"NIIT Technologies Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the NIIT Technologies' Q4 FY2011 earnings conference 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 the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Abhinandan Singh, Head - Investor Relations, NIIT Technologies. Thank you and over to you sir.

Abhinandan Singh: Thank you and welcome everyone to our Q4 FY2011 conference call. As most of you already know, I have recently joined the team here and look forward to interacting with you going forward. Present along with me today at this call are Mr. Rajendra S. Pawar, our Chairman; Mr. Arvind Thakur, our CEO; and Ms. Pratibha Advani, our CFO. We will begin this forum today with opening remarks by Mr. Arvind Thakur and after that this floor will be open for your questions. Before I hand over this floor to Mr. Thakur, I would like to make one more announcement. We are organizing a fund manager and analyst meet next week on Wednesday, May 11, 2011, at 4 p.m. in the Rooftop of the Trident Hotel at Nariman Point, Mumbai. You will shortly be receiving more details from us, but I want to take this opportunity to invite you to next week's analyst meet. Now with that, I would like to request Mr. Arvind Thakur, CEO, NIIT Technologies to initiate this call with his remarks.

Arvind Thakur: Thank you Abhinandan and good evening everybody. I am pleased to share with you the annual results for the year 2010-11 as well as do an analysis of our quarter 4 results for the same financial year.

Overall, the macroeconomic conditions had improved during the year and you are all aware the previous year was a difficult year, but thereafter we have seen economic activity improve across the world with the East demonstrating higher growth than the West. The annual results for the financial year 2010-11 for NIIT Technologies reflects the strong recovery from the economic slowdown of the previous year. The company experienced revenue growth of 35% over the previous year resulting in revenues of Rs. 12,323 million for the financial year. Operating profits improved by 27.3% to Rs. 2404 million and net profit scaled by 44.2% for the full year to Rs. 1822 million. Operating margins for the full year were at 19.5% and net margins were at 14.8%. During the year, we saw strong traction in our travel and transport vertical as well as the BFSI space.

In terms of geographies, we had good growth both from the US as well as in the Asia Pacific region. India was exceptional on the back of large government engagements particularly the significant turnkey project that we are executing for the Border Security Force. Europe, Middle East, and Asia if you collectively term it EMEA, however, remained flat and this was the result of a decline in revenues in first quarter of the financial year. However thereafter from the second quarter, we have seen improvement quarter-on-quarter in EMEA as well. All in all, a good year with NIIT Technologies delivering industry leading growth in revenues and profits.

Before we look at the Q4 results in more detail and I will just share a few comments on what we see in the environment. The quarter under review has seen the global economy sustain the trend of economic recovery with large economies such as US and Western Europe showing good signs of a rebound. This despite the turmoil that we have witnessed recently in the Middle East as well as the tragedy in Japan. Looking specifically at the key segments of our operation in the BFSI space, you see that the industry appears to have emerged well out of the financial crisis with the renewed confidence about their prospects. We believe that the management regulatory shift and streamlining of technology platform could act as triggers for further IT spending in this space.

The global aviation industry is expected to deliver better revenue performance in 2011. As you are aware, travel and transport is another area of focus and even though there is a potential of higher oil prices likely to dampen earnings for airlines, forecasts for passenger traffic and air cargo growth in 2011 continued to be robust. IATA, this is the air transport industry body has projected 5.6% growth in passenger traffic and 6.1% growth in cargo traffic and these are all good leading indicators of economic activities. We are also seeing a gradual recovery in the manufacturing sector which is another area that we focus on where some reports in the US seem to indicate better than expected growth in this particular segment.

The key risks that we see to our business in an otherwise positive environment are on account of inflation, increased interest rates, and volatility in exchange rates. We also had the Union Budget session during the quarter where there were some positives including the reduction of surcharge to 5% and lowering of tax rate on dividend from foreign subsidiary, but by and large this has more than been offset by negative associated particularly with the discontinuance of the STPI incentives for the industry. This will result in higher taxes for the industry in the coming year.

With this background, let us look at specifics of our quarter 4 results. The revenues for the quarter stood at 3157 million which was up by 32% year-on-year and represents a sequential growth of 5% quarter-on-quarter. Deals as you can see, revenues have grown sequentially despite reduction in bought out items for the large turnkey contract that we have been executing for BSF, but the purchase cost of bought out items for BSF during the quarter were Rs. 34 million. If I exclude these bought out costs for comparative purpose, you will see that revenues excluding these bought out costs stand at Rs. 3123 million which represent a sequential growth of 9.3% quarter-on-quarter. For the purpose of revenue analysis and in the previous quarter, I will exclude these bought out purchases for a like-to-like comparison. Growth in the quarter came on the back of strong growth in Europe and EMEA now represents 35% of our business. U.S. and APAC too continued strong growth momentum with the U.S. representing 35% of revenues. As the major portion of the BSF contract had been delivered in the earlier period, growth in India was there, but not to the same extent. In effect, overall if you look at growth in the quarter, this has been delivered primarily on account of superior growth in engagements other than BSF. Significant traction in the travel and transport segment resulted in revenues expanding to represent 34% of the mix. BFSI also had strong showing and now represent 40% of the mix and the manufacturing and government verticals represent 7 and 8% of revenues respectively.

