



TRANSCRIPT: NIIT Technologies Ltd Q3FY2015 Results Conference Call
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FROM NIIT TECH:

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(1 crore = 10 million)

Moderator

Ladies and gentlemen, good day and welcome to the NIIT Technologies Q3 FY2015 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, 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

Thanks and good afternoon everyone; welcome to our Q3 FY2015 earnings call. Along with me on this call today are our Chairman Mr. R.S. Pawar; our CEO Mr. Arvind Thakur; our Chief Operating Officer Mr. Sudhir Chaturvedi; and our Chief Financial Officer Ms. Pratibha Advani.

As always, we will begin this forum today with some opening remarks by our CEO and COO and after that we will open the floor for your questions. With that I would like to hand over now to Mr. Arvind Thakur, our Chief Executive Officer, for opening remarks. Thanks.

Arvind Thakur

Thanks Abhinandan and good evening everybody, thanks for joining us on this call.

Let me just start by commenting on what we are seeing in the environment:

Obviously, I think most of you are aware that the US economy appears to be in a fairly robust growth mode with the latest GDP data showing 5% growth in the third quarter of the calendar year. This is coming on the back of 4.6% growth in the preceding quarter, so I think that could be good for us as an industry and for us as a business as well. We have seen the Eurozone economy being somewhat tepid with weak industrial and exports data coming in from Germany which is the anchor country and so I think Europe would probably remain a little soft as we look at business in that region going forward.

In India there is palpable buoyancy in sentiment with regard to the economic outlook and I think this is also being supported with what we are seeing as the impact of the steep decline in oil prices which will auger well for the economy in the country. The decline in oil prices also bodes well for the Travel and Transport industry segment and in fact we are seeing the industry body IATA talking about revised forecast of the profitability for 2014 to be increasing from about 18 billion to 19.9 billion and projecting 25 billion for next calendar year. Once again, given the fact that we are sharply focused on this segment and largest proportion of our revenue comes from this segment, this is an important development.

In the Banking and Financial Services space we are seeing an improvement particularly in a segment where we are focused which is the Asset Management and Wealth Management Segment. We are seeing clients desiring greater visibility, control through digital channels,

which is driving IT spending. So this would support incremental discretionary activity in this particular space.

In the Insurance space we are still seeing some sluggishness because of the slow pickup in incremental spending in some of our clients. However, going forward we expect new technologies to improve their analytical abilities and therefore likely to see uptake in the spend over there.

The public sector and government spending is of course likely to witness increased spending with the strong focus of the current government with their Digital India program, but we remain very-very selective in our engagements in this space although we are focused here as well.

With this background, let's talk about the results and the business outlook.

Revenues this quarter grew 1.2% sequentially to Rs.5,953 million which is 1.4% growth over the same period last year. In constant currency, revenues are up 1% quarter-on-quarter. Growth has really been driven in the Asia Pacific & India region which now contributes to 21% of our revenues. US contributes to 44% of our revenues and EMEA to 35% of our revenues. As I mentioned earlier, softness in Europe has resulted in reduction in terms of the mix in EMEA of our overall revenue mix, and Americas also have remained at same levels as a result of the softness that we are seeing in the Insurance segment. Mix of industry segments, as I mentioned earlier, Travel & Transport is the biggest segment contributing to 40% of our revenues, BFSI contributes to 33% of our revenues, manufacturing to 7% and government to 5%.

Our operating profit improved 4.9% during the quarter to Rs.862 million, as a result of improved operating margins which grew 51 basis points to 14.5% on account of the productivity benefits that we have been driving in the organization and in almost all areas of our expenses we have seen reduction; all that is helping us improve our margins. We have also had a net reduction of 229 people in the quarter; this is primarily on account of natural attrition, so we have not really backfilled roles that have exited from the company as a result of the attrition. But going forward we expect the normal headcount intake which we typically have had, of about 150 to 200 in a quarter.

Net profits have improved 20.2% sequentially to Rs.482 million. This is on account of improved operating profits, and we also have had lower depreciation and higher other income in this particular quarter. Tax rate during the quarter has been 26% of PBT. We had good intake of fresh business of US\$109 million during the quarter.

To give you a flavor of the intake I now invite Sudhir to share with you details of the new business that we have acquired.

Sudhir Chaturvedi

Thank you Arvind and a good afternoon to all of you. As Arvind said we had a US\$109 of new order intake, the US contributed 55% of that at \$61 million, \$25 million is from EMEA and the remaining \$23 million was from Asia Pacific and India. The order intake this quarter also had another aspect, which was the level of order intake from new accounts; so new revenues and new accounts was significant in this \$109 million. The second aspect is in terms of the executable order book that's \$296 million for the next 12 months; in constant currency that is \$300 million for the next 12 months.

In terms of new logo openings, we had five new logo openings – two in the US, one each in EMEA, Asia Pacific and India. From a verticals perspective there were two in the Travel and Transport segment, two in Insurance and one in the manufacturing and distribution vertical. We also continued our trend of having one or signing one large deal per quarter and we signed a large deal this quarter with an Insurance major in the US and that should help us in the coming quarters offset some of the softness that we have been seeing in Insurance too.

With this I will hand over back to Arvind.

Arvind Thakur

Thanks Sudhir. So as I mentioned we have had a net reduction of 229 people during the quarter which takes our headcount to 8,059 at the end of the quarter. Our utilization is at 78.8% which actually has held steady despite this being a smaller quarter where people normally take more leaves and so less number of working days during the quarter. Attrition has held steady during the quarter at 15.83%.

Cash and bank balance stand at Rs.3,358 million. We spent Rs.319 million on capex during the quarter, a good portion of that was deployed in the Airports Authority of India (AAI) engagement. Debtors at the end of the quarter were 94 days of sales outstanding.

