# "NIIT Limited Q1FY14 Earnings Conference Call"

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY'14 Earnings Conference Call of NIIT Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Thadani – CEO of NIIT Limited. Thank you and over to you sir.

**Vijay K. Thadani:** Thank you. Good afternoon. Thank you very much for being here on the call. We are here to discuss the financial results for Q1. I am sure there will be a lot of questions, so I will keep my remarks brief and the important things which I wanted to talk about. First, as usual, I start on the environment, I would not spend time on the economy except to say that right now there are macro headwinds but over this year we expect to see the economy to recover. Hiring outlook has seen the sharpest decline in our country compared to all countries surveyed by Manpower Employment Outlook Survey. This is the weakest outlook on employment that we have seen.

Coming down more specifically to what we do, IT sector, the first redeeming feature is that we are quite enthused by the results announced so far by the large IT companies, but I think the part which is not very strong in that is the absorption of fresh graduates, at least a couple of organizations that we tracked, we find that the employment of fresh graduates is weaker to the level of 50% and more. However, we believe that it will pick up in the next few quarters and this should contribute positively to consumer sentiment as well.

Another interesting phenomenon this year in college admissions has been a waning interest in engineering at any cost. I think students are becoming very selective on the way they are looking at engineering degrees and large number of lower-tier engineering colleges are actually going empty. And this is in favor of arts, science and commerce degrees, and this has benefited us and will benefit us as we go forward and I will discuss that more. Bank hiring has been on a rise with strong demand from both public sector banks where retirement age is coming up and private sector banks because expansion as well as new licenses being given. Companies are hiring more just in time skilled workers as also visible from our placement record which continues to remain strong. Spending on corporate training as well as looking at managed training services is attracting attention and in the mature economies such as US and Europe; however, the economic uncertainty does cause longer sales cycles and larger transition period as companies have to reorganize themselves to handle this phenomenon. Overall, the economy continues to be in a tough condition, but there are certain segments which are looking at growth.

Our own response to this challenged economy over the last few years has been two fold; one to be focused on the level of businesses that we would like to be in, improve the capital efficiency as well as profitability and the liquidity of the business. And to do this we created four platforms of growth that we have been reporting progress on.

The first progress I have to report to you on is the progress on the four platforms of growth which is for our Individual Learning Solutions, it is the Cloud Campus, in fact, Cloud Campus is a matter of great pride for us because in addition to the fact that it is a new platform of growth for NIIT; it is also a new platform and a new way of learning for the whole education and academic community. We have received a varying response from our potential students, our current students, our employers who have been engaged in this discussion but that was to be expected. The most interesting feedback we have received is from the academic community itself who believe that it is indeed the change which the education delivery methodology required. We are very excited about that. Cumulative 33,000 enrollments since the roll out and now we have 50 courses which are enabled.

Our second platform of growth was Managed Training Services. Again, we have remained very focused on it as I will report later. We have 17 global customers now and revenue visibility has also improved to $144million. In schools, we now have, with the NGuru Solution 1,629 schools cumulatively and the non-government business contributes 50% to the School Learning Solutions business mix. On Yuva Jyoti also we have made substantial progress, we have now crossed 6,800 (cumulative) enrollments and we have the availability of these courses at 40 locations. So in terms of growth platforms given the fact that we decided to adopt Cloud technology technology platform on one hand, created a hybrid model and a superior learning experience, is indeed working out well. Cloud Campus as a new way of learning, I just thought I will mention one more time, in April this year and we discussed this in April and demonstrated it also in our 'May Investor Meet,' the new 'Cloud Campus' avatar was unveiled and we now have very good traction building up on that.

Another thing which normally I do not discuss in financial meet but it was a matter of great pride that while the organization is undergoing a transformation and through that transformation process challenging economic times, in that process to be voted by your own people as "The Fourth Best Company" to work for just behind Google, Intel and American Express, I think it is a matter of great pride for us because we believe that this is a sure sign of our people, who are our most important asset, endorsing the company's transformation strategy as well as the commitment to the company's future. So we thought that would be a wonderful thing which we would like to share with you; of course we continue to get recognized as the "Number One Education And Training Company" to work for which I do not think there was any doubt any other way.

Moving on to our financial performance, in Corporate Learning Solutions we have four new global contracts this quarter including three for Managed Training Services, one from a healthcare technology major, one from an oil and gas and one from an insurance company. Revenue visibility has improved to $144 million; the business had a robust growth, up 16% year-on-year, EBITDA margin at 11%, up 89 basis points year-on-year. Managed Training Services by itself has grown 19% year-on-year, contributing to 74% of our corporate revenues, 26% still comes from project-based business, of which we also got one new large contract in this quarter.

School Learning Solutions which has been growing well this time given the changing strategy set has brought down revenues by 2% year-on-year (excluding pass through revenues) which has contributed by the completion of 500 schools government contract which we completed after delivering 5-years of service. So this is in line with the stated strategy of the company, not to add on more government contracts and complete the existing ones satisfactorily, so that would have contributed to a loss in revenue but we do believe that, that will be made up by the growth which the non-government schools will do. Non-government contribution has increased to 50% in this quarter from 46% same period last year.