I would like to spend a little time and share with you progress on the BSF contract which was a significant engagement done through the year. The prestigious Intranet Prahari project is nearing completion. With the exception of data entry, all major components of the program have been delivered. The data center and disaster recovery center has been commissioned. We had to complete 10 mini data centers in the Frontier Headquarters. These have been completed and commissioned as well. Network cabling and installation of network components have also been completed barring a few isolated locations. All applications have been developed and signed off. Over 20,000 of the BSF personnel had been trained on the applications. Integration, testing, and commissioning, however, have slipped into the next financial year and data entry of service record and inventory are the only major items to be completed. We had significant fresh new orders during the quarter. $116 million of fresh orders were secured during the quarter which included 4 new clients, 2 in the travel space including one for our recently introduced cloud services, one in the BSF space and one in manufacturing.

Orders executable over the next 12 months from the order book now stands at US $169 million. Consolidated operating profits of the company stood at Rs. 648 million, up by 22.5% year-on-year and growing sequentially 4.1% quarter-on-quarter. 59% of the revenues during the quarter changed from the onsite business and 41% were from offshore. Operating margins stood at 20.5% during the quarter. Net profits for the quarter were up 21.1% year-on-year and grew sequentially by 4.5% to Rs. 500 million. We have an outstanding hedge position in US dollars at the end of the quarter of US $29 million at an effective rate of Rs. 46.65 to a dollar. We added 448 people, those are the net additions of people during the quarter taking our total headcount to 5860. 23% of the direct resources were engaged in onsite activities. Utilization of resources remained high at 83.6% and attrition is under control and in fact improved to 17.5% during the quarter which is lower compared to the earlier quarters. Cash and cash equivalents stood at Rs. 1637 million. Our debtor days improved further to 85 days of sales outstanding. We consumed 189 million of CapEx during the quarter. 73 million was in account of new capacity additions while Rs. 116 million were spent on the campus which would be ready for us to move into by the end of the first quarter this year.

In summary, a good quarter topping of a good year with industry leading growth and profit for the year. What makes NIIT technologies somewhat unique amongst the peers is a very balanced geographic revenue mix which I believe would create the right platform for sustained growth. Customer satisfaction levels are high. We have seen in independent surveys like the one from data monitor which is the largest investigation into customer satisfaction is outsourcing and they have ranked NIIT Technologies at number 3 globally. Ahead of the biggest players in the industry, we have also seen our ranking improve over the years with respect to customer satisfaction. We were number 36 in 2008, again 22 in 2009, and number 3 now. This to mind is a clear reflection of the value our customers experienced from our specialization. In fact, when it comes to the large industry segments of our focus like travel, we are ranked number one. Not only are we leading in customer satisfaction, we are also getting strong acknowledgements for our HR practices as well. ASTD which is the largest body of professionals in training has ranked NIIT Technologies at number 3 globally amongst all global corporations as a learning organization. It appears that our approach to focus and differentiate is working well and creating higher satisfaction with customers. The superior HR practices to support execution and a strong order position, I believe we are poised for a good year ahead. So with these remarks, I will be very happy to address your queries. Over to you operator.

Moderator: Thank you very much sir. The first question is from the line of Dipen Shah from Kotak Securities. Please go ahead.

Dipen Shah: Arvind, congrats on a good set of numbers. First of all in terms of the revenue if you could just give us a breakup as to how the international revenues have grown in terms of volumes?

Arvind Thakur: Basically you want to eliminate the exchange gain or loss right?

Dipen Shah: Also like India revenues if you can keep aside and you just plainly look at how the international revenues have grown?

Arvind Thakur: So let me first give you the mix, you talking about this quarter or you talking about the year?

Dipen Shah: Quarter.

Arvind Thakur: Talking about the quarter, so India revenues are 15%, so the balance 85% is the international revenue. 469 is the India revenue and 2654 is the international revenue.

Dipen Shah: How has been the volume growth in that international revenue on a sequential basis?

Arvind Thakur: I can give you region wise. Volume growth in Europe is 9%, volume growth in the US is 7%, volume growth in APAC is 13%.

Dipen Shah: That is great and if we can just know in revenues, is there any exchange gain or loss which has been included in the top-line in the current quarter?

Arvind Thakur: Yes, there is an exchange gain of 1.2%.

Dipen Shah: Of the revenues for the quarter?

Arvind Thakur: Of the revenues for the quarter.

Dipen Shah: And also like how are the nonlinear revenues during the current quarter, what percentage?

Arvind Thakur: Nonlinear revenues are 27%.

Dipen Shah: So that is almost similar as compared to what it was correct in last quarter?

Arvind Thakur: It is a Q on Q growth of 8%.

Dipen Shah: So in percentage terms, it is almost similar.

Arvind Thakur: Yes, almost similar, pretty good QonQ growth.

