“NIIT Limited Results Investor Conference Call”

October 21, 2011

Moderator Ladies and gentlemen good day and welcome to NIIT Limited Q2 FY12 Results Conference Call. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Vijay Thadani. Thank you and over to you sir.

Vijay Thadani Good afternoon! Welcome to the call to discuss the financial results for quarter ending September 2011. I have with me Mr. Rajendra S Pawar, P Rajendran. Mr. G Raghavan, Kapil Saurabh, Chetna, Sanjay Bahl, whom perhaps may not have met. Rohit Gupta, the CFO and Mr. Vijay Kumar.

I just want to start a discussion as you know in the last quarter there have been a number of exciting things in NIIT and of course in the last quarter. So we're discussing about the 2nd quarter of the year as usual I would like to describe the environment I think the quarter had a very volatile economic currencies as well as the social environment and in that a tight monetary policy and sticky inflation definitely dampened the growth momentum.

The global volatility is also making employers outlook a little weak even though the domestic IT firms are holding on to their hiring outlook and our placements show that they continue to remain excited about the prospects of IT. The banking industry continued to be on a hiring spree and the banking enrolment show the interest and the placements show the interests which the private sector banks as well as public sector banks have in new talent. Education and skills remain one of the top agendas of the government. Global economic uncertainty and socio-political instability has definitely contributed to an erosion in business confidence, the corporate training strength are recovering albeit very slowly and discretionary spends are still under a lot of pressure.

The volatility in the foreign exchange especially in the last three weeks of September definitely affected business result. In our case they did affect and I will share with you the impact of those on our financial more on balance sheet items, no impact on revenue which should have been actually positive given the changes in the foreign exchange.

Now we, in the last quarter's call, had talked about our excitement about the growth platforms and we had also talked about how we're putting a lot of effort in stabilizing and launching these growth platforms to build momentum. So I thought I will start with that first. The 4 growth platforms which we had identified have gained tremendous momentum and the headlines of that are the cloud campus which we remain extremely excited about and have had good encouraging response was rolled out to 190 centers and in the four and a half months since its launch has garnered 11,000 enrolment which is extremely encouraging of course we would have liked to see more and we do see the momentum building up as we go along.

In Managed Training Services where we had talked about the six global customers with $110 million of revenue potential in the next few years, we did see the MTS as part of the revenue grow by 62% in this quarter, where the new orders that he had got have started getting implemented.

The nGuru solutions which is the integrated solutions for all the schools put together now contributed to the non-government revenue reaching 46% of our school learning solution and overall in the school learning solution the number of students serviced has crossed the 10 million mark which we believe is a modest achievement of the organization and contribution to the society though its 30 years.

The skill building solutions which is a new business which the company launched and it is something which we have been working under the radar for a long time gaining experience resulted in a joint venture with NSDC *(National Skill Development Corporation)* and it is to train 7 million students over a ten-year period, it would be perhaps one of the largest public-private partnership in vocational skills and it is to setup 1500 centers across 1000 cities as we go along.

A small thing for which we need to thank you in honesty is the recognition which the NIIT brand got. Economic Time and Nielsen does a brand equity survey and in that NIIT was rated as the second most trusted brand in education, which is ahead of some other prominent institutions that we have all grown up with.

So the 4 platform of growth showed a large amount of improvement. And I think now in financials we would be able to talk about those.

To start with the financials of these initiatives will reflect themselves in the next few quarters, very much like we had talked in quarter one this quarter was to get many of these initiatives stabilized. Overall net revenue growth of 11%, EBITDA grew by 5% and in fact had (-78) basis points, like Mr. Raghavan had pointed out cloud campus and other initiatives which I will explain in a minute, contributed to this. PAT grew by 6% therefore the EPS also by 6%.

First the impact of foreign exchange that was 194 basis points or Rs. 67 million on the total. The EBITDA was affected by 230 basis points with the falling exchange, there was a foreign exchange impact of 15 million, there was a premises overlap we moved from some of our offshore work is given the expiry of the software technology park scheme and so on and so forth from there to an SEZ and the other location which created an overlap of 11 million. The cloud campus readiness as we had agreed we would be spending a large sum of money in this quarter we actually ending up less than that and the 250 million and the skill building solutions pre-operative expenses of 13 million contributed to this 230 basis points.

Overall the consolidated system wise revenue was up by 9% year-on-year which is lower than the net revenue and which normally reflects that our own center's did relatively better than our channel center's and that stands to reason and because cloud campus rollout was 100%

implemented in own centers but not to the full extent in our channel partners centers. Net revenue grew by 11% on after the currency impact otherwise 194 basis points improvements would have been possible. And the EBITDA, profit after tax I have talked about.

