"NIIT LIMITED Q3 FY-14 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the NIIT Limited Quarterly Results Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Thadani – CEO, NIIT Limited. Thank you. And over to you sir.

Vijay K. Thadani: Thank you. Good evening. Thank you very much for joining this call which is to discuss the Q3 financial results. Q3 – just to paraphrase is one of the seasonally low quarters for NIIT and actually all the education companies by and large all over the world. So, I just thought I will mention that and therefore all comparisons will be on a year-on-year basis given the seasonal nature of the business. As usual I will go through a very quick review of the environment before I get into the results.

The overall environment from an economic growth point of view I think is known to everyone; however, the only point which I would like to highlight is that last quarter the Indian economy seems to have shown slightly better growth than the previous quarter, but, of course, the high interest rates and sticky inflation continue to remain sore point. Export-driven sectors are picking up, aided by the weaker currency. The volume growth in IT sector as is visible in the results declared so far is on an uptick and we can expect better things as there is signs of recovery in developed markets barring minor issues and hiccups which take place from time-to-time. But, even in this environment the overall sentiment for IT training has remained weak and I think that is solely contributed by a reduction in net hiring level by leading IT companies; first nine months results of HCL, Infosys and TCS have shown that in net hiring there is as high as 38% drop, and that is definitely a cause for concern; however, they have all consistently maintained that hiring would pick up in the later part of the year. It is also visible from positive trend in campus hiring which is beginning to be visible. So, we do hope that this activity will change. Having said that hiring by banks have maintained the momentum and with healthy demand from both public and private sector banks. More economic activity and positive result is leading to people adding more skilled workers, especially in the retail sector. And lastly, in the US and Europe with the improving sentiment, spending on Corporate Training is remaining robust even though sales cycles and transition period remains stretched.

So with this outlook I would first give the score card on our four platform of growth. As you know, NIIT itself has been going through a fairly large transition, as we are exiting certain kinds of businesses that we have been doing, typically, to do with government contracts as well as the changes which are taking place in the environment is causing some transition. Our focus has been on improving profitability, liquidity, capital efficiency, while preparing for growth through the four platforms of growth. And our first score card is on the growth platforms on Individual Learning business. In the Cloud Campus we now have reached cumulative of 53,000 Enrolments and 210 Centers have been enabled with 92 Courses available through Cloud technology. That is a fairly substantial jump in this quarter. In Corporate, which is where we have seen the best result – Managed Training Services has now got 18 global customers and revenue visibility has increased from $144 million last quarter sequentially to $171 million. And the reason is the finalization of three new contracts this quarter which we will talk about as we go further. Managed Training Services are now contributing 82% of the overall Corporate Learning Solutions. nGuru Solutions in schools have now added cumulatively 1,801 schools and is now contributing 58% of the School Learning Solutions. YuvaJyoti – the Skills business had now done cumulatively 13,300 Enrolments, have been a fairly strong order book in Q3 and the reach have expanded to 52 locations.

So overall in numerical terms, the highlight would be starting with Corporate Learning Solutions where overall revenues are up 34% year-on-year. EBITDA margins is at 13% which shows an improvement of 60 basis points year-on-year. Managed Training Services within that is 57% year-on-year and contribute 82% of the overall Corporate revenues. Three new MTS contracts contribute to the order intake of $24.2 million which is also high in recent times. This does cause revenue visibility of $171 million over the next few years for Corporate Learning Solutions. Non-GSA School Learning non-government in School Learning Solutions contribute 58% with SLS revenues compared to 39% in the same period last year. And Individual Learning Solutions while IT remain subdued and challenged, revenues from Non IT training offerings have improved by 36% year-on-year and now contribute 28% of revenue mix for the benefit of those who keep a track of this revenue mix. Last quarter this revenue mix was 76/24 and from there we have moved to 72/28 in this quarter. But more significantly in Q3 Cloud Campus and aggressive cost management have countered the adverse effects of operating leverage in cost inflation which has resulted in 496 basis points improvement in margins. I think that is a real significant pattern we will talk more about that. Therefore, at an overall level, EBITDA margin has improved year-on-year by 279 basis points to 6% and not only that in the balance sheet a fairly strong collection in Q3 has reduced the overdue bills receivables by Rs.364 million in just last quarter alone.

One way of looking at these results is that seasonally low quarter and therefore insignificant in terms of its impact on the total year. On the other hand, if you watch the trends of the last few quarters, then I would say this is the first time that the revenue this year even though they are just a few basis points is they are better than the same period last year. I would say in 6 or 7 quarters we would not have seen this happening. So the fact is revenue is improving over the same period last year is one indication. More significant indication of that is in EBITDA in rupee terms has been lower than the same period last year for the first time shown not just an increase but a fairly substantial increase.

