TRANSCRIPT: NIIT Technologies Ltd Q1FY2013 Results Conference Call

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Moderator: Ladies and gentlemen good day and welcome to the NIIT Technologies Q1 FY 2013 earnings call. As a reminder for the duration of this conference all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference please signal an operator by pressing "*" and then "0" on your touchtone phone. I would like to hand the conference over to Mr. Abhinandan Singh, Head Investor Relations. Thank you and over to you Sir.

Abhinandan Singh: Good afternoon everyone and welcome to our Q1 FY'13 earnings call. We have on this call with us our Chairman Mr. Rajendra S. Pawar, our CEO Mr. Arvind Thakur and our CFO Ms. Pratibha Advani. As usual, we will begin this call with brief opening remarks by our CEO Mr. Thakur after which we will have the floor open for your questions. A transcript of this call should be available on our website in a couple of days after this call ends. You would have received our financial results which were emailed during the day today, and those can also be accessed at our website, which is www.niit-tech.com/investors and you may find the appropriate links there. With that I would like to request Mr. Arvind Thakur, our CEO, to take this call forward. Thanks.

Arvind Thakur: Thank you Abhinandan. I will just begin with a comment on the environment. I think as all of you are familiar, the global macro economic situation continues to remain uncertain, which is reflected in both the sluggishness and growth rates across countries as well as a continued volatility in various currencies. The situation in the Euro zone is still somewhat precarious even though European leaders are making some progress in tackling the region's debt situation. UK is officially in recession. The US economy, which was earlier showing signs of improvement, appears to be slipping. In Asia too, which was doing relatively better and in fact is doing relatively better, the key economies are still growing but at a much slower rate than before. So, in short, the economic situation still continues to be quite turbulent and uncertain.

In the backdrop of this scenario, I would like to discuss our first quarter results for the financial year 2012-2013 wherein our Q1 is a smaller quarter due to the seasonal cycle of our GIS business. Nevertheless, revenues grew 5.9% sequentially to Rs.4696 Million and this represents a 42.8% growth over the same period last year. There was the benefit of the weakened Rupee wherein we had a currency gain of 5.4% in our sequential revenue growth. So in constant currency terms our sequential growth has been 0.5%. The EMEA region recorded the strongest growth during the quarter contributing to 39% of the revenues with business growing in all its sub regions, that is the UK continent as well as the Middle East, so the EMEA region now contributes more revenues than the US which contributes to 36% of our revenues and the balance is from APAC & India which contributed to 25% of our revenues.

Continued growth in the travel and transport segment increased the revenue share from this segment to 40% in the quarter under review. The BFSI segment continued to be somewhat sluggish and contributes to 34% of our revenues and the smaller segments that we focus on are the manufacturing distribution and the government business, which contributed to 7% and 8% of revenues respectively. We saw our Top 5 and Top 10 clients cumulatively maintaining their share of revenues of 30% and 43% respectively but it is interesting to see our Top 20 clients increase their share to 60%, which is an interesting indicator of our smaller clients scaling. Business continues to become more broad-based whereby even our Million Dollar clients have increased to 64 in this quarter. Onsite revenues represented 62% of our total revenues and offshore was 38%.

Operating profits for the quarter were at Rs.751 Million, which is 23.4% up Y-O-Y and 0.8% up Q-O-Q. Margins normally decline in the first quarter due to the annual compensation increases and that has been the situation in this quarter as well. The currency gain during the quarter has been offset by the annual compensation increases resulting in an 80-basis points decline in the operating margin to 16%.

Net profits during the quarter increased by 39.7% over the same period last year, and 24.4% sequentially to Rs.575 Million. Rise in other income as a result of gain from revaluation of assets and liabilities has been a significant contributor to this sequential increase. Tax rates also increased to 29.5% of PBT during the quarter as a result of this higher other income. We maintained a steady intake of fresh orders and US$83 Million of fresh business was secured during the quarter. This includes a US$15 Million renewal involving a vendor consolidation from a BFS client in the US and another contract for the CCTNS program from the State of Orissa. Five significant new customers were added during the quarter. One in BFS, two in travel & transport, one in distribution and one in government, which as I mentioned earlier is the Orissa CCTNS program. Orders executable over the next 12 months now stands at $240 Million. Net additions of 82 people took place during the quarter taking our head count to 7,444.

Utilization remained at more or less same levels of 78.5% and attrition too remained at nearly the same levels at 12.36%. Cash and cash balances stood at Rs.2,669 Million and we have spent Rs.252 Million on CapEx during the quarter. Debtors at the end of the quarter were 84 days of sales outstanding. The weakness in the environment has seen some impact in our BFS segment. Nevertheless order intake has continued to be healthy even in a seasonally weak quarter, driven by some aggressive moves aimed at growing our customer base both in the international geographies as well as the more predictable domestic public sector. This build up will continue to help drive growth in the coming quarters. Margins have declined as a result of wage hikes during the quarter and we hope to see this improve during the balance part of the year. So with these opening remarks, I would like to open up our discussions for your questions. Thank you.

