



TRANSCRIPT: NIIT Technologies Ltd Q1 FY2017 Results Conference Call

15th July 2016, 4.30pm IST

FROM NIIT TECH:

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(1 crore = 10 million)

Moderator: Ladies and Gentlemen, good day and welcome to NIIT Technologies' Q1 FY2017 earnings conference call. As a reminder, all participants' line will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhinandan Singh, Head, Investor Relations, NIIT Technologies. Thank you and over to you, sir.

Abhinandan Singh: Good afternoon, and welcome everyone to our Q1 FY2017 conference call. Present along with me on this call today are Mr. Rajendra S. Pawar, our Chairman; Mr. Arvind Thakur, our Chief Executive Officer; Mr. Sudhir Chaturvedi, our COO; and Mr. Amit Garg, our CFO.

You would have already received the results emailed to you earlier today, and the same are also available on our website, www.niit-tech.com. We will begin the forum today with opening remarks from Mr. Thakur and Mr. Chaturvedi, after which the floor will be open for your questions. There will be a playback also available of this call soon after the call ends, and a transcript should become available within a few days after this call ends.

With that, I would now like to hand over the floor to Mr. Arvind Thakur, our CEO.

Arvind Thakur: Thank you, Abhinandan. And good evening, everybody. At the onset, let me just let you know that the results for quarter ending June 30th, 2016 are as per IndAS and the published figures for the quarter ending June 30th, 2015 as well as March 31st, 2016 have been recast into IndAS and those numbers are available with you and on our website as well.

I think it will be prudent for me to talk about the environment first, before we get into the results. The state of the global economy continues to be fragile, even though there is some encouraging news flow from the US where the latest jobs data for the month of June has exceeded expectations. In the UK, the quarter under review has been overshadowed by some uncertainty around the referendum, both during the run up to the voting day and then more significantly after the vote results. We have seen that in some segments that we have been focusing on, for example the insurance segment in the UK, particularly the Lloyd's Market has said that the European economic area accounts for 11% of their gross premiums and a part of that could get affected.

In Travel & Transport, the IATA, which is an industry body, estimates passenger demand to remain healthy with 6.2% growth expected in 2016 which is somewhat slower than the 7.4% growth recorded in 2015. So there is an element of uncertainty in the global economy and I thought I would just put that as a backdrop to our earnings results and the discussion that we have on this conference. Specifically, with respect to Q1, as I had shared with you in our last call, we were expecting the quarter to be soft and this was essentially on account of the

seasonality that we have in our GIS business and the domestic revenues that were expected to go down. Also, on the call I had indicated that it should take us another quarter to recover from the declining revenues in Travel & Transport. In addition to this, due to the uncertainties in the London market in the run up to the UK referendum, we have seen some contraction of our NITL revenues which is the subsidiary in the UK where we have a product for the Lloyd's market during the quarter. So consequently revenues are down 2.3% sequentially to Rs.6,707 million which represents a 4.5% growth over the same period last year.

The India business has declined by 26.5% due to seasonality in GIS and lower revenues from our India Government business, whereas international business has grown by 0.5% sequentially during the quarter. Among the international geographies, America's share has increased to 48% on the back of strong growth in BFSI, having seen EMEA decline to 32% mainly due to the reduced business in our UK Insurance (NITL) business. BFSI has grown 3.2% sequentially during the quarter and now has a revenue share of 42%. Travel & Transport entails the same share as last quarter at 32%. We have organized ourselves now around industry segments in our delivery where we have now separate delivery for BFSI, separate delivery organization for Travel & Transport, and a separate delivery organization for others which includes manufacturing and media. And so the combined contribution of manufacturing, media and others is 24%. Domestic Government is now only 2% of our revenues during the quarter.

Talking a bit about margins, during the quarter we gave wage hikes which resulted in 220 basis points sequential decline in operating margins. Margins declined further due to reduced revenues in our high margin NITL business as well as the GIS business. So our operating margins have declined 307 basis points to 15.1%. Net profits have declined to Rs.286 million and this is primarily on account of exceptional item of Rs.361 million which has been booked on account of provisions for all amounts outstanding in respect of a government contract where the program has been put on hold to resolve project issues. This is a program which was not progressing in the build phase unlike our other programs which are either in the operations and maintenance phase or entering into the operations and maintenance phase. So for this program there is a mutual consultative process that has been initiated to define the way forward. And as per our accounting policy, it was prudent to take a provision of all the outstanding amounts as a result of this initiative. So the tax rate now stands at 19.4% of PBT during the quarter.

