreciation, so EBITDA is after booking those expenses, and therefore, if you see the impact in the bottomline, there will be an improvement in EBIT, I am giving you off the talk.

Mr. Sonaal Kohli: On cost structures, we had initiated a cost cutting exercise last year in the second half. When do you think your employee cost and the other costs will start showing y-on-y increase again and any wage hikes you have taken in this quarter or plan to take in the near future and what would be your tax rate for this year?

Mr. Vijay Thadani: Okay, tax rate for this year, we would just give you separately. As far as increases in costs are concerned, I think the good news is we have been to able to contain the cost structure in contrast to the cost alone, and therefore, as we grow forward, our cost increase will be strictly dependent on the corresponding revenue increase at least in near term. Now, we do see a headcount increase in the next two quarters, close to between 50 to 100 headcount increase, which we are expecting obviously because of higher business, and we will make sure that it is just in time. In terms of other cost structures which are fixed in nature, we won't expect us to go out of hand in any case, so if at all you will see, you will see an increase in variable cost. Even in this quarter which we have just crossed, in terms of fixed costs, on a quarter on quarter basis, trending basis, our fixed cost structure came down by 2%, whereas the rest obviously dependent on the revenue. So, just answering your question now on the tax rate, it is about 15%.

Mr. Sonaal Kohli: Sir, lastly on your private school business, what kind of growth did we see this year in this quarter?

Mr. Vijay Thadani: On a year on year basis, I would say about 17% to 18% in revenue, so we added 82 schools which was much larger than last year, but I think in revenue terms it was 18%. It is somewhere near that number.

Mr. Sonaal Kohli: What would be the absolute amount?

Mr. Vijay Thadani: I am sorry.

Mr. Sonaal Kohli: What would be the absolute amount of revenues from private schools?

Mr. Vijay Thadani: We would have about 120 million.

Mr. Sonaal Kohli: Okay, thank you so much.

Moderator: Thank you very much sir. Participants are requested to ask only one question in the initial round and can come back with the followup question. Next in line, we have Ms. Anubhuti Jain from ICICI Bank. Over to you please.

Ms. Anubhuti Jain: Thank you. I want to understand how is the performance of NIIT USA and Element K during the quarter?

Mr. Vijay Thadani: I think our corporate learning solutions is a good indicator of our performance of Element K and NIIT USA. Element K has had massive improvement in profitability year on year though in terms of topline, their overall topline has dropped, but their product mix has improved in favor of high margin products, so learning product growth of 16% that we talked about is purely Element K's contribution, so overall terms, I think the story of corporate learning solutions reflects the story of Element K and NIIT USA.

Ms. Anubhuti Jain: Sir, can we have some numbers like the topline of NIIT USA, Element K, and the PAT and EBITDA margins?

Mr. Vijay Thadani: We don't have those yet, that level of detail in this call.

Ms. Anubhuti Jain: Okay, and this was regarding the SLS as well, what are the capex plans of NIIT in the future for SLS?

Mr. Vijay Thadani: Okay, typically, we have, if you go by our guidance, we would add between 3,000 to 3,500 schools during the year, that should lead to a capex of about 65 to 80 crores, depending on the broad context.

Ms. Anubhuti Jain: We will be adding another 3,500 schools during the year.

Mr. Vijay Thadani: This year, as luck would have it, we already added a large number of schools, the rest will depend on how those contracts bear out.

Ms. Anubhuti Jain: Okay, for the next we have planned around 80 crores of capex.

Mr. Vijay Thadani: Yeah, in schools.

Ms. Anubhuti Jain: How do we plan to get it financed.

Mr. Vijay Thadani: Internal accruals, debt, as well as working capital which will come back after implementing these projects as well as the new fund raising that we are doing. All these are contributors to these.

Ms. Anubhuti Jain: Have you tied up some debts already?

Mr. Vijay Thadani: We have already tied up debt, which we already have on our balance sheet, so if you see.

Ms. Anubhuti Jain: The NCDs of some 1,000…

Mr. Vijay Thadani: No, no, we have NCDs, we have bank term loans, as well as now we would be adding the other mechanisms.

Ms. Anubhuti Jain: The QIP that you mentioned.

Mr. Vijay Thadani: Yeah, if you are interested in more detail, we could tell you the individual debt instruments as well as the other instruments.

Ms. Anubhuti Jain: I did not get that sir.

Mr. Vijay Thadani: We could tell you that offline if you would like or send it to you as the case warrants.

Ms. Anubhuti Jain: Okay, great, great, thank you sir.

Mr. Vijay Thadani: Yeah, our overall debt position is available, 4.17 billion.