Individual Learning Solutions has had a mixed bag. I want to remind us that there are two strategies at work; one is moving from IT to non-IT which is moving from just doing IT training to covering many other sectors such as banking, financial services management, business process management, etc. and the non-IT products have grown 42% and contribute 24% of the ILS revenues. Those of you are familiar with it, the mix now has moved 83-17 what it was last year to 76-24, of course this is for one quarter whereas that number was for the whole of last year.

In the IT segment we have had mixed results, the flagship product of IT which has been de-growing for many quarters sequentially as well as year-on-year basis has shown a turn around and GNIIT enrollment have grown by 9% on a year-on-year basis. However, given the smaller order book that we came with as well as a decrease in engineering enrollment we do have an overall revenue down by 12% year-on-year basis.

In Skill Building Solutions, as I mentioned Yuva Jyoti is now available at 40 locations, and we had 1934 enrollments in this quarter in that business.

Overall financials, we have a (-1%) in net revenue compared to same period last year. Now (-1%) does appear de-growth, but I would like to put it in another perspective but let me first complete that. Our EBITDA is at Rs 104 million, just the same level of margin at 5%, depreciation is approximately the same level as well. Net other income and taxation have gone through some ups and downs and I will explain that in a bit of detail, but overall at PAT level we have a Rs. (-94million) PAT compared to Rs. +115 million last year. I will be explaining this is in greater details slightly later.

Just to explain how has the EBITDA moved, in Q1 we had an EBITDA of 114 million, we have been tracking our cost management initiatives, so essentially what we are saying is that while the economy is going through a tough time, we are going through a transformation process, it was very important that we manage our cost efficiently. We have been able to achieve in cost management a benefit equivalent to what we have spent extra because of inflation as well as annual increments of people as well as adverse product mix. So cost management has helped us overcome those which has therefore resulted in an EBITDA which is the operating profit at the same level. Depreciation is also as I mentioned at Rs 210 million compared to Rs 203 million last year, one part is a lower capital base because of the closure of Maharashtra order, but overall at the same level.

Now, let me explain to you a little bit about the net other income and the taxation issue. In the net other income we have a provision of Rs.34 million which is to do with the mark-to-market of certain FOREX average, which were in our balance sheet which is a Rs 34 million adverse impact. And in taxation, we have Rs 27 million on account of the dividend distribution tax and this is a dividend that we would have received from our overseas subsidiaries which in this financial year alone can be set off against the dividend distribution tax paid on the dividend which the mother company pays. So since NIIT paid the dividend this amount could have been otherwise in the dividend distribution tax, so I would consider that an exceptional line item. So if those two line items are taken away then in many ways the operating loss starts appearing differently. Of course, compared to last year, I would say there is a marginal improvement in our operating results; however, not sufficient to justify that we have come out of the woods but enough to say that even though the economy continues to remain challenging, at least the transformational initiative which the organization has taken are beginning to bear results, and once the economy also turns around, then we will get the benefit of both these actions which should help us immensely in future.

Moving on to our business and geography mix, this quarter, our corporate has contributed 38% of the total revenue, individual is 43%, schools have remained at 19%, so essential change of mix has happened from individual into corporate.

In terms of EBITDA contribution also, while the Skill Building Solutions have started showing some revenue traction therefore their loss is a slightly lower, but essentially the profit has been contributed by the Corporate Learning Solutions.

Coming to Corporate Learning Solutions itself, the overall performance I already shared with you, 16% top line and 89 basis points improvement in margin which is at 11%. Important thing is the revenue visibility and order intake; order intake this quarter was USD 16.2 million which is up 26% year-on-year. Our pending order book has also improved to USD 54.6 million and the revenue visibility as I already mentioned is USD 144 million.

A small color that I would like to give here is the fact that while this time we did get a tail wind benefit of the foreign exchange even at volume growth level our growth is at 13% on a year-on-year basis. We could not get the full benefit obviously of the exchange rate because the exchange rate moved very viciously in the month of June; however, our revenue accounting is done on the basis of the exchange rate on the first day of the month. So our revenue was accounted on the first day of the month which was a lower exchange rate and our receivables have been accounted for at the end of the month which was higher exchange rate. In normal course of circumstances these things should not make a difference but in this particular case it really makes a difference of 10% full as the impact of currency alone.

In School Learning Solutions, as I mentioned, we completed one contract of 500 schools government contract, this is from the state of Maharashtra. And to that extent our revenue there was a dip as we had guided before but there are some closing costs associated with this contract as well, whenever a contract closes since the deal has to continue little bit after the billing stops, so to that extent there will be a residual cost which has been provided for in this particular results.

Our private schools revenue is also up 7%, it now contributes 50% to the mix, and we added 125 schools with an order intake of 165 million. It is a bit muted and that is one of the changes that we are bringing around in the private schools model. Private schools we do believe has some kind of a liquidity pressure as we could experience, because insisting on either coming out of past habits or otherwise but insisting on hardware to be a part of the order for which is a 'no, no for us' and the second is asking for extended credit terms which again at this time we have tightened. So we believe that it is a short term phenomenon, we will see ramp ups happening.

The other interesting thing is that in segments where we are market leaders like Math Lab as well as ERP, we draw very, very good traction and we see those products growing very, very well.

