



## TRANSCRIPT: NIIT Technologies Ltd Q3FY2014 Results Conference Call

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**FROM NIIT TECH:**

**MR. RAJENDRA S. PAWAR, CHAIRMAN**  
**MR. ARVIND THAKUR, CEO**  
**MR. SUDHIR CHATURVEDI, CHIEF OPERATING OFFICER (COO)**  
**MS. PRATIBHA ADVANI, CFO**  
**MR. ABHINANDAN SINGH, HEAD – INVESTOR RELATIONS**

For further information on NIIT Technologies, please contact:  
Abhinandan Singh, Head – Investor Relations at +91 (22) 4010-3212 or via email at [abhinandan\(dot\)singh\(at\)niit-tech.com](mailto:abhinandan(dot)singh(at)niit-tech.com)

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*(1 crore = 10 million)*

**Moderator**

Ladies and gentlemen, good day and welcome to the NIIT Technologies Q3 FY2014 Earnings Conference Call. As a reminder, for the duration of this conference, 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 this conference, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhinandan Singh – Head, Investor Relations of NIIT Technologies. Thank you. And over to you Mr. Singh.

**Abhinandan Singh**

Thanks Mallika. Good afternoon everyone and welcome to our Q3 FY2014 earnings call. Present along with me today on this call are Mr. Rajendra S Pawar, our Chairman; Mr. Arvind Thakur, our CEO; Mr. Sudhir Chaturvedi, our Chief Operating Officer; and Ms. Pratibha Advani, our CFO. You would have received our results e-mailed to you earlier today. The same is also available at our website [www.niit-tech.com](http://www.niit-tech.com). We will begin this forum today with opening remarks by Mr. Arvind Thakur, and after that the floor will be open for your questions. With that I would now like to hand over the call to Mr. Arvind Thakur, our CEO.

**Arvind Thakur**

Thank you, Abhinandan. Let me first give the background of the economic environment in which we are discussing these results. I think the interesting thing is that we are seeing the environment in the US looking up, and that is evident from the economic numbers as well, where the US economy grew 4.1% in the September quarter as compared to 2.5% in the quarter before that. UK too seems to be gradually recovering; 0.8% was the growth in the third quarter of 2013. In the Continent, Euro Zone in particular, there is still the process of unwinding and resolving issues, so environment there remains somewhat subdued. In the domestic Indian economy, growth still seems to be at the sub-5% level, inflation continues to be high, but the current account deficit situation seems to be improving, and that is resulting in stability of the rupee which is of course good for all us.

With this background let me share with you the quarterly results and the analysis. Revenues for the quarter stood at Rs.5,873 million which represents 14.2% growth over the same period last year. Sequentially, revenues remained at the same level as the previous quarter as a result of lower purchase of resale revenues from our domestic government contracts. Services revenues however grew 4.3% during the quarter and actually grew 3.6% in constant currency terms as business picked up in international markets. We saw strong growth in the US, growing 7.9% sequentially contributing to 44% of the revenues in the quarter. EMEA region grew 4.5% contributing to 33% of revenues during the quarter. And the rest of the world which includes Asia Pacific and India now contributes to 18% of the revenues. Even in constant currency terms both the US and EMEA had healthy growth with the US growing 7.2% and EMEA growing 3.8% quarter-on-quarter respectively. Growth in the US has been driven by expansion of business in the BFSI segment; the BFSI segment during the quarter expanded by 8.5% sequentially and now represents 35% of our revenues. Travel and Transport grew 2.3% sequentially during the quarter contributing to 38% of our revenues. And other segments like Manufacturing and Government contributed to 7% and 6% respectively. We have seen an

improvement in the share of our top five clients moving up to 37%, and our top 10 clients contribute to 49% of our revenues. Onsite revenues represent 65% of total revenues. Operating profits during the quarter grew 8% sequentially to Rs.957 million, which is 17.8% up YoY. Increased service revenues and lower PFR have resulted in an improvement in operating margins to 16.3%. Loss in other income of Rs.70 million has resulted from the revaluation of foreign currency assets and liabilities and this has led to a decline of 5.3% in net profits sequentially to Rs.531 million.

What has been most significant during the quarter has been a large contract which we have secured from a top BFSI client of ours in the US. The contract is for a period of 10 years and valued at over US\$300 million. It includes Renewal and vendor consolidation with respect to support, maintenance, enhancement, and operations of the clients existing platform, as well as major contribution in development and implementation of its new platform. It is a very significant deal as it reaffirms our position in the account and also provides predictability of revenues over this period which is 10 years. It is significant also because it provides an important proof point to potential customers as well as large deal consultants and advisors of our ability to do significantly large size deals. So, I would say this is a very significant development during the quarter.

In addition, we also added four new customers – one each in each one of the segments that we focus on – BFSI, TTL, Manufacturing, and the Government. So all in all the fresh order intake during the quarter has been US\$377 million and this results in an order executable over the next 12 months of US\$265 million.

Cash and bank balance stood at Rs.2,484 million, so we had Rs.364 million of cash accrued during the quarter.

We added 143 people as net additions during the quarter, taking our total headcount to 8,160 people. Our utilization stood at 78.4%. There was a slight increase in attrition which for the quarter stands at 13.37%. Probably all of you are aware that we had inducted Sudhir Chaturvedi as our Chief Operating Officer this year, and he has been visiting customers and understanding the company and its operations. What I would like to do now is to invite Sudhir to share with you what are the priorities of the company going forward. Sudhir, may I request you to share your views at this point in time?