Ms. Anubhuti Jain: Right sir, great, thank you sir.

Mr. Vijay Thadani: Thank you.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Kaushik Poddar from KB Capital market. Over to you sir.

Mr. Kaushik Poddar: National Skill Development Corporation has been launched formally.

Mr. Vijay Thadani: Yeah.

Mr. Kaushik Poddar: If you can just tell us as to what government of India is thinking on this skill development area is and what is the kind of budget that government of India, and how NIIT feature in this whole scenario?

Mr. Vijay Thadani: I will ask Mr. Pawar to answer this question. He is much closer to that reality.

Mr. Kaushik Poddar: Yeah, I think he is on the board also.

Mr. Vijay Thadani: Yes, that is right.

Mr. Rajendra Singh Pawar: So, I think I got to start by disappointing you that while the opportunity is humungous, but the plan still have time to fall into place, but let me elaborate. The corporation has been formed, some money was foot in by the government, they have to start building plans, they have to make PPPs, so the corporation effort, I don't think you will see results like in the next quarter or two, it will take a little longer, but there is another area where some government spends have already started because of the whole skill mission, and that is from the employability funding that is coming out from various ministries, ministry of labor, ministry of rural development. These two ministries have specific programs for employability, and we have already started participating in them in some way, so it is difficult at this time to indicate the numbers and volumes. All I can say is that there are very ambitious programs, there are ambitious plans. They are not coming in just through one window. They are coming in through, the funding that is going from government for inclusive growth and so on and coming through the ministries. We have started participating in at least the inclusiveness programs already.

Mr. Kaushik Poddar: Okay, sir, this ministry of labor, how much are they spending on this kind of program.

Mr. Rajendra Singh Pawar: I would say they have started spending, I would say may be in tens of crores every quarter, not hundreds yet.

Mr. Kaushik Poddar: They asked for bids for this kind of training or how does the whole process works?

Mr. Rajendra Singh Pawar: Sorry?

Mr. Kaushik Poddar: Do they ask for bids for this kind of work or how does the whole process works?

Mr. Rajendra Singh Pawar: There are different schemes. The schemes work along the following couple of domains. One is that they are saying that they are signing up partners who are willing to train people who are on the fringe of employability, and therefore if you train people for a 3-month period, and you get the person placed, you get a reimbursement straightaway, that is the program which is actually picking the fastest because that is also giving them the employability solution, so they are signing up companies one by one who come in for specific program for x number of people over a certain period of time, and there is a fixed amount to be paid per person who is trained.

Mr. Kaushik Poddar: Is NIIT involved in any of these?

Mr. Rajendra Singh Pawar: Yes, we are involved.

Mr. Vijay Thadani: We are engaged in many such projects.

Mr. Kaushik Poddar: So, when will that revenue show up and in which segment will it show up?

Mr. Vijay Thadani: It is right now showing up in the India corporate learning solutions.

Mr. Kaushik Poddar: Okay, okay, so how much was this India corporate learning solution from India, how much was it for the last quarter?

Mr. Vijay Thadani: About 10 crores.

Mr. Kaushik Poddar: Okay, okay, thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, may kindly press *1 in India Bridge, and for International Bridge, kindly press 01 on the telephone keypad. Next in line, we have a question from Mr. Anup Upadhyay from SBI Mutual Fund. Over to you sir.

Mr. Anup Upadhyay: Good evening sir.

Mr. Vijay Thadani: Good evening.

Mr. Anup Upadhyay: Just on the trends in corporate learning, you mentioned the 16% growth in online learning projects, is this kind of growth coming more from market share gains or is it coming from overall market expansion?

Mr. Vijay Thadani: It is coming more out of market share gain because as you know we are very small compared to the No.1. We are No.2, so this is more a market share gain strategy, and as you know, overall training market at this time is growing negative, it has been negative, so this is more out of the gain.

Mr. Anup Upadhyay: The market share gain has been driven, means out of what particular factors, I say this because we have priced our products attractively in a place where companies are focused on reducing their costs or is it some other factor?

Mr. Vijay Thadani: Okay, I will answer that. The most important contributor to that is an investment in product development and coming up with a better product line. Second, making sure that we focus on that in our sales and marketing effort. So, those are the two important contributors.

Mr. Anup Upadhyay: Okay sir, and is there any seasonality to the renewal of subscriptions for these online learning products.

Mr. Vijay Thadani: Yes. Quarter three and quarter four of our fiscal is typically when you have maximum renewal in subscriptions.

Mr. Anup Upadhyay: Okay sir, and what would be the major objective of the QIP that we have planned, I mean the proceeds of the QIP that we have planned.