In Individual Learning Solutions it is the non-IT revenues which grew by 42%, and this was on the basis of a sharp growth in banking and other non-IT products which contribute 24% to the net revenue. Banking enrollment themselves grew by 41% and non-IT revenue grew by 42%. GNIIT enrollment as a part of the IT portfolio was I think the star of this. We launched the Cloud Campus and we realized that Cloud Campus was not just a new platform but a new way of learning and therefore a lot more needs to be done for customer education. So since all of you watch television I am sure you have seen our campaign called, "I am not studying," that has really created a lot of curiosity value and our lead on our call centers have increased substantially and that has contributed to a growth in enrollment which GNIIT enrollment have grown at 9%. So GNIIT at 9%, banking at 41%, management development 29% but overall enrollments which had a large number coming out of short term courses as you are seeing that trend building up, the short term courses specially those for the engineering segments have seen a sharp decline as is also visible from the number of engineers waiting for jobs as also visible from people now seeking engineering at any cost as a way forward.

EBITDA was affected because of operating leverage but the impact should have been much, much more; however, because of small benefit coming out of Cloud Campus, we were able to manage better EBITDA. I need to explain the performance of net revenues which is (-12%) year-on-year again in a context, at the first look, it looks like we are continuing to de-grow which is absolutely right; however, if you plot the de-growth that we have experienced in the last 5 quarters then in Q1 last year we had (-9) in Q2 we had (-17) in third (- 22), in the fourth (-36), so from (-36) we are at (-12) which shows in a certain sense a decline in deceleration. Now whether this should be read as a signal of recovery or not I am not sure but definitely the return of growth in GNIIT is a definite indication of the interest that arts, science, commerce students have in pursuing IT careers again and GNIIT has been a flagship product of the company and we definitely believe that this will help us as we go forward. Of course, Cloud Campus as a learning methodology and a new way of learning is contributing also to this particular phenomenon.

At placements level our commitment to giving first day-first hour ready professionals to industry is again visible given the fact that our placement this quarter were at 8,028, they are down 7% year-on-year but I can tell you these are down because we did not have enough students to place. NIIT still continues to receive very favorable treatment from employers given the fact that we are able to provide first day-first hour ready professionals.

In Skill Building Solutions the progress is not yet a blip on our radar screen but the fact is available on 40 locations, the fact that the revenue is steadily moving up, it is a low ticket value, high volume product, and last quarter we had 1,934 enrollments which will start having an impact in real sense in another 4 quarters or so in terms of the overall impact and in terms of visibility in our financial numbers.

If you look at our balance sheet, our balance sheet has actually improved a little over the last quarter. First of all, our receivables have actually come down, though in statement they have been revalued at the new exchange rate but actually they have come down. Our DSOs on due basis are down at 137 days, our government receivables were slow to come by even now but we have tightened the credit policy wherever else credit was offered and that is a result that we have seen a little bit in decline in revenues were more pronounced in our receivables and collection treatment, and pronounced for the better as far as accounts receivables are concerned. Our net debt was at 681 million which again has been revalued because of the forex though it should be 618 if we were not to take the impact of the foreign exchange.

We reduced our head counts by 45 resources on a quarter-on-quarter basis and 328 on a year-on-year basis. Overall, our people have remained very committed to NIIT as is visible also from the ‘Great Places to Work’ ranking.

Going forward, I think in corporate, we are seeing good traction, and improved deal conversion rate and managed training services will remain our focus area. We do need to make sure that as new projects take off we are able to recover and work at better margins. Right now improved margin of existing projects to that extent is subdued because of the higher transition costs which are involved in the early parts of a new project.

In Schools, the essential issue is to ensure that we stay out of capital intensive and Capex-driven business and tighten our credit terms. There is a demand which exists in schools; we just have to make sure that we are on that side of demand which is not looking for free credit and free hardware which seems to have become an order of the day in recent past. We will continue to defocus on government schools in terms of our taking on any fresh contracts, we have not taken any fresh contracts now for the last 15 months and we are in the process of closing our existing contracts, we completed Maharashtra contract in Q1 and we will be completing a very large contract in Q2 which is Andhra Pradesh 2005 schools that will again have a negative impact on revenue; however, we believe that in a few quarters after the closing costs are accounted for, these will contribute more to our profitability and even more to our liquidity because our cash burn on these projects will stop.

In Individual Learning Solutions I was explaining that the early signs are that the most favored sections of IT sector which we like, are recovering, which is very good news for us. Cloud Campus is working out very well. So Cloud Campus will be the pincer head of our strategy and we would be making sure that we put all our IT as well as non-IT products on the Cloud Campus in the shortest possible duration. We do believe that the growth exists in new age IT as well as non-IT. Non-IT has demonstrated that already, new age is too small right now to report, but enough to say that digital marketing and mobile apps courses are hard are making a momentum as we go along.

Overall, very challenging times in the economy, very aggressive countering initiatives from NIIT. The transformation initiatives are showing results and we do believe that the situation will keep improving every quarter as we go by in future. So I would like to stop here and now open it for Q and A.

**Moderator** Thank you very much sir. Participants we will now begin with the question and answer session. We have the first question from the line Dipen Shah from Kotak Securities. Please go ahead.