The other important issue in our results is how we have been reducing the capital intensity of the business and that is the net fixed assets as how they have been reducing on a quarter-on-quarter and year-on-year basis is the third theme and overall the impact of this is also visible in the PAT where for the first time after many quarters we have a year-on-year improvement even though it is a small improvement but percentage it appears large. These are some signs of revival that we feel to be considered.

In overall financials, while the revenue is flat in percentage growth terms, in operating expenses we were able to do a fairly strong optimization of cost and of course stronger dollar did help us even though the dollar has strengthened a little sequentially over this previous quarter. So overall, we are able to see an EBITDA improvement. Depreciation has been at a lower level, as we have stopped taking up capital intensive contracts as well as defocusing on government policy contributes a bit to it. In net other income, we have the interest expenses, even though net debt has come down. We have some FOREX loss and there are other income items. On tax, we have a slightly positive tax, and overall therefore in Profit After Tax we are at Rs 12 million in contrast to Rs 5 million last year same quarter. The revenue as I mentioned before has been impacted by a) weakness in the IT Training part, and second) the closure of the government schools contracts. Just to remind everybody, in Andhra Pradesh 2005 Schools; in Maharashtra 500 Schools and going forward in the next quarter again two more states will be closing down their schools. If I look at how the EBITDA versus last year the predominant advantage of EBITDA has really come out of cost management. While the FOREX and cost management contributed positively to it, cost and wage inflation got more than offset by the cost management initiatives. And lastly, the operating leverage and product mix also did put a burden since our Individual Learning business the expense was a challenge.

Overall, in our net revenue, the real contributor has been Corporate in terms of positive growth to offset. The Individual which has had negative growth as well as Schools which was expected given the downsizing in terms of Government Schools contract and they are getting over. EBITDA change has been contributed by Individual by 49 million and Corporate by 38 million.

Moving on to discussing each of the businesses, Corporate Learning Solutions have grown 34% year-on-year, there is 60 basis points improvement in margins which have gone up to 13% – this is a very good performance both from QoQ as well as YoY basis. And including in volume terms; the volume growth has been very strong in terms of 15%. Order intake of $24.2 million is one of the strong points of this quarter. Pending order book has gone up, and if you see our performance over the last six quarters pending order book from $46.8 million has gone up to $60.2 million this quarter and about 69% executable over the next 12 months. Revenue visibility has gone up to $171 million. What has caused this performance is the superior offering that will have for our customers as is also visible from some of the awards that we have received from our peer community. Brandon Hall Excellence Award which is like the Oscars of Context and Content Development, some of these awards this division was able to bag this quarter.

School Learning Solutions – the non-GSA contribution to revenues improved to 58%, on the other hand, the GSA has dropped by 51% due to completion of government contracts which as I explained earlier from Andhra Pradesh and Maharashtra.

We had a fresh order intake of 92 million, we now have pending order book of Rs.4.28 billion, 27% executable over the next 12 months.

In Individual Learning Solutions, the noteworthy point is the Non IT revenues which are up 36% and contribute 28% to net revenues. One year ago, this percentage was 18 and last quarter it was 24. So in all possible both sequentially as well as on a year-on-year basis Non IT revenues have been the strong point of growth in Individual Learning Solutions. Within Non IT, I think the stronger one will be Banking. Banking Enrolments have been very good during last few quarters, including last quarter. In IT, the New Age IT products have received very good response. In last quarter we launched a new course 'Business Analytics' for working professionals, we have had a very encouraging response from that, in I think 17 or 18 days in the last part of third quarter in December itself. But real improvement that we see in Individual Learning Solutions is to reduce the effect of operating leverage and that is by aggressive cost management and implementation of Cloud Campus. So that is 496 basis points improvement in margin, in fact last year same quarter we were at (-3%) EBITDA margin, from there we have gone to (+2%). Banking Enrolments are up 33%, overall Enrolments were at 64k, overall placements while down 9% over the same period last year, but are at a very significant 8,117 levels. This needs to be understood with the statement that hiring in IT sector has been on a much lower side this year. Pending order book in ILS has been Rs.2.054 billion, 66% executable over next 12 months.

Skill Building Solutions numeric terms have not yet reached a level and we considered significant but I think has had a good quarter in terms of Enrolments, so cumulative now we have 6955 Enrolments, nearly 107% over the same period last year with an order intake of Rs.32 million, and the fact that NYJ Courses or Skill Building Solutions Courses are now available at 52 locations.

Balance Sheet has been an area of focus for the last I should say 7-8 quarters. So accounts receivables have reduced by 364 million. DSO is down to 75 days on an overdue basis and 129 days on an overall basis. There has been a reduction in net debt also. It is mentioned it is at 723 million after the exchange impact, but excluding the exchange rate impact it is at 632 million. There was a reduction in secured loan because of repayment of NCD which was falling due in last quarter of Rs.167 million. I mentioned the capital intensity which are also a bit lower the same period last year as is visible in the reduction in net fixed assets.