To give you a flavor of the new business and order intake, I am going to request Sudhir to talk about it.

Sudhir Chaturvedi:

Thank you, Arvind. So fresh business of US\$101 million was secured during the quarter. If you recall, in Q4 of the previous year we had \$120 million of order intake and in Q3 of the previous year we had \$123 million of order intake. This \$101 million of order intake this quarter includes a minimum commitment of \$22.5 million from Morris where the contract is being firmed up and will be closed this quarter. One large deal which was expected to get signed in Q1, for which we have been selected as a partner, has moved from Q1 to Q2.

Order intake by geo, in US its \$42 million, EMEA is \$30 million and rest of the world is \$29 million.

We added four new customers during the quarter, two in the US and two in EMEA. This includes one Tier-I airline in the US and one regional insurer in the US. And we have also secured a new account with a multi-year engagement, IMS engagement in EMEA, with a world leader in digital security. In addition to this, we have expanded our relationship with a world leader in youth travel to transform their digital sales channel and also secured fresh business in the analytics space from a leading airline in the APAC region. The executable order book over the next 12 months stands at \$307 million.

I will now hand it back to Arvind.

Arvind Thakur:

Thanks, Sudhir. Let me talk a little bit about the people and some execution highlights. During the quarter, we had a decline in headcount of 454 leading to headcount at the end of the quarter of 9,022. Now I just want to point out that out of this 454 headcount reduction, close to 300 has been on account of government projects which have now moved into the O&M phase and these were people who were on retainer who have been let go after their retainership periods have been completed.

Attrition at the end of the quarter was 13.4%. We have had some good execution as well during the quarter, maybe Sudhir you want to talk about that?

Sudhir Chaturvedi:

Sure. As you would recall, we won a large deal in the UK with Ofcom; that transition has been successfully completed and we have used components of our enterprise automation platform Excelerate right from the transition stage. And this is part of the reason why we were able to complete this transition slightly before the scheduled date of transition. In addition to this, we delivered a very significant release of a mortgage solution for one of our banking clients also this quarter.

Arvind Thakur:

Talking about the cash and bank balances, they stand at Rs.4,363 million which is an increase of Rs.122 million over the previous quarter and an increase of Rs.1,739 million over the previous year. We had a capex spend of Rs.319 million during the quarter and debtors at the end of the quarter were at 78 days of sales outstanding.

Outstanding hedges in USD are 65.5 million at an average rate of Rs.70.44 per dollar. In GBP we have 13.05 million outstanding at a rate of Rs.103.9 for a pound. And in Euro we have 4.5 million at an average rate of Rs.78.74 per Euro.

Now we have seen fresh intake of new business in our TTL business and so we see and expect to see growth in this segment going forward. We have seen an impact of Brexit visible in our UK insurance business as Lloyd's market adjusts to the impact of the change. We expect the US

to continue to grow and overall expect healthy recovery in the second quarter of this financial year. In light of a weak start to the financial year, however, double-digit growth for the full year is unlikely.

So with these opening remarks, I would now open the session for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Dipen Shah from Kotak Securities. Please go ahead.

Dipen Shah: Just had a couple of questions. Firstly, on the Brexit impact when you say that the insurance business is already impacted, if you can just maybe elaborate a bit on what is actually happening and whether this is expected to be a slightly longer term phenomena. And second question is on the margin front, if you can just give us a breakup of margins as to the reasons why they have fallen, so maybe that would help us.

Sudhir Chaturvedi: Regarding the Brexit related impact that we have seen, this has been in the UK insurance business as Arvind said. This business is primarily a product business, so in an uncertain environment people are hesitant to make long-term investments, and products are a long-term strategic investment. The second part is that products have to also now be evaluated for their fitness in terms of how suited they are to a Brexit environment. Hence what we saw was the new license sales were impacted as people adopted a wait and watch attitude to understanding what was the likely scenario and that is what we saw this quarter. And what we will say is we will see muted performance in the UK insurance products business for the rest of the year owing to the same uncertainty which will continue at least for this financial year.

Arvind Thakur: On the margin front, as I shared earlier, 220 basis points has been impact of the wage increase and about 80 basis points is on account of the lower revenues that we have experienced in our NITL business and our GIS business.

