“NIIT Limited Q2 FY14 Earnings Conference Call”

October 18, 2013

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Moderator Ladies and gentlemen good day and welcome to the NIIT Limited Q2 FY14 Earnings 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch-tone telephone. 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 Thadani Good afternoon and thank you very much for joining the call. Today we are here to discuss the quarter 2 results and I will straightaway get into the discussion. First, as usual I would just cover the environment as a whole I think many of us or all of us perhaps are very familiar with the global and local factors affecting the environment more particularly the trinity effect as they say on Indian economy which is low GDP growth, high inflation and volatile exchange rate all three of which have contributed in some form or the other to our results as well.

What is very important is the sentiment towards IT training, which continues to remain weak in the last quarter as well driven by NASSCOM'S projections that IT hiring this year will be lower, however there is a bright side of that picture which I will talk about as we go forward. We do believe that given the excellent results that have happened that have been announced by IT companies and given the fact that we are working at higher capacity utilizations and looking at more non-linear growth their hiring has been relatively lower but going forward we do believe that this growth momentum builds up, there will be a pickup in their hiring and that recovery of the sentiment as well and already it comes early signs of that are visible. Having said that there is a great momentum in hiring by the banks as more banks are getting or hoping to get licenses and more or existing banks are getting licenses for opening more branches. There is a need for trained and skilled manpower to fulfill the needs of the banking industry and therefore we hope and we have experienced that the benefits of that in the last quarter.

And other interesting trend which is emerging strongly is that Indian companies are now looking for more and more just in time ready skilled professionals and are realizing that even on boarding is science by itself and it can be done in a more efficient and effective manner and the quality and the depth of on boarding can determine to a large extent the productivity and performance of the company. We are seeing some benefits of that in this quarter. Spending on corporate training and Europe remains strong large interest in looking at training as a specialized function, large interest in finding work and finding avenues to work with specialist companies. Having said that given the uncertainty environment sales cycles are long and to that extent there is an impact but the interest levels was high. In this volatile environment which we have now seen for some time NIIT had crafted four platforms of growth strategy and we have remained committed to that strategy as well as cause the transition and in fact borne the brunt of those transition as we are transforming ourselves from status A to status B.

I would like to present the scorecard of the four platforms of growth, Cloud Campus which has been a very important part of our strategy. Cloud Campus has now reached 47,000 enrollments cumulatively. Cloud Campus has now reached 209 centers and 78 courses are on the Cloud Campus. Just to explain to you last quarter this time we had 50 courses versus 78 we had about 150 centers and I think our cumulative enrollment were 33,000, 14,000 more enrollments have got onto the Cloud Campus. Now, about 20% of our revenue is coming on Cloud Campus so to that extent we have a very strong following on the Cloud Campus.

Managed Training Services in the corporate learning solutions we have had 17 global customers visibility of 144 million, this quarter MTS has contributed 75% of revenues and we continued to remain strong on this in fact the top 20 customers of corporate learning solutions 17 of those 20 customers are MTS customers and that's explained the solidity of this strategy. Schools, the Nguru tools for the non-government segment has now become cumulatively 1,735 schools contributing 59% to the school's business. I must point out that there is a strong downsizing of the government business in terms of the expiry of contracts and our not wanting to renew or take new contracts and that is also visible in these results. Yuva Jyoti the NIIT's skills development initiative has now reached more than 10,000 enrollment, more than 3,000 placements and is now reach extends to about 43 locations. So, overall good growth, good progress on each of the platforms of growth, how it appears in financials we will discuss as we go along. The bottom line was to improve profitability and liquidity and capital efficiency on each one of these we have made progress, profitability despite having subdued revenues because of the transition some increasing and some decreasing we have maintained the margin at the same level which makes up for the inflation both wage as well as other cost inflation as well as the adverse impacts of exchange rate which can happen in expenses.

One liquidity: We have reduced our receivables significantly and have had good collections, enormous amount of work put in by the management team to recover the money due to us from our government customers but with some success and lastly in capital efficiency our depreciation has dropped by 20% on year-on-year basis, so it shows less capital intensity. So, on all the declared strategic initiatives there is significant progress in this quarter. Cloud Campus remains a focal area of our strategy, why because we believe Cloud Campus will finally encompass all elements of other four platforms of growth as well and we will talk more about it as we discuss the future. In more granular terms corporate learning solutions, the overall revenues up 32% year-on-year, EBITDA margin is up 43 basis points, margin up from 12% to 13%, 190 basis points Q-o-Q, Managed Training Services out of that is up 39%. But what in addition to better profits and better revenues we got tailwind impact of the favorable foreign exchange in this particular case which was significant as well as the fact that our delivery services have not only be acknowledged by our customers but acknowledged by industry at large and industry for us, we got what are called the Oscars of the technology based training award called the prestigious Brandon Hall Award which every training professional likes to be a part of, we won a gold and a silver in respective categories of content and delivery services this year, which is really, a great acknowledgment of the quality of work that our teams have put in.

