



“NIIT Limited’s Q2 FY15 Earnings Conference Call”

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MANAGEMENT:

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q2 FY15 Earnings Conference Call of NIIT Limited. 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 of NIIT Limited. Thank you. And over to you, sir.

Vijay K. Thadani: Good Afternoon and Welcome to our Quarterly Brief on Financial Results. As usual I will go through the 'Environment', then a little bit about 'Results' and the 'Analysis', and then we will open it up for 'Questions'.

Today, I have a larger team than usual to support me here, and I will introduce the people – Mr. Pawar – the Chairman; Rajendran – the Chief Operating Officer; I have a new face – Rahul Patwardhan – who is the CEO designate; Shivan Bhargava – who is the Group President of Skills and Careers Group; Kapil Saurabh from Investor Relations; Rohit Gupta – the CFO, and a few other colleagues.

So, what I will quickly do is to take you through these pieces and then we have a more useful discussion. To start with the 'Environment', I think you are more familiar with the environment in terms of the global economy is concerned, so I will restrict my comments there, but enough to say that it is very country-specific, and the pace of recovery is uneven, and there is an increased uncertainty due to financial and geopolitical risks. Closer home in India while the business confidence has picked up on large expectations, recovery on the ground remains fragile and structural reforms are kicking in as we speak, I think last few weeks there have been some good announcements – Corporate Training markets in US and Europe have remained robust, as organizations are realizing the need of specialist organizations to help them through their training functions, realizing that people productivity, people effectiveness is the key to sustainable competitive advantage, and to that extent we are finding ourselves being invited for many more RFPs than before, and there is an increased activity in this space. The sales cycles, of course, remain uncertain, because many of these decisions involve not a very-very organized and predetermined decision-making process.

Back to India, I think the "Digital India" campaign, the "Skills India" campaign, a common ministry for skills development, I think are positive news and shows government's commitment to skill up the Indian youth and therefore take advantage of the demographic dividend.

The recruitment activity in IT sector has shown a small increase mostly due to increased attrition, but there is a large inventory of fresh graduates waiting to be placed, and to that extent the hiring of fresh graduates remains weak, and it continues to impact the sentiment of people going in for professional skills to improve their chances of getting new jobs. We do see growing opportunities Beyond-IT programs.

So, overall, if I was to summarize, it is a quarter in which the business confidence was strong, but environment was weak, and we do hope that in the coming quarters we will see better and more encouraging kinds of positive consumer sentiment.

As usual I will report on the dashboard of four platforms of growth – so in the Cloud Campus, we made good progress this quarter; 89,971 enrolments since we launched Cloud Campus, 222 Centers have been Cloud-enabled, and we have now 94 courses available through the Cloud Campus. Managed Training Services or Corporate Learning Solutions which was the earliest platform to have matured has had a very good quarter and very good quarters in the last few quarters with 23 global customers and the revenue visibility at \$164 million, where MTS now contributes to 88% of the overall CLS business. So in many ways it is a complete transformation of a project-based business into an annuity-driven business now.

In Schools, the Nguru platform has now touched 2,396 schools and NGSA contributes 59% to the overall Schools business. In Yuva Jyoti, once again we saw a surge in this quarter with overall Enrollments reaching 31,200 and the reach expanded to 76 locations.

Typically, in these quarterly calls, we talk about financial results and analysis, on strategy, but this time we have more both positive and important news to share, which is to do with the Business Transformation and succession plan implementation at NIIT. So, earlier in the last quarter we talked about the rationalization of subsidiary company structure, which was the first step in simplifying our structure to get the benefits of the Business Transformation.

Very early this quarter, we had the pleasure of welcoming Rahul Patwardhan as the CEO-designate, who will take over as the CEO from April 1st and right now he is already coordinating with all the business groups as we have been talking about.

The other induction was the Skills & Career Group where we are integrating the Yuva Jyoti as we understand and Individual Learning Solutions together into the Skills & Careers Group, and there is a Business Transformation underway which we will talk a little bit about in today's call.