There were three drivers, one was enrolment and in that I think cloud campus enrolment, more by value and less by quantity, banking enrolment which was more by quantity, execution of large MTS deals and the non-government schools growth, these were the three drivers for growth in revenue that contributed this year.

Moving down one step further individual business grew by 12%, however, in this 12% as you know we have been talking about a One NIIT integration, about 4% is the impact of One NIIT integration, 9% is the impact of India and (-1%) of international, so international part of the individual learning solution business still remained a little challenged because the restructuring which we are doing there is not yet complete.

The important thing is that I thought I will mention here after the EBITDA which was at Rs 375 million, 21% was the fact that all new businesses turned positive during this quarter. We have had a discussion in the past that many of our new businesses are taking a lot of time in stabilizing but one good milestone we reached was IFBI, The Institute of Finance Banking Insurance that was not only EBITDA, but also PAT positive. Imperia, which is our management training business that was EBITDA positive, Uniqua which is our BPO training business was EBITDA positive, so I think those were the new businesses that were positive in this quarter itself. Schools, the net revenue was at 405 million and was up 12% year-on-year, EBITDA at 47 million, with margins at 12% which was a small improvement, an improvement of 309 basis points over last year.

Corporate, which had a net revenue of improvement of 10% year-on-year to which we should add 4% in terms of the gaps between the rupee and volume growth, volume growth was 14% to which you should add another 4% of the realignment towards One NIIT which individuals got the benefit that part of the activity earlier used to be treated in corporate so if we take that then actually on a like-for-like basis may have been about 18% growth, however, 10% is what it is and that is what I'm talking about. EBITDA showed an improvement of 103 basis points in margin over the last year despite an adverse effect of the foreign exchange. Skill building, I already mentioned has a negative EBITDA impact of (-13) million.

Highlights of each of the businesses – individual learning solutions I think cloud campus is emerging as a game changing initiative with excellent response from the students in terms of the student experience, excellent response from the faculty in terms of what they see as an impact it is having on the students and excellent reception by parents and other parts of the society in terms of what it is doing, in fact I may also mention that certain foreign universities have contacted us also to see whether a similar initiative of this kind can be implemented there, so I think it is one of those important transformation initiatives which we see an enormous possibility from.

Overall our enrolments grew only 5% at a global level but diploma enrolments in India were 7%, short-term modular enrolments are 11%, our career enrolments had grown only 4% but if I see the cloud campus at this price point than in terms of the new order intake if that was the term applicable in this case, we would see a 15 to 20% increase in order intake. Overall, cloud campus enrolment crossed 11,000 mark, which from 4 and a half months of announcement, I think it is fairly good. What makes us very happy is the placement growth which is at 15% year-on-year during the quarter. In school learning solutions we continued our thrust on private school and other non-government schools. Non-government schools revenue increased by 24% and form 46% of the school learning solution business. We added 133 new schools during this quarter.

In corporate learning solutions we got a new order intake of $27.9 million, volume growth of 14%, if is not adjusted for the One NIIT adjustment but if with that to 18%, but margin improved by 103 basis points and MTS registered a 62% growth in volume. Skill building solutions, the joint venture with NSDC has been signed up. The joint venture is a 90:10, 90 percent with NIIT, 10 with NSDC, it had a loan facility from NSDC at concessional terms with a fairly large interest holiday period, as well as an assistance from them in developing the marketplace for these new markets. As we speak this project is under implementation if there are further questions on this my colleague, Sanjay Bahl, who is with us, who is the President of this entity, he and I will be very happy to answer them.

In consolidated financials, I think the important issue to remember is that operating expenses increased by 12 % which is contributed by a number of factors but the important thing is premises overlap of 11 million and cloud campus readiness of 50 million and skill building solutions pre-operative expense of 13 million are important contributors to this. The depreciation was higher at Rs. 250 million and this is having moved to the new facilities which got capitalized during this, that facility is called ‘Confluence’, for our corporate learning solutions business as well as the movement of STP that was one contributor as well as Element-K some of these assets which they had capitalized were put to use in this quarter.

Net other income in the last quarter had the impact of the interest rates; interest was at marginally higher level than the previous year (a) because of increase in interest rates as well as the debt utilization which is typically higher in the second quarter. Overall tax was at Rs. 21 million based on the range of profits that we got from different entities and overall PAT was 302 million, which is 6% improvement over last year.

Two or three things which I thought I would like to highlight – corporate learning solutions in line with the MTS strategy has shown a continuous improvement in margin, 34 basis points improvement in margin on a quarter-on-quarter basis and clearly 103 basis points improvement on an year-on-year basis. Second thing which I thought that I should highlight is the cloud campus which is not only the fact that we had a net revenue growth of 12%, in individual learning solutions but the fact that 4% came out of the realignment due to One NIIT, 9% growth came out of India and (-1%) was international. We added 24 more centers during the quarter adding seat capacity of 6%.