**Sudhir Chaturvedi**

Thanks, Arvind. As you know NIIT Technologies is a focused player in the industry and we are committed to providing new ideas and more value to our clients. As part of this we set up a corporate agenda which prioritizes our key areas of focus and we have three key areas of focus: First is the growth in the US. It is an attractive market for various reasons, and Arvind talked about the economic growth, the macro environment being very positive; we see good prospects for our own business as well, and we see focus in the US increasing our share of US revenues. The second was the vertical focus with the continued focus on TTL and established ourselves as a clear leader in the sector. In addition to TTL, we will focus on BFSI which is

our second largest market. The third area of focus was Infrastructure Management Services. This is part of our strategy to fill the wide spaces that we have in not just in our existing accounts but also the wide spaces that we see in the market in emerging from various discussions with clients. Infrastructure Management Services is the largest space in the wide spaces that we have. Our focus is to ensure that we grow up this business going forward.

I am happy that this quarter there are some early signs of progress as Arvind mentioned; US grew by almost 8%, BFSI by 8.2%, and TTL by 2.3%, but this is early stages, we will continue to focus on this going forward, and I think the significance of the large deal is going to be a very important signal to existing and future clients about our ability to do these deals and that we clearly establish ourselves as an attractive alternative to top tier players for such size deals. So, with this I will stop my comments and happy to take any questions going forward.

**Moderator**

Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Mr. Pankaj Kapoor from Standard Chartered Securities.

**Pankaj Kapoor**

Just wanted to understand this further in more detail, whatever you can share. First, what would be the renewal component and how much would be the additional component that we are getting? Second, we mentioned this is also a vendor consolidation deal. So wanted to understand what was the key reason why we were selected over the others? And third, does it entail any kind of upfront cost which can probably show up in the near term margins? And fourth if you can give some sense of, is this the first of others or basically what is the kind of pipeline that we are seeing out there on the large deals and especially where are we in terms of participation in that?

**Arvind Thakur**

So let me just give a little background to this particular deal. This was actually an RFI which was initiated early 2013, it was issued to multiple vendors, and I think there was process of discussion and engagement, and finally the contract was awarded to NIIT Technologies. So it has been an almost 10-12-month process that we went through to secure this business. We are already engaged with this client in supporting their existing platform. I think by virtue of this engagement we have been able to renew that relationship and that engagement for a period of 10 years. There were others also who are supporting the platform. So as part of the existing platform now there is a consolidation. So in this you will see about 10% of business which would be additional, incremental business that will come as a result of this particular transaction. There is also development and implementation of a new platform where we are currently engaged, which will continue. But I would like to inform you that there is more to come. So this particular engagement has basically been a renewal and consolidation on the existing platform, but there is further business likely on the back of this particular engagement which has not been accounted for. So what we are really discussing right now is the statement of work that we have finalized with the customer at this point in time. No upfront cost at this point in time, but I cannot say that for future SOW that may come in. I think this is perhaps the most significant transaction or a deal that we have done in the history of the company. It would

probably get us in situations and positions with the new customers as well who are looking at large engagements. So we see that also as a significant outcome as a result of this. So, it is a shape of things to come, and things that we want to do. So, I think with the international markets now beginning to look up we can expect to see more participation in large deals as we go forward.

**Pankaj Kapoor** Sir, just one clarification, you mentioned the additional business would be just about 10% of this. So basically we were somewhere around 27 million kind of run rate, which is what is per annum, which is what we have secured now for 10 years, and in addition we have got some \$30 odd million, is that the right interpretation?

**Pratibha K. Advani:** Pankaj, we have just rounded this up to \$300 million. There is a little more to that.

**Pankaj Kapoor** Any quantification of the kind of deals that you have in the pipeline, which you are participating in terms of the size or in terms of the number, which can give us some color in terms of how you are scaling up on the deal participation especially?

**Arvind Thakur** Pankaj for us large deals are typically 20 million plus, these are super size deals. We hope to also participate in super size deals but our pipeline is showing good healthy additions of those large deals, which we call as 'typical large deals.'

**Sudhir Chaturvedi** Pankaj, this is Sudhir, I think just to add a little bit, we talked about the Renewal element as well as the consolidation element, but there is a new scope for the new platform that is being developed, which Arvind has talked about, which there will be future revenues from. Also, I would just like to add that this is a deal where we have a combination of ADM plus IMS, plus BPO, so it covers three large areas of potential work at the client side, and it is a good combination of the three. A single contract over 10 years across multiple lines gives us an umbrella which simplifies our approach to client, an umbrella under which we can do further deals as we talked about.

**Pankaj Kapoor** Just one clarification, you mentioned the new scope part is not in this \$300 million?

**Arvind Thakur** The existing work on the new platform is part of this.

**Moderator** Thank you, the next question is from the line of Srinivas Seshadri from CIMB, please go ahead.

**Srinivas Seshadri** Just following up on Pankaj's question, just from a deal structuring perspective wanted to understand whether we have had to give some kind of discount in terms of the pricing, etc., on the Renewal portion of the deal. If so, would some of kind of economics on that front have been worked out? Secondly, since that you have entered on a very, very long cycle contract, how do you manage the margin risk in terms of say, cost escalation, etc., so how those components have been dealt in this particular contract?

**Arvind Thakur**

The good news is, there have been no discounts. On the other hand at periodic intervals there are some escalations. So I think from that point of view, pricing would be fairly stable. The intent is, as I mentioned earlier, this is a part of other SOWs that are also likely to come given the fact that there has been a consolidation. So, what we have in this contract is only the consolidation which is confirmed but since the client has already decided on its consolidation, future business that we get would be something that we would be driving significantly offshore to make sure that our margins expand.

**Srinivas Seshadri**

Arvind, just to understand, you also mentioned that there was a very long RFI process. So typically to our understanding, these long-term engagements you have been typically retaining, but it looks like in this process, maybe some external vendors are kind of invited to participate in the process. So that seems to be a bit of a risk given that this is probably your top client. Though I am happy to note that you have won the contract, but are there such kind of risk in many of the other top clients also, where a large portion of the business which you do with them could be rebid and won by some kind of external vendor, just wanted to understand the risk management element of these top clients?