**Dipen Shah** Vijay I had a couple of questions. I missed out on the early part of your comments, so maybe it is a repetition. Can you just throw some more light on the cloud campus, how has it progressed and when do you actually think it will start having an impact on the profitability of the ILS business, because that is something which we are looking forward to?

**Vijay Thadani** I will ask Raghu to support what I am saying. But enough to say that first of all the response of cloud campus and I encourage you to please look for our TV advertisement or you can go on YouTube and search for cloud campus and you would understand what we mean by the new way of learning that we are looking at. There is an NIIT cloud campus.com site as well where I encourage you to try out the cloud campus. Having said that let me give you the response. As I mentioned, the response from students are very, very encouraging. In fact people are very happy with this format. The response from employers who have not yet got the end result of the products but from what they have understood, they feel that it is a much more vigorous way of learning and they do believe that these students will be different. Our experience shows they are indeed different. So very good, but the response which we were not expecting is from the academic community who believe that education has remained static in its delivery methodology for centuries and this is indeed a very, very big breakthrough. We recently had one very important thinker and leader who joined us and was talking to us of how cloud campus can actually help solve large amount of social problems. However, we are here to solve the economic problems of NIIT and taking advantage of the activity that we have. We also have a very positive response from some universities with whom we work in The United States. In fact a small version of this is already being implemented in US and a full version of this in Vietnam and Bangladesh. So we are very excited about it. Now, part 2 to answering your question about when will we start seeing the results. In terms of volumes, Raghu will talk to you about volumes and how we tend to see the results, but cloud campus was to do two things. One was to create more value for the customers, therefore more customers and second was to reduce the cost to NIIT which means lower cost to NIIT, which means higher margins. It has already started delivering higher margin on the areas that we had in the first step we should have got. But at this time since the overall volumes are low, we are not yet getting the benefit of operating leverage. But even in this quarter's result, just to give you a distinction between quarter 4 and quarter 1. Quarter 4 and quarter 1 are at approximately the same revenue level. But the margins have actually improved between the 2 quarters for us. So that should kind of give you an indication. Having said that let me add Raghu to this.

**G. Raghavan** Cloud campus is kind of a new way of learning. What we have done in the first tranche of features are fixed, solid features that we call as cloud enablers for the students, Cloud Classroom, Cloud Courseware, Anywhere Lab– Lesson on Demand, online assessments and Buddynet Learning. These are absolutely unique features for the learners' effectiveness. Number 2, 50 courses are already on the cloud campus, program which you are very familiar with such as a GNIIT, the postgraduate program in IT, the diploma program across multiple areas have all been moved to cloud campus. Out of the centres, 154 centres across the country have been cloud classrooms enabled and the students in those centres for these programs are already on the cloud campus methodology. Our plan is that as the number of courses and number of centres keeps increasing, greater and greater share of our total revenue will be accounted for by courses on cloud campus. Second is what Vijay alluded to. Already we are seeing some amounts of benefits accruing to us as a result of cloud campus. I think what the invisible part of the benefit which will accrue to us really in a solid term is the learner effectiveness and therefore our ability to attract a wider cross section of students who so far would not have liked to bind themselves to constraints that are there in the traditional method of learning or studying, we hope to be attracting that segment of students. And the second thing I would say is Vijay talked about the importance of non-IT courses. As we go more and more into non-IT courses, it is very important for us to put some speed to market and if we had gone by the traditional method of learning, our ability to expand to large number of centres newer courses would be very constrained by creating, training, making available including backups of faculty across the country, across so many centres. Now by cloud campus, we are able to reasonably in a short circuit, very elaborate and laborious process and be in a position to get on with new products soon. So these are the benefits. In summary, some benefits we have already started seeing. I think I would say the best is yet to come.

**Dipen Shah** How many students are already taking classes under this?

**Vijay Thadani** 33000.

**Dipen Shah** The other thing is that on an overall ILS basis, say excluding on the ILS-IT, when do you actually think that we should be reporting some positive growth like any indications which you have or any forecast which you can make?

**G. Raghavan** You mean in the non-IT?

**Dipen Shah** No, the ILS-IT, excluding the non-IT?

**Vijay Thadani** Non-IT is doing well. What he is saying is non-IT is doing well, but IT is bringing you down, when do you expect to see a growth in IT.

**G. Raghavan** IT, I would say that if you look at the last quarter, I don't want to read too much, but we are sort of encouraged by the response we have got by GNIIT. We have grown in the GNIIT series 9% and this growth is coming in the back of eight continuous quarters of decline year-over-year. What is fundamentally behind this is in the recent there has been 3 to 4 years, little bit of an irrational lure towards engineering degree at any quality, anywhere in the country. Now if you look at the last 2 years, look at the record vacancy of engineering seats in some of those colleges, which are not necessarily offering quality engineering education, the students are beginning to feel just an engineering degree is no longer a panacea for all problems. So the students from the DQ colleges are now realizing, "look, let me get on with skilling myself." Therefore a little bit of increased enquiries as well as small growth that we witnessed in GNIIT are early indications of the DQ students what we call as dual qualification students who are studying B.Com, B.Sc, the traditional group which used to come to us in large numbers for GNIIT, they feel that they are beginning to realize that they need to get themselves skilled even when they are in the colleges. We think this is an early indication of a good sign, but like I said I don't want to read too much in it. This is the first quarter where we have had these good indications. This has to sustain in order for us to make a very meaningful consistent trend out of this. Just to be comprehensive about the answer, in addition to the traditional IT courses, we are busy launching courses in what we call as New Age IT. This consists of 4 important areas. Social media, analytics, mobility, and cloud. These are important new dimensional areas where there is dearth of skills in the country and we will be focusing and introducing more and more courses in that and that will help us. For example, last quarter we just launched a course in mobile app development for example. So like that we will be introducing courses so that relevant technology courses are made available so we are able to get students who are looking for these technologies.