Moderator: Thank you very much. The first question is from Vihang Naik from L&T Mutual funds. Please go ahead.

Vihang Naik: In constant currency terms what was the sequential revenue growth?

Arvind Thakur: 0.5%.

Vihang Naik: Last quarter we were pretty confident of significantly beating NASSCOM's growth estimates so, you know, after this quarter how do we look at achieving that kind of a growth?Our order book is decent so what is the outlook there?

Arvind Thakur: As you would have seen and I mentioned earlier, Q1 is normally a small quarter for us and we have seen good growth in this quarter and we hope to build on that going forward. So it seems reasonable to expect that we will beat the NASSCOM numbers.

Vihang Naik: Okay and in terms of the margin decline of 80-basis points could you just run me through the various factors that have affected margins on a quarter-on-quarter basis?

Arvind Thakur: I think the main reason has been the wage hike that we gave during the quarter. This averages to about 8% offshore and about 3% onsite so that has been the prime contributor for the decline in margins and obviously the currency gave us some benefit but not enough to offset these margin impacts. So these are the two main factors that have impacted our margins, but I will ask Pratibha to provide you with some more details.

Pratibha Advani: Yes just to add to what Arvind has mentioned, FX would have given up the benefit of 150-basis points and because we have now completed the Morris transition , it has contributed to another 40 bps to our margins. Salary has taken away 235 basis points and GIS, which is our cyclical business and Q1 tends to be lower than Q4, has brought a shortfall of about 35 basis points, so operating margins from 16.8% in Q4 are now at 16%.

Vihang Naik: What is the kind of outlook for the rest of the year, how confident are we in maintaining or bettering our current margin performance?

Arvind Thakur: As I said in my opening remarks, margins normally decline in the first quarter because of the wage hikes and then as we go ahead we deal with those extra expenses with all the other levers that we have and margins normally improve in the subsequent quarters.

Moderator: Thank you. The next question is from the line of Karan Taurani from IFCI Financial. Please go ahead.

Karan Taurani: Sir just wanted to know the volume growth for this quarter?

Arvind Thakur: Actually our constant currency and volume growth are more or less the same. Pratibha?

Pratibha Advani: Our volume growth is also 0.5%.

Karan Taurani: Okay any pricing would be flat, so any pressure in terms of pricing you see going forward?

Arvind Thakur: We have not experienced any pressure so far, but I think the environment is becoming a little tight so I will not be able to comment on what is likely to happen going forward.

Karan Taurani: Sir if you could give the growth in terms of the number which you gave for geography wise, the volume growth in all the regions?

Arvind Thakur: Do you want the volume growth or you want the actual growth?

Karan Taurani: The volume growth, actual growth I can get, volume growth in US and UK?

Arvind Thakur: Actually I cannot give you UK but EMEA is 1.5% and US has been flat.

Karan Taurani: Sir in US you mentioned some kind of sluggishness in this quarter so if you could just specify some verticals where your decision has slowed down in the US specifically?

Arvind Thakur: Yes, we are seeing sluggishness in the BFS space and you know that is a significant area in the US for us.

Karan Taurani: Manufacturing per se is doing well in US so any colour on that?

Arvind Thakur: Our business of manufacturing is mainly in the Asia Pacific.

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

Dipen Shah: Arvind, just a couple of questions more on the macro side, first of all if you can just throw some light on how is the environment panning out? Are you now seeing more and more large companies competing with you for the smaller relatively smaller accounts? Are there instances, which we are seeing, in the last three or four months because the environment has become slightly tight or are they still largely mutually exclusive segments for you?

Arvind Thakur: Yes in fact in some of the smaller accounts the large players have been the incumbents and we been able to make an entry, otherwise it is somewhat mutually exclusive.

Dipen Shah: So you are not seeing that large companies are now trying to get into the smaller accounts because of the pressures which they are facing in the recent past or at least in the recent quarter?

Arvind Thakur: We have not come up against any competitive bids in the smaller accounts with them but I am quite sure they are still knocking at those doors as well.

Dipen Shah: Okay and you have said that you have been slightly more aggressive in terms of getting volumes in the quarter that statement which you are made in your opening remarks so may be if you can just throw some more light on what are the steps which you have taken in terms of being more aggressive?

Arvind Thakur: One of the things that we have tried to do is to ensure that our intake is more balanced across all geographies so you would have seen that if you look at our intake quality you will find that 30 Million is coming from EMEA, 25 Million from the US and 28 Million from A-PAC in India so we have beefed up our sales and marketing efforts in all the geographies to secure business because in a time where the situation is rather volatile one would like to build a significant order book.