Shivan Bhargava who comes with a very rich experience mostly in Consumer Marketing has joined us as the Group President to head the Skills & Careers Group. And we will talk to both these gentlemen today as a part of this call.

Getting back to the 'Financial Results', I think the highlight of the financial results was the Corporate Learning Solutions performance where with the revenue of 1.248 billion is up 26% with an EBITDA margin at 12%. So I will just want us to be reminded that from an original projection of about 15% overall growth, this business has far ahead of projections, and we do believe that in the next two quarters while the growth rates will get slightly lower, but overall I think will be well ahead of its projections. Strong quarter-on-quarter growth of 10% and 35% volume growth on a year-on-year basis. So last year many of you had commented on the growth coming out of tailwind of exchange rate, but this time the volume growth is far in

excess of the exchange driven growth, because exchange has actually brought down the growth rate in certain form. The MTS revenue is up 59% year-on-year and in this quarter we added two new MTS customers and that takes the total number to 23. It is in the Individual Learning Solutions that we have had challenges, but the positive side in that is the good traction in the new multi stream modular ReV NIIT program. In the last call we had discussed at length about the ReV GNIIT program and how the multi-stream modular program is our strategy for going ahead in the future with a mix of IT and Beyond-IT programs. So I am very pleased to report that 25% of the enrolment in the ReV GNIIT program were from Beyond-IT streams, and the ReV GNIIT overall grew 25% in our flagship centers in terms of enrolments. Now, Beyond-IT products contribute 27% to the overall revenue mix. So I think two important things – ReV GNIIT as a positive result coming out of the strategy and the IT-to-beyond-IT transition also yielding good results.

In the School Learning Solutions, as we are deemphasizing the government school, the growth rate in that is obviously not there, and in fact the business is shrinking, but it is being made up by the non-government segment. So this time the non-government segment contributed 59% to the overall revenue mix. The quarter was however muted on new order intake, while where we added 95 Schools with an order intake of Rs.88 million.

Overall, if you look at the company, year-on-year we were (-1%) in terms of revenue; however, because of the higher impact of product mix and operating leverage we had a much higher shortfall in EBITDA which is (-25%), the EBITDA margin having shrunk by 231 basis points on a year-on-year basis. We did have a large benefit of depreciation because of the low capital intensity that we have experienced in recent quarters, and that has led to a slightly better impact when it comes to profit before tax and profit after tax was also affected by a lower share of profit from our associates. So overall, the EBITDA is impacted by operating leverage in Individual Learning, which is partially compensated through the cost management actions. I must say that in the last five or six quarters, aggressive cost management actions have kept the operating profit to a better than what it would have been had those actions not been taken place. We did have a reduction in net interest and lower FOREX loss which also contributed to the net other income.

Overall, if you were to look at the business mix, now 48% of our business is coming out of Corporate Learning Solutions and the good news is that 48% of business is on a robust growth path, grown 26% year-on-year and has a strong margin of 12%.

On the other hand the Individual business which till last year was 48% at the same time is now down to 39% given the challenges that we are facing there. The impact of that is obviously felt in a higher EBITDA movement given the fact that operating leverage in the Individual business is rather high, and therefore on the way down the impact is also higher.

In the Corporate Learning Solutions, while I talked about all other parameters, the only other parameter that I would like to mention is that order intake was also up 50% year-on-year at \$20.7 million and therefore the Corporate Learning Solutions is completing the quarter with a

very strong pending order book of \$62.3 million, 73% of which is executable over the next 12 months.

In Individual Learning Solutions, the only other element that I would like to point out other than what I mentioned was that Beyond-IT products contribute 27% to the revenue mix, and we have had a limited hiring of fresh graduates not only in IT, but also in banking this quarter, while new bank licenses were given, but I think new banks were slightly hesitant to start having a large number of people on their board, this did effect our enrolment though overall Beyond-IT enrolments were up 23%.