In School Learning Solutions normally we don't celebrate the completion of a project, we normally celebrate the beginning or the commencement of a project but in this particular case it has an enormous impact on our EBIT as we would discover in subsequent slides. NGSA contribution has increased to 59%, there was a substantial drop in revenues because of the completion of the GSA or the government projects and a moderate contribution, a moderate increase in the non-government segments as we will discuss further from in growth but in percentage terms from 51% to 59%. In Individual Learning Solution, once again our IT career revenues continued to remain subdued and under threat of negative sentiment but non-IT products grow 43% year-on-year and have now contributed 24% of revenue mix, this is a very rapid expansion of portfolio mix in favor of non-IT products that we have seen, both caused by an increase in non-IT products revenues as it's visible from 43% growth as well as a decline in IT training services which is visible in the results.

However, even though the revenues are lower, and the fact that it's a very high operating leverage business which cuts both ways on the way up when the revenues are growing, the profit increases dramatically but on the way down i.e. when revenues are going down the adverse effect on profit is also very, very strong and significant, I think due to the aggressive cost management measured as well as changing product mix because of Cloud Campus we have been able to maintain the margins or at least within the firing range of the margins at a much higher level of revenues. So, operating leverage and the negative impact of operating leverage and cost inflation has been countered by aggressive cost management and better product mix solution. In Skill Building Solutions while the enrolment are the highest but given that the newness of the project that's not what is -- projects which are from the large sponsored projects that this business has been able to create which will contribute to revenues in the coming quarters.

Overall, in addition to everything else focused on selections has lead to a reduction in day sales outstanding overdue which has gone down to 125 days versus 141 in March this year which is a substantial improvement in the management of our bills receivables which have reduced by nearly 40 odd crores or 400 odd million in absolute terms but if you take the impact of foreign exchange then it is nearly 475 million improvement on constant currency basis. Not only that our depreciation is down by 20% indicating a reduced capital intensity in the business. I will not go into the details of the financials but enough to say that the right comparison to do would be a like-to-like comparison after excluding certain pass-through revenues which were one time revenues with the same amount of cost so these are in other words extraordinary pass-through revenues which have been excluded for a comparative purposes and therefore we have a minus 1% in net revenues, which is as there are number of positives and there are number of negatives and EBITDA at 243 million compared to 261 million the same period last year which is 58 basis points deterioration in our operating EBITDA margins.

Our depreciation is at a lower number which is at minus 20% so actually the EBIT this quarter has grown by 71% on a year-on-year basis which is I think after nearly a decade-and-a-half that there is an EBIT improvement which is in-excess of the EBITDA improvement and the reason is that the investment phase most of our project is over and now we are beginning to read the benefits of the investments that we have made. At consolidated PAT level there is a moderate improvement of 3% on a year-on-year basis. So, just to give you an overall sense of what has worked positively and what has been negative the revenues positively impacted by the non-IT products training services as well as corporate learning solutions and for negatively impacted by the completion or the absence of the large governments project, I just want to remind you last quarter also we had closed the product of the project of the same, not of the same magnitude but of government which was Maharashtra and this time it's Andhra Pradesh and cumulative impact of both would nearly be about Rs.100 million if not little more, about Rs.100 million plus in terms of negativity. Then the weakness in IT training because of poor sentiments has also had its impact on the revenue. On the positive side we have the corporate learning solutions growth both in volume as well as volume in constant currency and volume in the currency as it was and the second is in banking and financial services enrollments, both these have contributed very strongly to make up for the loss of revenue into big revenue items.