Dipen Shah: In the last quarter you had said insurance was the stressed sector but probably we will start seeing some improvement going ahead so has there been any movement or scaling up in the sector?

Arvind Thakur: We are seeing improvements. In fact the area that was somewhat stressed was the business that we are doing in NITL (erstwhile ROOM Solutions) so there we are seeing our business improve, we have seen a 9% quarter-on-quarter growth in that business; so to recollect, I had commented on the situation with respect to those clients.

Dipen Shah: So what will be the ROOM revenues in this quarter like in the margins?

Arvind Thakur: ROOM's revenue is Rs.415 Million and margin of 23%.

Dipen Shah: Okay and you had said that the BFS segment has been slightly more stressed, any particular trends which we are witnessing, may be client specific or otherwise?

Arvind Thakur: I think we are seeing stress in the larger clients and we are seeing the tier two clients opening up so that is the situation that we are seeing in the BFS segment.

Dipen Shah: The tax rate actually increased in this quarter but that was largely because of the other income so do we take the previous quarter tax rate as the bench mark for this year?

Pratibha Advani: Actually our tax rate going forward should be between 27% and 28%. You are right that this quarter there was a spike because of the other income.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Asit C. Mehta. Please go ahead.

Vimal Gohil: Just a couple of data points. I wanted to know what has been the revenue from Proyecta , GIS and Morris in this quarter.

Pratibha Advani: The revenue from Proyecta is Rs.142 Million, the revenue from GIS is Rs.238 Million and the revenue from Morris is Rs.259 Million.

Vimal Gohil: Sir, Europe has contributed to majority of your growth this quarter. You earlier alluded to the fact that in Europe the situation is precarious so what is contributing to the growth out there?

Arvind Thakur: It is basically our large travel clients that continue to scale. So here the situation referred to is actually more with respect to the BFS segment.

Vimal Gohil: So if I mean obviously once that transition with that particular client in Europe is over would you expect similar performance from Europe to continue going ahead as well?

Arvind Thakur: It is not transition, I think with all these large clients we have long-term relationships we know which continue to scale.

Vimal Gohil: So you do expect Europe to continue to perform well, I mean in comparison to US and other geographies?

Arvind Thakur: That is right.

Moderator: Thank you. The next question is from the line of Pankaj Kapoor from Standard Chartered. Please go ahead.

Pankaj Kapoor: We are just trying to get some more sense in that vendor consolidation exercise that you mentioned in your large BFSI client. Can you give some color in terms of what was it against? I mean was it a similar size vendor? How the client approached it? And what all it involved in terms of any rate cut renegotiations?

Arvind Thakur: It was a business area in which we have been involved with this client and basically we extended that engagement and there were a few other vendors as well and they reduced the number of vendors and that work which was there with the other vendor also came to us.

Pankaj Kapoor: Sir this consolidation was largely restricted to their offshore vendors?

Arvind Thakur: Yes. That is right.

Pankaj Kapoor: Okay and they were of a similar scale or was this through a larger or a smaller, I mean how did the client approach this whole exercise if you can give some sense of that?

Arvind Thakur: Well, obviously the other vendor is a much larger vendor, but they were doing a smaller piece of work in this area and so I think when the whole exercise took place they consolidated and really I would say that it was our domain focus as well as the long-term partnership that we have with this client and which actually extends close to 15 years that prompted them to consolidate that with us.

Pankaj Kapoor: As part of that was there any renegotiation on the rate cut as well because we are now handling a much larger bouquet of volumes?

Arvind Thakur: As a matter of fact no, we actually got this business at the existing rates, so it could be possible that the other vendor may have had a higher rate.

Pankaj Kapoor: Sir if I take this bit out of the order booking for the Q1, it does not seem to be very exciting so how do you look at that? Is it something which is in this particular quarter because of any one off thing? How are you seeing the traction in the market? Do you expect the order book to build up again similar to what we have seen in the last few quarters in the previous year?

Arvind Thakur: Actually Pankaj, if you really look at our intake, it has been steady between 70 to 90 Million in the last four quarters. There was only one exception which was in Q2 of last year when we did the Morris and the Euro Star deal so I would say this is a very good steady intake run rate that we are maintaining.

Pankaj Kapoor: Any large or any significant size deals that you are pursuing on currently which you expect, how is the decision making cycle on such deals?

Arvind Thakur: Yes in fact we have already started engaging on a large deal with a full network carrier and which is undergoing a major transformation program and unfortunately it is not a onetime TCV but we have got a run rate of almost $2 Million per quarter going which is going to scale up till the end of that program. And this is a 24 months transformation program so I would call that a very significant large engagement that we are now involved in.

Pankaj Kapoor: That is already in, the revenue billing and everything has already started on that?

Arvind Thakur: Yes the revenue billing started.

Pankaj Kapoor: Sir just lastly any sense in terms of the pricing environment in the industry, are you seeing or are you hearing any instances in which vendors are going against the pricing discipline? Are vendors trying to undercut each other on pricing are you seeing some cases in the marketplace?