In the School Learning Solutions, we completed one GSA contract, the government contract in Q2 covering 1870 schools, and to that extent I think we have now lesser part of the government contract left to be completed, which increases the focus on the non-government schools and there 95 new schools were added, taking the order intake of 88 million.

In Skill Building Solutions, while the percentages look extremely attractive, but those are on extremely small base, but enough to say that we had a very good traction, and as we have mentioned many times before, this is a business which is working in a new segment with a new business model, and therefore will take time but it is now showing signs of picking momentum, and to that extent we have the benefit of both revenue increase as well as an improvement in profitability as we get the benefits of that revenue increase.

We finished the quarter on a relatively stronger balance sheet; our overall receivables are now down to 116 days against 119 days at the end of Q1. Normally, at the end of this quarter, the receivables tend to be a little higher, given the higher business volume, but we have been very-very strict on giving credit as well as on collecting past due collections. So that has resulted in better liquidity this year. Net debt is slightly higher but much lower compared to last year and this is a quarter in which the dividend gets paid so it is possible that net debt will be a little higher, but most of that has been made up by a better liquidity. Net fixed assets are lower, also visible in the depreciation, and in depreciation, of course, we also had the one-time benefit of new MCA guidelines on depreciation, but overall net fixed assets are down by 90 million on a quarter-on-quarter basis.

After many quarters this quarter we have had an increase in headcount of 94 and this is coming at the back of large contracts that the Corporate Learning Solutions has received and while many of them are in transition and we have not the benefit of revenue out of them, but it has had an impact on headcount, and therefore headcount has started increasing slightly.

Going forward, I think our focus will remain very sharply on concentrating on high ROCE businesses and thus deemphasize products which have higher capital intensity.

We are also as you can see from the two important announcements – strengthening the management capability in key areas and more specifically, Rahul Patwardhan comes with a very-very focused mind, he is forever an NIITian having served in NIIT for long periods of

time before he went and got some very useful global experience which will come in handy, ten odd years when he has worked in various parts of the world in Europe, Asia Pacific, and serviced the whole globe in building a very strong capability in large contracts and scaling up organizations. So both his ability of focus as well as speed of execution as well as global expertise will come in very useful as we are transforming the organization at this point of time.

Shivan, on the other hand comes with a strong background in Consumer Marketing, having served with Goodlass Nerolac, Coke and lastly in Bharti Airtel, and I think his understanding of emerging markets in addition to India again would come in very useful in the Skills & Careers Group strategy as we are transforming that business.

We are in this quarter focusing on the rationalization of subsidiary company structure, which we had embarked on during the quarter, we discussed this partly in last quarter's call. And the Skills & Careers Group transformation which will have a key impact.

I just thought I will talk about five key directions that are emerging in the transformation of the Skills & Careers Group – The first is integration of the IT Training, the finance, banking, insurance, management, and the skills development initiative into a one NIIT organization. You heard me talk about one NIIT in the past, but this time we are talking of the integration of the organization to make sure that we strengthen both the back end as well as the front end; front end in a manner that we can go and attract the customers of the kind that we want with a higher degree of intensity and back end so that we can get the benefit of all the synergies that exist between the organizations and deliver it on a common platform of Cloud Campus to our customers across the world – The second is the focus on key geographies. Many of you have commented on our dispersed presence and therefore in the next few years our focus will be on key geographies as we go forward. Asset light and technology-centric expansion will be the order of the day where Cloud Campus will be the platform of choice as well as we will make sure as we go forward that we increase the technology base delivery as a percentage of overall, thus releasing brick-and-mortar capacity partly as well as ensuring that we are able to service many more students with much larger range of curriculum.

That brings me to the exhilaration in Beyond-IT offerings while we have had more Beyond-IT offerings, I think this team is committed to accelerate that and build on the experience that we have got so far. And that will be by growth through 360 degree partner eco system. So far we have utilized our distribution channel for expansion, but we also have an opportunity to expand our subject matter equities, partnerships as well as platform and other lateral partnerships that may be possible. We can discuss more about that as we go forward.