Dipen Shah: And if you can just throw some more light in terms of the ROOM revenues and how are the initiatives in cloud panning out?

Arvind Thakur: ROOM revenues are Rs. 1203 million that is for the full year, you want for the quarter?

Dipen Shah: Yes.

Arvind Thakur: For the quarter, it is 367 million and so that is actually almost a 20% growth from 306 to 367.

Dipen Shah: This is sequential, I do not have the last quarter?

Arvind Thakur: That is sequential.

Dipen Shah: So margins also would have improved obviously?

Arvind Thakur: Yes. Margins are very good in fact, ROOM had a good quarter.

Dipen Shah: So how much will the margins be in the fourth quarter?

Arvind Thakur: I just come back to you on that.

Dipen Shah: And lastly if we can just know what are the salary increments which you are planning from the first quarter?

Arvind Thakur: I got the standalone numbers, it is 21%.

Dipen Shah: And the consolidated?

Arvind Thakur: Dipen we will just get back to you.

Dipen Shah: And lastly like what salary increases are you planning from the first quarter?

Arvind Thakur: There will be an average of 13%.

Dipen Shah: This is for offshore?

Arvind Thakur: This is for offshore. Onsite could be around 3%.

Dipen Shah: And this will be spread all across or it will be piecemeal quarter wise?

Arvind Thakur: No, this will start from quarter 1.

Dipen Shah: It will be for all the employees right?

Arvind Thakur: I would say 8 to 16% depending upon performance, but I would say average would be 13%.

Dipen Shah: Fair enough, thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Sonaal Kohli from AIM Capital. Please go ahead.

Sonaal Kohli: Arvind, congratulations on your results. Firstly on the pricing side, how has been the pricing environment NIIT Tech and your margins have declined QonQ to 30 basis points. So if I was to remove the hardware losses and the hedge revenues on the core business side, so what explains the decline in the margins?

Arvind Thakur: QonQ, the decline is basically of two reasons. One is you will see that there is a higher component of onsite revenues this year and in this quarter. So 59% of our revenues are coming from onsite as compared to 57% in the previous quarter and this is because you would have seen very strong intake during the quarter and so there are many more programs which are starting onsite and that is contributing to higher onsite revenues. The other significant element is in terms of wage costs where this year because of robust growth and good results, we have had higher incentives being paid out to our employees as compared to last year where as you are aware the environment was challenged and so the incentives paid out were much less comparatively. So these are the two factors which are contributing to the reduction in margins.

Sonaal Kohli: Arvind, would you imply on QonQ, the final payout came out to be more than what you were provisioning for and that is why because the year was ending that is what you imply?

Arvind Thakur: Yes.

Sonaal Kohli: On new order wins, you won large amount of new orders. Could you throw some light on those in what kind of, which areas are these are in and when would this start going in?

Arvind Thakur: In fact this has been right across of the intake. If you look at the intake of $116 million, almost 50 million is in the BFSI space. About 35 million is in the travel and transport space and another 20 million actually in the manufacturing space and the rest has been distributed across. So you can see it is business which has come across all our industry segments.

Sonaal Kohli: In terms of your depreciation increase, is this the quarterly run rate which we should presume or the increase because of your new facilities which came out to be that has fully reflected in the quarter and what could be the depreciation run rate one could broadly look at?

Arvind Thakur: I think next year, depreciation is going to increase because of a lot of capital work in progress, will become assets that will be depreciated. So the reason why we have higher depreciation in this quarter is because some of end-of-life items have been retired and provided for the residual value in this quarter.

Sonaal Kohli: So this is not because of your new facilities having commissioned?

Arvind Thakur: No, we have not yet commissioned the facility.

Sonaal Kohli: And what kind of tax rate would you end with during the year?

Arvind Thakur: This year if you look at our tax rate, it is close to 15% of PBT, but if you are talking about the next year, it would probably be in the range of 26 or 27%.

Sonaal Kohli: And two last queries, what were the hedge losses? Did you have any hedge losses on the revenue side during the quarter?

Arvind Thakur: We have a hedge loss of 55 million during the quarter.

Sonaal Kohli: On the revenue side?

Arvind Thakur: On the revenue side.

Sonaal Kohli: As far as the pricing is concerned, how do you see the environment for you and were there any one-off orders like one large deal which came to end, which led to a 9% QonQ growth in quarterly revenues or this is something which is sustainable?

Arvind Thakur: No, I think the environment is good. In fact almost 0.3% of margin increase can be attributed to increase in pricing.

Sonaal Kohli: And secondly on your QonQ growth in revenues, were there any one-off large deals which came to close large booking happened in one particular deal or this is business as usual and there is no large one-off in this quarter?

Arvind Thakur: There is nothing large one-off.

Sonaal Kohli: Thank you sir.

Moderator: Thank you. The next question is from the line of Shraddha Aggarwal from B&K Securities. Please go ahead.

Shraddha Aggarwal: Hi sir, congrats on a good quarter. Last quarter, we had indicated that the componential bought out costs in this quarter would be close to 10 crores, but this time around it is coming to 3.3 crores. So has there been some deferment in the booking of hardware component?