Arvind Thakur: As I mentioned earlier Pankaj we have not come across those situations as yet and perhaps the reason could be that we are not seeing the scale players entering into the segment that we are engaged in.

Moderator: Thank you. The next question is from the line of Sanjeev Hota from Sharekhan. Please go ahead.

Sanjeev Hota: My question pertains to the head count addition during the quarter. In the past we saw close to 250-300 head count addition per quarter but for this quarter the addition is far lower at 82 so how will it be going forward?

Arvind Thakur: Actually last quarter we had scaled up quite dramatically ,we added about 384 people and I think what we are doing now is being a little more prudent with our addition because in this quarter we are expecting an addition of fresher's because this is the time fresher's come into the organization. So rather than scale up in the last quarter ,we are now going to scale up in this quarter.

Sanjeev Hota: So what kind of addition we can see going forward?

Arvind Thakur: Same range.

Sanjeev Hota: 250 and 300?

Arvind Thakur: About 200 to 250.

Sanjeev Hota: Continuing the questions asked by a colleagues, given the uncertain environment are we still in the comfort zone of beating the NASSCOM upper end of the guidance for FY'13?

Arvind Thakur: Yes, I think I already commented on that.

Sanjeev Hota: You do not see any kind of further weakness in Europe or US coming up?

Arvind Thakur: Well if NASSCOM downgrades its guidance it means that is impacting the whole industry and that is why we are kind of linking our whole go forward to what is happening in the environment.

Sanjeev Hota: Sir the Dollar term revenue this quarter in the constant currencies?

Arvind Thakur: 0.5%.

Sanjeev Hota: What is the absolute figure?

Arvind Thakur: We do not have a Dollar term figure because you know Dollar contributes only to about 40% of our revenues so what we do is we give you growth in terms of constant currency.

Sanjeev Hota: Okay and what are the hardware revenues this quarter we have booked?

Arvind Thakur: Rs.14 Crores.

Sanjeev Hota: What is the component of the other income?

Pratibha Advani: The components are, our income from mutual funds is 17.34 Million; income from revaluation of assets and liabilities is 173.49 Million, other non-operating income is 9.14 Million and a net interest income is 8.63 Million.

Sanjeev Kota: The depreciation has jumped this quarter so we can see this kind of run rate going forward in depreciation?

Pratibha Advani: That is right.

Moderator: Thank you. The next question is from the line of Mr. Ganesh Shetty. Please go ahead.

Ganesh Shetty: We have invested in new technologies like mobility analytics and Cloud. Can you kindly let us know the progress out there and the client acquisition in this particular area of business?

Arvind Thakur: These are what we call as Horizon 3 investments, where we are making investments now for revenues in the future and I think we have made a very good progress in these areas. We are basically with the Cloud. We have opened up a whole new segment, which is a segment, where we are addressing the small and medium business organizations and we have configured solutions that we are now taking to the market under a brand called ProcessEasy. For example, we now have a core-banking solution on the Cloud, which we are using to service cooperative banks in the country, and we already have a number of such banks using this service. We call that BankEasy. We have a solution for providing procurement services on the Cloud, which we call as ProcureEasy. We have another solution where we provide our risk and compliance services using the Cloud and that we call as AssureEasy. So like that we have put together a whole suite of solutions with which we are going to market with the Cloud.

Ganesh Shetty: Sir, my second question is regarding our CCTNS program, last time you have mentioned that the margins will be better than BSF contract. As we have added one more state, do we expect more margin improvement going ahead and Sir is there any similar type of business acquisition in progress? Can you please comment on this?

Arvind Thakur: As you know CCTNS is a national program and each state is required to run RFPs and get partners who will implement this program under the guidance of NCRB and so it centrally monitors, the whole program is centrally monitored, so we have been able to now over a period of last 12 months have been able to secure business from four states, which is the states of Tamil Nadu, Jharkhand, Uttar Pradesh and now Orissa. I think with every implementation and experience we have been able to build more efficiencies into our execution. Interestingly, now the first pilot of Tamil Nadu has gone live with about 30-40 police stations and I think the response that we get from those pilots would be the cumulative experience that we will be able to deploy in all the other allocations as well. This is a program that is running quite smoothly.

Ganesh Shetty: Congratulations for that. Can you please let us know the non-linear revenues during this quarter?

Arvind Thakur: The businesses that contribute to non-linear revenues are essentially two; one is the business that we do using our IP assets. That contributes to 12% of our revenues and then we have the business we do in managed services, which is another 12%, so totally 24% of our revenues come from these businesses.

Ganesh Shetty: Sir finally one question regarding acquisitions. Now, we have been filling our gaps in service offerings by doing small acquisitions. We have built up considerable cash balances, can we expect a somewhat bigger acquisition in the near future Sir?