Aggressive cost optimization and in fact if we see the impact of cost we have nearly saved on a fixed cost basis close to about 15 crores or 150 million of cost through a number of initiatives, this is despite having wage inflation and other cost inflations. Depreciation I already talked to you about. In net income the adverse impact is of foreign exchange because the receivables get re-casted at that rate and therefore create a net minus income. In terms of the business mix the growth has come from corporate, the degrowth has come from individual and schools, net impact of what is what is visible to us and same is the case with profits as well. Going one level lower in corporate learning solutions we have had an order intake of as this is slightly better than same period last year which is of $13.9 million, pending order book has improved, revenue and visibility has become stronger and of course the margins have become better. What is not visible in these results is that a number of new contracts that we have got in the last two or three quarters the transition period of those are little longer than what we had anticipated and it though had come in when we would have even seen a stronger growth than that. The negative side of that is that in future we need to make sure that those contracts come on speed rather quickly and we add more. We have a strong funnel so we feel strong about the future of this business.

I already mentioned about awards not only did we get awards but our customers got awards and that gives us even more pleasure and when the customer acknowledge that they got this award due to our contribution then we feel even better. School Learning Solutions I have while on year-on-year basis we have a negative growth both in revenues and in EBITDA. In EBITDA as I had mentioned in the last quarter closing a large contract even though while you are provided for most of the expenses can have residual expenses and that's what we are kind of going and would have had a small impact, but we were operating on a slower base to start with.

The non-government schools additions has been a little muted in any hardware, in our products portfolio as per the declared policy. In Individual Learning Solutions the fact that non-IT products now contribute 24% compared to 14% last year is an indication of the rapid adoption of non-IT products in the portfolio. Our overall enrollment though were lower at 119 thousand, banking-enrollments were up 15% management training enrollment grew 18%. I need to talk to you about placement. We have always believed that even though overall IT hiring has reduced, one hypothesis of the organization has been that job ready first day first hour ready, professionals will be more in demand that is kind of validated by our overall placement though are lower at 2% are much, much that degrowth is much lower than the growth in revenues. Of course, as revenues are lower in future the eligible people for placements will reduce and to that extent there will be an impact. However, at this point of time the non-IT sector once again have contributed significantly towards placements as well. In Skill Building Solutions I think the model is evolving and is gaining momentum. We normally don't talk too much about it but we now have three very established methods by which people join us, these are to remind you skills development program in six identified sectors which are now being conducted at 43 locations, mostly in North India and really the idea is to take those students who couldn't finish school or couldn't finish college and put their in the mainstream by getting them service sector jobs and train them adequately. So, there are two schemes there is the government scholarship scheme which has been announced by the government of India and NIIT is playing an active role in that to help the BPL students in picking up these. The second is for some sponsored programs which local bodies and corporates do and the third are programs which are paid for by the students. In all three cases you have to locate the student, you have to make sure that in some form or the other you are offering them a funding support either of the support agency or the sponsoring agency and or they pay for it themselves depending on their financial status and we train them and we place them. We have had very good success so far, we are looking forward to growing this business considerably. It does not yet reached a critical mass where we can believe that we are at a mature part of the learning curve but definitely there are very encouraging signs.

On the balance sheet, we had a strong focus on collections which lead to a reduction in accounts receivables by 479 million in constant currency terms and 415 million at closing exchange rates. This is very significant in terms of improvement in bills receivables that we have seen for many, many, many quarters and this was because of our concentrated efforts on collection which have been launched and we expect to see the impact of that even in coming quarters. Our DSO days have improved significantly. Our CAPEX was very muted, we have been managing our cash very, very tightly given the fact that the businesses are in transition and we need money to manage those transitions. Our net fixed assets have also come down and so has the depreciation levels.

Even on headcount given the sizing of the business as it is changing headcount has reduced by 150 sequentially and 349 on a year-on-year basis. So, in summary all that I would like to say is that while in the individual learning business employability remains our focus. There are two transitions which we are managing IT to non-IT or IT and non-IT products mix and the traditional method of delivery and Cloud Campus and in both of those we are making steady progress. We do believe that the IT sentiments should recover with excellent results announced by IT companies. This quarter and if the trends continues for couple or more we should have the benefit of a stronger. We should see the benefits of the IT sentiments returning but when that happens we would be stronger because we would be operating at a lower cost levels, our capital expenditure most of that for Cloud Campus implementation is over so I think we should get the benefit of that. In corporate we have made steady progress, we continue to be strong with our funnels and we are looking forward to maintaining and improving on the growth as well as profitability.