As we had shared also in the last call, a softness experienced in the Insurance segment in the US has limited our growth in quarter three, however, we continue to grow sequentially and we expect to grow in the remainder part of the year. Margins also have improved during the quarter and in fact you would have observed they have been growing steadily from 13.4% in quarter one, 14% in quarter two and now 14.5% in quarter three and we expect this trend to continue into quarter four.

So with these opening remarks I would be happy to address your questions and receive your comments. Thank you.

Moderator

Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Srivathsan Ramachandran of Spark Capital. Please go ahead.

Srivathsan Ramachandran Wanted your comments on the pipeline that is building up. It will be helpful if you can give us some sense of the pipeline maybe by vertical or geography. Specifically, within our top 10 or top 20 clients, are we seeing any client who maybe or may not be in trouble as things are now?

Sudhir Chaturvedi So let me start with the top 10 client base. As you know, our share of top 10 revenue has been sort of a bit soft over the past couple of quarters. What we are seeing now is there are growth opportunities in many of the top 10 accounts and there are a couple of accounts where there are changes or there are things going on where we will need to bid for certain work going ahead, but again, we are in a reasonable position there. So I think overall at the top 10 we should see some growth coming back. In terms of the pipeline, actually if you look at the five new logo openings and when I add up there have been 10 new logo openings over the last two quarters, six from the US. So the pipeline in our new logos is building up quite well, this is reflected in the quality of the new logo openings that we have seen over the last two quarters. The overall pipeline we are seeing good trend in both the travel space as well as in some parts of the banking and Insurance space. So in terms of geo, US continues to be good, the UK continues to be strong, we are seeing some softness in the Eurozone although we expect to see some pickup happening in Asia Pacific too.

Srivathsan Ramachandran Okay. And on the growth side we have been on the softer growth trajectory for almost six, seven quarters, if we had to compare vis-à-vis what the industry is being broadly posting. So just wanted your thoughts in terms of a combination of demand pipeline and the order book you have, what kind of visibility you have possibly to head over to double-digit kind of growth over a period of time.

Sudhir Chaturvedi Yes, if you see the trend over the last two quarter since Q1, there has been an uptake in our revenue and margin growth and this trend will continue in the coming quarters.

Srivathsan Ramachandran And just wanted your thoughts on the airline piece of the vertical that we operate in, I think CEO to alluded to substantial increase in profits, what are clients on the ground telling you, would there be some sort of expected bounce in discretionary spend given they will have better profitability than what we have had? I know it is too early to talk deals but in terms of conversation what are their priorities to spend this incremental profits if I may say so?

Sudhir Chaturvedi Yes, I think obviously the decline in oil prices really over the last quarter will benefit them over a period of time. But I think more critically what is happening in the airline sector is that the digital is driving, I mean almost every airline has a series of digital initiatives that they are undertaking and that's the primary driver for growth. So they are seeking to enhance their entire customer experience whether it is pre-booking, during booking, in every aspect of their value chain, I mean that is the real driver for new spend in the airline industry and we with our digital services offering are well positioned. You have seen in this quarter we also talked about some of the work that we have done at Air Tahiti, some of the new partnerships that we have signed up, some of the predictive analytic offerings that we have introduced into the market under digital foreside and this makes us well positioned to capitalize on this digital growth, this

growth in digital services that we will see both in travel as well as BFS and Insurance to a certain extent.

Moderator

Thank you. Next question is from Srinivas Seshadri of CIMB. Please go ahead.

Srinivas Seshadri

The first question is just a follow-up from the earlier caller's question where you indicated that there is kind of some bit of a growth opportunity in the existing accounts and the order pipeline is looking reasonably well. So does that give you a confidence, like in FY16 you can get back to some kind of near industry growth or would this take another three, four quarters to kind of get to that kind of a level?

Sudhir Chaturvedi

As I mentioned, if you look at our order book as well as the quality of the order intake this quarter in terms of new logos and new deals, the new logo signings and some of the pipeline that we see in our top 10, yes, we see encouraging growth prospects going forward. So that's why I said that the trend that we have over the last two quarters of having picked up both on revenue and margins that trend will continue in the coming quarters.

Srinivas Seshadri

And during this quarter the skew of growth seems to be more from the government side, so just wanted to understand what kind of project or projects were kind of executed during the quarter and what is the position of the management in terms of what kind of business we want to do in this particular vertical and from that perspective what is the opportunity pipeline and kind of financial profile of projects that we are taking in?

Arvind Thakur

Okay. So I think you would have seen Srinivas that our emphasis on the government business has come down quite significantly. But there are projects that are being executed and also there are deals in the pipeline, so we had secured in fact a large engagement last quarter with the Government of Maharashtra for the sales tax automation. This is an SAP implementation and we are being very selective in pursuing government business, so we see this as one of the drivers of the revenue that we have earned in this quarter. But our future focus is not on government deals, while there is a big Digital India opportunity we are extremely selective. In fact in the last quarter there have been at least two situations where we were L1 but we didn't pick the business because the government wanted the business to be aligned to their budgets and we said either we do it at these conditions or we don't do it at all. So very selective, I don't think we would want our government business to exceed 5% of our revenues and that's the way we will do it going forward as well.

Srinivas Seshadri

Okay. And Arvind, just to follow-up on that, given that this was a reasonably large kind of engagement and we have booked decent amount of revenues, does this create again some kind of a potential for volatility in the next two three quarters or are we kind of confident of securing more such projects based on your selective criteria over the next two three quarters which can kind of replace the work you are doing now?

