"NIIT Limited Q1 FY-15 Earnings Conference Call"

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Moderator Ladies and gentlemen good day and welcome to the NIIT Limited Q1 FY15 Earnings 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 at the end of today's presentation. Should you need assistance during the 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 at NIIT Limited. Thank you and over to you, Mr. Thadani.

Vijay Thadani Thank you. Welcome to the Quarter 1 conference call. We are here to discuss the financial results of Quarter 1 which were declared a short while ago. I will as usual start with the environment and walk away through our financials. We had met not too long ago in end of May, so from then onwards I think the fundamental environment remains the same in terms of macro indicators which are definitely showing some early signs of turnaround and with the stable government I think there is a hope for GDP growth to pick up. On the other hand on the ground improvements have been feeble clear signs of recovery are yet to emerge and structural reforms which are under debate for various other sectors, picking up will unlock our potential.

On the other hand FOREX volatility continues high interest rates and inflation continue to plague us. In this environment the IT hiring which is what drives the sentiments for IT education remains weak and we felt that during the quarter due to muted on ground hiring of fresh graduates while the overall hiring of IT is showing a small tiny increase but most of that hiring is in laterals and fresh hiring continues to remain muted which does affect the sentiment.

On the other hand especially in some parts of the country prolonged college admission cycles and uncertainty over university program structures have also delayed student decision making while all those are very India centric changing technology trends and increased Just In Time hiring are positives which IT sector did experienced as a visible from some large scale placements which we were able to do during the quarter. Overall spending on corporate training in US and Europe remains robust with many more organizations looking at managed training services kind of offerings.

In schools the private schools momentum has built up and we feel very strongly about the strategy that we had adopted in this business environment. So overall weak environment positive sentiment beginning to buildup and expect a modest turnaround at the end of the year. Our own strategy we have said on the course in terms of our growth strategy of four platforms of growth cloud campus which did show nearly 14,000 new enrolments on it and therefore it has becoming stronger stable and much more well accepted. In corporate managed training services continue to builds the momentum as I will discuss while we did not sign any new contracts one expansion of an existing contract did lead to higher visibility as we moved from just servicing one continent to the global operation of that large client.

MTS contributes 86% to corporate business in this quarter. Cloud campus has shown robust improvement with 73,500 enrolments; Manage Training Services the revenue visibility is up based on expansion of one contract from serving one continent to becoming global to $180 million. We did have three letter of awards which are not obviously visible in these results but will be visible when they become contracts in next quarter or quarter two.

In schools we did have 129 new schools added to become 2301 schools and non-GSA business contributes 62% to the School Learning Solutions. Yuva Jyoti the skills business had a very good quarter there they saw step jump in revenues on the basis of certain programs that they have been engaged with and we will talk more about that. Our focus on profitability, liquidity, and capital efficiency in these volatile times continued and we saw an improvement in each one of them. Our EBITDA is improved 101 basis points; net debt is down by 146 million to Rs. 472 million on a year-on-year basis. On a quarter-to-quarter basis there was a small deterioration or increase in net debt and that is normal as we move in to quarter one from quarter four.

Capital efficiency even though ROC is at a very modest level as we are in the recovery phase but it has shown an improvement year-on-year as well as quarter-on-quarter. At the business level Corporate Learning Solutions had a strong sequential and YOY growth that is really the highlight of this quarter. The revenues were up 32% year-on-year; EBITDA margin is up at 12% up 90 basis points year-on-year. MTS revenue out of that has grown 53% year-on-year and contributes 86% to the corporate revenues. As I mentioned three letters of award received however they are not in to contracts as yet and therefore are not visible in this quarter’s order intake or visibility and that will happen next quarter as the contract gets signed.

Our revenue visibility in spite of that had increased because of expansion of one contract from one continent to a global contract. In School Learning Solutions the non-GSA revenue is up 14% it contributes 62% of revenue mix versus 50% in quarter one last year and as you can see that our transitioning of predominantly government school business transforming itself in to predominantly private schools business is underway and the margins are therefore becoming better at lower revenues. Order intake of 160 million was positive adding 129 schools during the quarter.