Arvind Thakur: Ganesh, acquisitions are an ongoing program for us. Yes, one of the uses of the cash that we have is certainly going to be directed towards acquiring assets, which we can integrate with the organization that can help us in strengthening our capabilities in the industry segments that we focus on. We are also building the next phase of our campus to create capacity and so cash would also be utilized in building this new building. So that will be the utilization of the cash that we will be doing.

Moderator: Thank you. The next question is from the line of Mr. Sagar Rastogi from Credit Suisse. Please go ahead.

Sagar Rastogi: I have two questions actually, one regarding the order book executable over the next 12 months. Could you share year-on-year growth in constant currency terms and secondly the weakness in BFS among the large clients, is that restricted to just one or two clients or is it more broad-based across the whole vertical?

Arvind Thakur: As far as orders executable over the next 12 months is concerned, I can talk about what it was at the same time last year; it was $200 million and now it is $240 million. So if that is the question that you had, it is a 20% year-on-year growth.

Sagar Rastogi: Sir actually part of your order book would be denominated in INR and also in EURO. So probably the currency would have an impact, which is why I was trying to get a sense?

Arvind Thakur: Then we will have to compute and let you know*. Anyway I think we will have to just take this offline because Pratibha here is telling me it will be about 269 is what she is telling me but I think let us take it separately because I do not know how this is getting computed.

**On a constant currency basis, the order book executable over next 12-months at the end of Q1 FY2013 grew 27% from US$200Mn as on 30-Jun-2011 to US$254Mn as on 30-Jun-2012.* [This *commentary* has been added to this transcript <u>after</u> the earnings call.]

Sagar Rastogi: Sir, regarding the BFS if you could just answer? Sir, you said that in the BFS vertical you are seeing weakness in the large clients and you are seeing smaller clients start to open up, the question was whether the large client weakness is restricted to a few guys or is it more broad based?

Arvind Thakur: I tend to feel it is little more broad based.

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

Manik Taneja: Hi, sir just wanted to understand a couple of things, you have been doing reasonably well in the travel and transportation space, if you could talk about demand trends within the four sub segments over there and some sense on the hiring head along the hedged position?

Pratibha Advani: So currently our forward covers are to the value of 41.06 Million and this is at a rate of 52.55. Just to also share with you, we have relooked at our hedged policy given the current volatility in FX and earlier if you recall we were hedging 100% across Q1 and Q2, 50% in Q3 and 25% in Q4. We are now moving towards increasing the coverage towards the backend so we are looking at opening the coverage in the near quarters so that we can take some of the benefit of this volatility. So in Q1 we are now looking at covering ourselves 90%, Q2 would be 80%, Q3 70% and Q4 60%, but currently we are in the process of transitioning to the new policy so we are not completely adhering to it.

Manik Taneja: Could you also talk about the size of the CCTNS contract?

Arvind Thakur: This Orissa one, this is Rs 41 Crore.

Manik Taneja: Yes, maybe smaller size contract as compared to the other states?

Arvind Thakur: Yes, smaller state.

Manik Taneja: Then last question was essentially on the demand trends in your travel and transportation space?

Arvind Thakur: Recently IATA had held a conference in Beijing and they left their forecast for the airline industry profit unchanged as air travel volumes continue to expand at an above trend space and more interestingly jet fuel prices have come down. So if you look at that there is a number over there called RPK, which is Revenue Passenger Kilometers that is what determines the volume of activity in the air transport space. That has actually grown 6% during the first half of 2012. Also interestingly airfreight volumes have shown signs of growing from the lower volumes of late last year. So I think while slowing economic growth and volatility in the oil prices remain key risk factors what we believe and what we are seeing is technology is an integral part of an airline's operations and we will expect continued traction over there.

Moderator: Thank you. The next question is from the line of Omkar Hadkar from Edelweiss Securities. Please go ahead.

Omkar Hadkar: Can you just give me the breakup for the other income?

Pratibha Advani: The income from mutual funds is 17.34 Million, revaluation of assets and liabilities have contributed 173.49 Million. Other non-operating income is 9.14 Million and net interest income is 8.63 Million, totaling to 208.6 Million.

Moderator: Thank you. The next question is from the line of Harshinder Julka from Economic Times. Please go ahead.

Harshinder Julka: Just wanted to know what caused the flattish volume growth this quarter of 0.5% as Pratibha said and also can you give us some visibility on the pricing for the next two quarters?

Arvind Thakur: As I shared with you earlier Q1 is normally a small quarter for us because there is a significant part of our business, which is the GIS business, which we do with the government and GIS business peaks in Q4 and is the smallest in Q1 so you see a sharp fall in the GIS business and that is the reason why you have a lower growth in the Q1. So that is seasonal.

Harshinder Julka: Okay and pricing little bit?