- Arvind Thakur** Yes, as Sudhir pointed out, if you look at the quality of our intake, it is from the international geography; we have just secured a large engagement with a large Insurance company in the US. So as that starts kicking in this volatility would be less visible as we go forward.
- Srinivas Seshadri** Sure. I will just ask one more question; this is on the GIS business, if Pratibha you can share some numbers on the growth in this business and Arvind maybe if you can throw some light on how this business is positioned from a growth perspective going forward.
- Arvind Thakur** Okay. So let me just throw some light then Pratibha will give you the numbers. GIS is actually now back on the bounce because it is a very specialized area and in fact if there is one area we want to focus on for Digital India, it is GIS. So this has grown very well. Pratibha, you have the numbers?
- Pratibha Advani** Yes. The revenues for the quarter for GIS is Rs 344 million and the margin is 28%.
- Arvind Thakur** So you can see good growth and good margins. These are the margins that we were getting I think about two years ago, we had one runaway project in between, it reduced that but that's all behind us.
- Srinivas Seshadri** Okay. And Arvind where is this growth coming from and what is the outlook in terms of the growth in the segment?
- Arvind Thakur** Well, as you know this is a business which is a little seasonal because a lot of this business happens with the government, so in their large programs particularly defense, department of space, power sector, these are the areas where this technology is deployed very significantly with utilities. So even in large private organizations like Reliance for example, there are big users of GIS technology. So all of them are looking at this technology very seriously and so that's as far as the domestic business is concerned but also internationally by virtue of the fact that we have built good competence in this area and we have specialized skill sets, we also engage with utility companies in overseas geographies and we have had good success in the US in this area as well.
- Srinivas Seshadri** Okay. But I thought that the engagement was restricted to the Indian sub-continent in terms of the arrangement we have with ESRI, so has that...
- Arvind Thakur** Yes, so that is for the technology software but the skills can be deployed anywhere in the world.
- Moderator** Thank you. Our next question is from Madhu Babu of HDFC Securities. Please go ahead.
- Madhu Babu** Sir, Q4 is seasonally strong for us so can we look at a good growth in Q4?
- Arvind Thakur** We are hoping we will better this Q3.

- Madhu Babu** Okay. And sir just can you classify the percentage of revenues we get from digital technologies?
- Arvind Thakur** It is 8% or 9%.
- Madhu Babu** Okay. And lastly on the pricing front, I mean how is the pricing in the traditional commoditized services because one of our larger peer has shown a substantial drop in pricing, how is the outlook there on the pricing at least in the top 20 clients?
- Sudhir Chaturvedi** What we are seeing in the market is a clear trend in terms of deals, in terms of what is outsourcing deals and what are development deals. And in the outsourcing what we are seeing is that pricing is actually still being driven by competition, as in, the competitive scenario there is. So there isn't a pricing environment where clients are looking at rate discounts etc, that is certainly not what we are seeing, but there is price pressure driven by competition in outsourcing. However, when you look at the development side of things, whether it is agile, digital, all of this, there we are seeing that the clients are looking essentially for capabilities in various technologies as well as understanding of verticals, domain understanding; there the price sensitivity isn't there actually, in fact it is really about capabilities and if you are able to demonstrate that the returns are good. So it depends on where you are seeing growth coming from and if you are seeing growth across parameters and especially in the US then pricing is stable and it can be favorable in the digital space.
- Madhu Babu** And the next question is to Pratibha, I think FCF has improved this quarter so what is the outlook there I mean on the debtors and capex?
- Pratibha Advani** On capex, we expect to continue with the same spend but it is also dependent on the number of airports that go live.
- Moderator** Thank you. We will take our next question from Dipesh Mehta of SBICAP Securities. Please go ahead.
- Dipesh Mehta** Can you share revenue breakup between IT services and hardware portion?
- Arvind Thakur** The hardware portion is I think Rs 5.7 crore in this quarter, but if I look at purchase for resale which includes software licenses, it would be about 18 crore.
- Pratibha Advani** It is inclusive of hardware, so the purchase for resale that Arvind mentioned has two components that has the hardware component and the software licenses.
- Dipesh Mehta** Yes, that pertains to the deal which you mentioned about Government of Maharashtra?
- Pratibha Advani** That's right.

- Dipesh Mehta** Okay. And just to get some data point about Morris and ROOM in insurance which is NITL, if you can share?
- Pratibha Advani** The revenue for NITL for the quarter is Rs 393 million and the margin is 18%, revenue for Morris for the quarter is Rs 428 million and the margin is 14%.
- Dipesh Mehta** And last part is about depreciation, I think in your release you mentioned about alignment; can you help us understand what we did and how we expect that depreciation line item to move?
- Pratibha Advani** If you recall in last quarter we had mentioned that we were also able to capitalize the software component for the Airports Authority of India programs, that software is getting depreciated over the life of the contract and that is why the realignment has taken place in depreciation.
- Dipesh Mehta** So should we understand this is the right run rate going forward?
- Pratibha Advani** This would be the run rate but as I mentioned as we incur additional capex obviously the run rate is going to go up and that is dependent on the number of airports that go live.
- Dipesh Mehta** Understood, but there would be, because this time we have seen absolute decline but this kind of thing would be now normalized?
- Pratibha Advani** Absolutely, it will be normalized and obviously there will be an incremental run rate that will get added but that is dependent on the number of airports that go live.
- Dipesh Mehta** And AAI is going as per the schedule from the order perspective?
- Arvind Thakur** It is delayed but it is going as per the plan that we have implemented.
- Dipesh Mehta** So what do we expect the year to end with, how many airports would go live?
- Arvind Thakur** I think we should get all the airports live, maybe one or two may slip into the next quarter.
- Dipesh Mehta** Okay. So capex would be what we suggested last quarter, for the full year?
- Pratibha Advani** That's right, I mean in the current quarter we spent about Rs 32 crores so it should be similar run rate but if all the airports go live then obviously it will go up.
- Moderator** Thank you. Our next question is from H R Gala of Panav Advisors. Please go ahead.
- H R Gala** I just wanted to know that this practice split which we have specified, the ADM component has come down from 66% to 60% whereas the managed services has gone up from 13% to 18%. So is this to some extent responsible for a lower margin YoY?