Arvind Thakur: No as a matter of fact, what has happened is a number of sites where we had estimated a lot of passive items, they were not required. So the component of hardware actually reduced in the contract.

Shraddha Aggarwal: What is your expectation on any hardware booking which would be booked in fiscal 12?

Arvind Thakur: As I explained to you, the project now, only component which is left is data entry. So there could be through the year may be 3 to 4 crores that we may have to book on hardware's, but that would be negligible as compared to what we have done in this year.

Shraddha Aggarwal: And in this quarter, fresh order win was close to $116 million, was there any hardware component also involved in this order win?

Arvind Thakur: No, these are all services business.

Shraddha Aggarwal: And just to clarify again, the losses from old hedges recognized on top-line were Rs. 55 million for the quarter?

Arvind Thakur: That is right.

Shraddha Aggarwal: As against 51 million last quarter?

Arvind Thakur: That is right.

Shraddha Aggarwal: Because earlier in one question probably you have indicated that 1.2% of revenue was due to exchange-related gains in this quarter.

Arvind Thakur: As you know, as I just shared with you, our US revenues are only 35% of our business. So if you look at the other currencies, actually they have strengthened. It is only the US dollar which has weakened. So majority of the revenues are coming from currencies rather than the US dollar.

Shraddha Aggarwal: And have we got any clarity on the standalone margins for ROOM Solution because earlier quarter it was 25% if I am not wrong?

Arvind Thakur: That is why, we are just working it out.

Shraddha Aggarwal: And secondly update on our partnership with Hitachi and what is happening on the healthcare platform?

Arvind Thakur: So as I mentioned, we have secured first cloud services business in the travel space. This is travel related company which we are using the Hitachi infrastructure to provide them with the service as part of that partnership. So I think we are happy to announce one client out of that relationship. As far as Preferr is concerned, we have no significant orders to report at this point in time, but we are getting good traction with that solution.

Shraddha Aggarwal: And also would it be possible for you to give us a breakup of other income?

Prathibha Advani: The breakup is as follows. Income from mutual fund is 7 million and we have had some FX losses on options matured that is 0.77 million, then from outstanding options we have had a gain of 0.46 million, and revaluation of assets and liabilities has given us a loss of 5.86 million. Our other non-operating income is 11.46 million and the interest income is 8.17 million. So that is 20.65 million.

Shraddha Aggarwal: One more question if I could, you have indicated kind of 13% salary hike for offshore employees. So that would be sector next quarter, the entire 100% of the employee strength would be getting the salary hike next quarter, would be staggered in 2-3 quarters?

Arvind Thakur: No, it will be from quarter one.

Shraddha Aggarwal: Thank you so much.

Moderator: Thank you. The next question is from the line of Madhu Babu from Systematix. Please go ahead.

Madhu Babu: Sir NASSCOM is getting from 16 to 18% growth. So would we grew above the industry excluding the BSF bought out revenues for FY12 or below the industry?

Arvind Thakur: We do not give that kind of specific guidance, but yes we would expect to grow better than that.

Madhu Babu: Sir and this quarter GIS revenues have some seasonality. So could you give out the GIS revenues?

Prathibha Advani: Yes, GIS revenue is 304 million.

Madhu Babu: And what is the CapEx guidance for next year?

Arvind Thakur: Next year is about 60 crores.

Madhu Babu: This would go into the Noida SEZ?

Arvind Thakur: Yes, quite a bit over there.

Madhu Babu: What is the outlook on the margins for next year, FY12?

Arvind Thakur: As I just mentioned, margins are something that will be stressed in the first quarter because of the salary increases, but would improve consistently over the balance part of the year and we will definitely exceed the margins that we delivered for the full year this year.

Madhu Babu: And sir the dividend payout ratio has come out to 25%, last year we paid out around 33%. So any reason why we drop the dividend payout ratio?

Arvind Thakur: Well that is the decision of the board.

Rajendra S Pawar: Well I think if you have seen our dividend history, we have tried to be very consistent. So we have taken it up 5% every year, which is exactly what we have done this year. We are just trying to be predictable and consistent.

Madhu Babu: As a percentage of profits, last year two year we have paid out 33% and this year it is 24% I think as a percentage of profits?

Rajendra S Pawar: That is right. So we try and build some predictability. In even extremely good years in the past, if you have seen, it has have gone up 5%. So that is the decision we took today.

Madhu Babu: And last question, typically the growth was strong in the IT sector, so are we seeing any spillover of business because when large companies tend to be a bit lag the mid cap IT companies started to benefit from the kind of spillover business?

Arvind Thakur: What do you mean by spillover business?

Madhu Babu: Spillover in the sense that when large companies books a full, so the mid cap companies tend to benefit of the excess orders.

Arvind Thakur: We do not run on spillover business. I think we have carved out the market place for ourselves . I would say orientation and this is something that we have articulated very clearly to our teams is that we like to be the first choice for services to our customers. So we are not really going after spillover business. We are competing alongside Tier 1 and we are acquiring business.