**Arvind Thakur**

Yes, whenever a client would engage into a strategic relationship like this, they would definitely want to evaluate what are the options in the marketplace. And if nothing else, you know to get educated on what is best from a point of view of strategic sourcing. And in this case, they were looking at a long, long term commitment of 10 years. So from that point of view, I think it was appropriate and prudent for them to also look at views and see what is happening in the environment. But, our position is particularly with long-term customers is usually very strong. It requires very significant disruption to dislodge. So for example in this case the legacy platform which we are maintaining, we know the ins and outs. It would be quite risky for the customer to bring in a new player in a significant manner if they were to decide to do that. So from that point of view it is relatively safe. I think having worked with customers for a long time we want to engage and secure business for longer periods so that there is predictability of revenue streams for long periods as we engage and try to develop the market in other areas.

**Srinivas Seshadri**

On the margins, there has been kind of steady increase, but I would say that if I look at the last couple of quarters, like the rupee has moved from Rs.55-62, at the same time the PFR component has gone down from like Rs.60 crores to around Rs.23-24 crores. So theoretically speaking, there should have been a huge amount of tailwind which should have come maybe in addition to whatever margins you are showing. So just wanted to understand what are the areas of reinvestment in which it is going? And b), given that your reorientation back to the kind of the export markets, which are really high margins, when can we see the margins of the company move back structurally to like, maybe in the earlier desired range of towards the higher end of say 20% or something like that?

**Arvind Thakur**

I think we are moving in that direction. As you would have seen, margins have been improving steadily. At different points in time, we have shared with you these things which have

contributed to a drag in the margins in the past. I think there was a period when the western markets were fairly stressed, where we got pretty focused on the domestic market to ensure that we sustain growth in the company. That is important because you do not want to get into situations where you are downsizing and things like that, but you want momentum to continue in the business. Now that the international markets are beginning to open up, I think we are realigning and refocusing in those markets, and that is something which Sudhir has been particularly active in understanding and trying to see where all we can scale in those markets. So I think we are seeing a shift in the priorities of the organization, and Sudhir in his opening statement also outlined that one big shift in the priorities to get very strongly focused on the US, and as we see, more and more of our business moving and coming from those markets, you will see steady improvement in margins.

**Srinivas Seshadri**

So, Arvind, any timeline you would want to set around maybe towards achieving something like 20%, or is that something you are not looking at all? Just wanted to understand what is the optimal level of margin you are looking at given the change in the view on the business portfolio mix towards more of Export business?

**Arvind Thakur**

You are aware that in the past we have been delivering those kind of margins. So I think there is no reason why we should not be able to reach those margins, but I think it will be only prudent to expect let us say 100 basis points improvement every year as we move ahead.

**Moderator**

Thank you. The next question is from the line of Dipen Shah from Kotak Securities, please go ahead.

**Dipen Shah**

Just wanted to get some more view on the overall restructuring or the re-organization or refocusing of the company. We understand that from whatever Sudhir said, that you are focusing more on the US in the BFSI and the Travel, Transportation space, if you can just get into a slight more detail as to how are we looking at growing US, is it through introducing more of Insurance platforms in the US, or is it going to be Travel and Transportation, maybe some more color on that? And also in terms of Travel and Transportation, if we can get some more data on how is the segment or the demand in that segment expected to grow?

**Arvind Thakur**

Let me start with the last and then I will ask Sudhir to share his views as well on this particular topic. I think as far as Travel space is concerned, the segment is improving. We have IATA for example, which is the industry body, it continues to see robust passenger demand, and in fact expects 2014 to be the second consecutive year of strengthening of profitability of airlines. So, that augurs well for this particular segment. The improved economic conditions in the US to my mind would support our BFSI business, and we are already seeing impact of that in this quarter itself. We have seen most of our existing clients in the US, in the BFSI space expand, which is why you have seen the strong sequential growth that we saw in revenues. The dominant verticals that will continue to scale for us would be BFSI and Travel. So, I think you can expect to see those segments scaling, and that would actually reduce our dependence on

the domestic government business. So, to my mind that is the shape of things to come. Sudhir, you may want to add.

**Sudhir Chaturvedi**

In addition to the US, our strategy is really focused, as Arvind said, on three verticals – TTL, BFS and Insurance, if I would have split BFSI into those two. And we are clearly looking at our top 10 accounts and seeing how we maximize our share of revenue from those accounts, as well as much more focused strategy on must-have accounts in terms of the accounts that we are targeting to open going forward and on the back of the large deal that we have done, we are looking at seeing how we can do further such deals, so that is the predictability of large deals tends to be variable over quarters. But overall, we are looking at the sales and marketing engine much more in sort of detail to see if we have the right engine for supporting the growth in the market. So we are focused on the basics, getting our top 10 revenue salients up opening the right accounts, focusing on large deals, and for that we will be looking at the sales and marketing engine and how we make that better going forward.

**Dipen Shah**

Maybe some bookkeeping questions. If we can get the revenues and margins of ROOM that is NIIT Insurance, Morris and GIS?

**Pratibha K. Advani**

The ROOM revenue for the quarter is 407 million, and the margins are 18%. The GIS revenue for the quarter is 233 million and the margins are 13%. The revenue for Morris for the quarter is 376 million and the margins are 11.3%.

**Dipen Shah**

The Morris margins were at around 14% in the second quarter and that has come down to 11.3%?

**Pratibha K. Advani**

Yes, that is right.

**Dipen Shah**

Any specific reasons for that?

**Pratibha K. Advani**

Actually, there is more work that has got done Onsite and that has led to margins. So over a period of time when it comes to Offshore again, the margins will improve. We have added additional people there.

**Dipen Shah**

And lastly, if you can just throw some more light on how the realizations are moving, in the sense that, is there any change in the like-to-like billing rates realizations, and any trend which you are seeing there?

**Pratibha K. Advani**

No, we have not seen any visible trend, the billing rates have been flat, and so we are not seeing any kind of pricing pressure.