Moderator: Thank you. We have the next question from the line of Nitin Jain from Credit Suisse. Please go ahead.

Nitin Jain: Sir, I have couple of questions. So first on margins, so do you still expect FY17 margins to be better than FY16, as you indicated in the last quarter? And second question was on the government business, so this Airport Authority of India contract, so is it included in the overall government business that you highlighted, 2% of revenue or you consider it as a non-government in your India business?

Arvind Thakur: So let me just take the second question first. We treat Airport Authority (AAI) as part of Travel & Transport vertical and the revenues and other things are consolidated when we report vertical revenue as part of travel and transport. So short answer is it's not part of the 2% government business. On margins, if you look at on margins last year, in first quarter of last

year we were at 16.3% and we ended at about 18.4%. This year we are starting at 15.3%, and I am talking about India GAAP here at this point in time, we will probably see the same increase over the balance quarters in terms of estimating our exit margins in quarter four. Which means basically around 17.5% exit margin is what we should expect in quarter four.

Nitin Jain: And just one more question on this Ofcom deal that you mentioned you closed this quarter. So was it part of 1Q revenue, we will start contributing from second quarter onwards?

Sudhir Chaturvedi: So there were some transition revenue that is included in quarter one and its steady state revenue will start from quarter two onwards.

Moderator: Thank you. We have the next question from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.

Ritesh Gandhi: The exchange rate impact because of the pound, how much of your revenues is in pounds? And I guess your hedge actually for couple of quarters, do you see an impact on that after that?

Arvind Thakur: So we have had no impact in Q1 because you take the months beginning rate for revenues for the month and the depreciation happened only after the event. So in quarter two we will probably see impact of over 100 basis points on revenues and about 40 basis points on margins as a result of the currency which depreciated.

Ritesh Gandhi: And any expectations around this, sir, like growth guidance for this year?

Arvind Thakur: Yes, as I said it is not going to be double-digits, it will be less than double-digits. Mid single-digits is what we can expect growth to be.

Ritesh Gandhi: I mean, this is on an actual revenue basis, so effectively given you are expecting 100 basis points increase in margins you would expect to see maybe closer to high-teens on net income basis?

Arvind Thakur: No, I didn't understand your question. High-teens, you said? What I am saying is growth will be in single-digits, not teens.

Moderator: Thank you. We have the next question from the line of Abhishek Kumar from JM Financial. Please go ahead.

Abhishek Kumar: First, a couple of questions on government revenues. So, just want to understand, now in the remaining 2% of the revenue that we have from government, what percentage of these revenues will not be in the O&M stage? And another related question is that the write-down that we took, the provision that we took in one of the cases this quarter, was there any impact on this quarter's revenue also because of that?

- Arvind Thakur:** So most of the revenues are O&M now, because except for two programs every other program is now in the O&M space.
- Abhishek Kumar:** And was there any impact of this project stalling in this quarter's revenue performance?
- Arvind Thakur:** Impact, no. So in fact this project has not been progressing, we have not been recognizing revenues; only incurring expenses. And as a result of this what is likely to happen is that our expenses would reduce because now the program is on hold.
- Abhishek Kumar:** And next question is on impact of Brexit, apart from impact on the license sale that you have already outlined, do you see any impact on the UK travel business or the decision making there as well because of the Brexit?
- Arvind Thakur:** At this stage we are saying that the services part of our business is progressing as expected, so we are not seeing any impact on the services part. It's too early because we have essentially just seen a new government being formed, so at this point in time people are continuing with the projects that are there. And on the Travel side, what we are saying is that the programs that are in place, they are continuing. So at this stage no change from what we can see.
- Abhishek Kumar:** And in terms of outlook for the next quarter, Arvind you mentioned that 300-odd people out of 450 were because of the government project. But even outside of that, because we are expecting some ramp ups or the impact of ramp downs that happened to be over in 1Q and 2Q, we expect a recovery. So in that light, decline of 150-odd people, I mean how should we reconcile the outlook for next quarter and the decline in the headcount?
- Arvind Thakur:** I don't think you should be too concerned about that because we were over staffed in our government programs to execute it and get into the O&M phase. I think what you need to focus on is on intake which has been quite healthy, US\$101 million has been the intake during the quarter. And as Sudhir mentioned, we actually closed one business in which contracting has slipped to the next quarter. Had that happened in this quarter, we would have been on the same run rate that we had established, which was around \$120 million for the previous two quarters. And I expect the next quarter to have an intake which would be better than 120 million. So I think that is what we need to focus on, bringing the orders and execute, and that is the reason why we are expecting healthy recovery in Q2.
- Abhishek Kumar:** Just one last question on 2Q outlook. So apart from any impact on the license sale, the 2Q optimism that we had at the beginning of the year, is it still intact or are we less or more optimistic?
- Sudhir Chaturvedi:** I would say we expect to see a healthy recovery in Q2 on the revenue front and the order intake front, and correspondingly our margins would also improve.