Overall, in terms of our Corporate Learning Solutions, the direction will clearly remain focused on Managed Training Services and taking advantage of the momentum that we have built up so that we can continue to accelerate with higher margins as we go forward.

I would like to pause here at this point of time and open the floor for questions and then we can explore other areas. Thank you very much.

- Moderator:** Ladies and Gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question, may press '*' and '1' on your touchtone telephone. If you wish to withdraw yourself from the question queue you may press '*' and '2'. Participants are requested to only use handsets while asking a question. The first question is from the line of Ravi Menon from Centrum Broking. Please go ahead.
- Ravi Menon:** In the last quarter you had mentioned that there were three letters of award for the CLS that will be signed into contracts here. Is the \$20.7 million booking we see this quarter of these three awards?
- Vijay K. Thadani:** Yeah, thanks for asking the question, I should have mentioned this myself. Of the three letters of award that we had, two of them have become contracts which are visible in this quarter, the third letter of award is yet to be converted into contract, and it is in the final stages of contracting, it may happen today or tomorrow. But yes, part of the new order intake is those but part of the order intake will also be out of existing customers.
- Ravi Menon:** And would you say that Q3 is typically a stronger quarter for CLS bookings?
- Vijay K. Thadani:** Sapnesh would like to answer that perhaps.
- Sapnesh Lalla:** One way of saying it is how you said it, one other way of saying it is Christmas came early, so....
- Ravi Menon:** This is something related to customers budget cycles and Q3 where you would see some more bookings?
- Vijay K. Thadani:** Normally at the end of Q3 you have more spending than booking. So typically people are in their final stages of budgeting, so they are actually completing their year's budget, that is the experience in the past, but we have a very robust order book so I think next couple of quarters there are many more in the pipeline, which should happen.
- Sapnesh Lalla:** The pipeline continues to be robust; we have more opportunities that we are servicing today than we were same time last year.
- Ravi Menon:** One question on the ILS side. We have added net revenues incrementally over Q2 of a year, typically a lot more of that used to flow down to the EBITDA, for example, for '13, '14, 30%, 36% of the additional net revenue added flowed into the EBITDA, but this year only about 15% of that has come in. Could you help us understand what additional cost came in this quarter for ILS or is it because maybe you now have a larger number of Courses which increase your costs?
- Vijay K. Thadani:** No, I do not think it is an increase in the cost structure that way, typically as you know this is a high operating leverage business. So when the revenue increases, then you should get between 50% to 60% of the additional revenue as a contribution to EBITDA. Now I do not know which

two periods are you comparing. Are you comparing Q1 and Q2 or Q2 last year and Q2 this year?

Ravi Menon: I am comparing the Q1 and Q2 of each of these years. So typically, when the incremental revenue I have seen that over FY13, 30% of the incremental revenue you added, flowed into EBITDA like you said and '14 the same thing happened, 36% flowed down. Now, this year though only about 15% has come in. So just trying to reconcile that with the operating leverage?

Vijay K. Thadani: Maybe the best would be for us to just evaluate it on the same guidelines that you said. We normally do Q2 to Q2 and we do not do the sequential comparison as much, but you have raised a very interesting point, let us quickly calculate, maybe by the end of this session we will be able to give you a better response.

Moderator: The next question is from the line of Ganesh Shetty who is an individual investor. Please go ahead.

Ganesh Shetty: Sir, I just want to ask regarding our School Learning Solutions. While consolidating all our subsidiaries we have kept aside, School Learning Solutions as an independent subsidiary, is there any strong future plan for this subsidiary to bring some strategic investor or like that, can you please throw some light on this?