In schools, we are getting out of governments contracts that we are committed to, after completion of contract terms. We are not renewing or adding any more as we speak and we will remain very, very selective in terms of proceeding for that in this area as of now we are not adding any but the private schools we are bullish about and we do believe that the new business model which may look conservative but are actually stronger both from a school as well as NIIT's point of view are very, very important for the future of this business. And in Skill Building Solutions the three categories of students that we beginning to get we believe will help us in managing growth for the future. So, I would pause here and open it up for question and answers we have the full team waiting to answer your questions Mr. Pawar the Chairman, Mr. Rajendran the Chief Operating Officer, Raghavan the Chief Executive Officer Individual Learning Solutions business my colleague Sapnesh Lalla from United States who is on the call but I think he is having difficulty in logging in so I will field his questions, the questions pertains to him. I also have Hemant Sethi and Sanjay Bahl representing the school as well as Skill Development Solutions business. And of course the finance team as well as the investor relations team, so I request operator to please open it up for Q&A.

Moderator Sure sir, thank you very much. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Dipen Shah of Kotak Securities. Please go ahead.

Dipen Shah Yes, Vijay couple of questions first of all on the Individual Learning business. It's a creditable performance I think on the cost front but just trying to stretch that point a bit how much do you think that we have reduced the fixed cost and how much further space is there that's the first question or talking it the other way around, how much further benefits can the Cloud Campus give us in terms of Cloud Campus give us terms of margins, assuming that the revenues are flat at these levels?

Vijay Thadani Okay so I will address in a roundabout manner and then Raghu will give more specifics. But let me explain to you that first of all we don't hope and expect that this business will remained flat for long periods of time.

Dipen Shah Yes that's okay, I was just asking in the sense like how much further improvement-

Vijay Thadani No, I understand what is the further scope? I think on Cloud Campus real benefits are yet to accrue, we have started to experience small parts, which has to do with cloud courseware, which is digital courseware but I think there were other parts which are yet to come but Raghu will give it specific character. The second is the product mix of non-IT business actually gives us better margins so there is a cost improvement as well as better margins and better product mix which is contributing to that and the third is that even now the operating leverage continues to remain very high which means that there is a further opportunity for fixed cost reduction so having said that let Raghu talk on specific.

G Raghavan Hi thank you for the question, so just for last quarter as an example the revenue drop should have ideally led to margin drop of 145 million, given the drop of 225 million in revenue, but the actual drop in terms of absolute number is about 31 million, so you can see that the actual benefit of three things, one is the benefit of the Cloud Campus, second is the cost consignment measures and a very small benefit coming out of price improvements we have made with respect to the diploma programs and the short term certification programs. So, in the context of quarter two it's about 114 million of benefit in terms of the cost so I would say that a substantial part is coming from cost containment measures on a year-over-year basis in terms of headcount. In terms of premises expenses reduction, center consolidation and so on I would say little more than half of that will be coming from that and the rest of the benefits are kind of coming from Cloud Campus as well as small improvements in the product mix and their fee that they talked about in the tool program. So, this I think will give you an idea of the role of Cloud Campus, cost containment measures and small improvement in the realization due to mix and the price.

Dipen Shah Okay fair enough and just to get some more comfort on the margins on the Individual Learning Business, can we expect that this probably is the bottom in terms of margins and probably from here we may not see further deterioration in margins on a year-on-year basis?

G Raghavan Well, we have to recognize that we do have seasonality as you have been following as very closely.

Dipen Shah Yes that's okay I am talking on an annual basis, like seasonality.

G Raghavan Yeah, on an annualize basis given where we are I think we should be at or better than last year margins. We do definitely expect improvement in the margins over last year.

Dipen Shah Okay fair enough and coming to the schools business like can we just have that figure about how are the margins in the continuing business like in the current quarter we obviously had some margins but say going ahead in terms of level what level we should assume as the margins which at a base margins from which we can progress ahead?

Vijay Thadani We had guided for 8% to 9% so it would be in the same range.

Dipen Shah But that should definitely improve as the contribution from the school, non-government schools increases?

Vijay Thadani Yes.

Dipen Shah Okay and just lastly once again sticking to profitability in the Skills Building Business, any further losses we probably can expect or this is something where we hope to contain the losses at about 25 million per quarter?

Vijay Thadani I don't think the losses will increase beyond that unless there is step jump in our expansion plans but we don't expect that, we would like to grow gradually and given the fact that we have so many pieces in the melting part we would not like to make step jumps in this business which is the new area so therefore set to the June that margin and this will remain at this and should improve as we go forward, may be not immediately but couple of quarters later.

Dipen Shah Okay fair enough. And in terms of the individual business how have been the enrollments in the career business?