- Moderator:** Thank you. We have the next question from the line of Sandeep Shah from CIMB. Please go ahead.
- Sandeep Shah:** Sudhir, wanted to understand how the travel transportation, because we had some client specific issues and we to some extent are also concentrated in travel within Europe, so do you believe Brexit may pose a challenge? Or do you believe that that may not be a worry going forward and Travel & Transportation may come back to the growth from 2Q onwards?
- Sudhir Chaturvedi:** Yes, so the Travel vertical declined in this quarter in terms of growth but the share is at 32%, so there we see that from a Europe perspective -- your question was on Europe travel plan -- I think those have bottomed out. As Arvind said, we expect to see return to growth in Travel based on some of the new wins that we have had, the fresh business intake that has happened, which you can see in the order intake. And in addition to this, we have signed up a Tier-I airline in the US; as I said there are two new logo additions in Travel. So a combination of bottoming out, new logos, and order intake will see us expand these revenues going forward.
- Sandeep Shah:** And any update for the largest client in the Europe in travel, whether the challenges where we said there are some management changes.
- Sudhir Chaturvedi:** Yes, so those management changes have now sort of settled in and projects pipeline is back and we are bidding and winning some of those deals. So yes, I think that is why I used the word bottomed out.
- Sandeep Shah:** And now, looking at BFSI, I think some of the larger peers post-Cognizant being cautious have also started becoming cautious. So what is our outlook, because we are winning deals in the US in the BFS space, while in the insurance also we are winning from the US? So do you believe that momentum for a healthy growth may continue going forward?
- Sudhir Chaturvedi:** Yes, I believe we will see BFS growth in Asia Pacific and the US going forward, I think we are in some unique areas in BFS where there is need for change. In fact, one of the points that I would like to mention is that our digital revenues this quarter grew 10% quarter-on-quarter and they are 18% of our revenue now. And a very significant part of that digital revenue is coming from BFS and Insurance, so that will continue to drive our growth. In terms of insurance in the US, again as we said, we are seeing good growth, we have a very healthy pipeline there and we had one logo signed that was signed last in Q4 where we have transitioned in Q1 which is a large multi-million dollar multi-year deal, that would also kick in from Q2 onwards. So yes BFSI, in the pockets that we are working on, in the specific segments that we are focused on, and the digital focus that we have, all of those three put together will continue to see growth in the segment.
- Sandeep Shah:** As for NITL, the revenue, the existing revenue you believe has a risk to go down, or is it a more sticky business? We do understand that the new license revenue growth may not come

and the related implementation service may not come, but within the existing portfolio also could there be a risk because of Brexit?

Sudhir Chaturvedi: No, so what we will say is, which is why I said that the trajectory that we have now for Q1, we will maintain this across. This is essentially our current license plus AMC revenues and some minor enhancements which will continue to happen. But this is what I said in the beginning, that we have not factored in new license revenue or implementations this quarter and we are not factoring any for the rest of the year at this stage.

Sandeep Shah: Just book keeping, for this government contract, is it the decision taken by NIIT Technologies or is it also in consultation with the client we have put the project on hold? And apart from this, is there any other such contract sitting on the balance sheet where write-off can come going forward and can you quantify the same?

Arvind Thakur: So this is a mutual consultation process, so both parties are engaged in a dialog to see what should be the way forward to address the issues that have been encountered. That is the stage we are in, and so therefore it is on hold. And since it is a state government organisation and timelines are never known, that is the reason why it was felt prudent to take these provisions.

Sandeep Shah: And apart from this, any other contracts where this kind of a possibility could be there and what could be that exposure?

Arvind Thakur: If you really look at it, if you are talking of exposure, all our contracts are either in the O&M phase or getting into the O&M phase, O&M is operation and maintenance. If they are in the operation and maintenance phase then there is no risk. This particular contract was in the build phase and it was not moving anywhere, so we don't have any other program which is in this kind of a situation.