Vijay K. Thadani: As we had also mentioned when we announced the scheme of arrangement, the School Learning Solutions, capital profile is very different than those of other businesses, and this is a little more capital intensive and therefore accordingly we have to plan out a revised strategy given the fact that one part of the business is coming down, which is the Government business and the other part of the business which is going up is the Private Schools business, and we are in the process of drafting that strategy, and one option going forward is also to bring strategic investors, and that is the reason we have carved it out as a separate subsidiary. You would know more about this in the next 60 to 90 days time as we go through the subsidiary rationalization process.

Ganesh Shetty: My second question is regarding Corporate Learning Solutions. As we are moving forward, we are getting more and more contracts in this particular business and it is one of the best performing business for the last few quarters. Is there any margin improvement in this particular section of our business? And do we see going ahead margin getting improved quarter-after-quarter and we are consolidating our business and getting more matured Corporate Learning business, can you please explain regarding this, sir?

Vijay K. Thadani: Yes, you have made a very interesting point, that first of all I think while the Individual Learning business is affected by the economic environment, in case of Corporate Learning business they have got the benefit coming out of that, and to that extent the balance portfolio has helped us as one set of businesses degrew, the others have helped us in retaining a certain size and profitability, but going forward, as they are adding more and more orders, they would

also have higher and higher transition cost, and yes, the benefit of the operating leverage which is visible in this business. I will ask Sapnesh to talk a little bit more about the margins as they were in this quarter as well as margins going forward.

Sapnesh Lalla: Yes, Vijay, my comments are in line with what you said. Over the last few quarters and continuing into the next couple of quarters, our focus has been and to some extent will be to ensure volume growth, but as we are doing that we are also equally focused on ensuring that we improve profitability. So over time we are expecting to improve profitability of the business.

Ganesh Shetty: That is all from me sir. All the best and I welcome Mr. Patwardhan, a new Group President to NIIT family sir.

Vijay K. Thadani: I will ask Mr. Patwardhan to say a few words in response to what you said.

Rahul Patwardhan: Thanks, Vijay, and thanks Ganesh. I am delighted to be back at NIIT after having spent 20 years of my early career over here in most of the different education businesses that we are involved in today. I have been out for about 10 years at Logica and other places in the Managed Services business which is now a very significant part of the NIIT profile, which Sapnesh is heading. So, I believe that with my background there is a good opportunity for me to leverage by experience both at NIIT and in the Managed Services business. I think NIIT right now is poised very well in both these businesses in terms of having a very good positioning and with the Business Transformation program that me and my team are going to be driving very aggressively. I can see that if we move with a good speed, agility, and execution, we should be able to start moving the company forward in the direction that we want to.

Vijay K. Thadani: Maybe I should ask Shivan to say a few words as well. Shivan, do you want to?

Shivan Bhargava: Just wanted to add, I am extremely delighted to be with NIIT at this point in time, very happy that I would be able to contribute in my own way through my experience in sales and marketing as well as customer experience that I have developed over the last 19 years of my career. So I am sure with that kind of experience I would be able to help the Business Transformation project that we are here we are taking under right now.

Moderator: The next question is from the line of P Sachdev from PNY. Please go ahead.

P. Sachdev: I wanted the capacity utilization of both the ILS segment for both IT and non-IT please?

Vijay K. Thadani: Capacity utilization we measure at an overall level, because we would not have the difference. I have the breakup of revenue – 73% revenue came out of IT, 27% Beyond-IT. As far as capacity utilization is concerned, overall utilization in this quarter was 42%.