Individual Learning Solutions had two components. The IT component where I said the muted IT hiring specially for fresher does affect the consumer sentiments and our IT education business continues to remain challenged. On the other hand beyond IT courses did show momentum or response to this change where people are looking at IT and beyond IT courses in the form a new offering which is a multi-stream modular program had a fairly good quarter as we got 20% enrolment out of beyond IT subjects like analytics, like digital marketing and like e-commerce etcetera.

Overall at an NIIT level, the revenue is up is at Rs. 2.25 billion which is 1% year-on-year primarily caused by the revenue decline in individual IT as well as schools both due to reasons that I explained and EBITDA is up 23% year-on-year which will because of better efficiencies as well as improved capacity utilization of the resources that we are now managing.

The PAT is at 6 million versus a loss which we had last year of Rs. 94 million at an overall PAT level. Our DSO days are at 119 versus 157 last year however sequentially our DSO days are marginally worse than quarter four and that is normal given the collection freeze which happens especially in government collections during this quarter. In this particular quarter we had a stronger freeze because of the elections when frankly no other payments were coming.

So overall strong growth in corporate learning helps overcome weakness in IT trainings and completion of large GSA contracts which were the two large revenue decline areas and the positive was corporate learning skills and private schools. Overall in terms of EBITDA our volume mix contributed very little on the other hand FOREX on a year-on-year basis was positive on a quarter-on-quarter had a slight negative impact but essentially through improved capacity and delivery efficiency and capacity utilization we were able to improve the margins.

Other highlights of Corporate Learning Solutions are order intake of 16.2 million recorded during the quarter the pending order book has at 62.2 million; 72% executable over next 12 months. In Individual Learning Solutions the beyond IT products contributes 32% to the revenue mix versus 24% in Q1 FY14 and the revenue from beyond IT is also up. Beyond IT enrolments are up by 31% we did have overall placements of 6,623 which I must say are lower than last year but I must mention that as I said just in time hiring and getting a premium salary for those students who have just the right skills is the strategy that we adopted so we placed fewer but I think at much better salaries which definitely points to a potential in the future.

In School Learning Solutions pending order book is at 4.179 billion; 26% is executable over the next 12 months. The rest of the statistics I have already shared with you. NIIT Yuva Jyoti for skill building solutions is now available at 74 locations. We had 8,000 enrolments during the quarter an order intake of Rs. 76 million and we had a revenue of Rs. 19 million. It is very small in the overall scheme of things but it is much larger than what we were at the same time last year.

In terms of balance sheets with a tight spend or tight control on capital expenses and making sure that we manage our liquidity well the net fixed assets are actually down by Rs. 159 million and overall net fixed assets are now at Rs. 1.87 billion. Net debt has increased in this quarter versus last quarter by Rs. 143 million on a sequential basis and that is as I mentioned because of DSO days have gone up given the fact that there were hardly any government selections in this quarter given the uncertainties of elections or the whole nation being busy with elections and after that till the government stabilizes.

So those were the highlights of our balance sheet trends. Overall while there has been an improvements on every parameters profitability, ROC, mild change in liquidity overall the quarter actually conveys better capital efficiency, better delivery and operations efficiency and strong revenue growth in corporate, schools and skills. Our head count has reduced by 15 on a quarter-on-quarter basis and the overall direction is to remain stay on course which is in Corporate Learning Solutions, managed training services to be the main plans. I think one important issue is to corporate transition periods and transition expenses of new projects as we are getting many new projects.

So those are three new letters of awards which have to be converted in to contracts in this quarter and that we will put us on a strong track during this year. In individual the business volume has to be recovered through our multi stream modular program strategy which is beginning to show positive results. We had very little time in last quarter and we are hoping that in this quarter we will be able to see the strength of cloud campus be truly demonstrated by these multiple stream modular programs.

Our focus has to improve from employability to employment now given the fact that job scene is opening up but consumer sentiment is recovery is a key to this process. We would also be expanding program coverage for working professionals as it was successful implementation of the business analytics program which has been received fairly well by the working professional community.