G. Raghavan Yeah, career business from the point of view of students really particularly in the IT space not wanting to make up their mind to invest in career programs, there has been reduction in the overall enrollment in the IT space. But when it comes to banking enrollment it has been pretty good, we have grown at 15% in the quarter year-on-year basis and if you look at the management enrollments we have grown 18%, so the bottom line is that the IT sentiments being what they are, the enrollments have been weak.

Dipen Shah Lastly just may be Vijay can throw some more light on it. Looking at the changing sentiment in the IT services industry we all have seen that there has been some improvement in terms of the revenue growth and companies are speaking more positively about their future. Any increase in recruitments from that should that get reflected significantly in the next season or you expect even the next quarter or the March quarter to be better in terms of growth?

Vijay Thadani I will give you one person better than me, who can answer this question, who is NASSCOM Chairman, so not current one but just past one. The questions is given that IT sentiment is improving and they have had great results next season onwards do you see a growth in recruitments, what are your numbers saying?

Rajendra S. Pawar Well I think everybody has tracked the results and seen very good improvement in profitability for sure so there is an angle of foreign exchange, we have to remember that we shouldn't get overly excited. But the fact remain that when company gets more profitable and some of them have talked of better pipeline so order intake stories we have to hear, there were passing references to larger orders and so on, so I think generally the sentiment has become more positive. I would think another quarter will give a clear indication because some companies have to take the calls on hiring now and normally going to campuses so I would tend to feel that given this result companies will look up a little more for hiring and by January time when the next quarter results come many people are into recruitment so even if they do visit the campuses I expect them to take positions which are not fully looking at all the numbers they want but visiting campuses, preparing to up the number so the next quarter go up. So, right now of course there is a very strong sentiment but I would probably wait a quarter before it translates into aggressive hiring, we probably have to wait a quarter.

Moderator Thank you. Our next question is from Amar Maurya of IndiaNivesh Securities. Please go ahead.

Amar Maurya Thanks a lot for the opportunity sir. Sir, most of my questions has been answered there is one question. What kind of margin levels one can see in the MTS segment because if I see the operating margin actually ranges between 12% to 14% and why it fluctuates between 12% to 14% that is first question and secondly going ahead what kind of margin levels we could see in this particular segment.

Vijay Thadani So, following are the reasons of 12% to 14% it depends on when a new contract comes in then there is a higher transition cost but not corresponding revenue and as the contract stabilizes there is the higher revenue compared to the operating cost but obviously properly accounted based on the period basis and then there is the closing time of a project which we hope in these cases will not happen but that will be unfair to assume that volume will remain flat, so at both the beginning and the end of the projects the margins will be subdued. You try to balance them as much as you can but that's the reality of the situation. So last few quarters we got some very good contracts, right now they are in the transition phase, as I mentioned a short while ago that many of them have to gear up to 100% of their should I say firing power or revenue powers and to that extent we would bear higher cost structure. So it's the period of time at which you are measuring, a point of time you are measuring how many contracts are in the mature phase, how many are in startup, and how many are in windup phase so that changes the margin number one. And keeping the FOREX impacts and all that aside for a minute those will anyway have their impacts which you understand better than I do.

The second is how can the margin be improved? The margin can be improved when the following two things happen:

When the resources, when we have higher utilization of existing resources and I don't mean people resources only, I also mean IT resources, so when there is a higher content of IT our margins would be higher so for example if there is a higher percentage of content development in contract then we are margins typically be on a higher side. On the other hand if there is a higher content of delivery then most of the costs are something, which are payouts to outsiders and therefore to that extent the margins remained lower. So, it is also should I say not the product mix as such but what you would call the content mix of the product of a project.

Amar Maurya Okay so like now what is the current mix, if we say in terms of the delivery and the IP?

Vijay Thadani I would not have it at this time as we speak but I can share that with you separately but right now it is sufficient to believe that we are targeting 15% odd margins as the next should I say milestone I don't know whether we will reach it this year or not it will depend on velocity of new orders, however, definitely as we committed we are on track and beyond actually for the improvement in EBITDA as per our projection. So right now we are a little ahead of that but we have to see the next two quarters but if we get a breakthrough of sometime where a large contracts come then a small bump in margin is there maybe possible.

Amar Maurya Secondly, just extending the first conversation about the government school business, since I believe the government number of schools have significantly come down but if I see current last two quarters actually the operating expenditures had increased whereas it should come down, so what is the key reason and from when we can see that actually private school business yielding the margins?