Madhu Babu: Okay sir, thanks a lot.

Moderator: Thank you. The next question is from the line of Ritesh Rathod from UTI Mutual Fund. Please go ahead.

Ritesh Rathod: In terms of BSF order, how much did we bill in FY11 and how much is the cash received from BSF order so we have outstanding orders?

Arvind Thakur: We have billed 127 crores and we have received, I would say, I do not have the number for 31st March, but we have received till date 100 crores.

Ritesh Rathod: So basically the receivables would drop very sharply from the balance sheet number or?

Arvind Thakur: In Q1.

Ritesh Rathod: In Q1 right, we had like 287 crores of debtors, so it would drop sharply if we have received such a big amount?

Arvind Thakur: Yes.

Ritesh Rathod: In terms of deal wins and deal intake, we are seeing very strong deal intake specifically from US. So has the deal pipeline changed very drastically in last one quarter and something we will see it accelerating from here onwards in terms of conversion ratio?

Arvind Thakur: Well, even if you look traditionally, we have always had best intake in the fourth quarter. So to some extent, there is seasonality because some of the budgets and all that and lot of contracts get renewed and so on, but I think it is our thing to see this intake. Particularly since as I mentioned to you, the orders executable over the next 12 months, that is now standing at 169 million and that is a good indicator of what is going to happen in the year. So if you analyze the previous year's and look at what has been the order executable over the next 12 months in the beginning of the year and look at what has ultimately been the revenues of the company, you will get a sense of what kind of growth you can expect going forward.

Ritesh Rathod: But even like what you are talking is $147 million was last year number pending order and 169 is this quarter number. So it is 15%, but last quarter number would include that BSF order in the base. So actually the growth would be even higher than what it seems to us?

Arvind Thakur: Well if you really look at it, our revenues are 275 million in US dollars this year and that was when we had an intake executable over 12 months of 147 which means your revenues of the year are typically 1.9 to 2 times opening intake.

Ritesh Rathod: And sir keeping aside the seasonality, there was no big change in the deal pipeline, even though we had a strong order intake this quarter. Was the deal pipeline normal or there was some big change in the deal pipe and going forward you see intakes increasing?

Arvind Thakur: Yes, I think deal pipeline is improving. We are seeing a lot of traction particularly in the managed services space. We have actually revamped very significantly our sales organization and as I had mentioned in my opening remarks, one area which where we did not grow this year was Europe because we had a dip in the first quarter, but we brought in a new President, we have changed some of the country managers, we have strengthened our front end with domain specific people and I think we are seeing a lot of traction. In fact this quarter, we saw very strong growth in Europe.

Ritesh Rathod: So any quantitative input you can give on sales and marketing side like in FY10, what was the average number on guys who were on the front end and what is the number at the end of the FY11?

Arvind Thakur: Not off hand, but we can take this offline.

Ritesh Rathod: Yes sure. Thanks sir, that is from my side. Wish you very good luck for next year.

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

Sanjeev Hota: Thanks for taking my question and congrats to the management team for the good operating quarter. What is the exchange rate for the quarter?

Arvind Thakur: I think in dollar terms it is 45.3.

Sanjeev Hota: And sir what is the blended volume growth in pricing on the IT services?

Arvind Thakur: On IT services, our volume growth again I am giving a number excluding the BSF bought out. Our volume growth has been 7.8% sequentially and if I look at our total growth, it has been 9.3%. So the difference 1.2% is the exchange gain and 0.3% is the price gain.

Sanjeev Hota: I want the SG&A costs for the quarter?

Arvind Thakur: 19%.

Sanjeev Hota: What kind of employee addition we are looking for FY12?

Arvind Thakur: I think we now tracking at about 300 per quarter, we can expect those kind of additions going forward.

Sanjeev Hota: And if you could give us some color on your managed services business because this quarter we have seen a very strong kind of growth in the ROOM services, any indication on the managed services business because 2 years back, we have given a target of 40% coming from our nonlinear revenue for FY12. So we have some internal targets going forward because last quarter we have seen the contribution from the nonlinear revenue of 27%, any internal targets on that?

Arvind Thakur: Yes I think we are going to be looking at 30% next year.

Sanjeev Hota: And anything on the managed services business this quarter?

Arvind Thakur: In quarter 1?

Sanjeev Hota: In this quarter, managed services, 27% excluding ROOM services, the managed services what is the revenue for this quarter?

Arvind Thakur: This quarter, 12% of our revenues are from managed services.

Sanjeev Hota: This is on some levers that is going to play beyond the headwinds of wage hikes going forward, so what is levers going to be forward for our margins in FY12?

Arvind Thakur: I think there are many levers. As I just explained to you, first and foremost is pricing. So as you can see, we are already getting better prices in the new engagements going forward. Second is the change in the pyramid. We are hiring a lot of freshers and as we are expanding, we are improving the cost structure of the delivery organization and third a very important is the focus on our nonlinear business. As you know, nonlinear business can generate very significant margins because growth in revenues do not imply proportionate growth in headcount.