P. Sachdev: How do you see the non-IT contribution maybe in the next two years from 27% odd?

- Vijay K. Thadani:** Beyond-IT contribution, I had talked about it maybe conferences earlier, saying that we would like it to reach 65% IT and 35% Beyond-IT in three years time. However, the rate at which the transition is taking place, I think we will reach there much earlier. The second I must say is Beyond-IT programs also come with a slightly better margins so their attractiveness is also higher. Both Pat and Shivan are also very firmly convinced that transforming the portfolio in favor of much higher portion of Beyond-IT offerings is good and matches with their experience as well as insight into what the marketplace wants. So I think you will see a much higher growth in Beyond-IT segment as we go forward.
- P. Sachdev:** If my analysis is correct, so the EBITDA anyways would look up since the non-IT contribution will be a lot more going forward?
- Vijay K. Thadani:** On a comparative basis, yes, but as you know EBITDA is very-very strongly dependent both with going up as well going down on capacity utilization, and right now our capacity utilization is lower while Beyond-IT will help fill up that capacity faster and to that extent EBITDA will increase. You must know that that will be the driving force rather than which course it is.
- P. Sachdev:** So finally, with all the cost cutting measures and making it lean, can we assume the worst of the IT EBITDA has been bottomed or something like that?
- Vijay K. Thadani:** I wish I could say that for the economy in general, overall, the positive signs are that the IT hiring has finally picked off, that I think is a positive movement. If you notice some of the hiring patterns given by some of the IT majors, the fresher hiring has also just picked up. Right now, the inventory is strong, but with “Digital India” campaign, “Skill India” campaign, and the combined thrust on skills, which the government is looking at, I think all these are pointing to a stronger year as we go into FY 2016.
- Moderator:** The next question is from the line of J Daniel from Corporate Database, please go ahead.
- J Daniel:** You had mentioned that 60% of additional revenue would drop to margins in ILS. So, going by that would it be correct for me to assume that fixed cost for the quarter was around Rs.55 crores?
- Vijay K. Thadani:** Let me first explain to you if everything else remaining the same, that is why I said, we do the same quarter comparison for the year, because the marketing spend in those quarters is nearly the same. If that was the case that you had assumed, then the fixed cost in this quarter depending on if you consider marketing cost as a fixed cost, which it is, yes, would be of the order of Rs.(+55) crores.
- J Daniel:** Assuming marketing spend remains the same, this would be the trend going forward also?
- Vijay K. Thadani:** If we retain the fixed cost structure at the same. If you heard me talk about our strategy going forward, is to make it what are the fixed costs we have – we have premises, we have people, and we have the marketing cost. We would not like to cut down the marketing cost, because

that is the way we would like to charge the market, but definitely we have some scope in premises, as we consolidate the centers in the One-NIIT movement. To that extent the fixed cost on a relative basis will come down.

- J Daniel:** What is your target for fixed cost going forward, where do you see it dropping down to?
- Vijay K. Thadani:** It will depend on the sizing that we do as we lay out the Business Transformation initiative. It will be too early for me to comment on a targeted number.
- J Daniel:** But your contribution margin is around 60% as on date in ILS?
- Vijay K. Thadani:** Yes, every new rupee of revenue that we get 60 cents drop to the bottom line.
- J Daniel:** What is the difference between gross margin and contribution margin?
- Vijay K. Thadani:** No, I said, for every new rupee of revenue that we get, 60 cents drop to EBITDA.
- J Daniel:** My second question is, in ILS, it is a considerable concern that even after a long drawn decline in sales. Your ILS revenue was Rs.180 crores in September 2011, come down to Rs.100 crores in this quarter and even in this quarter it is down 21%. So where do you see it kind of stabilizing and when do you see it kind of flattening out?
- Vijay K. Thadani:** So there are two moving forces in this – one is, how quickly can we ramp up Beyond-IT revenue. Beyond-IT revenue as it revs up, and as it shows growth, that is one growth oriented product will contribute to that. The second thing is how quickly can we ramp up the ReV GNIIT; ReV GNIIT as I mentioned has grown 25% in flagship centers but the flagship centers are only 30% of our total capacity. We have to carry this to the rest of the channels with equal fervor, and, of course, Cloud Campus will allow us to make that happen at a faster pace. Let us look at the fundamentals of the Individual business. There are 6 million students, who are going to graduate in the coming two years, let us put it that way. Only 25% of them, by the best of estimates are employable. For the others to find jobs, they need professional skills to fill their resume. And we are the market leaders in servicing that. If the overall hiring remains muted, these graduates are not enthused to go for professional skills and would rather spend their time getting whatever small or odd jobs that they can get. That is the state of affairs. We have seen a direct correlation between hiring patterns and growth in this business. The minute the hiring patterns pick up, the consumer sentiment reverses. So really the bet that has to be taken on is “Will Indian industry hire more people?” I think the answer to that is a resounding ‘Yes.’ “Whether Indian industry hires or not, whether Indian youth are going to get themselves into businesses or industries globally?” The answer to that is also resounding ‘Yes.’ So the fundamentals of the business are very-very strong. I think the timelines around which we are working where this economy downturn has actually been unusually long, that has definitely taken its toll. For us it is important that we have a robust strategy, robust platform, and we are there when the times recover. And in the last three years you have been hearing my analogy while there has been a storm going on outside, we are busy getting our house in order and