**Moderator** We have the next question from the line of Anurag Goel from Standard Chartered Bank. Please go ahead.

**Anurag Goel** Thanks for the detailed update on your numbers. Just had a couple of queries on the financials, for the Q1 last year, there was a negative other income of approximately Rs. 28 crores and which I think included provisions for Element K and probable vendor claims. So my first question was what happened to those provisions, are they being reversed? Second is when I compare that number with this quarter, this quarter we don't have that negative provisioning of around Rs. 25 to 27 crores, despite that our EBITDA is lower than the last quarter, why so? These are the two questions I have.

**Vijay Thadani** I think first of all our EBITDA last year was Rs 114, I am answering second question first. Last year our EBITDA was Rs 114 million and this year it is Rs 104 million. The other income of Rs. 26.5 crores negative which you saw in the last year was below EBITDA. It was in other income and that was indeed because of certain vendor claims coming out of the divestment of Element K. This year those claims obviously are not there. As far as those claims are concerned, they are under an arbitration process. We believe we have a strong case; however, given the fact that we do not have as per the accounting guidelines as soon as the case goes into legal, we have to take full provisions for that, so that is why we have taken full provisions. Those cases will get settled normally foreign cases don't take as long as Indian judicial system takes, so we do believe that during this year, we should see some results coming.. So that is answering your question. I think if your question is in addition, why despite the fact that you did not have those claims and therefore no adverse entries, why do you still have a negative PAT

**Anurag Goel** Right

**Vijay Thadani** Because last year coupled with that claim was also a benefit coming out of taxation which we paid on Element K transaction.. The taxation was minus Rs 365 million which we had estimated a higher tax, but actually we had to pay lower tax. So that was a reversal of tax. This year in our taxation claim, we have this additional Rs 27 million which I told you are because of the dividend distribution tax while it is redemption here in the distribution tax to be zero.

**Anurag Goel** Just one more question taking on from there, basically what has happened is your provisioning and tax benefit has got netted off approximately, but our net profit has still gone down

**Vijay Thadani** No, you are referring to my operational PAT number or you are referring to PAT, so let us compare line items right. If you looking at EBITDA it is Rs 114 versus Rs 104. Depreciation it is again 203 versus 210, so no dramatic difference. The first dramatic difference is in net other income and the second dramatic difference is in taxation. So if you are doing that same calculation, what you should do is from last year's net profit which is Rs (-23) million you should add 341 which will make it 365. Because if you see at PBT level, our PBT seems to have improved by 50%, which also is a mirage because these are all technical entries so I did not want to talk about that. So if you can see at PBT, we have improved by 50%, but in fact that is actually not true because the difference is Rs. 19 crores, the difference is actually coming out of the additional provision we took last year because of vendor claims. At an operational level, I would tend to feel we are at approximately the same, if not better level.

**Anurag Goel** Any stress on liquidity levels because of the ILS enrollments going down?

**Vijay Thadani** Because of ILS enrollments going down, a stress on liquidity levels, the answer is no. but in terms of stress on collections because of lower collection from government receivables, the answer is yes.

**Moderator** We have the next question from the line of Amar Mourya from India Nivesh Securities. Please go ahead.

**Amar Mourya** First question is we have a forex loss of Rs. 34 million and what was the forex loss in Q1? Q4 it was forex gain right? I am asking about Q4.

**Vijay Thadani** This year Q4 there was a mark-to-market of forex which was Rs (-21) million

**Amar Mourya** Q1 last year?

**Vijay Thadani** Rs (-40) million

**Amar Mourya** Second question is in term of the receivables if I see, despite the revenue going down, receivables are either increasing or staying constant, when would we see receivables coming down?

**Vijay Thadani** So the receivables actually if you break them up in two parts, one part is what we are doing if we take away the government schools 'receivables, if we take away the government receivables, the rest of the receivables have actually improved dramatically.

**Amar Mourya** What is the part of government receivables out of this?

**Vijay Thadani** My feeling is the total government oriented receivables will be of the tune of Rs. 270 odd crores.

**Amar Mourya** I believe this Rs. 200 odd crores of receivables which is almost I believe lying in our balance sheet from the past at least…

**Vijay Thadani** No, it is not the same receivable. Even last quarter we collected nearly Rs. 43 crores. The issue is these are ongoing contracts, but everybody is paying. Every state government paid last quarter. The problem is not that they are not paying or paying, they are paying very slowly. So there is always 2, 3, 4, 5 quarters of billing which is pending. Last quarter all of our state governments paid. It is gradually coming down, but it will take a while.