Abhishek Kumar: And just on the margins, if you look at first quarter we had a tailwind coming through the hedging gain, so if we exclude that then the margin decline on the EBIT level is to an extent of almost like 400 basis points. So we do understand that close to 200 basis points to 220 basis points is because of wage and the 80 basis points is because of the lower revenue in NITL and GIS. But if we exclude the hedge gains, then still there is headwind and how confident we are in terms of the margin log going forward?

Arvind Thakur: So if we look at margins, I think as Sudhir pointed out our digital business is growing at double-digits and that has healthy margins. Also, now we are completely petering out our government business, so there is upside that you can expect from there.

Sandeep Shah: Can you once again quantify, you said there would be some 100 basis points impact on margins because of the currency fluctuations in GBP and Euro and can you quantify, you said also another 20 basis points impact?

- Arvind Thakur:** No, it is difficult to quantify. But what we are seeing is that the currency fluctuation is being managed well through our hedges.
- Sandeep Shah:** No, in earlier comments you said it could impact the margin by 100 basis points in the 2Q.
- Arvind Thakur:** That is going forward, nothing in this quarter.
- Sandeep Shah:** And just, what is the invoicing in GBP and Euro, if you can update on this?
- Arvind Thakur:** I think it is about 17% would be GBP.
- Sandeep Shah:** And Euro?
- Arvind Thakur:** About 10%, less than that. Sorry, don't have the exact number but maybe single-digit.
- Moderator:** Thank you. We have the next question from the line of Dipesh Mehta from SBI Capital Securities. Please go ahead.
- Dipesh Mehta:** Can you provide some data points like revenue from Morris, GIS, NITL, Incessant and Proyecta?
- Arvind Thakur:** So Morris is Rs.401 million, Incessant is Rs.486 million; you wanted GIS, Rs.267 million.
- Dipesh Mehta:** And NITL?
- Arvind Thakur:** NITL, Rs.374 million.
- Dipesh Mehta:** And Proyecta?
- Arvind Thakur:** Proyecta is Rs.129 million.
- Dipesh Mehta:** And can you help with margin of all these entities?
- Arvind Thakur:** Morris is 11%, Incessant 24%, GIS 23.5%, NITL 12.6%, and Proyecta is (-)20%.
- Dipesh Mehta:** And if one looks at Room Solutions business, it has declined almost by 10% this quarter, that's the NITL business, if I look in rupee terms from quarter-on-quarter perspective. So do we expect this run rate to be now stable going forward?
- Arvind Thakur:** That is what Sudhir has said.
- Sudhir Chaturvedi:** Yes, so 8.8% down quarter-on-quarter and of course there will be some currency impact also going forward, but on a constant currency basis this will be the impact, this has bottomed out.

- Dipesh Mehta:** And about Incessant, I think we have seen very good decent growth rate this quarter. Can you help us with what is driving growth there and if you can provide any more additional detail on that?
- Arvind Thakur:** This, as we have described earlier, is an important element of our entire digital strategy. When we look at the digital business, we focus on digital experience, we focus on analytics and then there is this whole new area where we integrate all these digital platforms, the legacy, as well as orchestrate the digital organization. So Incessant is in that sweet spot of orchestrating the digital organization and is finding a lot of traction in the BFSI space. Sudhir, you want to add?
- Sudhir Chaturvedi:** Yes. And what we are seeing is we are seeing growth happening in the Incessant business now globally, essentially when we first acquired the Incessant business it was primarily Asia Pacific which has also had been a growing business for them. But you will see that the European business will also be growing, there is some growth this quarter but it will pick up next quarter and we will see some growth in the US as well. So it is a combination of this space as Arvind mentioned digital integration, second is BFSI vertical and the third is together the way we are leveraging our global presence. And those are the three things that are leading to growth.
- Dipesh Mehta:** On NITL side, despite some headwind on revenue growth trajectory, I think our margin has improved. Can you help us understand what is driving margin performance despite headwind on revenue side?
- Arvind Thakur:** Which business are you talking about?
- Dipesh Mehta:** NITL, the insurance business. So 8% - 10% kind of revenue weakness we have seen, but despite that our margin has expanded by 200 basis points kind of thing quarter-on-quarter.
- Arvind Thakur:** Sorry, I made a mistake. It is not 22.6%, it is 12.6%, the margin.
- Dipesh Mehta:** Okay. So now considering we are not expecting any improvement in revenues, do we expect this weakness... now there are two, three things. I am referring to margin outlook. One, you suggested about NITL, we are not expecting any meaningful uptick in revenue. Second thing is, we expect because of currency movement a 40 basis points kind of impact on margins from GBP depreciation perspective. In addition to that, overall revenue wise we are now expecting relatively lower growth than what we earlier anticipated at the beginning of year. So do we expect any kind of significant margin headwind?
- Arvind Thakur:** I think we already have described to you and shared with you what the headwinds are, it is coming from the currency, that is the major thing from UK. Other than that we are not seeing any headwinds. With increased digital business, that is providing a good tailwind and that is what we are going to cash up.