Sanjeev Hota: Sir last question on the tax rate this quarter why it is coming around any write back we had?

Prathibha Advani: Our tax rate has come down because the domestic component of our income has come down and that is what has lowered our tax rate.

Sanjeev Hota: That is all from my side. All the best for the future.

Moderator: Thank you. The next question is from the line of Srinivas Seshadri from RBS Equity. Please go ahead.

Srinivas Seshadri: Congratulations to management on a good quarter. First is may be if I can just ask a couple of data points. What was the contribution of the government business during this quarter to the revenues?

Arvind Thakur: 8%.

Srinivas Seshadri: And the other thing is in terms of the balance sheet, what is the amount of outstanding hedging loss which is still there on the balance sheet?

Prathibha Advani: Actually we had a gain this quarter. We had 17 million gain Seshadri, hedging gain.

Srinivas Seshadri: The other thing is your vertical distribution in terms of the growth has been very skewed this quarter like we have had 17% growth in travel and again the manufacturing vertical has degrown quite a bit. So if you could just explain why this was so?

Arvind Thakur: Actually very strong traction in travel. I think all our major clients ramped up well. So that has really contributed to significant growth in that particular segment. As far as manufacturing is concerned, I think what we have seen perhaps I eluded to it in my last call as well, we had major engagement with Toyota which was rollout of the dealer management system which has been completed and has got ramped down and I think we are still waiting for recovery in that account to scale back. As you know, Japan disaster has slowed down decision making in that key account.

Srinivas Seshadri: And sir if I look at the order intake, it has been very impressive in this quarter. You explained the geographical split of the order. If you could also explain may be the kind of services which you are rendering for these kind of orders may be if that could be broken down in terms of the deal size, service wise that would be helpful in getting some color?

Arvind Thakur: In fact I would say a lot of this has been $10 to 15 million engagements with some of our key clients on some of the major programs. So I can see at least three engagements in that range.

Srinivas Seshadri: And what kind of services are you offering in such kind of deals basically, some of the larger deals which you have won?

Arvind Thakur: These are managed services, these are support and maintenance services and in fact there is one also with development, all three. I think the other important thing is you will notice that our million dollar clients are also increasing steadily. So end of last year, they were 32 and in this quarter now we have 43. So actually we have also been significantly broad basing our clients and making them significant.

Srinivas Seshadri: And do you see this client mining potential continuing going into this next year as well?

Arvind Thakur: Yes. In fact you may not be aware, but now we have some of our clients with partnerships of over 15 years. So British Airways has now 15-year relationship, SEI Investments which is a large financial client for us has a 15-year relationship, SATS is now a 10-year relationship. So I think we have some very deep relationships which are scaling well.

Srinivas Seshadri: And sir any update on the British Airways account particularly because you were earlier highlighting that they were merging with Iberia and there could be some opportunity because of the merger, so anything which has developed so far?

Arvind Thakur: Yes, in fact British Airways is one area where actually I will not say British Airways, I will say IAG because IAG is now the International Airline Group. So they have got two airlines, there is British Airways and there is Iberia and they also have other entities which are servicing them. So we have of course long relationship with British Airways. We have also now started engaging with one of the other entities which is the Mileage Company and I guess we have to now move to see how do we address Iberia that has not been done as yet.

Srinivas Seshadri: And sir on the GIS business, this year was very spectacular in terms of the growth and I guess partly driven by the APDRP project implementation. So going into next year, what kind of growth momentum do you see because my sense is that some bit may be not repeatable business because of APDRP type of projects. So what kind of growth momentum do you see ?

Arvind Thakur: This is a growth area. To my mind, I would say we are beginning to see not only business happening in India, but also in the Asia region, in Singapore, Indonesia, Middle East as well as the U.S., but I will say the domestic market itself is a huge growth area because like APDRP, there are many-many more programs which are getting rolled out by the government.

Srinivas Seshadri: So you do not see a difficulty in growing, may be not similar growth, but at least at a high rate of growth even next year like even of this….

Arvind Thakur: Exactly, there is no difficulty in going with this.

Srinivas Seshadri: And sir also if you could touch upon ROOM because ROOM has been growing very impressively in the last few quarters. If you could explain how that growth is coming from and again some outlook in FY12?

Arvind Thakur: ROOM actually is a strong story for us in the nonlinear space because as you know, we have been investing in the platform and refurbishing it and adding a lot of value so that our customers get a lot of value from that platform. So as a result of that, we have been seeing customers increase their usage and their licensing and they are licensing with us that is one main reason why we are seeing growth in ROOM. So it is completely nonlinear and that is what makes it very attractive for us. We have also just launched, I would say and in the process of acquiring a client for a brand new platform that we are putting into the market place. So to my mind that will be another platform for growth for us in ROOM Solution.

Srinivas Seshadri: Sir is there any new platform which you have developed apart from this IPF3 which you are saying?