Arvind Thakur: Pricing as I mentioned earlier we have not seen any pressure so far but looking at the environment we are keeping a constant tab on how things are happening going forwards, but so far we have not seen any pressure.

Moderator: Thank you. The next question is from the line of Aishwariya K from ICICI Securities. Please go ahead.

Abhishek Gupta: Sir, this is Abhishek. Sir the first question is regarding the contribution of non-linear revenues. If I remember it correctly it was around 27% in FY'11 and now it stands at around 24%. So could you highlight what has changed in our strategy for this drop in the non-linear revenue contribution?

Arvind Thakur: It is not a change in strategy. There are two things, which have happened. One is there was a slowdown in the business that we were doing in one of our units, which is NITL Erstwhile Room Solution because of environmental issues pertaining to catastrophes that have happened in the insurance sector. So in a non-linear business and that is in the IP asset based business your license revenues grow when your customers grow but with these catastrophic events and high losses those customers did not grow. So that is what reduced the number over the previous quarter although this quarter that number has increased. That is one aspect. Second is we did a very large transformational deal with Morris and so far we have been treating that as linear because we were in a mode of transition. We are currently putting together the same contract going forward in a transaction-pricing mode. The moment that contract moves into transaction pricing mode it will become non-linear. So I think from Q3 onwards we will start seeing a non-linear revenue strategy.

Abhishek Gupta: Okay that is helpful, and separately in terms of Morris, has Morris delivered in line with what we have been expecting in Q1?

Arvind Thakur: Yes, I think Morris is on track. I think as Pratibha also explained we have completed the transition and now we are going to be working towards making this contract non-linear.

Abhishek Gupta: Okay, Sir, could you also add me to the email list when you send the impact of gross currency on the order book. I think this refers to a question by one of my colleagues earlier. We wanted to understand the order book excluding the gross currency impact this quarter and finally one question if I look at the annual report, the unbilled revenues have grown like 66% year-over-year in FY'12. Could you highlight what this contributing to that significant growth?

Arvind Thakur: Basically, unbilled revenues come when you have more fixed price projects and we have been seeing an increase of our fixed price engagements and that is what is contributing to higher unbilled revenues.

Pratibha Advani: Arvind is right, fixed price used to be more in the ratio of about 36%, which currently today is at 40% odd. So that has contributed, the other reason is also the FX impact. So if I even look at unbilled for this quarter alone, FX had an impact of Rs 90 Mn on unbilled revenues. So these are the two reasons. Forex has an impact on unbilled.

Moderator: Thank you. The next question is from the line of Ravindra Agarwal from Capital Market. Please go ahead.

Ravindra Agarwal: Regarding the forecast data, the guidance that you are estimating to grow by more than the NASSCOM given by NASSCOM. So like could you break it in terms of it is going to be largely volume based or like how you have basically forecasted and how it is spread across the quarters like do we expect it more towards the Q2 and Q3 and Q4 ,how it is spread up in the remaining quarter?

Arvind Thakur: Ravindra, as you know, we do not give any guidance and we do not give any insights into guidance, but I think you should be comforted by the fact that we are looking at growth going forward.

Ravindra Agarwal: Regarding the GIS this quarter as you mentioned because of the cyclical nature the revenues were down so going ahead in Q2 and Q3 like what is the broader outlook like where do we see it, should it rebound like considering the real cyclical nature or like it could remain muted?

Arvind Thakur: No in fact if you look at GIS revenues for this quarter it is 20% higher YOY. So it will continue to be better but it will maintain its cyclical nature.

Ravindra Agarwal: Regarding CCTNS like you mentioned 41 Crores from Orissa and earlier you are estimating around 100 Crore in FY'13. So should that be around 140 Crore for FY'13 that we should look around like from the CCTNS?

Pratibha Advani: It will be more in the range of about 115 to 120.

Ravindra Agarwal: One last question on the discretionary front like I mean any number as a percentage or any more colour on that front?

Arvind Thakur: On the discretionary spend?

Ravindra Agarwal: Yes, discretionary like I mean what is the percentage of revenues that are discretionary?

Arvind Thakur: I think it is a small number for us. I do not have an exact number.

Ravindra Agarwal: Last question on the CapEx like earlier is it the same that was budgeted last time is the 140 Crore or there is some change around this?

Pratibha Advani: Yes about the same.

Moderator: Thank you. The next question is from the line of Radhika Merwin from PUG Securities. Please go ahead.

Radhika Merwin: Just one more on the Morris, as Ms. Pratibha was mentioning on the gain this quarter on the margins has been about 40 basis point; how are we looking at it for the full year I mean in terms of purely margins, what could be the contribution of Morris for us?

Pratibha Advani: I think it should continue contributing about the same 48 basis point.

Radhika Merwin: As far as Morris is concerned how many employees are right now handling the offshore part of it?

Pratibha Advani: We have 95 employees offshore.