Arvind Thakur No. The lower margin YoY is on account of the large engagements that we had acquired which had a transition cost associated with it. So one of the reasons why we are going to see a margin expansion next quarter is that the transition is now almost complete and so we will be not incurring those costs going forward.

H R Gala Okay. So it has nothing to do with the practices per se?

Arvind Thakur No.

H R Gala Because I thought that ADM should be having higher margin as compared to managed services?

Arvind Thakur No, not necessarily.

H R Gala Not necessarily?

Arvind Thakur No.

H R Gala Okay. A relevant question is on the revenue mix onsite and offshore; 65% onsite has become 63% over 12 months and 35% has become 37%. Is there any scope for more offshoring?

Arvind Thakur Yes of course, indeed. Because when you start a program you start with a lot of activity onsite and then as it gets into steady state by taking it offshore and also some of our clients driving more off shore to get better benefits in terms of cost structures to support.

H R Gala Okay. So can we look further that in next fiscal we could be back to 15%-16% type of EBITDA margin?

Arvind Thakur I would think so, yes.

H R Gala It should be possible?

Arvind Thakur Yes.

H R Gala And as far as the revenue growth is concerned what would be your broad indication?

Arvind Thakur Well, we don't give specific guidance but you would have seen us on a trajectory where we are growing sequentially and that is only going to improve going forward.

Moderator Thank you. Our next question is from Dipesh Mehta of SBICAP Securities. Please go ahead.

Dipesh Mehta Just to understand about some of the large deals which we reported in Q2 and Q3; despite all that revenue is not increasing, our revenue run rate for last few quarter has not shown that kind of improvement. So if you can help us understand pocket of weakness; one, you mentioned

about Insurance but apart from Insurance? And whether those issues are sorted out? And do we now expect them to stabilize and then grow? If you can help us understand that part.

Arvind Thakur

Yes, I think we did talk about some of our clients being challenged in the first quarter, so that has depressed our revenues and Sudhir also talked about the fact that our top clients were not growing which he is seeing opportunities which is likely to change the situation going forward. So I think combination of these two will help us grow our business going forward. And also the intake that is coming in is coming in from new business in existing clients as well as new business from new clients so that's all incremental revenues which are going to be coming in.

Dipesh Mehta

Yes, that is a fair point. But what I just wanted to get a sense of is: our next 12-months order book is not showing any kind of material increase, and secondly our revenue run rate that we burned is also largely stabilized; in constant currency also 1% growth is what we reported.

Arvind Thakur

Correct.

Dipesh Mehta

And despite some of the deal wins in last few quarters I think our deal pipeline and overall deal win rate remains very healthy. So I just want to understand the pocket of weakness or where we are seeing some negative traction, and whether those things are over or you see some of those issues persisting for some time?

Sudhir Chaturvedi

We had softness in three broad areas, we had some softness in the top 10, Insurance as a vertical as well as in Europe and specifically you see that in this quarter. So going forward, as I said, the top 10 trajectory should start to change, the Insurance trajectory will change on the back of this large deal win that we have had in the US where the revenues will kick in earlier as there hasn't been a long transition period there. And finally, the softness in Europe will continue for some time but we see two trends reversing going forward.

Dipesh Mehta

Okay. So whatever now incremental would be it should be reflected in our growth momentum as well?

Sudhir Chaturvedi

That's correct, that's why I said the trend will continue to be on the uptake.

Dipesh Mehta

Sure. And last is about the margin side. Despite now our movement from government business and if I adjust for hedge gain and loss, I think margin wise we are still much lower than what we did last and rupee still remains very favorable comparatively. So if you can help us what lever we expect would play out, you had hinted about 15% to 16% range is possible, but what would drive that kind of margin, whether the growth would be the only lever or you expect apart from growth there are some levers which you can take benefit of?

Arvind Thakur

Well, I think the first lever is no more transition cost, I think that's a major lever. Also, we just talked about the onsite-offshore mix, that's another lever. We are on a growth trajectory, that is a third lever. The proportion of revenues from government contracts, so basically the revenue

mix has also improved so that's another lever. So we have quite a few levers to help us drive our margins. I would also say, even utilization levels we are at 78.8%, that can be driven up to the early 80s, that's another lever available to us to drive margins.

Moderator

Thank you. Our next question is from Manik Taneja of Emkay Global. Please go ahead.

Manik Taneja

Part of my questions might have been answered because I got disconnected in-between. Just trying to understand your indicating that a decline in oil prices will free up more dollars for airlines to spend, while in the current quarter one has seen some weakness in revenue terms or revenues from the Travel & Transportation vertical for us. If you could give us some sense on what are you seeing across your customers in the vertical say a US customer versus a European customer, is there some difference in terms of the areas where they are looking to spend or where are you seeing more intent to spend? That's question number one.

The question number two was with regards to our Insurance business, since we have had some struggle in our top client over the last couple of quarters, could you talk about what are you seeing in that space, is that largely behind us and also give us some sense on the large deal that you have won in Insurance, what services does it entail and what could be the margins on that business, do we envisage some transition cost on that business?

And finally a question on Airports Authority contract, what proportion of the total outlay that we essentially entail to spend on building up the airports, what proportion of that essentially would we have already incurred?

Arvind Thakur

Okay. So I think I will ask Sudhir to talk about, he did mention it earlier so he can probably reiterate his discussion on the Travel space and also the Insurance and I will address the Airports Authority.