Vijay Thadani I don't think operating expenses would have gone.

Amar Maurya It has slightly gone up if I see last two quarters.

Vijay Thadani Okay, so while I will check the facts out and figure out what is it that is causing that to happen.

G. Raghavan In fact OPEX had come down in Q2.

Vijay Thadani The margins are down, yes you are right, the margins are down are you saying on a comparative basis?

Amar Maurya Yes sir.

Vijay Thadani Okay, on a comparative basis they are down as I said, there is a closing down cost of this project which is onetime, the 2005 school, I had alluded to it last quarter also and by the way we have two projects, we have closed two projects this year, we have closed Maharashtra as well as Andhra Pradesh, Maharashtra one of the two projects that we are doing and Andhra Pradesh one of these two projects that we are doing.

Amar Maurya So, going ahead are there furthermore projects which are likely to close or from hereon we should?

Vijay Thadani Yes, we still have many more projects going on during the for the next two or three years and as and when they close normally there should not be a bumping cost at closer, normally there should not be because the costs are matched to the revenues but sometimes when the closing down cost come which means they don't give us the sign off and things are still hanging around when those costs get booked.

Amar Maurya So, sir what kind of margins we should assume going ahead for the School Learning Solution business?

Vijay Thadani So, as I mentioned to Dipen also 8% to 9% in the immediate future but as the private schools pick up momentum our margins should grow up by fairly rapidly after that.

Amar Maurya Okay and last sir what was the realization for the corporate learning solution, realization rate ISD/INR?

Vijay Thadani Are you saying in terms of USD?

Amar Maurya Yes INR to USD realization rate primarily for the corporate learning solution do you-?

Vijay Thadani For the corporate learning solution the realization would have been 64.72.

Moderator Thank you. Our next question is from Kaushik Poddar of KB Capital Markets. Please go ahead.

Kaushik Poddar Can you give us sense of the competitive landscape as far as the School Learning Solution business goes, how do you stand against other people in the same business?

Vijay Thadani It's definitely, I think Kaushik that's a wonderful question because I normally don't say it in these words but the competitive landscape is in quite a bit of shamble so that creates a huge opportunity for us. I will ask Raju to respond more.

P Rajendran Yes, so you are aware that one of the competitions which is running fast as far as private schools were concerned that is no longer visible in many of the accounts in fact that's an opportunity for us to enter some of the schools where hardware is already there but they are not getting solutions and they would like to get rights of services and interactive content that we have been delivering at school first one. Second, even in the government related schools since we still have a couple of hundred of crores to be executed we find that our quality of execution and hence our realization is far higher than others. Third, in terms of the non- GSS schools, the range of products and services which we provide is probably higher than any single competition between us though there are lot of local players. For each product there are players who could and do offer at a lower price but I think our position in terms of NIIT brand coming from behind us partly support us and also the range, so for example, we don't go to school and talk about how many classrooms and how many boards we should provide or how much content, so we talk about number one, what can we do for students, the teachers and parents. What can we do for the schools to manage the school better? How can we use technologies for improving the experience of students as a practice, for example math, so the maths lab product of us is probably far ahead of anybody else and we have testimonials which talk about how that has include the academic performance of the students. So that's the stage we are playing in and we will absolutely announce this year also that we are hitting the next year and we would have probably increased the range and also upgraded the offerings into schools so that they don't see that one, two, three, four products but as a solution with NIIT is offering to school and this probably doesn't match any single competitors now.

Our talent now is to ensure that this channel we have, the same channel which we have is capable of handling this complete solution for schools A – B not to get pulled in by the one off or two off customers in widely flung areas, but we try to start concentrating on clusters or school chains so that our cost of sales reduces per unit delivered and thus impact the margins.

Kaushik Poddar Is that the delivery part you are not able to handle through Cloud as well?

P Rajendran No, in schools the delivery part is 100% on Cloud will not happen for years and years. So what we have is, we have concerned on the local Clouds and also the NIIT Clouds, so we provide for many schools they get a local Cloud based content for the interactive classrooms and the students from their homes can login into the NIIT Clouds for practicing or for referring at home to the level of how much they have progressed inside the class.

Kaushik Poddar And do you charge anything from the students?

