TRANSCRIPT: NIIT Technologies Ltd Q1FY2015 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 Q1 FY2015 Earnings Conference Call. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing '*' 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 at NIIT Technologies. Thank you. And over to you, sir.

Abhinandan Singh: Good afternoon everyone, and welcome to our Q1 FY2015 earnings call. We have with us on this call Mr. R S Pawar, our Chairman; Mr. Arvind Thakur, our CEO; Mr. Sudhir Chaturvedi, our COO; and Ms. Pratibha Advani, our CFO.

As always we will start the earnings call with opening remarks by Mr. Thakur and then we will open up the floor for your questions. We will have the transcript available soon after the earnings call, within a few days. And post the call, of course, I am always available to respond to any further clarifications or questions that you might have.

With that I would like to now hand over to our CEO Mr. Arvind Thakur for his opening remarks.

Arvind Thakur: Thank you, Abhinandan, and good afternoon everybody, and thank you for joining us on this discussion on our 1st quarter results for the financial year 2014-15. Revenues in this first quarter have been Rs. 5,776 million, which represents a growth of 6.6% over the same period last year. Sequentially, the revenues have declined 1.8%. In constant currency however, revenues are flat. The decline in reported revenue our numbers being the loss in currency due to rupee appreciation.

To give you an analysis of the revenue numbers – the US geography which was expected to grow during the quarter had a set back when two of our clients in the region in the BFSI segment scaled down their business on client-specific issues resulting in a 5.3% quarter-on-quarter decline of revenues. This was unexpected. While we have also seen decline in revenues in some of our clients in the other geographies, they were known and planned. We have seen growth in the domestic business on the back of the successful go-live of the Airport Operations Control Center for the Airports Authority of India (AAI) in Chennai and also conclusion of other large programs in the government segment leading to the movement into the operations and maintenance phase. So overall, the US has contributed to 44% of revenues; EMEA to 36%, and the rest of the world is at 20%. The Travel and Transport, Manufacturing, and Government businesses grew during the quarter, but there was a decline in the BFSI space due to decline in revenues in this segment in the US. BFSI contributed to 34% of overall revenues and TTL, which is the Travel and Transport segment, contributed 39% and the Government business is 5.6% of the overall revenues. Onsite revenues now represent 63% of the total revenues.

Taking a look at margins for the quarter, operating profits for the quarter stood at Rs.775 million which is down 13% quarter-on-quarter. There has been an operating margin decline of 171 basis points sequentially to 13.4% as a result of wage hikes and also a decline in onsite revenues that we have seen in the quarter on account of the lower revenues in the US. Net profits stand at Rs.432 million and they are down sequentially 30.1% as a result of higher taxes. So there has been a higher effective tax rate and increased depreciation as compared to the previous quarter. Our decline YoY on net profits has primarily been on account of lower other income which was in this quarter at Rs.3.6 crore as compared to Rs.20.6 crore in the same quarter last year. And this is on account of revaluation of current assets and liabilities due to the rupee depreciation. We had a fresh intake of US$124 million during the quarter; this also includes a very significant large engagement with a major airline but to provide more insights into the demand situation and our new customers and intake, let me now invite Sudhir to share with you some details.

Sudhir Chaturvedi: Thanks, Arvind. So order intake was $124 million this quarter. Of this $124 million, $34 million was from the US geography, $27 million from EMEA and $63 million from ROW mainly on the basis of the large deal that Arvind just talked about that we have signed in APAC this quarter. So the 12-month executable order book is $295 million.

In terms of the large deal that we signed this quarter we signed a multi-million dollar deal with an Asia Pacific based airline for Application Support Maintenance and Development Services. The deal is not a renewal and all revenues will be net new business. This was a vendor consolidation exercise that the client carried out with global players and large India players participating in this deal. As I stated in the last earnings call, we have a healthy pipeline of large deals and we are pleased to conclude one in this quarter.

In terms of new logos, we signed four new logos this quarter, of which three were in the US, two logos are in the Insurance space, and two are in the Travel space. I am especially pleased with one of the new logo openings which is a top 10 insurance company in the US that was opened this quarter. With that, I will hand over back to Arvind.