Talking a little bit about headcount – we added 133 people in this period. At the balance sheet level our return on capital employed during this quarter was 14%. Our net debt was at a higher level as I had mentioned being the last quarter, it stood at 3519 million, I must point out that the net debt was one of the adverse effects which we had because of the foreign exchange. The reason is we recognize currency rate as on the 1st of the month and all the currency movement took place in 1st of September where we had already recognized the rate on 1st September, therefore all the adjustments took place in the balance sheet and 149 million was the foreign exchange impact on debt which was not actually an increase but just a translation of foreign exchange, of course all that does not matter too much now which I will come to.

In cash flow terms, so just to clarify our net debt was Rs. 3519 million. Net cash flow from operations were Rs. 335 million, our accounts receivables were at a higher level tough comparable at the same comparable level compared to last year it stood at 4180 million and the increase in AR was one seasonality and the fact that this is the high quarter. Second, foreign exchange which contributed Rs. 153 million adverse impact and the last was delays in collection primarily in Andhra Pradesh which during last quarter has had more or less all offices closed. Andhra Pradesh being the last large debtors did affect to our liquidity to that extent. We added fixed assets of 919 million of which on confluence with the new facility it was 248 million and on new products and projects excluding those launched by Element K it was about 500 million.

Overall, that is the summary that I would like to talk about. Now one thing before I open it for questions which has happened since the closing of the quarter that on 14th of October we announced that we have divested our stake in Element K to SkillSoft Corporation for a cash consideration of $110 million enterprise values subject to small closing adjustments. This transaction was completed on 14th itself and the money was transferred into our accounts. Over the last few days we have had a number of financial transactions to ensure that that part of the money can go and retire the debt so that we can bring the debt cost down immediately while we are also planning to look at the use of these funds. We believe that the overall cost of the transaction in terms of (a) the settlement of options, as well as cost of transaction, as well as taxation (US and India) will add up to about $40 million in totality, about $5.5 million in option settlements, about $4.5 million in all other costs and settlement expenses and we estimate that the taxation based on our current understanding will be of the order of 30 million which includes the part which has to be paid in India for transfer of money from there. However, all these are work-in-progress but I thought this is a number which you like to know as fast as possible.

So that is where we stand at this point of time. I would now like to open this up for a Q&A and we will all join in to answer your questions. Thank you.

Moderator Thank you very much sir. We will now begin with the question and answer session. Anyone who wishes to ask a question may press "*" and then "1" on your touchtone telephone. Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press "*" and "1". The first question is from the line of Mr. Amitabh Sonthalia from SKS Capital, please go ahead.

Amitabh Sonthalia Hi sir. Congratulations on the excellent deal with selling Element K. I have a couple of quick questions related to your financial worries. Why is the tax rate so low and what is it likely to be going forward?

Vijay Thadani Okay. The tax rate gets worked out as work-in-progress and we kind of net it off as CYD at the end of every quarter but overall tax rate is 28% to 29% of our profit. So over PBT and therefore even that we are at two quarters of the year where MTS growth and another non-India growth would have contributed to the profitability, would have contributed to lower taxation so far but as the India and this mix stepped in I think, about taxation will be 28% to 29%.

Amitabh Sonthalia So it will be about 28% of your overall PBT for the full year, you mean to say?

Vijay Thadani Very right.

Amitabh Sonthalia There will be a higher impact of taxes in the second half?

Vijay Thadani That's right. The other thing is it does not include the taxation because of the transaction. I am assuming that to be an extraordinary situation.

Amitabh Sonthalia Right because that's not reflected in your Q2 numbers anyway.

Vijay Thadani Very correct.

Amitabh Sonthalia Okay and this practice of accounting for the share of profit from associates below the line in some sense and above the line as part of your consolidated PAT. I am assuming its a part of your reported EPS as well?

Vijay Thadani Absolutely. That's is the standard practice that is the law of the land.

Amitabh Sonthalia Right. So what about the dividend that you receive from the NIIT Tech? Where is that accounted for?

Vijay Thadani Yeah, the dividend that we get from NIIT Tech gets adjusted against the dividend that we pay of and it doesn't come into this book.

Amitabh Sonthalia Okay so there is no double counting of profits?

Vijay Thadani No-no. Whatever PAT you see in our books is just I think, our 24 point odd percent in NTL stake. Actually the way it works is the dividend actually does not come to NIIT because there was a special purpose vehicle created at that time called Scan Tech, so dividend goes to Scan

Tech, Scan Tech plays the dividend to NIIT which in any case does not come anywhere in our P&L.