**Moderator**

Thank you. The next question is from the line of Shivam Gupta from Equirus Securities. Please go ahead.



- Shivam Gupta** The first one I would like to on this new deal that we have signed. What is the timeline, how it will be ramping up like in 3-4 quarters when will the revenue start kicking from this? And second question would be if you can just give us some comment on the way the direct costs have reduced quarter-on-quarter?
- Arvind Thakur:** As far as the deal is concerned, as I mentioned to you, 90% of it is Renewal, so revenues already kicked in. In fact, the part which has already got consolidated, revenues for that have partly also got kicked in in the last quarter itself. So you have seen the benefit of that in the expansion that we have seen in the BFSI revenues as well, so this will continue going forward.
- Pratibha K. Advani** The direct costs have come down primarily because of the PFR component. So as Arvind had mentioned in his commentary the Hardware component of the system integration contracts has reduced and that is what has led to a reduction in our direct cost.
- Shivam Gupta** Could you also just comment a bit on the AAI contract status, where are we on this and when we would see that revenues to collect?
- Arvind Thakur** This is a critical quarter for that. As you know, Airport Authority contract involved operations of 10 airports. The first airport to go live would be the Chennai Airport and we are expecting to get that done in this quarter. So that would be the major milestone. Post that one after the other, the other airports to start going live and we will start getting revenues kicking in.
- Moderator** Thank you. The next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.
- Madhu Babu** We have indicated that we are planning to ramp up the Infrastructure Services. So, is there any senior level hiring there we have done? And would you require any specific hiring to build up the team there?
- Arvind Thakur** I would not say hiring, but I think the way we approach the market that is what we need to do; we need to bring in sharper focus on this business and it may involve some element of restructuring, which we will probably conclude in this quarter.
- Madhu Babu** And can you give us the Hardware revenues this quarter and what was it last quarter? And what is the capex outlook?
- Pratibha K. Advani** The hardware revenue for last quarter was Rs.47 crores and for the current quarter Rs.23.7 crores. Capex for the current quarter is Rs.45 crores.
- Sudhir Chaturvedi** Just one point I would like to add that we will be looking at ramping up the IMS direct sales engine in the markets.

- Madhu Babu** We have indicated BFSI and Travel. Any select subverticals in Manufacturing that would also be a focus area for us?
- Arvind Thakur** Manufacturing is a business we predominantly do in the Asia region. So that is the reason why the size of that activity is fairly small. We have not yet expanded the activities of that vertical to other international geographies.
- Madhu Babu** Realignment towards developed market, when we can see consistent wins and traction there, the results from that?
- Arvind Thakur** I think we are already beginning to see the results of that. So it will be more consistent in the next financial year.
- Moderator** Thank you. The next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.
- Dipesh Mehta** Is there any one-off in SG&A in this quarter? Second question is about large deal of 300 million. Vendor consolidation portion appears to be very small, so have we replaced a very fringe player in that part?
- Arvind Thakur** We have not replaced a fringe player, we have replaced a very significant player. But as I mentioned to you, on the legacy platform, most of the work was being done by us. So that is the reason why there is not too much of additional work on the existing platform. The larger proportion of work will come on the new platform and a new business that we do going forward.
- Dipesh Mehta** Just to understand it much better, because portion of new scope we have already added in our 300 million, so what would be the difference, what we have already won and what you are referring as future SOW?
- Arvind Thakur** What I was saying was that the renewal and the existing consolidation on the existing platform is the 300 million. There are more SOWs to come which would be the additional business that will come over and above all this.
- Dipesh Mehta** That would be largely because of vendor consolidation. The remaining portion with the existing provider.
- Arvind Thakur** Which is not currently secured, later, because they have consolidated with the vendors, which is ourselves. New SOWs on new things would happen with us.
- Dipesh Mehta** But otherwise new platform development that we have already captured in 300 million?
- Arvind Thakur** Yes.

- Dipesh Mehta** And the last is about SG&A?
- Arvind Thakur** In this quarter you would have seen a slight increase in SG&A and that has been on account of a lot of one-time activities. We had very large customer event where we gathered all our customers at a location, we call it 'Conflux.' So that was a significant investment. We did a similar thing in Europe which was a Gartner event. We had the Formula One event in India where we invited many of our customers in an exclusive enclosure. So these were some very significant one-time I would say marketing investments that we did in this quarter which has contributed to an increase in the SG&A.
- Dipesh Mehta** So from next quarter again we expect to have a normal run rate of 18.5-19% kind of number?
- Arvind Thakur** We also want to see what other investments you want to do in next quarter. Yeah, I would say around 19% would be the appropriate SG&A for next quarter.
- Dipesh Mehta** Just two data points, what kind of capex we are looking for next quarter and next year considering our investment plan? And next is about expected tax rate?
- Pratibha K. Advani** Next quarter we should do about Rs.50 odd crore of capex, next year would be a little early for me to comment right now because we get into a budgeting cycle sometime in February that is when I will have better visibility to be able to answer that more accurately for you. In terms of our tax rates it should be in the range of 29-29.5%. Again, depending on the share of profit that we get from the India vs International business. As Arvind mentioned earlier, we expect the Chennai Airport to go live and our revenue is linked to that milestone and hence we would expect a larger profit share coming from India.
- Dipesh Mehta** Have we booked any revenue in this quarter from Airport Authority deal?
- Pratibha K. Advani** We did, but that is very small. The real big milestone for revenue would hit next quarter.
- Moderator** Thank you. The next question is from the line of Rahul Jain from Dolat Capital Market. Please go ahead.
- Rahul Jain** I was seeing the breakup for the other income and income from mutual fund is down by Rs.2 crores. Is there any specific reason for that?
- Pratibha K. Advani** Yes, the reason for the income from mutual funds has come down is because in Q2 we had liquidated our investment for dividend disbursement. And most of our collections happen over the quarter end. In mutual fund we recognize the income only at the time of liquidation, because of mark-to-market variation we do not accrue that income. That is the reason for the variation.