Mr. Vijay Thadani: As I mentioned before, to explain that, first of all as far as our existing businesses are concerned, they are self sufficient, and their expansion needs would primarily be met by internal generation. We have maintained that in the past and we maintain that now. Now, the important issue is that, one the economy is recovering. Second, the government policies as well as the new initiative for example the skills development initiatives that we talked about, we are beginning to see a large number of such schemes being developed, many of which will be rolled out in the near future. On our side, we have been working with some business models which we have been creating group of concepts. If you know, we have talked in the past about a rural learning center, which will be a skills development center. We talked about community learning centers which are in slums. We have talked of English in professionalized training activity which has been going on. We have discussed about retail online learning platform. We have talked about getting into newer areas of skills development. All these we have group of concepts ready to scale. We believe that one part of our investment would go in this direction, I would say a large part of our investments will go in that direction. The second will be obviously improve and strengthen our balance sheet so that we can continue to fund our growth, and third, we also want to consolidate and centralize some of our technology and content development facilities in a single facility, so this is a three-year plan, and over three years perhaps we would be doing this consolidation exercise, which will increase operating efficiency as well as reduce rental and other operational expenses, so those are the broad purposes at which we are looking at QIP and the additional ways of executing.

Moderator: Mr. Anup, are you done with your question?

Mr. Anup Upadhyay: Yes.

Moderator: Thank you very much. I again repeat, participants connected to International Bridge, may kindly press 01 to ask the question. Participants connected to India Bridge, may kindly press *1 to ask the question.

Mr. Nikhil Vora: Sandhya, Nikhil here. I would like to ask questions please. Hi, just one question on the number of new schools added in the private and the government sector, and the revenues that we generated in this quarter for the same, and second actually was on whether do you see a potential yield improvement in the ILS space given that possibly the worst in terms of induction is over and enrolments are now starting to increase?

Mr. Vijay Thadani: I will take the first part. Raghu, you will answer the second part.

Mr. G. Raghavan: Yes.

Mr. Vijay Thadani: So, we added 82 new schools in private. In government, no new tenders was finalized during the quarter, but I think some passed, 4 schools may have got added, but 82 schools in private were added. We did implement, we finished implementation of 3,500 schools during the quarter, but that was something which we had already started in the last quarter itself.

Mr. Nikhil Vora: Okay.

Mr. Vijay Thadani: To that extent, in terms of additions in number of schools, you will see a number like 86.

Mr. G. Raghavan: On the individual learning solutions front, basically like I expressed before, the stability and consistency of revenues that we expect from markets like Africa, particularly Nigeria, Ghana, Botswana, South Africa, and in Asia Pacific, from Vietnam, Malaysia, and China of course have been consistent, and we do as we can foresee that we can see a consistent degree of revenues coming in from there. Now, I will head to India. As far as India is concerned, if you look at the last quarter, we had growth in engineer, basically technology programs, aims at certification and near term job opportunities, to focused engineer programs, a growth of 15%. Then, the infrastructure management services which is an area of focus for us grew at 43%, and the career programs grew slower at 2%. Now, that I consider as an opportunity, and when that turns around, that will have a momentum, that will take the average enrolment growth to a higher level, and that is exactly what we are looking at when we look at the second half of this year.

Mr. Nikhil Vora: Okay, good, and just revenue part, on private schools would be how much for these 82 schools added?

Mr. Vijay Thadani: Total private schools in this quarter was 120 million.

Mr. Nikhil Vora: Okay, cool, thanks for this.

Moderator: Thank you very much sir. At this moment, there are no further questions from the participants. I would like to handover the floor back to Mr. Nikhil Vora for final remarks.

Mr. Nikhil Vora: Thanks Sandhya, and thanks everyone for being on the call, and Mr. Thadani, do you want to make any closing remarks, and then we can close the call.

Mr. Vijay Thadani: No, I just want to thank everybody for first of all being there for their very incisive questioning, which we always learn a lot from, and second, the fact that we will be available on phone. Kapil

Saurabh is the contact person. His email address, his telephone number is mostly available with everybody, but if not you could always write at vijay@niit.com and one of us will respond, and the rest, we thank you for your participation and look forward to speaking to you, meeting you in the near future. Thank you.

Mr. Nikhil Vora: Thanks a lot all of you, and let us close the call. Thanks.

Mr. Vijay Thadani: Thank you, and thank you Nikhil for hosting this call.

Mr. Nikhil Vora: Yes sir.

Moderator: Thank you very much sir. Ladies and Gentlemen, thank you for choosing WebEx's Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.