Dipesh Mehta: So from margin lever perspective you expect digital is one of the levers. Apart from digital what else are you looking as margin lever for us?

Arvind Thakur: Travel also. The travel business is also going to recover, that had been slowing down. We will see improvement of that business as well, which will contribute to margin improvement. GIS also was slow in this quarter, that got healthy margins, we will see improvement in margins coming from that business as well in subsequent quarters.

Dipesh Mehta: GIS, I think because of open source related thing I think we suggested some kind of weakness may persist. Do you see that situation is now almost over and we may see growth returning to GIS business?

Arvind Thakur: Yes, that was a problem last year because of the notification that came by the government to evaluate open source before procuring any software product. So what it did was it delayed the whole process of procurement but the demand is there. I think that is something which was peculiar to the last financial year, which is something that we will not experience in this year.

Dipesh Mehta: And sir last question is about this time capex, I think it includes some licenses and private cloud capacity related things. Can you provide some color around what is leading to this kind of capex for us? Thank you.

Arvind Thakur: Yes, this is basically the licenses that you need to procure for Microsoft because we had a renewal of our enterprise license for Microsoft and that is the extent of investment that was needed to be made for the three year license.

Dipesh Mehta: And private cloud capacity, it is any for client or one how should look at it?

Arvind Thakur: We are moving our infrastructure on to the cloud. Just like our clients are moving on to the cloud, we are also moving to the cloud. So this was the infrastructure that we needed to put into place to get our package systems on to the cloud.

Moderator: Thank you. We have the next question from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: I will probably get back to the headcount reduction number. So you mentioned that out of the 450 net reduction number in this quarter, around 300 was on the government project. So excluding that we have a net headcount reduction of around 150 employees. In the last two quarters also we have had a net reduction of employees of 75 and 41, so I mean it is kind of three consecutive quarters in which we have had a net reduction of around 300 employees, excluding the 300 employees of the government business. So just wanted to know what should we read into this, I mean is it like the nature of the business is changing or is like we are seeing much lesser growth in future quarters so we are not softening to that extent?

- Arvind Thakur:** You are seeing that our business in the Travel & Transport segment, that had been declining. And we have been keeping a close track of each one of our segmented revenue lines and making sure that the headcount keeps track of the revenue number. So that is why you have not seen any increase in the last three quarters, you have seen a decline in revenue in this quarter and accordingly the headcount also has declined.
- Vibhor Singhal:** But don't we actually do hiring prospectively, in terms of we would probably be staffing more employees, assuming some kind of a growth that we are going to get in the next few quarters. Am I wrong in interpreting that if you are not hiring right now then maybe we are not seeing significant growth in the immediate future?
- Arvind Thakur:** No, we are basically redeploying existing people because we have had significant capacity while executing our government contracts.
- Vibhor Singhal:** And those employees would be really transferable from those government contracts to the other private contracts that we have in other domains?
- Arvind Thakur:** Not easily, some have to be retooled. But yes, that is what we do.
- Moderator:** Thank you. We have the next question from the line of Rahul Jain from Systematix. Please go ahead.
- Rahul Jain:** We have seen some decline in the NITL business, but despite that our Insurance business has grown for the quarter. So if you could share your thought in terms of where we are seeing this growth, and also, if you could reemphasize on the insurance business impact which you alluded in the Lloyd's market, how you see that going forward?
- Sudhir Chaturvedi:** Yes, so that is a good observation. So our overall insurance business, especially in the US, has been growing on the back of the work that we are doing in two areas. One is on legacy modernization, so there are insurance companies in the US embarking on large scale modernization initiatives and there are legacy platforms which are old product platforms that are heavily customized and we have some good experience in those legacy platforms. But where the growth is coming from is that as clients look to modernize the legacy platform, we have experience of the new platforms, for example Duckcreek etc., and the legacy. And therefore are in a great position to take them from legacy to these modern platforms. So that is the real driver for growth that we are seeing in the US and it is a repeatable driver, so we are being able to cross sell that across. So you saw we opened one new insurance logo also in the US this year on back of a similar proposition. In US, we will continue to see growth. Also, some of the new logos that we opened last year are scaling well in the US. So insurance in the US is being driven primarily by legacy modernization and new product implementations. In the European region we have signed two large deals in the insurance space and these are outsourcing deals so we will be able to derive some services revenue, as I said, going forward.