**Amar Mourya** When can we expect the part of government receivables coming down to a manageable level from where I can see working capital actually…

**Vijay Thadani** Right now working capital is getting released.

**Amar Mourya** That is true, but in terms of when can we see a significant return on capital because of this I believe the return on capital is coming down significantly.

**Vijay Thadani** I fully agree with you. The issue is at this point of time as you know even the government is going through a huge liquidity crisis. So much more of our efforts is going into chasing these receivables than is necessary.

**Amar Mourya** I am talking about pretty long term. If I see from 1 year after, what will be the receivable out of the government business?

**Vijay Thadani** The first thing is we are not going to add to this burden. So we are only reducing burden as we go along. So therefore the rest of the business size and the rest of the cash coming from other operations will be one solution. As far as this itself is concerned, why it is coming down steadily frankly it is difficult to forecast when it will come down substantially. Could it have come down substantially last year, my answer is yes. Could it come down substantially this year, my answer is difficult. Why because the government is actually tight on liquidity themselves. My belief is that if the economy picks up and a few other positive indicators come and our current account deficit, they will allocate more money to schools. Now at this time, we are hearing many states saying we are not getting money from the centre. Earlier they were getting money from the center, but they were deploying it to other categories, but now they are saying they are not receiving enough money from the center. So it is a tight game that we have to keep playing.

**Amar Mourya** Are we making any provisions for this also?

**Vijay Thadani** No, wherever we see there is a problem, we do make a provision. At this point of time, there is no such… We check every quarter it goes through a filter and a lens

**Amar Mourya** About the ILS business, 24% is the revenue coming from non-IT?

**Vijay Thadani** Yes.

**Amar Mourya** And what is the margin this quarter for non-IT business?

**Vijay Thadani** Yes. I would not have that at this level because there are a number of common elements to that. We would be able to talk about margin only at an overall level. Because then that goes down to product and usage of center and complex…

**G. Raghavan** I would like to add that the 24% is for Q1-FY14. The full year FY13 was 17%. Like many other variables in the ILS business, you should expect seasonal variations in this percentage. But we will improve the trajectory in terms of the share of non-IT in the overall ILS business.

**Amar Mourya** I was just looking for the margins like I believe the non-IT business would have a higher margin than the IT business. Is it so?

**G. Raghavan** Difficult to say.

**Vijay Thadani** I would try to say comparable, a little better maybe.

**Amar Mourya** But more or less comparable to the…

**Vijay Thadani** I am just going by one or two big forces.

**Amar Mourya** In terms of the School Learning Solution, if I see the EBITDA margin, it is pretty fluctuating. I mean despite that these government businesses is coming down, but if I see the EBITDA margin it is not like some time it is 9% then 7.5% and then 4%, so when can we actually reach to a predictable margin level where I can study state confidently say that yes, if a school learning solution, than it will make 7% or 8% margin. If you can add some colour into that?

**Vijay Thadani** Much that I would like to do so. I hated as well every time the margin drops, I normally don't question too much when the margin improves, but the important thing which we have to do is we are getting out of these projects, so we are in a transformation stage. We are coming out of projects, so there are closing down cost of a project. You have to book that. For example, I am telling you next quarter itself, there will be a closing down project because of project which is closing down next quarter will be a large project. So margin will be lower next quarter. So I am looking at this margin not at a quarter-on-quarter level, but at an aggregate level over the year. I think it is safe to believe at this time if you can do your planning on the basis of an annual margin which you will notice is not very different.

**Amar Mourya** But then in private school business, do we have the same fluctuating margin or where?

**Vijay Thadani** No, there it is positive margin and increasing. So as that portion keeps going up, we would….

**Amar Mourya** So we are making a margin of around about 9 or 8% in that?

**Vijay Thadani** I would tend to say so. Actually it is improving because of two things. Because our sales force as it is becoming more and more productive, see the largest cost we are carrying is the cost of sales in the private schools, because we are ramping up. Whereas in this, the largest cost we carry is the cost of execution in government business.

**Amar Mourya** In the balance sheet we are having some Rs. 86 crores of intangible assets, what is that?

**Vijay Thadani** Intangible asset is all the software assets we will have for example, we would have SAP licenses, Microsoft licenses, and internally developed the whole cloud platforms on which we are delivering cloud courseware that is an intangible asset.

**Amar Mourya** Meaning if we are again ramping up in a big way into the cloud and cloud campus increasing from 150 centres to 900 centres or 600 centres, so it is likely to go up again from here on?

**Vijay Thadani** No, the major investment in cloud, I have been saying that now for 2 or 3 quarters, got over. They are over. Now there will be marginal investment not major and the major investment phase of cloud is over.

**Moderator** We have the next question from the line of Jaywant Dang from JHP Securities. Please go ahead.

**Jaywant Dang** My question is for Vijay Thadani. We have been seeing this phenomenon of MOOCs, the (Massive Open Online Courses) which is picking up worldwide and also catching up in India. So there are several course like programming algorithm and data structure which are being offered by premium and also the corporates participating in that, how does the coming of this movement impact NIIT in terms of ILS and also how does it impact the overall IT training market? What is your perspective on this?