Our headcount has been reduced. We are down 160 numbers on headcount on a quarter-on-quarter basis. This is to realign ourselves to the new product mix as well as to the new environment in which we are operating. Shareholding pattern is also available to you for discussion. Overall, the direction of business remains the same. The four platform of growth will be the big drivers. The Cloud Campus will be further strengthened and will extend across and many more products as possible. Managed Training Services – the focus will be as we go forward on improving our win rate, we have a fairly strong funnel and very good reference, so we think we will be able to improve that. In Schools to focus on private schools and offer those products where we are clearly differentiated. And in Skills, to build volumes to take advantage of the capacity that we have created. In Individual, the focus is on the disruptive technologies – Social, Media, Mobility, Analytics, Cloud, Design and some of these sources have already shown very good traction. Cloud Campus will continue to remain predominant delivery model. So that is where we stand at the end of this quarter. I would like to now stop and take questions and get into discussions on other subjects. So operator, can you please open it up for questions?

Moderator: Sure. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Soumitra Chatterjee from Espirito Santo. Please go ahead.

Soumitra Chatterjee: I just wanted to get a sense on the Enrollment trends in the ILS segment. If you look at for the last 7 or 8 quarters, our Enrolments has been continuously declining. So when can we expect that this trend will reverse? That is one. And second is if you could clearly specify what the cost initiatives that we are taking which can bring down our cost base further so that even if the revenue remains flat for one or two more quarters, our margins can continue to improve?

Vijay K. Thadani As far as Enrolments are concerned, I will ask my colleagues to chip in. But as far as Enrolments are concerned, there is a very robust growth in Non IT offerings. IT Enrolments growth is impacted by lower net hiring in the IT segment and that creates a negative sentiment. As times are improving and as IT sector is improving, they have already taken advantage of the capacity utilization lever that they had, we believe that the hiring will become as is also visible from their comment. And along with that is different I think our Enrolments will also increase. However, Non IT sector continues to show robust growth and we will get the benefit of that. You can see the rate at which the Non IT growth has been consistent over the last few quarters and we have increased our share of Non IT from 18% to 28%. On cost optimization, I think the real cost optimization is coming by making sure that we improve the capacity utilization through one NIIT by making sure that we do a consolidation of centers, because center cost is maximum fixed cost, and we combine entities enrolls to deliver higher benefit to our customers. Having said that I will pass it on to Raghu who will add more to it.

G. Raghavan Vijay has touched upon the core point. The last quarter Enrolments were down but in a way the deceleration has been lesser than the previous quarters. But the fact remains that part of the Enrolments which is dependent on the IT sentiments and IT intake has remained impacted, and that is why several quarters ago we started this whole process of enlarging the basket of Non IT dependent product, and I should say that they have been able to launch a few specific products in the segment and the stats in these have been pretty encouraging for us, and that explains the growth rate in the Non IT segments as well as the composition of 28% in the total revenue for the last quarter. We expect the trend to continue and there should be a tailwind as the IT sentiments improve over the coming several quarters and IT recruitments coming back again. So we would have created a sufficient portfolio of Non IT as well as we will be standing to gain when the IT sentiment start improving. So that is the way we are looking at. And we are not done yet with the Non IT product basket, we still have several products which we are working on, and we will be launching them over the coming several quarters. On the cost front, Vijay has touched upon the key points. We should recognize that during the last quarter the benefit of the margin improvement has come out of – one is the overall cost management, fixed cost management, second is benefits starting to flow as a result of Cloud Campus. And otherwise, you would have noticed that 11% reduction in the revenue would have naturally given us a very negative operating leverage. We have been able to overcome that as well as post little less than 5 percentage points improvement in the margins. We are still working on few other areas of cost management. That should render the cost basis at a lower level than even where we are today.

Soumitra Chatterjee: I just missed the net cash and the debt position, if you could give me…?

Vijay K. Thadani The net debt is at 723 million and the cash is 759 million. I do want to mention to you thing which we took for granted. Cloud Campus by itself also reduces the fixed cost structure in a certain manner. So that has also been constituted to the cost reduction.

Soumitra Chatterjee: Just one more thing on this Cloud Campus thing. Because we would be giving these services over the Cloud, how does this impact the revenue sharing that we have with the franchisees, is there any impact just wanted to get a sense on that? Another question is on the Government School business. Some of the contracts are getting completed this year. We will have depreciation on an absolute basis reduce on a year-over-year in FY15?