Sudhir Chaturvedi

So as I said in airlines the key growth driver is Digital. Just to give you some color, any customer-facing requirement that people have, for example user sees it mostly by saying how much more we can do from a mobile perspective, we hope to manage it. But there are other revenue streams, for example we completed a project this quarter where we assisted one of our airlines clients in introducing a new functionality called 'hold booking'. Actually if you are doing online booking you really don't have the ability to hold booking right now for most airlines, you buy if you want to hold it for a couple of days. Now what we did was we introduced this function where you hold booking with a certain dollar value, so you pay a certain dollar value to hold the price, if you would book then you get the same price. Now this actually was introduced as a proof-of-concept and was found to be very popular, in fact almost 4% to 5% of the booking people started doing 'hold bookings' and that became a significant revenue earner for the client too. That now has been rolled out as a standard functionality across the business. What people are looking at is that Digital gives you a way to interact with your customers seamlessly and fairly quickly and then to try out concepts, if it works then roll it out and if it doesn't work then to roll it back. And I think that is the phase that we are seeing

in a lot of airline customers where people are trying things, for example how to automate the check-in process. So these are the kind of things that we are seeing from mobility to Digital – how does the customer experience improve because of Digital. I think that is the key growth driver there, and along with that comes a significant amount of revenue from a Digital Legacy Integration perspective and because we have a great understanding of the IT landscape as it exists within existing airlines, that and our Digital capabilities, therefore that gives us the integration. So those are the kind of drivers we see for growth going forward.

In terms of the Insurance, the large Insurance deal, that's a potential Testing plus Development, those are the two services that we will be providing.

Arvind Thakur

You had a question on Airports Authority, what was that?

Manik Taneja

Just wanted to understand what proportion of the amount that we had to spend have we already spent and what is left for the next deal because we have spent a lot of money on capex over the last 1-1.5 years?

Arvind Thakur

I think, if I am not mistaken, 80% to 85% would have been spent. Pratibha, that's correct?

Pratibha Advani

Yes, that's right.

Manik Taneja

So if I could ask you, what is the total quantum of outlay on this project?

Pratibha Advani

So we are expecting to spend about Rs 140 crore and we would have spent close to about 120 odd crore.

Manik Taneja

Okay. So how should one look at capex spend for next year?

Pratibha Advani

Actually, we will be in a better position to guide you next quarter, we get into a budgeting session next month and that's when we will have clear visibility on the capex spend for the following year.

Moderator

Thank you. Our next question is from Jagdish Bhanushali of Florintree Advisors. Please go ahead.

Jagdish Bhanushali

Yes, my question is on the Airports Authority; how many airports have gone live till now?

Arvind Thakur

Four airports have gone live.

Jagdish Bhanushali

Okay. And how many are expected to be going live in Q4FY15 and in Q1 of FY16?

Arvind Thakur

There are six airports that are yet to go live and so our attempt is to ensure that most of them go-live in this quarter. The attempt is to get all of them to go-live but you know sometimes there are slippages and delays.

- Jagdish Bhanushali** Okay. So any revenue booking done, when we say that four have gone live?
- Arvind Thakur** Yes, so every time the airport go live we book revenues.
- Jagdish Bhanushali** And one more question is, we had one major client specific issue in Insurance vertical so wanted to understand, did that client contribute anything in this quarter? If yes, then how much would have been the percentage as compared to the normal quarterly run rate?
- Sudhir Chaturvedi** Yes, so there is a decline in that particular client this quarter. What I would say is that going forward we have reached the bottom in that client.
- Moderator** Thank you. Our next question is from Ashish Aggarwal of Antique. Please go ahead.
- Ashish Aggarwal** I have two questions, first of all on the margins front. Now you alluded to the fact that there has been no transition cost regarding the large airline customer next quarter which should hit the margins but we will also have this transition cost from the large Insurance deal which we have signed. So will it negate the positive impact coming from that? And second question is regarding the executable order book – now, until and unless we have a sharp increase in the executable order book next quarter our year-on-year executable order book will almost be flat or a marginal 3% to 4% increase, in that context then how do you look at FY16 because then we will be starting with very low growth in the executable order book on a year-on-year basis.
- Arvind Thakur** I think Sudhir already mentioned that the transition cost of the new contract is not significant so it would not offset the benefits that we get from executing the old contract. So as far as executable is concerned, what we have always been maintaining is that as long as you get revenues intake which is more than your revenues it is good for the business and we like to see the executable increase. The reason why you are not seeing the executable increase in this quarter is because of the currency change, so last quarter was \$298 million, this quarter is 296 million, but if I look at in constant currency it would have actually been 300 million.
- Ashish Aggarwal** Yes, but if you look at Q4 of FY14 it was around 290. Now until and unless there is a substantial increase in the executable order book next quarter then year-on-year increase will be in low single-digits which would mean it does not give too much of visibility for FY16 until and unless there is a significant deal signing which would happen in FY16.
- Arvind Thakur** Which could just as well happen so let's wait for the next quarter.
- Moderator** Thank you. Next question is from Pratik Gandhi of GeeCee Investments. Please go ahead.
- Pratik Gandhi** Two questions – one, any initial feedback from your clients for next years IT budget in respective segments starting with Travel & Transportation, Insurance, and Manufacturing, the larger ones. And secondly I think, again I had a question on order intake similar to one which was asked previously, so how should one look at this data point, does it have any relevance going forward?

Sudhir Chaturvedi Well, from budget perspective what we are seeing at our clients' side as well as if you look at some of the industry reports, people are talking about on average for the industry about 2% to 3% increase next year. So in Travel for example we will expect to see a number along similar lines and similarly in BFSI, so that's the number we will see. Actually it is a reasonable number because outsourcing spend year-on-year is always expected to decline, as in, support and maintenance spend is supposed to decline, so that's a good sign that there will be higher discretionary spend available to our clients in the coming year.

Pratik Gandhi Okay. And secondly in terms of next year, within your verticals and geography I think which verticals you see should lead the growth and similarly in terms of geos?

Sudhir Chaturvedi As Arvind mentioned upfront, we are focused on four verticals in the international market in Travel, Insurance, BFS and Manufacturing & Distribution and we continue to be focused on all four. I think from a Western markets perspective we see BFSI and Travel having strong trends. So the environment is not a concern for the US and UK market and it is in Continental Europe. And as I said upfront on the pipeline, I think for these geographies we are seeing a good pipeline and including the large deal trend that we have been maintaining of one performance quarter, we can see that in the coming quarter too.