**Vijay Thadani** Two aspects which I would like to say, though we have a big debate on within NIIT of how it will be, so I will give you my views since you asked me the question. I think it is a phenomenal opportunity because amongst other things it talks about moving the consumer preference to learning online in contrast to learning in a classroom. Today learning online is not considered very serious. Now in cloud campus, we are not learning pure online. We understand pure online learning is not as effective. It is the hybrid model which is effective. MOOCs are not a replacement of the formal learning process. MOOCs are an aid to the formal learning process. So in fact you would soon start seeing in cloud campus on our cloud campus itself, MOOCs being offered for the simple reason because any supplementary learning that you have to do which is not covered by the formal learning process you can create a MOOC and go on very, very quickly. The fact that Harvard, MIT, Stansford are supporting MOOC as a new way of learning is not because they believe that in future Harvard, MIT, Stansford will not be required as educational institution. It is because they aid to their existing students and existing student is offered those things which are not taught formally in a classroom and a new subject like big data, which is what you are referring to this morning newspaper also. And the second is for those who do not get the benefit of those professors, but those people are not going to stop going to colleges, that is a supplementary learning. So two issues with MOOC which are positive; one, it reflects a change of habit, which we love, because that will create a larger traction for online learning; the second is the fact that at this time it is more supplemental rather than mainline; and the third as is proved from many online model for learning, at this time this is no business model. We believe MOOC as a part of cloud campus is actually the first implementation of a business model around MOOC.

**Jaywant Dang**: But my concern is that we are still continuing to see pressure in the ILS-IT segment. So do you see any kind of impact of such movements on a particular segment, IT as well as even non-IT courses?

**Vijay Thadani:** I want to say one thing. Number one, I do see an impact on very advanced courses, for example, if we were to launch a course in Big Data, then I can argue two ways; one, that I would not get a few students who I would have got otherwise, on the other hand I can argue that the MOOC will actually contribute to my marketing efforts because they would try to learn online and would get curiosity and then I would be able to do a more skilled oriented learning. Last thing which I want to say which is in favor of MOOC and in favor of NIIT is MOOC is transfer of knowledge, not transfer of skills, right. When you transfer a skill, you need something in addition to just understanding how a particular thing works. Raghu, do you want to add?

**G. Raghavan**: I just want to add that MOOC represents content which is available in a form factor, most cases free to the learner, but in a whole overall learning environment where students are coming to us, they are coming to us not just for the content in the form factor in which it exists in MOOC, but in a form factor which we have put pedagogy into in creating learning modules in bite size chunk that will help them learn, but apart from content there is a whole lot of learning services that are being provided in a center, the reason why the students come to us. So without in anyway belittling the significance of MOOC which has got its own great place from our own training business model standpoint, we have to look at it as availability of content in a particular form factor. That by itself is not equivalent to learning and education delivery. So that is one of the ways I look at it.

**Vijay Thadani:** So it is an important change. Completion rates are low, business models are not there, those are problems, but I think what we have to do is to use it as a part of our strategy, as a tailwind rather than as a headwind. We have to change our sales in the way that we use it as a tailwind to drive us faster.

**Moderator**: Thank you. The next question is from the line of Anish Jobalia from Jeetay Investments. Please go ahead.

**Anish Jobalia**: Basically I was just dwelling a little bit more on the value proposition that NIIT offers to its students. Looking at the competitive landscape and after talking to some people I figured out that there are a couple of other organizations like CDAC and IIJT which are kind of offering similar kind of education to the students and helping them to get placed into the industry. So, CDAC is obviously a government organization and IIJT is kind of having a partnership with TeamLease. So have a ready placement into the industry. So what I wanted to understand from you is how does NIIT provide a different value proposition to its students from the competitors? There are many others, but how are we different? Obviously, your step in Cloud Computing is one step ahead of being a competition, but in terms of absorbing the skills, whatever is taught at the centre, everything is not in your control, because some of them are franchisees, and some of them are own centers, so how do you control that? I mean does the student become happy with what he has learnt out of the center and then getting placed into the institutions. So what are the steps that you are taking to also improve the placement of the students during this bad kind of scenario or going forward?