In schools our focus will be to grow the private school business on the improved offerings that we have and focus on IP and annuity based revenues. Our approach to strengthening the balance sheet will continue and simplification of our operations will continue in light of that and in light of the new company law provisions I just also wanted to share that the board also appointed in today's meeting a committee to review the subsidiary company structure that we have and share recommendations for rationalization of this subsidiary company structure.

As you know we have a number of subsidiaries operating as well as non-operating some of these subsidiaries have lost their or have outlived their needs because they were created either they came through acquisitions or they came through or were created for a special purpose but given the new company law guidelines as well as the related party transaction structure which comes in to play we felt it would be best if we could simplify this.

Overall our focus on Corporate Learning, Beyond IT in Individual and private schools in the school space and a special program such as Star scheme in Skill Building will be the focus of the year as we continue to work within tight cost guidelines and tight CAPEX guidelines.

So with that I will open this floor for questions.

Moderator Thank you very much, sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Ravi Menon from Centrum Broking. Please go ahead.

Ravi Menon Couple of questions about the subsidiaries a few examples of which subsidiary you think you might want to get like the Hole-in-the-Wall in the education or whether it is the overseas subsidiaries which ones you are referring to?

Vijay Thadani Yes, I think typically these will be the Indian subsidiary we had a subsidiary call Evolve which we had acquired Hole-in-the-Wall which was created for a particular project and then has continued and then we had a subsidiary called NIIT Online Learning; we also have a subsidiary called Scantech which holds the NIIT Technologies holding and some of these subsidiaries are the ones which we are looking at and there are as you know we are looking at the structure of these subsidiaries the subsidiary structure of how we should be looking at this business. So that is what.

Moderator Thank you. We have the next question from the line of Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar This IT education business when you see the light at the end of the tunnel?

Vijay Thadani I think recovery of the consumer sentiment is extremely important and IT hiring has to really pickup which we see at the beginning of this quarter there is a change as you know at least two companies in their results have announced that they have hired little more very marginally more but you must know that most of that hiring has been of laterals. So I think fresh hiring would contribute to the positive sentiment and positive sentiment will lead to that. The second issue which we are looking at is instead of waiting for that is to look at growing beyond IT segments and I think beyond the IT segment is the one through the multi stream modular programs which has a lot of promise.

Kaushik Poddar You have mentioned on the analytics program what are the kind of number of people who have enrolled in the program?

Vijay Thadani Total number of enrolments we have had in business analytics program I am just giving you off the cuff, is of the order of 300.

Kaushik Poddar And that is all over India?

Vijay Thadani These are working professionals and they are taking time out of their working schedules to be with us and the course is fairly well priced at Rs. 1.25 lakhs or so is the fee.

Kaushik Poddar What is the duration of this?

Vijay Thadani It is about six odd months.

Moderator Thank you. We have the next question from the line of Soumitra Chatterjee from Espirito Santo. Please go ahead.

Soumitra Chatterjee First question is I think it would be great if we could get a sense of the enrolments in IT as well as non-IT separately to get a sense of how much the IT enrolments have been declining on a year-over-year basis and how much of that is being offset by the non-IT enrolments?

Second is how do you see the trend basically from a fresher’s point of view given that the fresher salary in the IT industry have not risen significantly over the last three years. So is this decline in enrolments in IT is more a factor of that or do you really see this as a basically a cyclical thing which can reverse pretty soon?

And third one on corporate learning. You have signed three LOAs this quarter. What could be the size of these deals if we end up winning them in Quarter 2 FY15?

Vijay Thadani So you asked many questions in one. Let me attempt in the order in which I remember and my colleague is writing down so I will just give you the answers as they come.

So let us start from the last question first. The three deals that we have letter of awards which are not visible in the numbers that we have shared neither are there in the order intake because only when they become contracts but since these are Letter of Awards as they end up RFPs I think it is a matter of filling in the blanks and we believe that once these stabilize they will contribute about $28 million to the visibility. So they are reasonable sized deals. In fact larger than average size deals and they are three good ones. So that is as far as these corporate learning deals are concerned.