Now in terms of your Lloyd's market question, that really has an impact on our product license revenues. But services revenues, as I mentioned already, in the outsourcing part we have won a couple of deals, but we don't see any change there. We might pick up some more services revenue as people look to, when they are not implementing new products they may sort of do enhancements on existing products, so that might happen a bit. Overall, Insurance has been a strong performing vertical for the last few quarters and we will continue to see that in the next three quarters.

Rahul Jain: So for the Lloyd's market where we are seeing this, so you are seeing this fall has been largely because there would not be any new incremental license during the quarter and that has caused this vacuum and that may sustain?

Sudhir Chaturvedi: Yes, new license leads to both license revenues which can be recognized as licenses sold and the implementation revenue. Usually these implementations take three to four months, so one new license sale can provide an uplift during the quarter, that is the business that we are expecting at this stage to be muted for the rest of the year.

Rahul Jain: So this muted stance, is it based on the recent conversation with this company or anticipation in terms of the uncertainty that may prevail? Because what we hear from the peers is that these are the compulsive investment given the disruption operating on fintech and stuff and would not stop their thoughts on modernization of the platform. Why we differ in this thought?

Sudhir Chaturvedi: So firstly, we are talking about Lloyd's of London insurance market which is made up of different syndicates. There are 40 different syndicates there, of which 18 are our clients. So we are talking specifically about this insurance business. And as Arvind said in his opening remarks, the Lloyd's market itself has to look at how it writes insurance in the EEA, European Economic Area, going forward. Which is why we are saying, we use the product essentially to write new insurance business. So till they have more clarity on what changes are likely to happen from insurance perspective, from a tax perspective, etc, they will not invest in new platforms. That is the point that I was making.

The other point that you were making on fintech is really on the BFS space that is really leveraging fintech at this point in time, and that is where I already said we are seeing growth, both in our digital business as well as some of the other businesses. In fact, the digital security company, the logo that we opened in Europe, is actually digital security for financial services companies and would be seen as a fintech company. So that part will continue to grow.

Rahul Jain: Okay, so in absence of some triggers or some segment which may get affected by choice or by the market condition, does that mean we may look for some inorganic effort going forward? And if yes, then what are the areas we may be interested in?

- Arvind Thakur:** Yes, most certainly. Inorganic initiatives is very much part of our growth strategy and our focus is on acquiring assets which we can integrate in the industry segments of focus. That is basically the kind of conversations that we would be having as far as inorganic initiatives are concerned.
- Moderator:** Thank you. We have the next question from the line of Ganesh Shetty, an individual investor. Please go ahead.
- Ganesh Shetty:** Can you please tell me what is the attrition rate for the quarter, sir?
- Arvind Thakur:** 13.4%.
- Ganesh Shetty:** We have significantly improved our attrition rate, as some top tier companies have attrition rate of about 20% - 21%. Are we comfortable with that and are we seeing any problem going ahead?
- Arvind Thakur:** We have always had better than industry attrition rates, Ganesh. By better than industry I mean lower attrition rate. And I think that has been because of the strong HR practices that we have in the organization. So we are quite comfortable with the position with respect to HR policies in managing attrition.
- Moderator:** Thank you. Ladies and Gentlemen, as there are no further questions from the participants, I now hand the conference over to Mr. Arvind Thakur, CEO, NIIT Technologies for closing comments. Thank you and over to you, sir.
- Arvind Thakur:** Thank you, everybody. I recognize this has been a tough quarter for us. But looking at the momentum that we have with our intakes, we look forward to healthy recovery in the second quarter and the quarters thereafter. Thank you very much for being on the call and good evening.
- Moderator:** Thank you very much. Ladies and Gentlemen, on behalf of NIIT Technologies, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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