Amitabh Sonthalia Okay and this practice is I'm sure standard practice as per accounting standards and everything but I am just wondering if in terms of you reported PAT and EPS weather it is overstating the earnings in some stands because this is more like a group company investment. So typically there is no control that NIIT has over NIIT Tech. It is just a passive investment due to other demerger which happens from years back, right?

Vijay Thadani So the right way to do that is that you declare your organic PAT as well as the share of profits as long you give the breakup of both. I mean that is the law of the land and that is what accounting norms are and whatever else. So the best is to be transparent about whatever are the break-ups.

Amitabh Sonthalia But I guess the larger question I was trying to get is, how does this value gets captured? Is there a more efficient way to sort of hold these investments which will create better shareholder value in the long run? Or it is going to be sort of maintain the foreseeable future?

Vijay Thadani I think it is the declared intention of NIIT and at appropriate time and appropriate time determined by the circumstances and the performance and the state of industries as well as the availability of the suitable partner that we would like to divest this. However, at this time as we speak there is no such proposal on the table but if there is we would be happy to share that whenever development takes place which is at an appropriate stage.

Amitabh Sonthalia Okay so this is not permanent holding in some sense like lot of holding companies have or for group companies stake?

Vijay Thadani No. So just to explain to you that these two were together and they demerged and the demerger scheme of things NIIT ended up holding 25% of NTL and we had even at that time and since then have maintained continuously, and it is our intention to look for a strategic buyer and diverse that. However, at this time the company is fairly undervalued NIIT Technologies, for it is worth but it is improving steadily. The second it is doing extremely well and the third we feel that the timing is not yet right and of course there is no proposal on the table worth considering.

Amitabh Sonthalia Thanks for answering that. And lastly, are there any plans to declare a special dividend against this transaction money that you have received?

Vijay Thadani At this point of time of course that is for the board to consider. However, the way the transaction has been looked at, at this point of time it has been felt that the retiring partly of the debt and partly an investment in the four platforms of growth definitely is the more important item on the agenda and based on the situation as it unfolds these proposals can be taken up.

Amitabh Sonthalia Okay, thank you very much.

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

Dipen Shah Just had a couple of questions. First if you can just explain this the realignment of One NIIT revenues from CLS to the ILS?

Vijay Thadani Yeah, I will ask Raghavan to explain.

G. Raghavan Okay, basically we have been talking about the One NIIT program as one of the two important strategic thrust, the other important one being the Cloud campus, you might remember me talking about in the past. Basically as we go forward the training that we are taking up for individuals whether it s is acquired through the channel of banking centers or it is acquired by through the channel of the IT training centers or the BPO training centers or the management training centers. And as such they are all being with the individuals being trained. As we increase the various offerings at the reach of the center, which we want to look at it as One NIIT. So in this particular case the realignment refers to some part of the individual training which was being reflected in India enterprise solution business, even though it was dealing with individual training is being realigned to truly reflect the One NIIT thrust that we are having in this program. Since it has been done, we wanted to make sure that we kind of express that what is the contribution of this realignment to the 12% individual growth that we have talk about. In growth, it is about 3.4% points contribution to the 12%.

Dipen Shah So consequently if I look at the organic sort of speaking ILS business it has grown about 9% in domestic. So if you can just throw some more light on the growth rates being tapering off over the past few quarters and what should we penciling for the next few quarters as far as ILS business is concerned?

G. Raghavan I would like to say that the growth rate that we did have in the 1st Quarter was the 16% YoY. So this quarter, even during the last quarter we did mention that we're likely to face a lesser growth in Q2 primarily driven by some of the international channels restructuring that we have been engaged in and we did specifically mentioned about few African countries that I said the result of the restructuring of the channel and the result of the scholarship program that we are running is going to be delayed and this will lead to a softer Q2. So in terms of the revenue growth this is not completely out of line with what we had anticipated. Yes, we would certainly like to see it better than what we have seen but it is not completely out of what we had anticipated. But I would like to draw the attention to the most important program that they had been engaged in Q2 namely Cloud campus where we really went on with this really game changing new delivery platform that we have launched in all the metros and many other non-metro locations nearly 190 centers have been enabled to do this in about 4and a half months we have been able to launch up an enrolment of about 11,000 students of this**.** And there has been growth in the India business overall. There has been growth in the diploma programs, short term diploma programs, 99 days diploma programs, and there has been growth in short term modular programs. So there have been many good things. But we had mentioned about the Q2 number being slower, which is sort of in-line with that.

Dipen Shah Sir when do we expect the growth rate once again to pick up or should we actually pencil in about 9-10% growth in the next few quarters?

G. Raghavan In the second half I do expect the rates to be better than what I had mentioned in Q2. You should have seen better numbers. Because the benefit of One NIIT that we have explained to you about 4% points, will continue to be there in our growth rate. So you should really expect that plus a normal individual growth rates that we have been talking about. So in the future we will be talking about individual growth rates that will substitute the benefit of about 4% points coming out of One NIIT for the remaining 3 more quarters. So looking at the balance of the year, we should look at growth rate in the region of about 20% that includes this percentage points.