Vijay K. Thadani Let me answer the second part first. The Government Schools have reduced and so as the depreciation. And that will continue to reduce. This year we have closed two contracts – Andhra Pradesh 2005 Schools as well as Maharashtra 500 Schools. We are going to close two more contracts in Q4 though they are smaller – one is Assam and one is Rajasthan; Rajasthan is 1672 Schools and Assam is 140 Schools.

G. Raghavan On the Cloud Campus and relative share of franchisees, they do get recalibrated with the relative values that we provide to the student. In the case of Cloud Campus, in faculty and some of the centralized services are meted out of NIIT's cost base. To that extent the share gets readjusted. But it is a very fair and equitable, discussed well with before kind of an adjustment and calibration that takes place. In other words, it is commensurate with the value that each one of the players provided to the students.

Soumitra Chatterjee: Have we seen any franchisees because of this realignment of revenue sharing, has there been cases ever since we started that franchisees have voiced their discomfort on this and they have basically decided to move to a different business altogether, because…?

Raghu Far from it actually. Franchisees sign this as a fantastic vehicle to be able to launch new products, especially in many new Non IT areas that we are launching. They are signing this as a fantastic avenue and a platform to be able to get into newer areas of training. They look at it as a favorable trend to get them to improve their student base.

Vijay K. Thadani It is actually very positive for franchisees, as faculty was always a major challenge for them. And there you get the benefit of expert faculty at the remote location, so it is a very big positive.

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

Dipen Shah: Just to carry on from what we already discussed in the first part of the questions, on the ILS business we all understand that if the IT companies start recruiting, then obviously, we will be starting to get more Enrolments. But, Vijay, if you can just throw some more light on, what are the early indicators which we should look out for, is it just a hiring or is it that sentiment start changing with the students before that, when exactly would you say that there is an uptrend which could be starting?

Vijay K. Thadani You must know there is some inventory available, there is a bunch of lateral hiring possibilities and then there is a backlog of previous year's campus recruitments which are yet to be finished, but I think maybe two quarters from then you would be able to see that sentiment will turn positive. What I am noticing is that the speed at which now new spread, of late, the sentiment changes much faster than it used to earlier. So it is quite likely that as soon as positive things start getting talked about, things will improve. However, as far as we are concerned, we are preparing ourselves for a year where there is a good possibility that our Non IT will continue to grow at the same rate and better as we go forward. And IT while will show improvement but we cannot bank very heavily on it given that there is an uncertainty in the environment which is still there. Therefore, our Corporate Learning Solutions which is very robust and with improving margin, our Non IT which is very robust and is growing very-very fast, Corporate also is very significant now, it has large percentage of our total business and the placements will show positive trend, we do hope that in the coming season sentiment should definitely turn far better.

Dipen Shah: Yeah, I think that is what I was coming to, like April-June and maybe June-September are the best quarters for us as far as Enrolments are concerned. So, we do expect some positive rub off of the sentiment in the Enrolments numbers in those two quarters?

Vijay K. Thadani Yes.

Dipen Shah: On the other hand, maybe if we can get some more light on how much was the cost benefit which we realized during the quarter out of the fixed cost management in the Cloud? I think in the last quarter we had about Rs.6 crores benefit which we derived out of these.

Vijay K. Thadani This quarter we did an exercise to figure out which is actually visible in the EBITDA; we did an exercise of how much we lost because of operating leverage, how much did we gain out of FOREX, and we believe that it is in excess of that number on a year-on-year basis. So this Rs.6 crores is what we had got till last quarter, then this quarter on a year-on-year basis which means Q3 last year to Q3 this year total benefit of Rs.129 million, which is nearly Rs.13 crores.

Dipen Shah: This is emanating a combined out of cost and cloud both?

Vijay K. Thadani Overall cost benefit that we are getting.

Dipen Shah: We understand that there are some more levers which you are targeting in terms of additional cost rationalization. Any numbers if you would like to give us or any sense of how we should look at the cost or the margins going ahead in ILS?

Vijay K. Thadani I think the margins will show an improvement as we improve our capacity utilization and introduce one NIIT. I think it is very easy to say this is what we foresee in cost reduction but the real taste of supporting is in eating it, so as we realize it we will share it with you as we go along, but there is more revenues comes from as Cloud Campus start maturing and we are able to get the full benefit, we are not yet getting the full benefit of Cloud Campus, so we have got some.

Dipen Shah: How much is the capacity utilization as of now?

Vijay K. Thadani This quarter the capacity utilization is 35%. So there is a lot of headroom available in capacity itself. As you know we have operated in the past say 65%.

Dipen Shah: Other thing on the SLS front, what could be the impact of the two school closures in the first quarter of next year or maybe even in the fourth quarter?

Vijay K. Thadani There is a volume as well as EBITDA, but definitely EBIT benefit as each of the schools close out. The next quarter Schools will not add up to a very large number. So next year the total revenue impact of this will be about 57 million in FY15 of these two closed schools which is going to happen in Q4, which is one in Assam and one in Rajasthan.