Radhika Merwin: Just a broader picture then on the margins for the rest of the levers apart from Morris and of course the Rupee what are the levers that we are looking at for the full year, which could probably give us an upside from here onwards and better upside?

Arvind Thakur: I think you would have already seen an improvement in our SG&A. That is one lever that we have besides the others standard levers with respect to our pyramid I may just mentioned we would be taking fresher's starting this quarter and all the fresher's are joining on time. There is no deferment and things like that are happening in our case that is really to improve our pyramid going forward. So these are some of the levers that we have.

Radhika Merwin: So will we be seeing some sort of down trade immediately in the quarter to as far as the utilization goes since we are having fresher's on board?

Arvind Thakur: It may not be because we have not taken a significant intake in this quarter.

Radhika Merwin: So that goes to support those numbers that are coming in?

Pratibha Advani: As Arvind mentioned in anticipation of these fresher's that you saw this quarter, we did restrict our intake. That is why we just added 82 numbers.

Moderator: Thank you. The next question is from the line of Shashi Bhusan from Prabhudas Lilladher. Please go ahead.

Shashi Bhusan: Sir congrats on a good quarter in a tough environment. I have two parts of questions. Sorry to persist on the pricing front, but Sir as you mentioned that due to tough macro the pricing remains unpredictable but since we have already booked the order book because these macro things started getting worse. So would that order book help with the some of the pricing pressure we might see in some other new contracts or it is possible that there could be some renegotiations in the order book as well?

Arvind Thakur: Again, we are not seeing customers getting back right now asking for renegotiations, but going forward we cannot say whether that will happen or not.

Shashi Bhusan: Are we seeing some early signs if we compare this current situation with the past when the macro starts getting tough, the customer started getting back to us for the pricing stuff, so are we seeing some signs of that or there is still no visible sign as such?

Arvind Thakur: That is what I am trying to say. At the moment no evidence, but one should anticipate going forward and that is the reason why we are being more prudent in terms of managing our cost structure.

Shashi Bhusan: And when they come for negotiation, could they come for the previously signed order book as well, is it possible?

Arvind Thakur: No, only for new business unless it is a renewal. Yet for example we just did a renewal but we did it on existing rates.

Shashi Bhushan: So if the order book is signed at particular rate then that will get executed at that rate only?

Arvind Thakur: That is right.

Moderator: Thank you. The next question is from the line of Rishindra Goswami from Locus Investments. Please go ahead.

Rishindra Goswami: Just wanted your quick comments on you talked about the weakness in the BFSI segment especially large client in the US, if you could just tell us the nature of that weakness, are you seeing some kind of slow down in the deal pipeline or is it deferment in the indicated trend or what exactly is the nature of that tradition?

Arvind Thakur: I think it is different for different for institutions. In fact in January I shared with you an example of a large client of ours, which is undergoing a restructuring. When you undergo a restructuring then many things change and a lot of slow down happens as a result of that. So I think different institutions are facing different kinds of problems and their response at the end of the day is to slow things down till things settle up a little more so that is the kind of thing that we are experiencing.

Rishindra Goswami: Just I was asking whether you see any kind of slowness in the deal pipeline for the kind of work that you target in the BFSI segment?

Arvind Thakur: As a result of that your deal pipeline also slows down.

Rishindra Goswami: Got it. Another question on ROOM Solutions; you mentioned that it has grown quarter-on-quarter. So if you could just tell us more about what lead to that growth, you won some new clients or is it just existing clients who have come up with new projects?

Arvind Thakur: No in fact we have acquired new customers in this space, but actually existing customers as well with the new solutions that we are offering to the marketplace so in particular we have a solution around risk aggregation which is now becoming quite central to the strategic investments for global clients in the commercial insurance space. So that is I think a very interesting traction that we are beginning to get.

Rishindra Goswami: Okay and this is the new product for you guys?

Arvind Thakur: It is actually a refurbished product.

Rishindra Goswami: The competitive environment there remains similar or you are seeing that worsen?

Arvind Thakur: Actually you know if you look at the ROOM Solutions space we do not have competition from our peers, we have actually competition from within, some local companies. So that gives us a lot of room to maneuver in structuring deals and pricing in various other things to be able to secure business.

Rishindra Goswami: Since this is a very, very UK focused business for you, what is the sense on the kind of spend that insurers are willing to engage in the near future?

Arvind Thakur: Actually what we have been to do is to go beyond the UK market and I think that is where things are becoming exciting, so one of our existing customers actually acquired another customer in Belgium and post merger they chose to have a common platform which was our platform and they implemented in the Belgium organization as well. So I think our growth is coming not only in the UK market, but going beyond the UK into the continent and with this risk aggregation solution we are now actually a dressing a global insurers who have presence all over the world.

Rishindra Goswami: These are mostly companies that you are targeting mostly in Europe right?