P Rajendran Yes, we do charge from the students because that is extra and that's optional for the school. This is a new product which has just about happened last quarter and we have an opportunity to do a B2C here, also to go through the school like B2C, so that part of marketing is yet to take off. We have sold directly through our channels to schools for delivery to the students. We have a couple of cases where the schools were excited but at the end of the day the schools can also create a little extra revenue lines by providing that to their students but business is still evolved in order to scale up and I would expect that more like quarter one next year onwards.

Kaushik Poddar So, what is the kind of revenue growth you are looking say two years down the line from the current revenue base? Let's talk about only the private school not government schools only.

Vijay Thadani You are referring to only the non-government schools?

Kaushik Poddar Non-government schools yes.

Vijay Thadani I think our aim has always been and we have grown in excess of 20% most of the time and now that we are completely focused on this we should. However, just to give you as I mentioned we take away the hardware's component which had actually become a disease and now is out of system because we have stopped doing that completely.

Kaushik Poddar For non-government schools you are not giving hardware isn't it?

Vijay Thadani No, we do not give hardware like the BOOT contracts we used to do for government but what has happened the comparative space had become so strong and some our competitors were bedding in so many boards and projectors that there was a hardware component which was cribbing in, we decided we are not going to do that. We are in an IT and if you want to buy hardware you please pay for hardware, we will get you the hardware that's all we are doing now so that definitely changes our top-line but in margin it will have a significant impact.

Kaushik Poddar And then what is the kind of margin say two years down the line can we get back to that 10% - 11% margin as in the other business?

Vijay Thadani I think you should have better than 10% - 11%.

Moderator Thank you. Our next question is from Dhawal Mehta of Ventura Securities. Please go ahead.

Dhawal Mehta Just couple of questions. The first question is from the CLS division how many customers we have added MTS for this quarter and like the total margin increment was around 190 bps, so I just wanted a breakup. What was the percentage because of the currency moment and what was because of the operation efficiency?

Vijay Thadani Yes so first of all answering your questions we added larger, deeper penetration into existing customers in the last 90 days. We did not added another MTS customer in last contract because you remember I had mentioned 17 customerslast quarter as well. However, we have had new orders from existing customers but not new customer added in this quarter. We have a strong funnel and we are expecting to benefit from that funnel as we speak.

Dhawal Mehta So, the ticket size might have increased right for a particular customer?

Vijay Thadani Very correct that is what I mean by more orders from the customers.

Dhawal Mehta Right so can you just give us the ticket size like earlier it was roughly around three to five crores per customer, per year?

Vijay Thadani No, no it would be more than that. Of a matured customer on an average assuming that we are discussing 75% of the business that take $60 odd million that is $45 million divided by 17 customers on an average we are discussing a ticket size of $2.5 million – $2.75 million so it's not three to five crores average ticket size would be about $3 million a year. So that would have improved a little bit. Your next question was benefit from foreign exchange in the margin would be closer to in the total bps you have translated into. We will just share it with you. You can ask your next question meanwhile.

Dhawal Mehta Yes and the second question is from the SLS division. How many number of non-government schools we have added for this quarter?

Vijay Thadani 106 new schools added this quarter.

Moderator We will take our next question from Jaiwant Dang of JHP Securities. Please go ahead.

Jaiwant Dang Just a few questions from SLS for Mr. Raghu, like we have already answered this question to a certain extent like what are the likely steps to improve growth in this segment that you might have in your mind like what is the strategy of growth in this segment since you mentioned that the growth is muted and there is lot of huge opportunity in this segment so what is your view on this?

G. Raghavan This is Raghu and I hope you meant individual.

Jaiwant Dang Sir the School Learning Solutions it was mentioned earlier in the conference call that the growth was slightly muted and there is huge opportunity in the segment so like what are the steps that you have in mind to take the growth from the current level to perhaps fully benefit from the existing projects?

G. Raghavan So I didn't remembered any of us saying that the growth is muted in SLS.

Vijay Thadani In private schools business we have done away we have with tightening of the credit policy.