Dipen Shah: Full year impact will be Rs.5.7 crores on revenues?

Vijay K. Thadani Yes.

Dipen Shah: And obviously, there will be profit making. So we should be having some negative impact on the EBITDA, the absolute number?

Vijay K. Thadani There will be an impact on EBITDA but there will be stronger benefit in depreciation, because at least one of the schools was EBIT negative.

Dipen Shah: Any sense we can get on how will the (SBS) Skill Building Solutions pan out in FY15, you expect losses to be in this Rs.20-25 million range per quarter or you expect that to come down?

Vijay K. Thadani No, the losses have already begun to come down. So we should start hitting breakeven in this business during next year some time. But overall impact will have some losses, but I think we will start hitting on a run rate basis EBITDA breakeven in some of these.

Dipen Shah: Lastly, any other new business which we are looking to enter maybe in the next 2 or 3 or 4 quarters?

Vijay K. Thadani There are some areas which we are examining which are more verticals in which we would like to get in. We are not looking at increasing capacity in a strong manner because I do not think it is an all clear signal from environment as yet. So we are extremely cautious on any capital investment. So we have a lot of capacity available in our existing centers. What we would examine is innovative need by which we can add new products in our existing lines that have been getting into new businesses and using the existing capacity.

Dipen Shah: So my question more was towards that, are we looking at entering any businesses which could initially take up say investments and maybe once again result in a lower ROE or maybe it could incur losses over the next 3 or 4 quarters, something what SBS is doing right now?

Vijay K. Thadani No.

Moderator: Thank you. The next question is from the line of Amar Mourya from India Nivesh. Please go ahead.

Amar Mourya: A couple of questions; first of all, on the SLS segment, if I look at non-GSA side, still we are not able to deliver growth on that front, if I look on a 9-month basis it is only 0.1% kind of growth on the revenue front. So, I am wondering why we are not able to grow even the non-GSA business?

Vijay K. Thadani I think there are a number of contributors to that. I will ask Mr. Rajendran to say a little bit more about that.

P. Rajendran If I have to cut the strategy part and just look at products, there are basically four products, which is Interactive Classroom, Cloud-based ERP, the Math Lab and the IT Training, which is called the IT Wizard. One thing which we did last year was that we took a decision to stop giving hardware along with the ICR solution. So ICR solution is Interactive Classroom, typically has been for everybody in the market, provide the hardware in every class room, which is the board and the projector, and the digital content, and all that. Now, we reviewed it internally and we found that number one, does not make sense to give the CAPEX from our side, and like Vijay told you, a lot of initiatives we did this year in terms of managing our cost spread, we stopped giving CAPEX. Two points of impact of this. One is that the market was used to other competitors earlier providing the CAPEX and the digital content and they continue to own that, so we had largely longer sales cycles, number one. Number two was since we are not providing the CAPEX and only the digital content, the ticket size of every school contract became smaller. However, in the long run we expect that because of this, similar decision our profit margin will improve in the private schools also.

Amar Mourya: But then sir even in terms of the operating margin front like what we are delivering today is not something remarkable. So when we can expect the operating margins in terms of the operating cost to come down say at 80s level or 84-85 where it is today running at 94 or average is 93-92?

P. Rajendran According to me now the ICR part has moved into IPR gain which means that we need to create volume in order to get the best out of the investments already made in creating the IPR. So between Q3 and Q4 typically you can see in the past also that it is Q4 where order intake decisions happen as far as the schools are concerned. That will start burning into revenue end of Q4 onwards. So to answer your question of improvement I would think that we are talking about probably Q2 of next year.

Amar Mourya: So meaning gradual improvement will start from Q1 or you are saying by Q2 some improvement will come?

P. Rajendran: You will see improvements in Q1 itself, but I would think more Q2 because that is the time when revenues will start kicking in even for some of the orders which may come in Q4 we may not be able to take revenues because some of these schools start dates are in March-April, then April-May, then June-July, so we will have to adjust to what the customers tell us in terms of recognizing the revenues.

Amar Mourya: Sir, one more question primarily on the depreciation front since it has been asked by others, but this is in repetition, obviously, we did reduce the depreciation by almost 11% in the 9-month on a steady state comparable basis, today, the depreciation is in three digits. By when I can see the depreciation should come down remarkably as percentage of the revenue?

Vijay K. Thadani: Let us see where all are the fixed assets deployed. One is we have the contracts which we have which are very strong on depreciation will the large number will get over in FY-'15, though there are two contracts which will run in FY-'16 and one will go on till FY-'17. As these assets are getting used and retired, we are not adding CAPEX, now the growing business is we do not have great CAPEX requirements in coming year. So while normal CAPEX will happen, software licenses have to be renewed, computers have to be renewed, but those are not big numbers in contrast with the large CAPEX that we are used to. So I think you will see an improvement in CAPEX in depreciation as we go along.