Moderator Sir we have a question from Rahul Jain of Dolat Capital.

Rahul Jain Sorry to sort of sound repetitive but I am not able to get the point on quality of intake because if we see the mix of the intake we are sort of stuck at \$100 million - \$110 million run rate and the gain in the US has come more at expense of Europe and not India. So if you could help us better understand on this intake confidence we have.

Arvind Thakur When we are talking about intake we are talking about new business and there are two components of that, there are renewals and then there is fresh new business. So for example in the quarter same period last year we had a very large deal which was of \$300 million, that was basically 90% renewal, only 10% was new business out of that. When we are talking about the intake in this quarter we are talking about the business from the US being new business, so that means there is not just a renewal, there are existing contracts which are going on, but this is going to be new business which is going to add the revenues to the existing revenue line.

Rahul Jain Okay. So if I have to read it the other way, there is traction of new business which we see to be qualitative, but on a net basis do we see this number moving higher because even if we look at some of our hiring on the onsite of overall basis it has been flattish for eight quarters? So are we not trying to set up for this kind of a new momentum which is going to come or are we seeing that this would come again at the lack of some of the lapses in the top clients?

Arvind Thakur I did mention that next quarter we will be back to a revenue hiring pattern of 150 to 200 people per quarter, so we will see that recovery happening.

- Rahul Jain** So 150 we see on net basis addition?
- Arvind Thakur** That's right.
- Rahul Jain** For all quarters in 2016?
- Arvind Thakur** Well, I can talk about next quarter.
- Rahul Jain** Okay. For Q4 you mean to say?
- Arvind Thakur** Yes.
- Rahul Jain** But we do not have in general mindset for hiring for 12 months or something right now.
- Arvind Thakur** Typically 150 to 200 per quarter is what a normal hiring is, but we do not have a definitive plan of hiring.
- Rahul Jain** So even if we look at some quarter like we had this number around 400 and we are now talking about 150-200, does that mean from the overall perspective of last several years of growth perspective we are looking up now at far less traction to be driven for?
- Arvind Thakur** No, I don't think you can read into that because the nature of business also is changing quite significantly. So when we are talking about 150-200, we are not talking about numbers hired, we are talking about net because there is numbers hired and then is attrition as well. So these are net additions.
- Moderator** Thank you. Next question is from Nitin Jain of Credit Suisse. Please go ahead.
- Nitin Jain** The first is on Infrastructure Management, it seems to have had a moderate growth this quarter, so what is the trend there?
- Sudhir Chaturvedi** So Infra is up, in fact two quarters ago it was 13%, last two quarters it has been 18% of our revenues, and that we expect to see around those levels, that's encouraging. So it is in line with if you remember the corporate agenda we had shared and said that IMS is a separate horizontal for us and a new growth engine. So quarterly growth has been 4% quarter-on-quarter. I think in Infra we are seeing a decent pipeline, a good growth prospect, and the change that we made in the organization to create it as a horizontal has blended in well and we expect to see further traction going forward.
- Nitin Jain** So which are the verticals where you are seeing the growth in Infrastructure Management, largely Travel or...
- Sudhir Chaturvedi** Actually in fact across our verticals BFSI, Travel and Manufacturing to a certain extent too.

- Arvind Thakur** And is there any sense of starting this service line on a full-fledged basis, have you seen any increase in deal size?
- Sudhir Chaturvedi** Yes. So I think there are two types of deals sizes in Infra. What we are seeing in the infrastructure environment outside Asia Pacific is that clients are looking at a combination of some large deals as well as what we call tower-based deals as well as incremental outsourcing, as they begin to outsource depends on how they are currently structured. If they are currently structured with in-house Infrastructure Management then they tend to start with outsourcing parts and then potentially looking at bigger deals in future, whereas if they are currently outsourced then they tend to be rebid situations. So we are seeing both types of deals. In fact from a growth perspective the deals which are around incrementally outsourcing Infrastructure tend to be faster deals whereas the rebid deals in Infrastructure typically take around six to nine months. So both we are looking at and the key thing for us is what we have done is we have mapped all our client organizations, current infrastructure requirements and we have created a go-to-market model which is based around how we have diagnosed what we have mapped. So that is a proactive approach that we are taking to the market.
- Nitin Jain** So you are trying to cross-sell first to existing clients?
- Sudhir Chaturvedi** Yes, we have called it the CARE Framework and that is the framework that we are taking to our existing accounts, yes.
- Nitin Jain** Okay. And the last question is on Proyecta, can you give me the revenue and margin breakup?
- Pratibha Advani** The revenue for Proyecta for the quarter is Rs 173 million and the margin is 6%.
- Moderator** Thank you. Next question is from Nandish Dalal of IIFL. Please go ahead.
- Nandish Dalal** My question in particular is about Europe. So, you raised red flags about growth in Europe, but this is in contrast with some of your peers who actually are citing opportunity in terms of higher offshoring or as it is in underpenetrated market. Could you comment whether there is some different nature of business which you guys do compared to others? And also in addition to that could you just highlight what proportion of revenues comes from Europe, separating it from EMEA, and which are the key markets over there?
- Arvind Thakur** We don't give a breakup separately but the markets we focus on are UK, the Benelux region, the DACH region, and Spain. So I think the issues that we are experiencing are in the Eurozone region, particularly in Germany as well as Spain. Many of our peers are not operating in Spain for example, whereas we have a large presence in Spain. So that could be contributing to some of the differences.