We have a fairly good funnel so we do hope and I think there the real issue is converting and raise opportunities to convert these deals in to revenue which means cut down transition times and improve delivery efficiency so that we can improve margins. Last year we had the benefit of tailwinds of exchange rates. Our assumptions do not assume an exchange rate improvement of exchange rate change this year so to that extent I think all the benefits in corporate learning business will come out of volume growth and efficiencies.

As far as the enrolment mix is concerned I did mentioned that the enrolments of beyond IT have grown by 31% and IT have de-grown by 37%. The reason for IT enrolments de-growth is largely contributed by smaller courses of which we used to have a large number which is the one which is showing. The second is decline in the graduate segment. The graduate segment is the one which enrolls just after they finish their graduation and try to see if they can get finishing skills in terms of getting jobs. But now since IT hiring itself is muted that is definitely a challenge.

On your comment about salaries there are two phenomenon’s at work. Number one, IT salaries because of increased supply of fresh graduates have not grown that fast however, if you have a specific skill you can get a premium. And the placements that we got of entry level students in some of those companies I cannot name the companies but fairly large numbers 60-70 numbers in each of these companies were at a fairly decent salaries which are in 25% to 30% premium to what engineering graduates normally gets. So from the earlier syndrome of have any IT skill will get a salary to have specific IT skill will get a good salary is the order of the day. What are the skills which are at premium? Analytics is definitely one of them; cloud computing is another one of them; advanced infrastructure management not just setting up an ordinary network but advanced infrastructure management is one more of them. E-commerce and web based technologies is another one of them. So there are specific IT skills which do get a premium.

On the other hand in beyond IT digital marketing is a good one which gets good premium as well as banking though banking I think the new licenses and their implementation once it catches momentum I think both salaries as well as placements will increase fairly substantially.

Soumitra Chatterjee Just I had one more question. On this GNIIT thing I think in FY12 our total enrolments were 562,400 odd for the whole year which has been declining. So do we really it be great if we would get a sense of how the enrolments in GNIIT has declined over the last two years because if we are getting more on this smaller courses the number of enrolments that we will need to make it up to the whole year say we have to match up that 562,000 or 450,000 in FY13 that would be too high to fill. So just wanted to get a sense of decline in GNIIT courses and how much we are able to offset that by the smaller courses?

Vijay Thadani So I think I would like to explain to you in two parts. First, the 562,000 which was the overall enrolments that you are talking about were our global enrolments first of all. Second, they were not GNIIT alone. GNIIT at its peak was about 60,000 a year because that is a three year program so 60,000 is a very, very large number for that three year program. So 5.62 lakhs is our overall enrollments small, medium, large sized programs all put together all over the world. Now as I had mentioned before our international operations have been subdued for last two years. Now we have not been giving credit there because of in the emerging economies we did have huge collection issues so we have not been giving credit. So to that extent our enrolments internationally have been subdued for a while.

That is nothing new. On the other hand in India in GNIIT which was declining and is declining even now we last year did I think about 45,000 enrollments in GNIIT series and this year while in the first quarter we had we can divide the quarter in two parts first half when we had the same old program running and the second half when we launched this revolution GNIIT which gives multi stream modular options there is definitely a big uptick in the second half versus the first half. Overall GNIIT enrolments are lower than last year but not at the level at which our overall enrolments have gone down. So I can share that the percentage with you of GNIIT separately as I pulled it out of this thing. But that is really the issue. So the enrolments numbers that you referred to was overall enrolments number and not GNIIT. GNIIT is our largest contributor to revenue and to that extent it has not grown even in this quarter. But I just want to make sure that I let you know that 5.62 lakhs was not GNIIT enrolments they were overall enrolments. GNIIT enrolments at its peak were about 60,000. Last year they were at about 40,000 to 45,000 and this year in the first quarter we do have de-growth but the second half of first quarter which is when we launched the Revolution GNIIT program we had a positive uptick and we are hoping that GNIIT with multi stream modular options will do better.

Soumitra Chatterjee Just one last question. What was the revenue contribution of GNIIT to the overall FY14 IT revenues and what was it in FY13?