**Vijay Thadani:** First of all, thank you very much for actually doing so much research on NIIT. You actually asked some five questions in one, but we will try to answer that. First question is CDAC frankly is a government organization, it is narrowly focused on a few courses of a few kinds, it is not very, very relevant as far as we are concerned, neither have the reach, nor the width, I am not saying they are bad, they are good, that is okay. And they have been around for a long, long time and a very, very small niche player. As far as IIJT is concerned, with whatever little I know, on one hand, you are right, they are owned by TeamLease, so to that extent they have a benefit of being associated with the temp company; however the students that we train do not want to be temps, they want to be permanent employees of software companies. So, we train our placement division by the way placed last quarter 8,028 people, last year we placed 39,800 people. I do not have comparative numbers of other temp and other companies, but definitely these numbers in terms of full time employment would be larger than anybody else, any other placement companies in the country. IIJT also, by the way, is in the business of offering mostly accounting and CA related training and they have their own little niche, we do not compete too much in that niche, and is that attractive for us? We are going about it in our own small way. There is a competition analysis, which is done every year by various journals. We have been improving our position against our competition steadily. And in fact, given whatever is Dataquest last published issue, we should be about six times our nearest competitor. So that is as far as competition is concerned. But that is in numbers. Our differentiation is, a secret sauce is, that we start with the employers first, we do not start with the course first. We start with the employers and work our way backwards in figuring out curriculum. We have employers who sit and determine what should be taught and how it should be taught. Then our core competency is in creating. You ask any NIIT student, one of the things they would uniformly vote us very, very high on is the quality of Courseware that we produce. That is a core competency. Second is education methodology, Cloud Campus is one great example of that, because it is a superior method of delivery. We spend crores of rupees on research every year to figure out what are the new things which are happening in the learning space and we remain ahead of the curve. We commit to our students that we would always train them in current technologies, not all the time all courses are in current technologies, but our promise is that anytime there is a newer technology, we would like to update that. Coming back now to the base question of how do we manage our large reach. Our large reach is managed by one, a consistent education methodology such as Cloud Campus and second, by a very tight control mechanism. In fact, our promise to our students is they should not be able to see the difference whether it is our own center or our franchise center. At the end of the day we call everyone a NIIT-ian. Looks and feels of centers are the same. However, given human nature and given financial disclosures, people do come to know, but our endeavor at all points of time ensure that quality level or for that matter the value proposition level does not dilute. We have one of the most stable distribution channels in the country amongst all sectors actually. And I think we have a very, very committed set of business partners who think alike. If there are specific instances of students dissatisfaction, let me be honest about it, it is not that everybody who comes is completely satisfied, many times it is a mismatch of expectations, sometimes it can be a loss of delivery standard, sometimes it will be service standard. We do make mistakes, but one of our endeavors is if we make a mistake, we pay for it. That is our simple business policy.

**Anish Jobalia**: And how much do you think is needed for reinvesting into course development every year to maintain, because you capitalize that?

**Vijay Thadani:** I would say give or take about 10-12 crores.

**Anish Jobalia**: So up till now you are spending like around 70, 80 crores every year. So would that drop down to 10-12 crores or is there something…?

**Vijay Thadani:** We are not spending 70, 80 crores on developing courses in ILS. That may be the cumulative effect of software as well as course development as well as software licenses. By the way we use 100% legal software. So, our software costs are higher compared to our competitors.

**Anish Jobalia**: So including everything how much would your capex be going ahead without taking into consideration, growth or anything like, that just to maintain?

**Vijay Thadani:** So for example, this quarter our capex has been 5 crores. So typically, different businesses have different capex levels. I think your questions are relating to ILS. Our capex is south of 20 crores I would say every year. Normal capex is 5-6 crores. You have to keep replacing desktops, keep updating licenses.

**Anish Jobalia**: So in a good year in 2010-11 and ’12 you did around 100 crores of EBITDA in ILS. So my point is that now going ahead if you are not able to reach to that level, so would you be looking at closing down some of your own centers so as to cut down your cost and improve your profitability?

**Vijay Thadani:** Using our capacity efficiently is also a continuous process. Any retail business has to keep a very close watch on capacity. So we do combine centers, move centers. For example, if everything was static, then our centers would keep continuing. Metro comes and in front of your centre, you have a huge flyover. You have to move your center; you have to combine it with others. So we do change all this. The other is we are also making sure that our centers not only have just the IT courses but also the non-IT courses. So OneNIIT is also a method by which we are doing. But you are absolutely right, at this point of time our capacity utilization is very, very low. It is at 42% this quarter. I must say it has improved by 400 basis points over last quarter. But our capacity at which we used to work is 65%. So we have two choices. Right now reduce the centers and bring the capacity to 65%, then we would not have provided for growth.

**Anish Jobalia**: My question is that if you close down the centers and reach 65% capacity utilization would your EBITDA actually reach back to 100 crores because right now your EBITDA is reducing because of the increase in the cost, more than the increase in the revenues. So if I want to understand this business a more better, just by cutting down the costs, what is the kind of EBITDA…?

**Vijay Thadani:** Your question is by cutting down capacity can you improve EBITDA?

**Anish Jobalia**: Yeah, so the fixed cost related to ….

**Vijay Thadani:** Cutting down capacity will obviously not recover EBITDA completely. Why? Because there is a fixed cost overhead which sits irrespective of the size of capacity.

**Anish Jobalia**: For example, if I take 2012, you had around 440 crores of cost related to your ILS segment, so how much can you actually control out of that at this existing capacity and also how much amount of that 440 crores was actually related to the franchisee?

**Vijay Thadani:** First of all, as far as the franchising is concerned, you will have a cost of operation in terms of supporting the franchisees. We do not bear the capex, but we give them a margin for that, right.

**Anish Jobalia**: Even the fixed cost and everything you do not have to bear, right?

**Vijay Thadani:** Yeah.

**Moderator**: Thank you. Participants that was the last question. I would now like to hand the floor back to Mr. Vijay Thadani for closing comments. Over to you sir.

**Vijay Thadani:** Thank you very much for joining. I want to thank you because I know it is a busy result season. I do want to say that it has been a challenging environment, it is still continuing to be a challenging environment, the transformation initiatives we have taken have begun to borne results, but we are also hoping that economy will soon add to that, and then we should be able to see good times again. Thank you very much for being here with us. We learn a lot from your questions. I look forward to some of the meetings, some of you sought. And look forward to speaking to you or meeting you as soon as possible. All the best!

**Moderator** Thank you sir. Ladies and gentlemen on behalf of NIIT Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.