G. Raghavan So you must understand that the tightening of the credit policy one and second is because some of the orders like Vijay mentioned had started having hardware in it, so we had to supply projector, whiteboard, etc., because those are the expectations of the schools based on what the competition they are offering. We had gone ahead and told them that listen as far as hardware is concerned you will get it from wherever, we will provide you the services and the IT, so by doing that let's say if there is earlier if the order size was Rs.100 on a top line, now that order size would be 40% of that approximately. So, to that extent you would have found that even if you have done the same business the revenue line that is the top-line would be muted. Similarly, as far as the credit policy is concerned we have to tighten up because we said that when we sign the orders then there have to be an upfront payment and then when we start the services there also has to be quarter's payment in our hand. So, at any time we will have about two quarters' maximum payment with us and we have incorporated into the content, the mechanism by which even after remind us if they are paying in a defaulting quarter it is possible for us to, I am specifically talking about the Clouds and its delivery it is possible for us to switch off the services. So, that is why this whole thing the statement of muted generally happened. As we go forward this becomes our only way of working and we add those numbers, as we grow. Obviously, there is nothing else we need to do we have to just scale up the private school business as we said.

Jaiwant Dang Yes, sir my question was also relating to the growth in the private schools, do you have any specific strategies like since there are so many existing opportunities lying?

G. Raghavan Yes, so just to repeat what we have said earlier last quarter also our focus on one side schools, students, teachers, parents combine, the non-IT subjects which means using math lab to increase experience in maths, using the science lab to increase the experience in sciences. And also whatever we have been doing in earlier that increasing IT itself we are now upgrading the programs for IT and coming up with refurbished products which quarter. All these put together and an enhancement of the sales channel which we need to we are adding another 25 people which actually increases our capacity for sales by another let's say 25% in the field all these are the specific actions for increasing the sale growth in the ILS business.

Jaiwant Dang Right sir. My second question is relating to bit of ILS and related business like what kind of you mentioned that we had faced cost reduction of 14.9 crores this quarter so what is the likely figure that you are targeting for H2 of this year, the fixed cost reduction?

Vijay Thadani Sorry, are you saying that the fixed cost benefits which we got in the first six months, what will that be in the next six months?

Jaiwant Dang Yes your likely target kind of.

Vijay Thadani So, you must know that the over suppressed we would be having a number straightaway on that basis but if Raghu can talk about the initiatives that we are taking so Raghu you can talk.

G. Raghavan Yes, I think I would go back to the basics to say that the result of the product mix, the benefits of Cloud Campus, the continuing benefits of cost management actions all this should help us to make sure that the overall operating margin for the year is at a level better than the level at which we closed last year so that's a summary statement I can make as far as the individual business is concerned.

Jaiwant Dang And finally just last question. The contribution of non-IT courses was around 24% and it has been growing quite encouraging fashion and the IT growth has been muted so where do you see this number in future then, non-IT contribution do you think it could be more than 50% somewhere down the line?

G. Raghavan Well I would like to look at it this way that we look at the overall business, apart from looking it from non-IT. IT sector is currently on a low it doesn't mean that that as a segment will go away, it's an important segment, however, our approach to this segment is not to stay with the traditional IT sources but get prepared for what we call as new age IT courses. We have launched a few in the last quarter, we have few more courses that will be launched in the coming quarters therefore we will continue to be looking at the segment quite favorably. However, the non-IT segment is around 24% right now, for the full year of FY14 we expect that to be around 26% it should improve maybe to mid 30s during the next year is my current reading of the situation.

Moderator Thank you our next question is from Dhawal Mehta of Ventura Securities. Please go ahead.

Dhawal Mehta Yes sir just a small follow up question on the margins related to CLS division. Sir, I just wanted to know like on a steady state basis what we should expect the margins to be in coming quarters because for this quarter the major jump in the margin was because of the currency so should we expect it to be the low than what we had in Q1?

Vijay Thadani No, are you referring to Corporate Business?

Dhawal Mehta Right.

Vijay Thadani So, we had worked on a margin growth of 100 basis points over last year so to that extent there would be an improvement in margin over the same period last year. Now, some benefits of currency that we got also got consumed in looking after the transitioning of the new orders, once those are in full swing and are delivering full value then to that extent we will not have a margin dilution but at constant exchange rate of assuming Rs.61 that we have we believe that the margins which indeed come up to the levels that we had guided for.

Moderator That was the last question, Mr. Thadani would you like to add any closing comments?

Vijay Thadani Yes, so first of all thank you very much as usual your questions are very interesting foods of thought for us and guide our future. So thank you very much for your interest, your participation, your support, your cooperation and more than anything else you are encouragement for the future. So, we remain committed to growing the value of NIIT both as a brand as well as its value for all our stakeholders. So thank you very much for joining us and we look forward to meeting you next two quarters. Quarter three is normally our weakest quarter given the seasonality of the business but we remain hopeful of making sure that in the next half year we will be able to make up as the environment improves as we go forward. Thank you very much.

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