strengthening the organization. We do hope in the coming times as the economy recovers we will get the benefit of all this. Two parts of the strategy which we implemented have delivered very good results – Cloud Campus with the GNIIT platform, and the Beyond-IT offerings. We now have to see a return in IT, which will actually give this business a certain impetus for growth.

J Daniel: But as on date you still do not see in bottoming out, I mean, the decline which is happening?

Vijay K. Thadani: It is very difficult for anyone to at this point of time saying what will bottoming out mean.

J Daniel: Is there some core level of sales that you feel that would not go away, that will continue base level of sales beyond which you would not see a drop?

Vijay K. Thadani: Let us talk about a total level of sales that we believe. For us what is very important is that in the next one or two quarters, the Indian economy as it recovers, it requires much larger number of work force, and as it requires work force, there will be a recovery. That is what we are banking on. The minute there is a recovery, for every extra rupee we earn, 60 paise will go to the bottom-line, just remember that.

J Daniel: Sir, in CLS, you have grown at 26%. Can this growth rate be sustained?

Vijay K. Thadani: I want to explain to you that our guidance for the year was 15% growth, a much higher. The reason is, some of the orders that we got earlier in the year have had a benefit, but that does not mean that we would be able to continue with the same level of growth. Over the years we will be much beyond our projections, no doubt about it. But I do not think every quarter we can bank on the same growth rate that we have experienced this quarter, exchange rate aside. Exchange rate variations neither I have a control nor do you have.

J Daniel: Your operating margins will be around these levels, because it has sustained around these levels, around 12-13%?

Vijay K. Thadani: Yes.

J Daniel: In your School Learning business, was there any one-time cost because you closed one of your Government School orders?

Vijay K. Thadani: Normally, there is no one-time cost, but there will be a small cost tail which you will see in the next couple of quarters. Rajendran wants to add.

P. Rajendran: We saw a little bit, because 1,800-odd schools we completed in one of the states. So at that time what happens is, that when you do the housekeeping and hand it over, it does not stop on one particular date, there will be a couple of weeks of handing over, so there are some extra costs. There may be a little bit of that which gets carried over to October.

- J Daniel:** I understand that the cost composition of Government and Non-Government schools are completely different. So in this Rs.31 crores of operating expense for the quarter, what is the breakup between Government and Non-Government?
- Vijay K. Thadani:** I would not have it at this point of time.
- J Daniel:** But the cost economics are considerably different between the two?
- Vijay K. Thadani:** The cost economics in the Government business, the headings are different. The headings in government business since we are not selling anymore, it is only the delivery cost. On the other hand the non-government schools in addition to the delivery cost, which is on a comparative basis lower, there is a customer acquisition cost, sales and marketing cost, which is relatively high at the volume at which we are working.
- Moderator:** Thank you. The next question is from the line of Chetan Wadia from JHP Securities, please go ahead.
- Chetan Wadia:** My first question on School Learning Solutions. Is there any more Government contract likely to be completed in the second half?
- Vijay K. Thadani:** There is a small contract which is ending. But you can assume there is no large contract ending this year.
- Chetan Wadia:** Second question, on Skill Building Solutions, currently, we are at 76. How many more centers you may be opening in the second half?
- Vijay K. Thadani:** I think you are asking me to talk a little bit about the Business Transformation initiative which Pat and Shivan are working. Their aim is to get all the centers to be able to sell Skill Building Solutions products. I am saying it one light, as an integration possibility.
- Chetan Wadia:** In that case if I may ask, how many of our existing centers will be eligible for Skill Building Solutions by end of this year?
- Vijay K. Thadani:** At the end of this year the number will not increase dramatically, but over the next fifteen months it may increase, but Pat you want to add something?
- Rahul Patwardhan:** I think it is too early to outline the plans in terms of the rate and speed at which we will be expanding this offering across our network, but as Vijay said, the direction is very clear, we want to make sure that everyone of our Skill products will be available through our network in every location, that is the intent.
- Chetan Wadia:** Now 94 Courses are there on the Cloud. Are you planning to add any more Courses over there?