**Rahul Jain** The other part is of the 120 bps margin gain which we have witnessed. I understand Hardware component would have contributed there in terms of the margins. If you could give the breakup?

**Pratibha K. Advani** I would single that out largely to our gross margin improvement. So if you again went through our data sheet, our gross margin from last quarter which was 33.7% has improved to 36%, so there is a 230 basis points improvement in our gross margin, that has largely contributed to the 120 bps improvement in the operating margin. Also, added to that is a small portion of FX gain. Since our hedge losses were lower from last quarter to this quarter, so about 25 odd basis points has come from FX, some of that has got the cost negated with higher SG&A cost that Arvind mentioned.

**Rahul Jain** On this 300 million kind of a deal, so just to review what we have said is, this is a 10% incremental in terms of the kind of work which we will be doing for them, which includes the platform development and there could be other opportunity which could come in from a vendor consolidation, is that the clear understanding?

**Arvind Thakur** Yes, that is correct. The current business in terms of consolidation is about that. As we engage more with the client there could be more SOWs which will result in more business.

**Rahul Jain** Because we are sort of developing a platform for them, so is there a milestone kind of a component in the tenure or it would be...?

**Arvind Thakur** There is a uniform spread.

**Sudhir Chaturvedi** On the large deal that now we are the clear preferred vendors for the client and therefore that is the main reason for the long-term deal as well as the single contract that I mentioned earlier.

**Moderator** Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

**Manik Taneja** Just wanted to get a sense on given the fact that our presence in Europe is fairly strong, what are you seeing in terms of demand from that geography? And any particular reason why you are laying more emphasis on US going forward Vs Europe?

**Arvind Thakur** I think the answer to that question is very simple. We feel that the US market are still unreserved by us. There is scope of far more revenues coming from that market than in the past, I think that is the reason why. Otherwise, I think Europe, we have always been doing business, but we should be doing much more business in the US than in the past.

**Sudhir Chaturvedi** I mentioned that, our revenue salients in the US is compared to the peer group is more, but more importantly, the way we look at it that it is an attractive market, we have built a very strong foundation and focused incremental efforts will lead to greater return in terms of our

revenue growth, and that will also provide a base of future growth for other geographies, especially as we ramp up our two focus verticals – TTL and BFSI.

**Manik Taneja**

Any comments that you want to make in terms of what you are seeing in terms of a small base customers in Europe?

**Sudhir Chaturvedi**

The Europe is still across the geos the environment is still compared to the US is still muted in terms of the economic environment and that is transpiring itself to the budgets as well as the confidence of the companies in terms of new spending. As of this time Europe is I would say a stable scenario. The UK potentially a market that could look up going further into the next few quarters and that is an important place for us too. So we could see some pick up in the UK going forward. But there, the clear strategy as you said, it has been our traditional strength area for us especially across TTL and Insurance, and we will continue to ramp up the TTL business, and Insurance, we have the products that business here in Europe and there are some important milestones from our product perspective that we will have next year and it is important for us, we are focused on hitting those milestones and thereafter using those milestones to drive further growth in the Insurance business. So I would say in a few quarters time there are several activities that are there in Europe which should combine with an improving business environment, will be the basis of looking at growth in this market.

**Moderator**

Thank you. The next question is from the line of Pranav Tendulkar from Canara Robeco. Please go ahead.

**Pranav Tendulkar**

About the new strategy of concentrating on US, Infra and TTL. So basically in Infra, the way I see market is there is a huge opportunity but equally there are a huge number of players striving for getting that opportunity. For example, in your size there will be Mphasis, IMS, then there will be Mindtree doing the same job. So how will you segment market for yourself, that is one? Second thing is as IMS share goes will it affect the cash flows of the company or will it keep that assets on the clients' balance sheet or how is it going to be?

**Arvind Thakur**

I think we have a very solid foundation and track record in this space and very-very satisfied customers. So, that is the launching platform for any discussion or engagement. I think we have to basically reorganize ourselves and get more focus in the marketplace by having larger number of dedicated sales people in this area to be able to build and scale that business, because IMS is a different animal as compared to ADM and requires specialized capabilities and skills even though engage with potential customers. So that would be a direction going forward. I think it is a very profitable business. So one should not be that concerned about cash flows in this particular activity. Sudhir, you may want to add anything else as well.

**Sudhir Chaturvedi**

Coming into the business when I reviewed our Infrastructure Management Services projects that we have today I would say that our experience and the quality of work that we are doing is counterable to even top tier players, it is not better actually. So I think we do some outstanding quality work. Also, some of the experience that we have in System Integration, Infrastructure

Management in Asia Pacific, is also very relevant in the markets as we go further. So, I think the salients of the revenues that we have, the quality of the projects that we have and the discussions that we have already been doing with our client base, I think we have a clear approach of growth in this market. As Arvind said, as we make say strategic priority for us going forward then reorganizing ourselves to place it appropriately in that strategic priority as well as to deliver to that strategic priority is going to be our next step. And as I mentioned we will also be ramping up the sales engine as we look to further growth in revenues in IMS.

**Pranav Tendulkar** In your split of revenue horizontal wise that you give, is it correct to assume that Managed Services mostly will be IMS or will it be SI&PI?

**Arvind Thakur** No, Managed Services is IMS, SI&PI is different.

**Moderator** Thank you. The next question is from the line of Sonal Kohli from ENR Advisors. Please go ahead.

**Sonal Kohli** Firstly, what was the India business for the quarter?

**Pratibha K. Advani** 11%.

**Sonal Kohli** 11% of total revenues?

**Pratibha K. Advani** That is right.

**Sonal Kohli** Secondly, you mentioned that the focus would not be on government revenues going forward because those markets are doing well. Now, in the event let us say 1-2 years down the line for some reason the global markets were to again show muted growth, would we again focus on India business or is there a permanent change in strategy irrespective of whatever happens to the global and domestic markets, we will continue to focus on the global markets only?