Arvind Thakur: It is a variation of IPF3 and that kind of IPF3 which is in the market place, now we have a new platform. So in the platform business, you have to constantly keep enhancing the platform and make it more attractive for your existing and new customers. That is the proactive investment that we will do in this business.

Srinivas Seshadri: And you see the kind of fast growth which you have seen in the last 2 or 3 quarters continuing or how does it look to you from here, the ROOM services?

Arvind Thakur: I think we are looking at it. So far we have only been active in the UK and now little bit in Europe. We will take these platforms to other markets as well. So there is lot of headroom for growth with these solutions.

Srinivas Seshadri: And are these platforms are readily transferable, are they standardized to other regions or how does it happen?

Arvind Thakur: In the insurance business, you have to obviously modify the platforms to suit the regulatory environment of the country and the region and in fact in the US, it is every state. So you really have to ride on the back of your client implementations to build those components and capabilities and so the platform enriches itself with every implementation.

Srinivas Seshadri: So we are doing the development of the platform more with client contracts rather than like doing it upfront and selling it as such?

Arvind Thakur: No, that are two elements to it. So you talked about IPF3, there is a road map right. The road map defines the functionality that is going to get built into the platform over the next 18 months. So as we keep developing these components, when we engage with the client these components have readily as part of the solution to the client because the software as part of the road map which has delivered and there is customization which is unique to the client as well as to the market which further enriches. So it is both. So we have a dedicated team which is working to a road map irrespective of any client inputs and then there are implementations which are fed back that as value additions to the platform that enrich it even more.

Srinivas Seshadri: That is very useful insight into it and finally sir on the margins, this kind of 13% salary hike, I just wanted to understand what kind of impact could it have on the first quarter margins specifically how much could it and also it is little seasonally weak because of the GIS revenue being strong in fourth quarter. So approximately how much do you see the margin coming down next quarter?

Arvind Thakur: I think as I was mentioning earlier, I think the first quarter will be a little stressed on the margin front, but to my mind the salary increase will help us control attrition and to some extent lower attrition reduces your costs. So I am hopeful that that will ease some of the pressures that we will likely to have with this increase in the first quarter.

Srinivas Seshadri: And if I heard you right, you are looking to maintain the margins on a full year basis, is that right?

Arvind Thakur: Yes, we should improve our margins on a full year basis.

Srinivas Seshadri: So that is okay, but that is including the hedging revenues which we are booking in the top-line on a reported basis you should are booking?

Arvind Thakur: On a reported basis that is all.

Srinivas Seshadri: Okay fine sir, I will come back with questions if any later.

Moderator: Thank you. The next question is from the line of Ankur Arora from ING Investment. Please go ahead.

Ankur Arora: You said your government business is coming probably coming to an end from next quarter onwards that 8% contribution will come down to probably say 2-3% number, am I correct in my understanding?

Arvind Thakur: No, only the BSF contract and that too the portion of the contract which had to do with setting up the infrastructure and building the applications, but then there is support maintenance, various other activities which will continue for the next 5 years.

Ankur Arora: But then the component of that will be smaller than what you have delivered till now right?

Arvind Thakur: That is smaller.

Ankur Arora: How much will you fall in the government contribution that is what I am trying to understand?

Arvind Thakur: I cannot give you a figure right now, but you can just assume there will be fall.

Ankur Arora: Can I just ask a couple of questions on balance sheet side, I was looking at few numbers. One you will be capitalizing your capital WIP I think towards the end of the first quarter when you shift to new premises, how much of rental saving you will be making?

Arvind Thakur: Well, rental savings would not happen in the first quarter.

Ankur Arora: Of course you will be moving end of first quarter, second quarter onwards, but what will be the rental saving per se?

Arvind Thakur: I do not have the figure off hand but somebody seems to have some working. I would say you will not getting a benefit of rental cost because number one, there will be an overlap of sometime, moving to the campus is going to increase your transportation cost. So I would say after 6 months is when we start getting the benefit.

Ankur Arora: How much cost you would be capitalizing for the campus?

Prathibha Advani: Close to about 150 odd crores.

Ankur Arora: So roughly the depreciation should go up by?

Prathibha Advani: About 6 odd crores because the large chunk of investment has been into the building.

Ankur Arora: 6 crores every year?

Prathibha Advani: Yes.

Ankur Arora: Another thing is I was looking at your other current assets, they have gone up to 2757 million, but exactly for?

Arvind Thakur: This is on account of the unbilled revenues because of the large program that we are executing.

Ankur Arora: The whole of it?

Arvind Thakur: Not whole of it, significant part of it.

Ankur Arora: Major chunk of it?

Arvind Thakur: Yes.

Ankur Arora: Alright, thank you that will do for me.

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

Ganesh Shetty: Sir congratulations for good set of numbers and crossing revenues of 1000 crores for the first time. Sir my question is regarding our healthcare vertical. Apart from electronic health record, are we going to expand our offerings in other areas of healthcare also namely contract manufacturing and clinical research, etc., and are we further sake of it were going for any type of acquisition inorganic growth. Can you please explain?