Arvind Thakur: These are companies not just in Europe; in fact we have just secured a business in the US as well, so I think we are opening up the markets for our solutions both in Europe as well as in the US.

Rishindra Goswami: The business that you won in the US, this is the first win in the US for you?

Arvind Thakur: Earlier the business that we did in the US was the extension of a client in the UK, but the business which I am talking about is in the US which is an absolute new client, but we have not reported it because it exactly happened in the beginning part of this quarter.

Rishindra Goswami: Okay this is the significant win or smaller kind of an engagement?

Arvind Thakur: Significant for a license sale.

Rishindra Goswami: Got it, so you would be expecting at least the room solution business to grow this year, going forward?

Arvind Thakur: Yes that is the corner stone of our nonlinear strategy.

Rishindra Goswami: If I got the number correct then the CapEx you mentioned is 140 Crore for this year?

Pratibha Advani: That is right.

Rishindra Goswami: Where exactly is this going to be spent?

Pratibha Advani: We are actually expanding our current campus so 80 Crore from this has been earmarked for spend on the campus.

Rishindra Goswami: The rest 60?

Pratibha Advani: Is our normal business expenditure.

Moderator: Thank you. The next question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Just wanted to understand your visibility on the onshore and offshore mix, I think we are at 30% right now and have been at this level for a quite a while, but there have also constant talks from management on working towards improving this, so barring Morris or including Morris what is the constraint really?

Arvind Thakur: Actually our mix has improved slightly 63% onsite to 62% onsite and that has happened because we are started moving work from Morris offshore. One of things that we are seeing in our business now particularly when we are looking at building our business going forward is that the value proposition for our customers is changing quite significantly from just cost arbitrage to providing business value and that requires investments in the front end around capabilities like solution architects and whole host of supporting people thereof. So you will see in our business a considerable amount of investments going around that which provides you with good returns so if you really look at our head count although 62% of our revenue is come from onsite only 25% of head count are engaged onsite. So this is very high value business and activity, which is happening onsite.

Baidik Sarkar: Because you know my concern was more from given the strategically CCTNS’s share of revenues is only growing on a sequential basis and the margins are not great on that segment, I was hoping that the offshore segment would give us some kind of an operating lever to take care of what hardware does not, so my concern was from that front so in the context does the management have a target set for this FY’13 or FY’14 as to where you will work towards?

Arvind Thakur: Yes definitely I think we would definitely like to improve our margins by a percentage point by the end of the year.

Baidik Sarkar: So there is no guidance on that number as yet?

Arvind Thakur: No there is no guidance, we do not give any guidance.

Baidik Sarkar: One last question, given that Q1 has been more or less flat in constant currency terms, I am assuming it would more or less translate in the context of volume as well and we are also certain of achieving NASSCOM numbers the fact to assume that the growth for the remainder of the year will be distributed equally among the three quarters or do you see being back ended towards Q3 and Q4?

Arvind Thakur: I think when you look at revenues; revenues come off the order book and so when you have a healthy order book as we have now, you can assume an equal distribution of revenues through the year.

Moderator: Thank you. The last question is from the line of Apoorva Oza from Standard Chartered. Please go ahead.

Apoorva Oza: Just wanted a data point in terms of the OCI balance and also in terms of my query last quarter you had spoken about four large deals that we were pursuing, so just wanted to understand how things have progressed and are we seeing any further delays in decision making and when do we expect to close out any of these dealings?

Arvind Thakur: Well as I shared with you earlier, there is one deal which is already on with the full service airline, there we are doing a complete transformational activity, where I said you know our current quarterly run rate is already two million likely to increase and that is a 24 month program so I think we have already secured one, now we have get on to the others. I think the pipeline is healthy with respect to those kind of deals.

Apoorva Oza: In terms of the OCI balance if you could just let me know that Sir?

Arvind Thakur: What is OCI?

Apoorva Oza: Basically the annualized FX gains on the balance sheet?

Arvind Thakur: We will try to take out that number.

Pratibha Advani: It is 162 million.

Apoorva Oza: Also in terms of the CCTNS revenues, when about 115 to 120 Crore is shared, is this just the hardware component or this is the overall CCTNS revenue that we expect in FY'13?

Pratibha Advani: This is the overall CCTNS revenue.

Apoorva Oza: The hardware component would be 65% odd?

Pratibha Advani: 65% to 70%.

Moderator: Thank you. Ladies and gentlemen that was that was the last question. I would now like to hand the floor over to Mr. Arvind Thakur, CEO in NIIT Technologies for closing comments.

Arvind Thakur: Thank you very much for joining us in this call. As always your questions have been very insightful and hope we have been able to address and answer all your questions. In case there are some more questions that we have not been able to address due to shortage in time, please do get in touch with Abhinandan and we will get back to you.

Moderator: Thank you. On behalf of NIIT Technologies that concludes this conference.

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(1 crore = 10 million)