**Arvind Thakur** Obviously, if environment changes, you have to think your approach and strategy. The current approach is looking at the recovery that is happening in those markets. And obviously, whatever we do, if we execute well, it is good business.

**Sonal Kohli** Thirdly, considering that you are going to look at growing your investment of your business, what kind of investments in sales incrementally would you need to do? And would you again do a large chunk of upfront onshore deals to gain this business and the long term goal maybe to increase the margin but because of near term, investment in large deals, would not the margins be incrementally lower than what it is in the rest of the non-government business?

**Arvind Thakur** You may be right to some extent, because some of the IMS deals involve takeover the infrastructure, but not all of it. So it is not necessary that all the business would be of that nature. At this point in time I do not think I can comment on to what extent would the mix be

of deals where we are investing upfront and deals where we are just providing services on the customers' infrastructure.

**Sonal Kohli** But you would also look at, because large part of a deal incrementally would be taking over the existing infrastructure, so I guess that would be part of the approach also?

**Arvind Thakur** It is not necessary to take over the infrastructure, but we would not rule that out.

**Sonal Kohli** What kind of investment in sales would we need to do or we have already done those investments?

**Sudhir Chaturvedi** The first thing in Infrastructure Managed Services business is that it is a business the clients are looking to enter value firm, the service provision changing. So there is a lot of maturity in the way services are provided, and these tend to be longer duration deals and larger deals. So the opportunity for one to do a structured deal and thereby create margin model that is suitable is high. In terms of the investments we have talked about the restructure and to create it as a separate unit, we are just aligning the sales strategy along with that. So the intention overall will be to keep our SG&A cost broadly in the range that they are already there, but to refocus our hiring efforts on our priority areas that I have already mentioned to you.

**Sonal Kohli** What do you think would be the biggest challenge to grow US business because the opportunity was always there and for some reason we were not able to scale up US business, and to be able to grow the Infrastructure piece of the business, because we always were good in providing the Infrastructure, so there must be some reasons why we were not able to grow this business?

**Sudhir Chaturvedi** I can only answer looking ahead and I think the first thing is focus on growing these markets and aligning our strategic investments and resources accordingly. The second thing is that I would say that looking at the market and what we are already seeing in terms of my meeting with clients and the opportunities that we are seeing, we are meeting for example, large deal players, spending time with the industry analysts like Gartner, etc. When we look at our strategy of being focused on TTL, BFSI and IMS, the level of vertical depth we have is very-very significant and now the market appreciates vertical depth much more, I think the era where pure horizontal scale was worked, clients were looking for is I would not say past, but the clients are looking for much-much more vertical depth than they have traditionally sought and we are in a position to provide that with our vertical focus. And when we overlay our services along with that vertical depth I think we are in a great position to beat. I would say the market opportunity combined with our focus mix as well as the economic growth in that market mix is an attractive market for us going forward. That is the reason.

**Sonal Kohli** Arvind, in terms of your hardware revenue, they have shown a sharp decline. Would you expect to continue to see a degrowth in this or we are more or less stabilized at around these kind of levels on an average?

**Pratibha K. Advani** Next quarter we should expect the same levels and thereafter they should start to come down.

**Sonal Kohli** And considering that you mentioned in one of the concalls, I think the last one or the one before that, considering that government is short of money and they do not want to reach the fiscal, therefore you may see there is a possibility that the GIS with us may not grow or may see a degrowth, what is your stance now on the business since you are now nearer to the quarter?

**Arvind Thakur** Given the situation you just described we just have to work harder in this particular space to execute and to secure our monies. Yes, it is becoming more difficult to engage with the government. That is I think another reason why we feel compelled to look at global markets more aggressively in scaling our business.

**Sonal Kohli** And sir, you said that your aspiration is to grow 18-20% kind of margins over next few years, is it fair to assume that your margins assuming currency does not change much would be more or less about 100 basis points higher or 15% maybe an exception because you will be making investments for structural growth considering change in focus, so this 1% increase in margins maybe at a later stage in FY15 you may see some deletion in that because of the investments you need to make and change in business strategy?

**Arvind Thakur** The approach would not be to dilute margins, the approach would be to expand margins.

**Sonal Kohli** What kind of depreciation would you expect next year considering the kind of capex you are doing? Would you expect to grow in line with NASSCOM or because of Hardware share being falling, that maybe difficult?

**Pratibha K. Advani** We should see a marginal increase in the depreciation but the following year is when we would expect it to be much higher when we capitalize our Greater Noida asset.

**Sonal Kohli** You mean '15?

**Pratibha K. Advani** I mean FY'16.

**Sonal Kohli** In terms of the growth rates, because of the Hardware falling that maybe a hindrance to being able to grow in line with NASSCOM?