- Nandish Dalal** Just one follow-up, in terms of the nature of your business is it something related to discretionary compared to maybe shifting offshore or some kind of nature of business which is different?
- Arvind Thakur** No. If you look at our large clients, in Germany for example it is German Railways, so if the economy is not doing well it impacts that particular industry and then they start looking at what they need to do in terms of their cost structure and spends. Similarly a large client of us in Spain is Iberia which is an airline; once again they are experiencing some difficulties they will tend to cut that. So I think it has to do with specific customers who are experiencing specific issues in those markets.
- Moderator** Thank you. Next question is from Karan Uppal of Equirus. Please go ahead.
- Karan Uppal** Most of the questions have been answered, just one thing I want to understand – we are seeing that we continue to win more than 100 million fresh order intake every quarter and also guided one large deal coming in every quarter, so based on the revised outlook, you have oil prices going down and organization now restructured fully, do you think these numbers have a probability of being revised upwards in FY16?
- Arvind Thakur** I would think so, I think the environment is becoming quite positive, so that's good for us.
- Karan Uppal** Okay. And the last thing that I want to understand is that when we look at these two numbers which get reported, one is your order intake, the other is your executable; so is it that in the orders that come in, there are pieces of that book which will be executed let's say post 12 months and there are ramp dates which are out of that range?
- Arvind Thakur** Yes, of course.
- Karan Uppal** And lastly can you just explain what exactly were the parameters which helped you win this "Breakthrough 10 Sourcing Standouts" and the companies which also were there in the run?
- Sudhir Chaturvedi** Yes, so with ISG I think one of the things we have been doing in a systematic manner is from an analyst and advisor perspective we have been briefing them on the vertical areas of our specialization that we have, as well as what is different in our approach especially to Infrastructure and Applications outsourcing, that's really for the advisory firms, that's the key ask that they have. So I think the combination of the two where we have vertical-specific outsourcing offerings, I think that is what ISG found to be a clear differentiator because most people treat Application Outsourcing as a standard model irrespective of the industry segment they operate in and we were able to bring in because of our understanding of the industry and the understanding of outsourcing what we feel is the right model from an outsourcing perspective by vertical, that's really what led to this.

- Moderator** Thank you. Our next question is from Amar Mourya of IndiaNivesh Securities. Please go ahead.
- Amar Mourya** Sir, number one is, can you just share with me the revenue and margin from Morris and GIS?
- Pratibha Advani** Morris revenue is Rs 428 million, the margin is 14%; the GIS revenue is 344 million, the margin is 28%.
- Amar Mourya** Sir, secondly about this order booking, if I see the 12-month executable order book on a year-over-year basis it has been grown by 12%, 20%, and 12% but despite that I was not able to see the traction which was expected into the revenue growth. So what went wrong from the starting of the year and till now? If you can throw some light on that and how we should read this, basically the 12-month executable order book going forward?
- Arvind Thakur** As you know this is only an indication of what is the firm confirmed business that can be executed. So let us research on what is the core relation between this and what is likely to be the revenue going forward. We had in the past done some empirical correlation, if it was not measuring up to those empirical correlations we need to reassess how do we read this more effectively going forward.
- Amar Mourya** Yes, because that was probably conveyed to us also but since it is not working the way we wanted to work.
- Arvind Thakur** What really is happening is that the revenues from existing customers that's not scaled up the way it should have in normal circumstances, I think we need to factor some of that when we are trying to read going to this number.
- Moderator** Thank you. Next question is from Ketan Chaphalkar of Zephyr Financial. Please go ahead.
- Ketan Chaphalkar** What kind of growth do you see in the emerging space of Digital Services, like you said the contribution is around like 10% or so, what kind of growth do you see in the coming few quarters in that particular segment or in that particular area?
- Arvind Thakur** I think the number that we have given you is approximate, but there is a lot of traction. In fact it is not easy to extract this number, for example in the large deal which Sudhir talked about there is an element of Digital in that as well and in fact probably even contributed to securing this business. So how do we extract that element out and put together Digital number is something that our management accounting team is still working on.
- Ketan Chaphalkar** Okay, like for example the new orders you secured like US\$109, so out of that how much can approximately be contributed by Digital Services?
- Arvind Thakur** That's what I am saying, we are unable to predict that at this point in time.

- Moderator** Thank you. Our next question is from Ashish Chopra of Motilal Oswal. Please go ahead.
- Ashish Chopra** I just had a follow-up on one of the earlier question on IMS; just wanted to understand what would be the sweet spot for NIIT Technologies as far as the deal sizes in IMS go?
- Sudhir Chaturvedi** Well, there are two sort of broad sweet spots, one is the mid-tier clients; so deal size is of up to \$20 million to \$25 million in IMS in terms of outsourcing deal size. And the second one as I said in clients that own their own infrastructure and still want to continue to run it, some verticals, for example in Travel and to a certain extent in Banking the level of outsourcing of Infrastructure is lower than some of the other vertical say for example Manufacturing. So there it is a question of separate tower; so Infrastructure is usually split into four to five towers so there the towers like Service Desk or towers like Datacenter Management for specific services like Security, etc., these are the areas that we are focusing on. So a combination, one is for mid-size deals and the second is for specific solution around five different outsourcing towers.
- Ashish Chopra** And secondly, would it be possible to share that over the last three to four quarters what percentage of your order booking would actually be coming from this service line in particular?
- Sudhir Chaturvedi** Well, we don't share that as of now.
- Ashish Chopra** Sure, not a problem. And lastly if you could just throw some light on what is your go-to-market deal. So while the deal size is maybe around \$20 million to \$25 million, but then there would be larger players in the segment who would also be probably selling it around application modernization or some other go-to-market strategy. So just for NIIT Tech, how would you end up differentiating yourselves?
- Arvind Thakur** I will give my comment and maybe Sudhir can add. What we have seen is that the mid-sized players in the market prefer to work with mid-sized service providers because Infrastructure services is the crown jewel which they are giving away to their technology partner and they would like to engage with an organization which gives them the attention so they are comfortable and in fact they prefer working with a mid-sized organization. So I would say there is space for everybody, there is space for the large player, there is space for the mid-sized player, and the market is large enough for everybody to coexist. Sudhir, if you want to add.
- Sudhir Chaturvedi** What clients are looking for is expertise in understanding how their business operates as these are the crown jewels at the end, their business runs based on the infrastructure that exists in the organization. So a combination of Do you understand how my business runs, Do you have the capabilities of modernizing my infrastructure to move to; because if applications and the business is moving to a more agile fashion then How do you make my infrastructure equally agile so that my infrastructure can support my organization's capabilities to make shifts or to be able to change direction or strategy much more quickly than before. See, earlier infrastructure modernization was really about asset refresh, now infrastructure modernization