Dipen Shah Okay and as far as the CLS business is concerned if you can get to know like what will be the continuing revenues, EBITDA, and profits after the Element K business has gone out?

Vijay Thadani So after the Element K business and this realignment just to add one word to this realignment which I think Dipen you are right in assuming that in a certain manner you should subtract the 4% from that and which is what Raghu did as well. But actually the reason of One NIIT is that soon the line will be blurred as to where the business is coming from, and that was the whole idea of One NIIT. So that we don't have lots of small channels contributing to it. And therefore we looked at all the individual business and wherever it is coming from. So for example a large number of advanced programs used to be corporate sponsored and would go in the corporate programs. So you do an advanced Cisco program it could go in for corporate program. Now as we are launching more advanced programs in our centers, we have programs which are being conducted in our centers, using our capacities and should therefore contribute to our, as in individual revenue and profitability. We are getting clocked there. So we are earlier that number was small. Now that number is becoming larger. So that's one of the things which I thought I should mention that. Now that and Element K. So that let me explain the Element K transaction. Element K contributed last year about $86 million in revenue and this year we would have had Element K for 6 months and 13 days. So 6 months have been clocked in last quarter and 13 days will be added in this quarter. And therefore in the balance part of the year we will have 13 days of Element K and 2 quarters of the corporate normal revenue and it is just safe to assume that two third of the revenue which we were getting was from Element K and about one- third from here. And this one third, however, is growing at a faster pace. I just gave you the example of MTS. MTS would form about 60% of the total corporate revenue which is left over. So if you were to take 33%, nearly one-third of the total revenue to be what will now be corporate going forward, small change will be in the 13 days added in this quarter. I mean you can say for all practical purposes it may be very small because first 13 days is nothing in a quarter. It normally picks up much later. So you will have 2 quarters of this revenue which is one-third has grown at about 60 odd percent. Of course this will be at a slower rate. So what we foresee is that towards the end of the year, so overall we definitely see the corporate part adding up another 130 crores or so in the next 2 quarters.

Dipen Shah And how about the profitability?

Vijay Thadani That is improving in profitability as we go along but I would say it would be about 10%, 10 plus.

Dipen Shah This is for the business which continues.

Vijay Thadani Yes.

Dipen Shah Okay. Have you transferred some of our assets with this deal?

Vijay Thadani Yes. So just to explain you the impact on balance sheet, the balance sheet size would reduce by about 18% from where we are. So the capital employed will reduce by about 18%. So it is Rs.1.9 billion reduction in balance sheet. Our balance sheet is about 1000 crores. So it is 18% reduction. The second thing which I should say is that there will be an impact of PAT just of this deal and that impact will be the interest saving which we will get in the next 6 months. will more than offset lots of profit from Element K. At a PAT level there will be a small positive.

Dipen Shah So how much of the debt you intending to repay or the total remaining debt will go off.

Vijay Thadani No I think we would have some debt left on the balance sheets though we will have zero net debt as we speak but we have long term debt of about 110 crores which is not due till another 2 years. So that will continue, but we will have cash and second we need some debt for operations for the rest of the businesses. So that is as far net debt situation is concerned.

Dipen Shah Okay thank you very much and all the best.

Vijay Thadani Thank you very much.

Moderator Thank you Mr. Shah. The next question is from the line of Mr. Amar Morya from India Nivesh Securities, please go ahead.

Amar Morya Sir just wanted to know more about this cloud computing. Now in 4 month it has clocked around about 11000 kind of enrollment. So just wanted to have more flavor on this and how it is going to be rolled out and secondly about the centers, how many are our own centers and how many are channel centers?

Vijay Thadani Okay on the cloud campus?

Amar Morya Yes sir first.

Vijay Thadani Raghu you may like to answer.

G. Raghavan Okay cloud campus is a platform on which we will deliver education to students for their own employability preparation. First product that we have rolled out to the platform is the 3 year GNIIT program and it is that program along with a one year version that 11000 enrollments have been referred to the last 4 and a half months. What does the student enjoy? The student enjoys abilities to learn 24x7 from any place – home, park, classroom, with friends, all kinds of possibilities exist for the student to learn. They get a device which is a netbook along with a datacard that enables them to be connected 24x7 and the courseware on digital formats in their netbooks and they can access to NIIT student.com resources where additional learning materials are actually served. They can collaborate with other students, they can collaborate with faculty and they can go and search for resources that need for their learning. So the whole learning experience is highly enriched and the effectiveness of learning is highly enriched. Having said this, the first product that we rolled out is GNIIT, it is our intention to roll out almost all the products that we have on this campus. So progressively most of the products that we are offering will go on the cloud because cloud is the way the world is going and we have taken the first step in fact we are the first one to launch this platform for this kind of a training operations in the country. So in terms of number of centers we have currently covered 190 centers, of which about 40 for our own centers. The remaining 150 belong to the channel partner centers. If you look at the next 6 months, this 190 will cross 250. but what is important is just not only the number of centers but also enabling those centers to be able to actually counsel and make sure that the student understands it and make sure the benefits of the cloud campus are fully and completely felt by the students who enroll in those centers. So that is the kind of work that we have set out for us over the next few quarters.