**Arvind Thakur** You are talking about this year or next year?

**Sonal Kohli** FY15.

**Arvind Thakur** For FY15, we do not even know what NASSCOM is projecting as growth.

**Sonal Kohli** The number is, the people are saying 13-15%.



- Arvind Thakur** I have not heard that number, but our attempt will be to grow ahead of the industry.
- Moderator** Thank you. The next question is from the line of Sanjeev Hota from Sharekhan. Please go ahead.
- Sanjeev Hota** My question is on the margin side, this quarter already the margins of 17.5% if we exclude the hedging loss and given that next quarter our hedging rate is close to 62.76, and the rupee being at 62 levels, we can easily have a margin improvement next quarter coming in 100 basis points. So is it right to look at then?
- Pratibha K. Advani** No, actually, the hedge rate that we give is an average over the next four quarters as per our hedge policy. So specifically for next quarter our hedge rate is 58.59. If we look at the current levels then there would continue to be a hedge loss.
- Sanjeev Hota** So most of the improvements likely to from the Q1'15 onwards?
- Pratibha K. Advani** Actually, even in Q1'15, the hedge rate is currently lower than the existing rate. So the actual improvement you would start to see would really be in Q2-Q3.
- Sanjeev Hota** We are taking this hedging loss and gain into the account or it is out of that when we say the 100 basis points improvement in FY15?
- Pratibha K. Advani** Yeah, this is in constant currency that we are mentioning.
- Sanjeev Hota** The second question is given 2014 being an election year, would there be any impact on the DSO days going forward?
- Arvind Thakur** I think as the government business starts reducing, our DSO days start improving.
- Sanjeev Hota** There will be no impact as such from the election year?
- Arvind Thakur** As far as DSO days are concerned it has got to less to do with election, more to do with revenue mix.
- Sanjeev Hota** I am talking about the government business.
- Arvind Thakur** Yeah, I am also saying the same thing.
- Sanjeev Hota** What is the Proyecta revenues and margins this quarter?
- Pratibha K. Advani** Proyecta revenue for the quarter was 182 million and the margin was 10%.
- Sanjeev Hota** What is the non-linear revenue this quarter in total?

**Pratibha K. Advani** 24%.

**Moderator** Thank you. The next question is from the line of Ashish Aggarwal from Tata Securities. Please go ahead.

**Ashish Aggarwal** I have two questions; first of all, on the onshore/Onsite mix, if I look at the growth last two or three quarters clearly come from the Onsite side – the number of employees in the Onsite had grown by more than 250 employees. Just wanted to understand what is the reason for the same? And secondly, on this large deal win, if we exclude the Renewal portion, then the deal signings of somewhere around \$100-110 million do look soft given the fact that we are doing almost \$100 million of revenue. Just wanted to get some management thought on that, especially given the fact that next year we are looking at maybe a double-digit growth in dollar terms?

**Arvind Thakur** I would not say that is a right way of looking at things. We are always expecting large business to come in – this is of course super large. So if I exclude the Renewal business you still have \$77 million of business which has come in which is quite good.

**Ashish Aggarwal** Sir, but I was referring to the fact that we are already doing somewhere close to \$100 million of revenue.

**Arvind Thakur** \$77 million plus \$30 million, because \$30 million is incremental business, right.

**Ashish Aggarwal** Yes, but we are already doing \$100 million of revenues every quarter. So, if we have to grow at significantly higher rates next year then deal wins needs to increase?

**Arvind Thakur** Yes, definitely needs to increase. We have to generate run rate which is much higher than \$100 million a quarter.

**Ashish Aggarwal** So are we confident of achieving that maybe if we look at FY15 we need to do it within next two quarters for us to show impact in FY15 growth rates?

**Arvind Thakur** All I can say is obviously, that is the endeavor.

**Ashish Aggarwal** And second sir, on the Onsite thing?

**Pratibha K. Advani** On the Onsite with the higher component of revenue that you can see coming in from our International business that ratio has got tilted towards Onsite.

**Ashish Aggarwal** Ma'am, I was specifically referring to the Onsite employee increase. If I look at there is almost increase by 15-16% over the last two quarters. Just wanted to understand what is the reason for the same?

- Pratibha K. Advani** Yeah, so there is actually more work happening Onsite and that is why we have to send our people there and hence the change in the ratio.
- Ashish Aggarwal** But do you expect that ratio to go down or go towards more offshoring maybe 2 or 3 quarters down the line?
- Pratibha K. Advani** Yes, it would, because typically as we get new SOWs, new wins, people go there, we do a knowledge transfer and try to bring the work Offshore.
- Ashish Aggarwal** And ma'am, since Morris is more of a transaction-based deal, we were targeting more revenues coming from Morris in Q3 and hence the margins, it does not seem to have happened this quarter, any specific reason?
- Pratibha K. Advani** So the revenues have marginally gone up; if you see last quarter we did 357 million of revenue Vs 376 million this quarter. The margins have come down because we are doing some POC for the customer as we are looking at new business opportunity for which we have hired people. And as and when they convert we then try to bring these Offshore, so that is because of hiring and SG&A that this cost has gone up.
- Ashish Aggarwal** But most of these hiring Onsite has been or people who have been sent Onsite are on H1B, right?
- Pratibha K. Advani** Yeah.
- Ashish Aggarwal** These are not the major local hires?
- Pratibha K. Advani** No.
- Moderator** Thank you. The next question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.
- Baidik Sarkar** Mr.Chaturvedi, I think in one of the public statements you had mentioned that the management endeavor is to see NIIT Tech as a billion dollar company in the next three years. Now, I am guessing, if that to happen, the pace of growth will have to pick up substantially from where we are at current levels. You answered large part of this question in terms of what you need to do internally to ensure that. If you could help me cast a wider net on what will have to be done internally to ensure sustainability and growth, it might help place your comment and context?
- Sudhir Chaturvedi** I think the comment was made by Arvind, and a billion dollar milestone in five years time. We have a clear goal within the company which we called pass through a billion and that is the direction in which we are heading. The steps that we will take will be incremental every year. So this year we have clearly outlined which are the areas of focus going forward. I think a combination of growth in western markets, growth in top two verticals – TTL and BFSI, as

well as large deals is a good indication of progress along those lines. As we focus on growing our Infrastructure business which is actually one of the fastest growing segments in the ideal Outsourcing and Services space, so I think we have the right elements in place where we will focus on really executing on our short term strategies better and creating the base for growth every year. That is a cliché to say we will look at it step-by-step but the first steps have been clearly stated and we are working towards it and then once we build bigger base on that basis then we will look at further steps going ahead.