is about how do you make the business move faster and provide it more agility and nimbleness and I think there, which is heading towards the concept called DevOps, etc., that's really what we are talking about. So we talk about how continuously delivered infrastructure makes the business more agile and those are the kind of things where you bring in your vertical understanding. Now when you bring that in the combination of your size fit or they feel comfortable with the size in terms of how important client is to their service provider, we put all that together and there is a natural sweet spot for us.

Moderator

Thank you. Next question is from Sandeep Shah of CIMB. Please go ahead.

Sandeep Shah

Sudhir just one question, like FY15 we started with a low base, we do agree that in the fourth quarter the run rate is likely to improve but because of a slow start it looks like that even on a exit rate of Q4, the ask rate would be much higher in FY16 in terms of nearing to the industry level growth. So is it fair to say that most of our reorganization in terms of sales or in terms of portfolio rationalization is behind and FY16 would be the first full year in terms of the full focus in terms of bringing back the growth and there won't be any major reinventing of the wheels?

Sudhir Chaturvedi

This year has been a year of consolidation and change for us, so in a sense it has been a transitional year in terms of how we are structured as an organization and more importantly how we go-to-market in terms of our focus areas, our priority areas in each vertical. So that exercise is complete. Going forward we will be looking at really the enhancement of our capabilities specifically from a Digital perspective more deeply, which is in line with what we are seeing in the market, but the rest we are done.

Sandeep Shah

Yes. But to go higher, I think we need to keep on adding more and more to order book, so how are we making sure in terms of what measures we are taking that this could be addressable, what I am trying to say is there any major sales reorganization or major kind of a measures we are taking to make sure that there is an uptick in the order book going forward?

Sudhir Chaturvedi

As part of the changes that we have made we have also moved Europe and Asia Pacific to a different range in how we have organized sales team, especially put an emphasis on how we manage our top accounts as well as a very specific focus on high quality new logo openings. That process is complete in the US; it is really around the leadership of the verticals that we have focused on. So it is a combination of some structure change as well as some leadership that we have brought in from a sales perspective, but that process will be complete by this quarter as I said for the next financial year, by then we will be done.

Moderator

Thank you. Our next is from Srivathsan Ramachandran of Spark Capital. Please go ahead.

Srivathsan Ramachandran

Just wanted your comments on cash utilization, because if you have to see a slightly lower capex over the next two to four quarters and what we are at and the kind of cash accumulation that we are seeing, just wanted to understand what would be the stated objectives towards cash

utilization – is it possible to see a slightly higher dividend payout or buybacks or M&A? Just wanted to understand that.

Arvind Thakur

As far as cash is concerned, of course as you know that we are building the second phase of our campus which is under construction at this point in time so that will be one important area where we will be utilizing cash. Second, inorganic initiatives is an important element of our growth strategy and particularly in areas where we can acquire assets that can strengthen our position in the industry segments that we focus on as well as areas that can support us in refining and repositioning our Digital Services engagements, these would be areas that we will be pursuing from an inorganic point of view and so therefore that would be another important area to utilize cash.

Moderator

Thank you. Our next question is from Jagdish Bhanushali of Florintree Advisors. Please go ahead.

Jagdish Bhanushali

One thing is that you just mentioned that you will be hiring 200 net additions in the coming quarters and you have also mentioned that the utilization levels moving up. So just wanted to understand that do we see volume growth being more than 10% in coming YoY?

Arvind Thakur

You are talking about FY16?

Jagdish Bhanushali

Yes, FY16.

Arvind Thakur

Okay. So you know that we don't give any specific guidance. But yes, I think you can see better performance in FY16 than you have seen in FY15.

Jagdish Bhanushali

Okay. And aided by better EBITDA margins as well?

Arvind Thakur

Yes, yes of course.

Moderator

Thank you. Next question from Dipesh Mehta of SBICAP Securities. Please go ahead.

Dipesh Mehta

Just one thing about the Insurance large deal, whether it is existing client or it is totally new logo and full incremental revenue what we acquired?

Sudhir Chaturvedi

No, we opened this logo in the previous quarter but it ramped up in this quarter. So yes, it is a new logo acquisition.

Dipesh Mehta

Okay. And the area you suggested one is Testing and second what you suggested is part of the transaction?

Sudhir Chaturvedi

Application Development.

- Moderator** Thank you. Our next question is from Amar Mourya of India Nivesh Securities. Please go ahead.
- Amar Mourya** Ma'am, just can you give me the revenue of ROOM (NITL) revenue and margin?
- Pratibha Advani** The revenue is Rs 393 million and the margin is 18%.
- Amar Mourya** Okay, thank you ma'am. So margin has improved this quarter?
- Pratibha Advani** That's correct.
- Moderator** Thank you. As there are no further questions from the participants I would now like to hand the conference over to Mr. Arvind Thakur, CEO, NIIT Technologies for closing comments.
- Arvind Thakur** Thank you very much for this interactive participation. I think we have exceeded the time but I am happy to have all these comments and questions and we look forward to engaging with you more deeply in the coming period and the next quarter. Thank you very much.
- Moderator** Thank you very much members of the management. 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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