Vijay Thadani I will have to pull that out then I will share that during the conference or I will write to you or share that with you separately and put update on the website.

Moderator Thank you. Our next question is from the line of Ruchi Borde from Emkay Global. Please go ahead.

Ruchi Borde My question is regarding this School Learning Solutions. When I see your revenue mix in this segment it has moved in our desired direction which is non-governmental school revenue has improved but when I look at the EBITDA margin the benefit of improvement in revenue mix is not reflected. Can you help me reconcile the means to diversion trend?

Vijay Thadani So yes, because the balance government projects are operating at the same level of overheads because we have to service the balance government projects and to that extent the structure is remaining the same. So the losses in the government projects on an overall level are being compensated by the profits in the non-government ones. So that is how it is. And the other thing is the private schools the margin while we do not have a measurement at that level we measure at gross margin since the resources are combined we have to ensure that the scaling up which required higher sales and marketing continues to remain aggressive. Particularly, so since our competition is in a weak status was and we have to take advantage of that market. One more thing which I thought I should highlight is in government while we have deemphasized we have to maintain the same level of service quality otherwise even the balance money that we are supposed to get will get jeopardized. So that does contribute to a higher cost.

Ruchi Borde So sir, when can we expect this offsetting effect moving in favor to be a margin accretive even for this School Learning Solution business?

Vijay Thadani I think as you can see that frankly the margin on a relative basis is improving even now why because even whether you look at sequentially or year-on-year basis our revenues are declining but we are holding the margin steady at least for the last two or three quarters at the same levels. So to that extent there is an improvement.

Ruchi Borde And just to clarify if I remember correctly you had mentioned that by next two years we would be exiting Government School business is that right?

Vijay **Thadani** Yes ma'am. We have not taken any new contract from 2012 onwards.

Ruchi Borde So by two years we will conclude all our commitment?

Vijay Thadani Yes, there is a long tail, but I think the predominant impact will be over in two years time.

Moderator Thank you. We have the next question from the line of Chetan Vadia from JHP Securities. Please go ahead.

Chetan Vadia My question is again on the School Learning Solutions what kind of addition in terms of non-government schools can we see in the remainder nine months?

Vijay Thadani We had added 668 schools last year we are hoping that we will exceeds that number.

Moderator Sure sir. Sir, we will take the next follow up question from the line of Ravi Menon from Centrum Broking.

Ravi Menon Just two clarifications. I wanted to understand clearly the difference between the pending order book and the revenue visibility?

Vijay Thadani Yes, I will answer. So we recognize an order as an order when our customer places a number or gives us a piece of paper which says this is an order for x amount of widgets or x amount of service or y amount of rupees or dollars as the case may be. When that is said then we consider that as an order. On the other hand in managed training services kind of contracts take somebody's current internal training function and they say from today onwards you look after our current training function. Our this year's budget is about whatever x million dollars and is likely to be increasing by a marginal amount and you are going to look after our training function for next five years. Then we would take 5x that means x which is our spent which the person has this year; 5x that for five years and a marginal increase that they may have projected as our visibility for that. That is just to get a better sense of what we can expect from that contract. It is not a confirmed order. So that is the difference between visibility and order intake.

Ravi Menon So if I may understand a little better so the annuity contracts you could say is contribute towards the visibility but very clearly the time and material kind of contracts are what you recognize as the order book?

Vijay Thadani Well, we do not have time and material kind of contract so let us say even in an annuity contract it is possible that the person says but in the next three months please ensure that 1,000 people get trained at x million rupees or x million dollars or we are placing an order on you for 20 schools where you have to put one Math Lab each so that is 20 Math Labs at x hundred rupees or Rs. 100,000 will be equal to the value of the order.

Moderator Thank you. Sir, we have the line connected back for Mr. Chetan Vadia from JHP Securities. Please go ahead.

Chetan Vadia Sir, I was asking about the if you hope to do better for FY in terms of number of schools that is in non-government so what kind of a revenues or margins do you expect to see for School Learning Solutions?