- Vijay K. Thadani:** Obviously, in the same tune, like your earlier question, yes, it will be. Today, we have a number of Courses in Banking, Financial Services, Skills which are not on Cloud Campus, all these will get on to the Cloud Campus in any case. The real advantage of Cloud Campus will be, if there are a large number of Courses available and a center decides which Courses are valid for that particular center and pushes or get students against that. Pat, you want to add?
- Rahul Patwardhan:** Taking off from what I said earlier, the focus on accelerating of the product portfolio which is increasing the number of courses Beyond-IT, both delivered through centers or partly through the Cloud Campus, our strategy essentially is to accelerate the number of courses available, partly through developing some of them ourselves, but also through leveraging a partner network of providers so that we can increase this portfolio much-much faster. We are looking at technology-centric additions to the portfolio, so the Cloud Campus course portfolio will also increase substantially.
- Chetan Wadia:** In terms of Individual Learning Solutions, what level of revenue you would be ending the year at?
- Vijay K. Thadani:** There are a number of ways you can draw this line. If you see our performance in Q1, we were (-23%), Q2 it was (-21%). So by that extension in the next two quarters and even though I am not the best judge of the environment going forward, there definitely seems to be an important improvement, it is a very minor. We have some corrective actions already underway for reducing the cost structure. While revenue to that extent has a level of uncertainty, cost has a higher degree of certainty. And how can you make sure that we do not affect our size but yet reduce our cost. I think that is what the Business Transformation team is working on. I think we would get a better picture only towards the end of the year, because a lot is bet on government's actions as well as the environment response.
- Chetan Wadia:** You were giving some reply on one government contract getting canceled this year for School Learning Solutions?
- Vijay K. Thadani:** It is not canceled, it is completed.
- Rahul Patwardhan:** The Government School, the one which I told you in Gujarat, the 1,800, there is a percentage of that, which will get completed next quarter, so that is the tail part of it. There is another contract, but the impact of that will only happen later, because that gets completed only in Q4. So we are talking about Q3 tail of **52:06 (Inaudible)** quarter and Q4 will be another contract, which will get completed.
- Chetan Wadia:** For how many schools?
- Rahul Patwardhan:** I will give you the schools, but you cannot figure out what will it mean, because each school is a different number, so in Q3 it is 140 Schools, it is a very small number, and Q4 is 531 Schools. None of them are cancelled, this is the end of their contract.
- Moderator:** There are no questions in the queue. Would you like to add any closing comments?

Vijay K. Thadani:

Thank you very much all of you. I am glad we could introduce both Pat and Shivan to you as well as discuss the results in detail. I will keep repeating it, we find this a very-very educative process as you ask us incisive questions, and that makes us think about what we should be doing going forward. I want to thank you for your support, your understanding, your cooperation, and the encouragement that you provide to us from time-to-time. Look forward to meeting you in person as I will be visiting many of the cities together with Pat and Shivan and we will get more opportunities to discuss our strategy as we go forward. So thank you once again and Wishing You All a Very-Very Happy Deepavali.

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.