Amar Morya So sir one more thing. Is this digitalization and the content which we are going to prepare for this cloud, primarily can it be used for this university digitalization courses which we offer?

Vijay Thadani Yes and it is being used as we speak. And therefore there is enormous potential to then universalize the usage of our courses where it was today restricted to for example, our faculty and course where which was restricted to its usage in our education center. Now we can allow higher education sector and we have the NIIT inside program as you know in partnership with universities and that is what will do. We call this the Institutional Alliances activity.

G. Raghavan We can add a little bit more to that. We have many colleges which have signed up with us. And we are offering programs to students in those colleges and apart from simply digital courseware where the other aspects about the cloud campus is also synchronous learning. Cloud campus is a large term. It comes with several sects underneath that. In college we offer courses to synchronous learning which is basically satellite based education delivery, with classroom in those locations with capability to receive live lectures. Not canned lectures but live lectures in instructor led down in to those classrooms. So that gives us a capability to bring in the best faculty for each one of the topics and enable education to happen in to those students. If this is what you meant by university, we call it under a name called Institutional Alliance business. This will become a part of that as well.

Amar Morya Okay sir one more thing. Like this 11,000 enrollments which we had seen in this quarter, what is the revenue which is reflected in this individual learning solution, if you can give me some flavor about that?

Vijay Thadani It will be a small portion.

G. Raghavan The way to look at it, it is a mix of let's say it's primarily a GNIIT program. It's a mix of students who joined us for full 3 year program and student who joined us for 1 year program which had subsequent upgrading through the 3 year program. The mix in this 11,000 on students who have joined for all the 3 years is much larger than those students who joined for a 1 year program. So 3 year program is Rs.1,75,000 plus service tax. The one year program is in the region of about 70,000. So you can kind of do an weighted average. However, important point is overall scheme of things in revenue in this quarter, it is not very small but the power of this and the significance of this is for long term and this is why we are extremely happy about this because this is the platform for growth. It's just not a one quarter sales strategy.

Amar Morya Okay we are talking to rollout in 250 centers in 6 month right?

Vijay Thadani That's right.

Amar Morya Okay sir secondly about this corporate learning solution. Now after the element K business, what was the quarter-on-quarter growth of MTS business?

Vijay Thadani Quarter-over-quarter growth?

Amar Morya Yes sir.

Vijay Thadani I will have to give that to you. We normally don't track quarter-on-quarter but I will just give it you in a minute.

Amar Morya Because I can assume that individual learning solution business will be a cyclical business, but assuming that MTS business, this is primarily related to corporate training. So is it also cyclical in nature?

Vijay Thadani Quarter 3 is a weak quarter for that because of Christmas holidays and stuff like that. But by and large I think it is more like any other outsourcing business.

Amar Morya So sir if you can share with me the quarterly.

Vijay Thadani I will. If you can ask you next question or somebody else can ask and I will just respond to that. I will get it in a minute.

Amar Morya Okay and third about this school learning solution business like when I talked with you in a conference call before initiating the report, we have talked about expansion of the team primarily for this digital business. But still I see the school additions which are coming like 100-133 range. So are we on the track of that expansion of that business or how it is like?

Vijay Thadani First of all on the expansion of the team, we are a little behind. But end of the quarter we had 185 sales people on the our rolls. Which is where we should have reached but there was a delay. Having said that the number of school added in this first 6 months is approximately the same as which we added, 306 and 231, I think the settling of the sales team is the process which is going on as we speak.

Amar Morya Okay so sir if you can give some flavor of what is the kind of school additions you are looking in a year or so?

Vijay Thadani So our team is confident. We had talked about adding about 450 schools if I remember right during the year and I think we are on track to add that. It will actually be little more than that.

Amar Morya And about the government schools? We are not likely to add anything right in to that business?

Vijay Thadani As we said we are being extremely selective about the government business other than the states in which we are already operating. So whether there will be a dual or a small addition, those are the ones. We are not waiting for any large contracts as such.

Amar Morya Okay thanks a lot sir.

Vijay Thadani Meanwhile I have your number. it is 18% QoQ.

Amar Morya okay 18% QoQ growth. Okay thanks a lot sir.