Vijay Thadani Okay, I will ask Mr. Rajendran to respond.

P. Rajendran So what happens in schools is we have an interesting range of products. So there is one side which is about academics in line with the curriculum which is an IT part which we deliver on their interactive rooms inside the class rooms on multiple subjects. Then there is the lab part which is the Math Lab which adds on their curriculum and that can be bought by them anytime of the year. Then we have the quick schools which are in education resource planning ERP system which again they can buy anytime. So what we have found in the last one or two years the trend is order in takes starts happening towards Quarter 3, Quarter 4 as far as the products which are in line with academic year. So ITW which is our IT learning product for the schools that starts happening in Q3, Q4 executions will be end of Q4 and Q1. You had asked me about the margins part. So like Vijay said if you take the schools together then there is the impact of the government and the private. On the private school side so far we have seen that the margins have improved over the last two years and the margins are different in different one of these products but till year before last we were supplying lot of hardware in to the schools the boards and stuff like that. Now we have started deemphasizing and literally do not supply that unless and until there is one or two special cases where they are ready to buy and pay immediately and with a little margin. So that is contributed to expanding margins as far as the school business is concerned. I am unable to give you a specific number for the private schools alone at this time because we have been talking about the schools business together.

Chetan Vadia And my second question is on Individual Learning Solutions. If you have been talking to your customer who have been hiring from you then what kind of hiring they are expected to do for FY15?

Vijay Thadani Yes, so as I said that there is a positive trend in hiring though very small and they have large dependents on laterals but from whatever results have come out so far and from whatever we can understand from their placement department in the second half of the year they intent to accelerate hiring. And as I said just-in-time recruitment will be the order of the day with specific skills and I think we are gearing up for that.

Chetan Vadia If you see in just-in-time that means you would be seeing more of a short term courses been taken up the students?

Vijay Thadani No that in general has been the trend where large number of IT graduates used to take shorter term courses. This year the shorter term courses by IT graduates are not higher because I think again contributed by the same sentiment. We do believe that this trend will reverse as the hiring picks up which is being shown. The second is if there are people who have specific skills like I gave you the example of analytics a short while ago then those students stand to get premium that word of mouth also has to spent because then that will mean more students would like to get those premium skills.

Moderator Thank you. We have the next question from the line of Jay Daniel from Corporate Data Base. Please go ahead.

Jay Daniel Sir, can you let me know the breakeven point in ILS?

Vijay Thadani At central level breakeven happens at about 35% capacity utilization.

Jay Daniel Is it possible to give the break up between IT and non-IT?

Vijay Thadani For breakeven it is the same center which conducts both the break up between IT and beyond IT I mean we do not use the non-IT but sorry what is the break up you are looking for revenue break up?

Jay Daniel No, breakeven sales and at what sales do you breakeven?

Vijay Thadani This year at this quarter breakeven you can see at the current revenue levels is where we have broken even but I do not know what is the other color I can give you to answer your question better. So I think are you asking whether there is a difference in breakeven points between IT and beyond IT; is that the question?

Jay Daniel Yes right.

Vijay Thadani Beyond IT we will breakeven at a lower level why because the lower IT infrastructure involved there.

Jay Daniel And what would be the contribution margin approximately I mean in ILS at this point in time?

Vijay Thadani Well, in this quarter the EBITDA is at breakeven or near breakeven so I can tell you that at 35% capacity utilization we breakeven at 60% capacity utilization we make 27% margin.

Jay Daniel For this for ILS as a whole?

Vijay Thadani Yes I mean this has been our past experience and that is at 65% utilization you will get 27% margins.

Moderator Thank you. As there are no further questions from the participants, I now hand the floor back to Mr. Vijay Thadani for closing comments. Thank you and over to you, sir.

Vijay Thadani Thank you very much for joining the call. As usual your incisive questioning does help us think of many aspects of our business very differently. So thank you very much for doing that and your keen interest and cooperation as well as your guidance. We are available to you in case there were any questions which were unanswered. We will be available to you, provide you those data points and we look forward to being in continuous touch. So all the best. Thank you very much.

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