Arvind Thakur: I think at the moment, we are only making an entry into the healthcare space. What we would like to do is for the investments that we have already made, we would like to get some traction and if you look at a solution, it is very unique solution because it is IP based, the platform which is cloud based and it is the need of the hour. So in the near term, we would not expect to be foraying into anything new in the healthcare space till we stabilize this business.

Ganesh Shetty: Okay sir, thank you very much sir, this is all from me.

Moderator: Thank you. The next question is a follow up question from the line of Sonaal Kohli from AIM Capital. Please go ahead.

Sonaal Kohli: Could you give us a broad estimate what could be your depreciation for 2012?

Arvind Thakur: 6 crores I think is what we mentioned.

Prathibha Advani: That is additional depreciation.

Arvind Thakur: So it is about 37 crores for the year.

Sonaal Kohli: What was the average currency rate for the quarter?

Arvind Thakur: 45.3.

Sonaal Kohli: You mentioned about you being able to improve your margins going ahead in the coming year. Considering the wage hike and also the fact that you will be paying rentals for some time period, I mean when you say margin improvement, are you adjusting for the hedge losses in this year or you are including the hedge loss-gains and would it be fair to assume that your margins will decline at least 100 basis points next year if not to look at the hedging losses which happened this year, if one wants to do a like-to-like comparison?

Arvind Thakur: No, I am just saying we had a huge element of bought out cost in our..

Sonaal Kohli: I am just talking about your IT services in which removing the bought out element as well as the hedging losses, I am looking at the core operations as such. Would it be fair to assume that you will have a margin decline?

Arvind Thakur: No, it is not fair to assume. I think we are going to sustain those margins, but what I am basically saying is there are certain margins that we delivered this year, we would like to deliver better margins next year.

Sonaal Kohli: Sir as per your order book last year was concerned in this quarter, did it include the days of contract and if so what was the value reflected in that $147-149 million you mentioned about?

Arvind Thakur: $50 million was included in that intake.

Sonaal Kohli: Finally you mentioned about tax rate of 26-27%, did I hear you correctly or because earlier interaction suggested that the tax rate could be high than that.

Arvind Thakur: It could be higher, it could be even 28.

Sonaal Kohli: Thank you so much.

Moderator: Thank you. The next question is from the line of Anshul Rastogi, individual investor. Please go ahead.

Anshul Rastogi: Congratulations for a good set of numbers. My question is once again on the margins. So if I heard you correctly, what you said was that depreciation is going to increase as well as your tax rate is going to be about 25% whereas currently it is around 15% and at the same time you will be also having wage increase as to the tune of 13%. So could you throw some light how you would be able to manage the net margins for the next year?

Arvind Thakur: First of all, I think you need to understand that in the current year also we had the burden of bought outs which have quite significantly depressed our margins. So to some extent, here on will not have that burden next year because if you look at our order intake and which I shared with you and the order executable over the next 12 months of $169 million that does not have bought outs. Last year, the 147 million, that were a lot of bought outs. So I think we are going to see good services revenues in the next year. So to that extent, we will have less pressure on our margins and that is as far as operating margins are concerned. I think the real pressure would be on the net because below the line and there is an unusually high increase in taxation. So I would say there would be a year of transition during the next financial year where till the time we have more proportion of business coming into the SEZ, there would be pressure as far as net margin is concerned because as you know only fresh business, the new contracts with new people are giving relief in the economic zone. Now this is going to be an industry phenomena, there is not something which is going to be unique for us. So I think we will all need to bear with this burden for in the next financial year and we build our models and create our numbers.

Anshul Rastogi: So sir, is it fair to assume that net margins might declining, currently they are around 14.8% for the full financial year 2011, is it fair to assume that they might decline a bit?

Arvind Thakur: Yes more certainly. Net margins more certainly will decline, but I think what we have to see is what will have the net profit. What we would like to see is net absolute profit should increase.

Anshul Rastogi: Thank you.

Moderator: Thank you. The next question is a followup question from the line of Shraddha Aggarwal from B&K Securities. Please go ahead.

Shraddha Aggarwal: If I were to exclude your forex losses and exclude the bought out component for this fiscal, your EBITDA excluding both these components would be close to 23% versus your reported EBITDA margin of 19.5%. So just wanted to clarify when you say you would be maintaining margins in this broad range versus last year, you mean which margins, you mean reported margin or you mean excluding forex excluding hardware?

Arvind Thakur: I have been talking of reported margins.

Shraddha Aggarwal: From 19.5%, we should be in a stable range of 19-20%.

Arvind Thakur: Yes.

Shraddha Aggarwal: Thanks.

Moderator: Thank you. At this moment, we do not have any further questions. Would you like to add any final remarks?

Arvind Thakur: Wonderful, thank you very much. I think this has been a long session, but good session. Thank you so much for your support and as Abhinandan pointed out, for those of you who are in Mumbai, we will be very happy to receive you on the 11th at the Trident at 4 o'clock in the evening to continue our discussion. Thank you very much and good evening.

Moderator: Thank you very much sir. Thank you members of the management. On behalf of NIIT Technologies, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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