Moderator Thank you Mr. Morya. The next question is from the line of Jasmina Parekh from ING Mutual Funds, please go ahead.

Jasmina Parekh Good evening sir. I wanted to understand this taxation of $30 million. You indicated earlier that you haves acquired Element K for $35 million. And we have received $110 million. And I believe of this $110 million also, $25 million pertains to the debt, right? So equity valuation is around $85 million. And if you reduce $35 million, then the profit will be around $50 million.

Vijay Thadani But $35 million is also included there.

Jasmina Parekh So what is the exact amount of profit?

Vijay Thadani So you can take for all practical purposes because net on exit and entrance were approximately the same. Now you can take about $75 million of profit. And by the way it is a $30 million I have given you is my back of the envelop number. Of course little more than the back of the envelop but it is to account for the taxation in US which will be on 40%

Jasmina Parekh It looks to be pretty high considering it will be a long term capital gain tax.

Vijay Thadani In US taxation there is no concept called long term capital gain or short term capital gain. It's a taxation on your income. Of course there are some benefits. You will get and there are some additions we will have when the money gets transferred to India. So total taxation we believe will be of the range of $30 million. But this is ballpark number right now. The numbers are still being brought out, audited and worked out and then we will share with you but I thought we should give a ballpark number at least.

Jasmina Parekh Okay because we thought 40% tax a rate looks quite high.

Vijay Thadani 40% is what it is in US. That's what it is in US.

Moderator Thank you. The net question is from the line of Chetan Wadia from JHP securities, please go ahead.

Chetan Wadia Hello sir? Sir my question is about school learning solutions, how many total of private schools and government schools do you have in our portfolio?

Vijay Thadani One second I will give. We will just give you the break up.

Chetan Wadia Sure and my second question is with respect to the skill building, actually there are 3 parts of the question. The first one is how much of the investment that would be required from NIIT in that the next 10 years and what is the revenue model and third being from which quarter onwards we can expect some meaningful revenue from the same?

Vijay Thadani Okay. Just to describe the joint venture from you. We don't expect more than, you were discussing over the 10 year period right. So over the first 4 years is when we see equity infusion in a matching manner and the total equities capital company is expected to be about 100 crores. The internal accruals and equity put together will be the margin against which NSDC is giving us a debt to fund the assets and working capital which will be at 7.5% which is payable only 4th year onwards. The third is in addition to that NSDC will also be working with us in market development for which they will give us a market development assistance in terms of reimbursement of special marketing expenses which we incurred for the first four years. So this is the overall arrangement and we therefore do not see our exposure from cash point of view to be anything more than the 90 crore that is envisaged. Over the business part 2 of your question, the business model at this time assumed is direct presence which means 100% revenue at 100% expenses. We make some contract, a part of our facilities to business partners and yet the full control because this is going to be heavily technology enabled business. See otherwise the business model for this is not viable. The third question which you asked was what kind of revenue can we look at from this over the next few years? And I will share that with you. We expect, just one moment. I'll just give you the revenue break up. I had the number of centers so just to tell you that we are expecting about 375 centers in the first 3 years. And the balance will come up in the next few years. Now the configuration of a center typically the way we are looking at is in a 1 lakh population city and therefore it will be small center 2.5 thousand to 3 thousand square feet center.

Chetan Wadia Okay about the revenue part, from which quarter onwards expect the minimum revenue?

Vijay Thadani Yeah we would expect a revenue, we have already started reporting revenue by the way there is a small revenue even in this quarter. Rs.1 million but it's a good beginning. You would start seeing the first few centers being operational from I would say January onwards. They would start functioning in November – December but by the time things settle down and they can start clocking revenue it will be January onwards.

Chetan Wadia Okay sir. But my earlier question of government and private schools do you have the number?

Vijay Thadani Yeah in our portfolio we have 12,860 government schools and 2415 non-government schools.

Chetan Wadia I'll take that sir. Thank you very much,

Chetan Wadia Thank you Mr. Wadia. The next question is from the line of Mr. Swati Nangalia from IDFC Securities, please go ahead.

Swati Nangalia Hello? Hi Vijay. I have a question on Element K sale which we have done. First congratulations on the deal. Vijay, as you mentioned that the financial impact of the deal would be neutral to marginally positive for us. Now presume the leverage was never a major concern for us and thereby no immediate need to draw down there. Do we have a broad sense of how soon could we play it a similar opportunity in terms of business which could yield an annual EBITDA of close to 45-50 crores?