Amar Mourya: Sir now to the Corporate Learning Solutions, the three deal wins which we had won this quarter, can you elaborate what kind of deal wins are, and if you can give us some TCV, what is the average size of the deals?

Vijay K. Thadani: Just to give you an idea, whenever a new deal comes whether we have an order intake or not, but we definitely contribute extra to the revenue visibility.

Amar Mourya: So that has been already incorporated?

Vijay K. Thadani: Visibility has gone up by $27 million approximately give or take that is the size of these three deals give or take again, I am just giving a rounding up the number, but just to explain you the three deals, two of these deals are for delivery of training services which means we would have to organize delivery of training on various subjects, one of them is a company based in Australia which is a global footprint, and one of them is an existing company from Europe, which is very huge telecom equipment major, which is where the repeat order is from. The second repeat order is from same telecom equipment major but a large content development deal now, typically content development deals have better profitability than delivery services deals, because delivery services have large amount of logistics expenditure. Then training management which becomes sometimes part of that has also very good profitability. So that is the structure of these regions.

Amar Mourya: Sir it is a pretty broader question which I want to know if you had done some analysis on that part primarily into Individual Learning Solutions segment. What we are seeing is a significant growth in the Non IT space which is a very good innovation which we did. Now what I want to understand is, is it we are seeing that whereas the traditional IT space the training part is significantly share of that part is significantly going to come down over a period of time because of the change in the market dynamics, from where I am coming like if I see the hiring pattern of the IT companies and the salaries which had been offered, the levels had not gone up from past 3-4 years, like people who used to get 3-3.5-4 lakh packages, even today they are getting similar packages. So I am just trying to understand is it the dynamics of the market is changing in a pretty different way?

Vijay K. Thadani: It will be wrong to believe that there are no changes, there are definitely changes which are taking place in the market, but let us just see IT – there were two kinds of people; one were the kind of people who were involved in production and maintenance and operations, those who are engaged in infrastructure management services, those who are looking at development in traditional platforms where you get large amount of outsourcing deals, now that is where the companies where their major businesses are coming from and they applied all the efficiency parameters and efficiency measures which was to improve capacity utilization. So if you see in the last 2-year IT companies capacity utilization has moved from early 70s through mid-80s now. The question is you cannot be improving capacity indefinitely. While their volumes are beginning to show an increase, and right now they are getting the benefit of that volume into conversion into revenue through better capacity utilization going forward that cannot be an indefinite phenomenon. Having said that there is also a backlog of previous year graduates who are also waiting in the queue and have taken on should I say lesser attractive jobs and will therefore be available for lateral hiring. So as the fresher hiring picks up, you will see a change in the sentiment, and this is according to me a demand/supply issue. But having said that there are new technologies and disruptive technologies which are coming in where the demand has been consistent and that is where we are placing people. So one change which we are bringing is also improving the percentage of disruptive technologies which will create a distance between us as well as formal institution because formal institution cannot switch to new technologies very easily, and that benefit is what we will take advantage of. So going forward I do see the sentiment recovery, I do see that IT sector is not going anywhere, I do see that there will be a constant change requirement, and there will be a larger demand for shorter calendar duration courses. Last but not the least, working professional which by itself has become a very sizeable population – about 2.2 million plus working professionals, they present a very sizeable opportunity, and one example of this I would like to talk about is the Business Analytics course which we launched in the first week of December. I think in the first 17 or 18 days we have a very strong response from working professionals. So we are very enthused by some of these changes. Raghu, you want to add something?

G. Raghavan: I just want to add that without taking away the fact that in the recent past the sentiments have been bad, I also want to highlight the fact that we have always looked at newer and newer format of providing solutions to students. We used to be doing the GNIIT long term program only for a long time. As the consumer preferences went towards more shorter duration but more intense courses, it is the first out of the gate to launch the Diploma program which were focused on graduates and making them employable. So similarly well before anybody else could think of, the Cloud Campus is a format to enable us to achieve cost efficiencies as well as the ability to launch newer products quickly has been established by us. Now, we have in the last couple of quarters very decisively entered into Non IT field as well as the New Age IT skills what Vijay is referring to as disruptive in technologies. So while the market on a gross term has got certain trends which are obvious, but our ability to go level deeper inside of that, and then come up with formats and products, that will make us address them more sharply is something that we have been attempting. And with the return of the larger sentiment I think we are better prepared than ever to tap the opportunities that will come along.

Moderator: The next question is from the line of Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar: The stocks of NIIT Technologies you hold that have gone up quite substantially. Do you want to partly or wholly encash your holding in NIIT Technologies?