**Baidik Sarkar**

Our ADM business has really been holding up. But the Insurance, IP has been flat, in fact, degrowing. I recollect when we acquired the ROOM IP, there were a lot of positivity about the non-linear growth this could be. I do not see the management talking about this segment at all in the past couple of quarters. So if you could give me a sense of what exactly is happening, do we expect revenues from that front to kind of stagnate at current levels, what is the outlook?

**Arvind Thakur**

We have been talking about it every quarter, and we have also been talking about the challenges in the environment which have prevented that business from scaling up, and they have really been derived out of the extraordinarily high catastrophes that the industry has experienced, putting pressure on our customers from growing their business and therefore requiring new licenses. I think we have to wait for that tide to pass before this business can scale up.

**Moderator**

Thank you. The next question is from the line of Deepan Kapadia from B&K Securities. Please go ahead.

**Deepan Kapadia**

The cash yield this time in the other income more or less zero. Have we rebooked the last quarter or any specific reason?

**Pratibha K. Advani**

As explained earlier that the investments that we do in mutual fund that revenue we only recognize when we liquidate those investments. Additionally, out of the Rs.240 odd crores of cash, almost Rs.180 crores live in our overseas subsidiary which is really lying in current account and it does not give us a good yield. So that is primary reason.

**Moderator**

Thank you. The next question is from the line of Srinivas Seshadri from CIMB. Please go ahead.

**Srinivas Seshadri**

Firstly, if I look at the Travel and Transport vertical which was actually a very high growth driver, overall revenues had been range bound to maybe slightly increasing even in the last couple of quarters, contrasting the BFSI which has been going pretty nicely .So just wanted to understand the challenges in that segment we are facing now in terms of growth? And what is outlook? Because last quarter you appear to be little more positive because you had added a pretty large carrier and this quarter also there has been some client addition in Travel.

**Arvind Thakur** As I have explained earlier, as far as the sector is concerned, we are seeing the sector improving, but there are specific clients of us, for example, one of our large clients is preparing for an IPO and I think they are more focused on managing the cost structure than increasing the outsourcing business. So that is temporarily causing a slowdown as far as scaling up of this particular segment is concerned. But otherwise I think there is nothing to be concerned about because we are adding new customers and they are growing and of course with Airport Authority going live we will see strong revenue coming in this segment as well.

**Srinivas Seshadri** On the Export business if I exclude AAI, would it be fair to presume that at least for one or two more quarters it maybe kind of a slow growth or do you expect things to pick up sooner than that?

**Arvind Thakur** I would agree with you.

**Srinivas Seshadri** And second is just on that \$377 million of order intake, can you kind of highlight what is the component of purely new business within that \$377 million, how much would that be?

**Arvind Thakur** That is what I said. The part that is getting consolidated is about 10%.

**Srinivas Seshadri** 10% of what?

**Arvind Thakur** Of the total intake.

**Srinivas Seshadri** So that is on the \$300 million? And the rest is all new business, is it...?

**Arvind Thakur** Yes, rest is all new.

**Srinivas Seshadri** So the \$77 million apart from that contract is all new business?

**Arvind Thakur** Yes.

**Moderator** Thank you. The next question is from the line of Shivam Gupta from Equirus Securities. Please go ahead.

**Shivam Gupta** I just had a couple of follow-up questions; one was just can you just give a color on your hiring target for the next quarter and FY15?

**Arvind Thakur** We do not have a hiring target. We normally hire anywhere between 150-200 people for the quarter.

**Shivam Gupta** That is the kind of number you would maintain, right?

**Arvind Thakur** I would think so.

**Shivam Gupta** Second, for the sake of repetition, could you just elaborate again on this incremental business part which you had answered on the previous question, I could not get that?

**Arvind Thakur** Once again, explain to you the scope of this contract, it is the enhancement support, maintenance and operations of an existing platform. So this is a platform that we have been maintaining for this client and now they have agreed to let us maintain this for the next 10 years. There were some other vendors also who are supporting this. That they are completely consolidating with us. But since the majority of the work was happening with us there is about 10% additional work as a result of that consolidation which is part of the intake that we are sharing with you.

**Moderator** Thank you. The next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.

**Dipesh Mehta** Just to understand this \$300 million deal, can you provide some color about the competition which we have replaced or maybe where we have benefited from?

**Arvind Thakur** As I said, this is an RFI where they invited many other players. If I am not mistaken six other vendors who were participating in this RFI which included some existing vendors of this client and let me tell you large vendors, they are not small vendors. So I think they are extremely pleased with the fact that we were able to establish value that we have been adding to the client in all these years for them to consolidate their business with us.

**Dipesh Mehta** Because you said there are some of the large player who are already existing service provider for the customer so if I look vendor consolidation portion that you refer to around 30 million what we got as additional business and you also hinted there would be some additional SOW which you would sign going forward. So can you help us understand what would be the remaining portion in your view which can provide additional revenue to the company and by what period you expect those things to get over?

**Arvin Thakur** At this point in time I cannot comment on that except to say that when client choses you as a strategic partner for 1 year and decides to consolidate with you then the new business the new business will come your way.

**Dipesh Mehta** Just last part about your hedge book. Can you provide hedge book with average rate for next couple of quarters?

**Pratibha Advani** For Q4 the forward covers are \$13.37 million at 58.59. For Q1FY15 the forward covers are 11.88 million at 60.57. For Q2FY15 it is 10.5 million at 66.65 and in Q3 it is 9.67 million at 66.80 so it adds up to \$45.42 million at an average rate of 62.72.

**Moderator** As there are no further questions, I would now like to hand the conference over to Mr. Arvind Thakur – CEO, NIIT Technologies for his closing comments.

**Arvind Thakur**

Thank you very much all of you for having participated in this conference. We have probably extended the usual time that we have for conference. I appreciate your patience and your participation and look forward to addressing any further questions that you may have subsequently. Thank you very much.

**Moderator**

Thank you very much. Ladies and gentlemen on behalf of NIIT Technologies that concludes this conference call. Thank you for joining us you may now disconnect your lines.

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