Vijay Thadani Yeah, so the first thing I want to say is that you are absolutely right. There is no need to draw down all the debt and we agree with you there. What is important is that I think there are first few things. Normally you don't use this term but I would say this divestment is PAT accretive other than the capital gains as well first. Second, the size of the organization because as you know Element K contributed $86 million of revenue and at a comparative level a very low level of profit and therefore one important consideration would be what happens to the size. So the good news is that the size the way the deal has worked out during this year, we will not have a diminition in size compared to last year. Of course we would not get the benefit of all the growth that was to happen. But on top of that the rest of the platform of growth that we have identified will take over the growth from there. Now given that they are operating for example, take our individual learning business which is north of 18%. They take our corporate learning solutions, which is at 10% right now and we will continuously improve by couple of 100-200 basis points over the next 6 quarters. And then if you look at schools, which again is at this point at 12, but we will continue to improve, then overall the new revenue that you will add will be at a much higher margin than what you were earning otherwise. If I was to take the 40-50 crore and I was to apply a 10% EBITDA, we are talking of the revenue of 400 crores which will replace the Element K business and yet offer a larger margin. I tend to feel we will get that benefit in the next 15 months. Which means by end of next financial year you would definitely have that into it.

Swati Nangalia And my second question was relating to the NSDC JV. Now the JV has a very strong potential of we got this 7 million target to train and giving that training services being our forte. It looks like it is like right extension to our core business. But how the fact that skill development is a fairly new vertical in the education space and there is no other company which is still established in this. What are the execution challenges which one can actually see going forward in this.

Vijay Thadani I would fully agree with what your statement is. So we must say that we have had a bit of experimentation in the past. Run a few pilots and therefore have a small bit of experience but you are very right that there is a large open space which we have to take advantage of. I think the first challenge the single largest challenge, very surprisingly will be the mobilization challenges. The mobilization challenge is a social problem. The social problem is specially now is that the social status of getting yourself skilled is not the same as the social status of getting yourself "educated". So we are working on the target population of say, as you know only 12% of our college going age students go to college, 12.4%. That's our gross enrollment ratio. We are targeting our products at the balance 88%. Those who do not go to college. And those who do not go to college are actually the ones which we want to work together in first skilling them, second making sure we contribute to their higher education if they have any interest in it. And therefore offer them a part. The second challenge which we will have will be affordability. The affordability typically in these cases will be much lower. There the affordability which you have in the city and we are going to use technology to handle the skill in a manner that we can create a low price point and therefore a low cost point. The third challenge which we will have will be finding them placement. Finding them placement is not as big a problem as finding them placement in their nearby locality. Because most of these people are since their jobs are only earning only Rs.5,000-10,000 a month, they do not have the flexibility to leave their places and come and work elsewhere in another city unless it's a definite thing. So our aim will be to find jobs in the neighboring areas. Therefore an important part of this is, which by the way of forte of ours, is to build partnerships with local organizations and work backwards from there needs to create skills which they require in that particular area. So we have identified 9 sectors and therefore it will require us to be broad based. You said our experience in skills is lower. But 2 skilled areas we are already working in which is IT and BFSI, Banking, Financial services and insurance, except that the person we are looking at is 2 levels lower than the persons that we train today. The fourth area will be availability of faculty. Expert faculty required in the location, so if you are setting up a center in Saharanpur or Karnal or Palwal, then you need to be able to find that faculty at that location. That will be a challenge. Again we are using technology as a solution for that. We have run fairly large pilots to check the pedagogy because that if we can deliver the training then creating value out of that training frankly is an easier problem to solve.

Swati Nangalia Alright that was really helpful Vijay. Thanks for this and all the best.

Vijay Thadani Thank you very much.

Moderator Thank you ma'am. On account of time constraints we will take one last question. This is from the line of Mr. Kaushik Buddha from KB Capitals, please go ahead sir.

Kaushik Buddha See on the skill development front, what is the capital commitment from NIIT. And that figure I could not get?

Vijay Thadani I said that the total equity capital of this venture is 100 crores. Our maximum capital commitment is 90 crores.

Kaushik Buddha That will be over how many years?

Vijay Thadani 4 years.

Kaushik Buddha 4 years. And when do you see the cash breakeven on this, how many years?

Vijay Thadani Cash break even will be in the 3rd year.

Kaushik Buddha 3rd year and this 90 crore will finally get deployed in the 4th year you said?

Vijay Thadani Over 4 years.

Vijay Thadani Over 4 years. Okay.

Moderator Thank you sir. That was the last question. I would now like to hand over the conference back to Mr. Vijay Thadani for closing comments.

Vijay Thadani Thank you very much. So thank you once again for joining this call. I know its busy time and thank you for sparing the time for us. And asking us all the questions which give us new insights. And if there are any more clarifications on anything that we have discussed, my colleague, Kapil Saurabh as well as Chetna, all of us are available to you for further clarifications. So wishing you all a very happy Diwali from all of us. Thank you very much. Bye.

Moderator Thank you sir. On behalf of NIIT Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.