Vijay K. Thadani: There are no such plans.

Moderator: Thank you. The next question is from the line of Dhawal Mehta from Ventura Securities. Please go ahead.

Dhawal Mehta: Sir, my question is related to our School Learning Solutions vertical. If you see one of the reasons why we decided to shut our Government School business was majorly because of the low margins and the late payment. But if you see from last few quarters our pace in ramping down the Government School business is quite high, and total proportion of revenue from non-Government School is increasing, but still our margins year-on-year it has almost decreased by 200 bps from FY-'13. Sir can you just throw some color on the same?

Vijay K. Thadani: Yeah I will just make two comments and I will hand over to Mr. Rajendran. Two reasons for that. One, when you close the contract – these are 5-year contracts – and at that time there are some transitional expenses which do add up, towards the end of the contracts for one contributed to that. Second, please remember that overheads are operating but at a lower level of revenue but all those are required because they have to be used for servicing the schools in any case. The third, the private schools are in a scale up mode, and we are not getting the benefit of the operating leverage as yet because we are getting newer and newer school. So these are three contributors. Rajendran, you want to add…?

P. Rajendran: I really don't have anything more to add, these three are the key reasons.

Dhawal Mehta: Sir, can you just throw some light on what are exactly the overheads and the expenses to close the contract with the Government School?

P. Rajendran: It depends on the contract. So for example in some places it could be now 2005 schools are all over the district. So what tends to happen is that all the schools do not close on the same date. So the way the cost of conveyance, the cost of our people moving around, etc. on one side to close and to take signatures, etc. Second is it is possible that towards the end of this contract as we are in a handing over phase there would be things which we will have to spend money in order to put it back in place like infrastructure; there could be let us say some tables which are broken or some mouse which is missing etc., we are not talking as a big theft etc. because those are paid by the insurance companies, that is not the issue. So we do take that kind of cost which are not substantial but it is definitely something which we would not have incurred the quarter before in terms of closure.

Dhawal Mehta: And one more question, can you just tell me the number of non-government schools added in this quarter?

Vijay K. Thadani: 66.

P. Rajendran: I just want to let you know that when it comes to selling into schools, since we are not selling just single product, let us say for example we have sold ICR into X number of schools, there are lot of sale of the new other products, whether it is Math Lab etc. we resell to the same school base. So when you ask new schools, it will be the new schools added afresh where the first sale has happened, but there will be many more things which are sold to the other schools. So we are now trying to track the products and the revenue which is more relevant to us as against purely the new schools but the number is given to you by Vijay.

Moderator: Thank you. The next question is from the line of Jaiwant Dang from JHP Securities. Please go ahead.

Jaiwant Dang: Sir can you give us a sense of the overall size of opportunity in the School Learning Solutions in non-GSA schools and both in terms of number of schools as well as number of students that you are looking at? And also your plan of gaining a majority share in this space since there is very little competition right now?

Vijay K. Thadani: I agree with you that the competition is a lot of disarray, but you must know that simultaneously the customers also get very demotivated and frustrated in dealing with the sector. So, every time competition goes down, the market size also goes down, you must know temporarily at least. This we have experienced before in education training this is happening. But let Mr. Rajendran give you the right answer.

P. Rajendran: The whole Private School segment is the market. But having said that today we are addressing only the CBSE schools among the private schools. Because our curriculum is built towards the CBSE schools as far as the digital content what we call as ICR is concerned when it comes to the school management solution or the Math Lab product, they are relevant to more Private Schools. IT Wizard is also aligned to the CBSE curriculum, and right now we are going through a little revamp of that product, we have unveiled the marketing launch during this quarter, and we expect that will actually support getting more orders. So to conclude the responsive questions, frankly, we got lot of headroom in terms of target market. There are some sales related issues which I told you. We pulled out the CAPEX which has created definitely increase selling cycle. We tightened the credit policy in second quarter, the impact is coming in second and third quarter. So earlier we would take one quarter's amount and then sign the order and sometimes we do not take also depending on the customer. Right now, we are insisting on at least two quarters of advance, and that is once again pushing the selling cycle because that is not necessarily how the local competition and the known competition which have been operating. But, once again this is transitory according to me, and this will improve as we go forward.

Jaiwant Dang: There was another talk that was going on that all the state boards would be ultimately aligned to the CBSE Board a few years down the line. So is anything happening on the ground relating to this sir?

P. Rajendran: This has not yet happened. From what I know there are one or two states was stated that, but the changeover has not happened, but in terms of going future, that is a great opportunity. Having said that government state schools aligning to CBSE issue once again is who is the buyer for our products and services? If it is once again the government in L1 tender mode, then we are again going to be pushed like how we have been pushed in the past. So we have to figure out innovative ways because like an SSA there may be different kinds of funding available, things may not be going by 300 schools or 10,000 schools, it may be in municipality funds or smaller funds where we know that we can get the money upfront. The other thing is in the ICR product, we have now launched another model - and this is a phenomenon of the Q3 – we have started going to the school and saying that "Listen,you may have somebody else's hardware etc., you might have terminated that person. What we will do is we will give you a site license for the product and then you can use it for 1-year, and after that you can renew it next year. In that process it is not a monthly payment or a quarterly payment, you have to necessarily pay us the amount upfront." Now, this is just launched, and we have a couple of good successes. The belief is coming in our own sales force and people that this can be done, otherwise initially the whole market is working one way and we are trying to work another way, but I think we are going to leave the market in this direction now.

Jaiwant Dang: Sir, another question pertaining to the SBS. In the earlier quarter we had seen some encouraging new three models that you had mentioned of which are coming up. Do we see any further clarity in SBS, and any turn around in the profitability or the EBITDA level?

Vijay K. Thadani: As the volumes grow in Skill Building Solutions, we do expect that more and more centers or more and more locations will become profitable. Overall I think now onwards we expect that the losses that the business is incurring will come down. We believe that sometimes towards the latter part of the year we do see that it will work towards a breakeven level. There are a number of experiments in mobilization that we have been doing and I think now we are beginning to see what work and what does not work. Because we are, frankly, dealing with a fairly unknown part of the society who does not read newspaper, who does not congregate at one place, and who are in general dissatisfied with the system, to get them back into the mainstream, and give them a strong social status, I think are the key challenges that we are facing. But, things are improving every quarter; in fact, last quarter we doubled the Enrollment over the previous quarter, and that has been the case for last two or three quarters I would say. So we are hoping that this momentum will be maintained and the business should start reducing its loss.

Jaiwant Dang: Sir also we read in the paper that NASSCOM is going to take a initiative of imparting vocational skills in colleges and the universities. So does NIIT see it has an opportunity to tie up with say NASSCOM body or universities to provide these skill building and training solutions, do we have any kind of …?

Vijay K. Thadani: Absolutely, we are already NASSCOM partner, and we welcome this initiative.

Jaiwant Dang: So are we looking towards any concrete steps taken forward in this direction?

Vijay K. Thadani: The point is NASSCOM and NIIT are more than willing and happy. Right now, the colleges are actually grappling with a new situation which they had not faced earlier which is shortage of admissions. As you know a large number of engineering colleges have had a large amount of capacity go unused last year – 40% I am told by last estimates. Therefore, they have a huge pressure of that. They also realize that the solution to that pressure is to provide better employability. To get better employability they would have to give them better skills. But I think they are right now too preoccupied with the economic challenges that they are facing. We do hope this situation will improve. So we have to remain persistent at times.

Jaiwant Dang: Sir another interesting development that had happened was an investor Mr. Ashish Dhawan had entered significantly. So does he bring an expertise or any business relationship to the company or do we see any change in that.

Vijay K. Thadani: Every new investor brings newer expertise and new insights. Your questions right now are creating new insights for us. Of course, Ashish has been an investor in the past with NIIT, we are familiar with him, and I think his coming back is the restoration of confidence of many kinds, and we therefore welcome it. He is also a very keen investor who has many questions and he contributes in many ways. So we do expect to get the benefit of his wisdom and advice as we go forward.

Jaiwant Dang: Sir one final just thought is that we have seen a lot of excitement and the enthusiasm among the Indian students and particularly the offer where what is the Coursera. So is there any opportunity for NIIT to go along with such organizations like Coursera to promote our stand as well as IT Education in India?

Vijay K. Thadani: Most certainly. In fact if I may venture to say that Cloud Campus is one way by which books are being monetized. In fact, when we were speaking to one of these providers there are three big providers as you know of books; Coursera is one of them. And when you are talking to them, they said "Well, we are still struggling with the business model while you guys have already monetized in." Cloud Campus is a certain way in which books and the possibility that books offer is getting monetized. So definitely, there is a huge possibility going forward.

Moderator: As there are no further questions I now hand the conference over to the management for their closing comments.

Vijay K. Thadani: Thank you very much. We did expect beyond the time that we have stipulated, my apologies for that, but your questions were fairly insightful like always and we benefited a great deal. So we look forward to your continued cooperation and continued interest in NIIT as well as giving us new ideas and continuing to help us grow to serve our student community better. So with that thank you very much and we look forward to being in touch. We are available to you on e-mail – my colleague Kapil Saurabh as well as my other colleagues are available to you for any questions or clarifications that you may have. There were no carry forward questions which we had not answered so there is nothing that I have to revert back today. So thank you very much.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of NIIT Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.