Arvind Thakur: Thanks, Sudhir. In terms of headcount we had a net decline of eight people during the quarter and so our headcount at the end of the quarter is 8,282. Utilization is at 78%. We have seen an increase in attrition which is at 15.4% for the quarter. Cash and bank balances stand at Rs.1,951 million, which is down Rs.923 million over the previous quarter. This has been primarily on account of an increase in debtors where debtor days are now at 95 days of sales outstanding as well as an increase in capex; capex spend during the quarter was Rs.714 million.

Overall comment in terms of the outlook is that we had unexpected headwinds during the quarter in the US which led to a decline in revenues in the region. We are seeing a large government contract moving into an O&M phase which means basically that the hardware component of the revenues are now reaching a trickle. This gap would need to be covered in Q2, which will happen with the services revenues that we are bringing in with new intake and so we will see the revenue scale up in the 3rd quarter, and so growth in the financial year essentially would get back ended to the second-half of the year. With these comments I would like to now open up the session for questions, and me and my team here would be happy to respond to it.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Pankaj Kapoor from Standard Chartered Securities. Please go ahead.

Pankaj Kapoor: Arvind, can you elaborate on the client-specific issues that we saw in the quarter? And what is your reading in terms of this impact continuing in the second quarter as well?

Arvind Thakur: This is I think an issue specific to the quarter because two of our large clients had specific issues… I cannot get into details of those specific issues, but for example one of our clients was actually acquired by another organization, and so that put a hold on some of the business that we were doing with them, and things like that have contributed to this decline. I expect this to be contained in this quarter. So going forward we would be recovering our business in these clients.

Pankaj Kapoor: So I am presuming these will be fairly large sized clients for us given the impact that they had, and so as you mentioned that one of them actually underwent a corporate action, so does it mean that the recovery in that account will probably not be coming in the second quarter as well?

Arvind Thakur: It would not, yes, that is why we are projecting a back-ended growth.

Pankaj Kapoor: Sir from a purely Services perspective alone given that hardware as you mentioned will be on a declining trajectory, so on Services business can you give some color in terms of where you see the growth coming in, you think a double-digit growth for example in the Services business in the full year, is that something which is achievable?

Arvind Thakur: If I just look at Q1 we have actually seen a 0.8% growth in our Services revenue. So Q-on-Q on a constant currency basis there is growth even in this quarter in Services revenues. So we expect that to continue going forward.

Pankaj Kapoor: Sir, in terms of the order wins that we had and the pipeline again that you are pursuing, Sudhir mentioned that we are following several large deals and the one which you got in the quarter is first of that. So again any color if you can give in terms of the trajectory of order wins or how these things can shape up in the next couple of quarters? I am trying to understand what is driving this confidence in a recovery coming in the second-half?

Arvind Thakur: As Sudhir mentioned, for example, this deal that we now have with a major airline this is not a renewal, it is a consolidation, so it is new business that we have acquired. I will leave it to Sudhir to comment on what he is seeing in the pipeline. Sudhir, you want to comment on that?

Sudhir Chaturvedi: Yes, so Pankaj in terms of pipeline last quarter also I mentioned that we were on track; we were targeting a large deal closure every quarter. As I mentioned, we have a healthy flow, we are on track for closures in Q2 and in Q3. So that is in line. On this deal itself, we signed this last month and there is a period of transition that will be involved. So I think some of these revenues with large deals, especially where there are consolidations, there will be transition also involved. So when you look at our executable, that is the number that we have incorporated knowing what revenues will get this year from the deal that we have done till now, so that is $295 million.

Pankaj Kapoor: Just a clarification – the large deal when we speak we are typically looking at something which is around $25-30 million?

Sudhir Chaturvedi: $20 million plus.

Pankaj Kapoor: And then looking at it from the other side on the margins impact last quarter you mentioned 17% kind of a band for FY15. Given what has happened in the first quarter and your view on the second quarter, how do you see the margins picture for FY15 now?

Arvind Thakur: We were looking at an exit at 17% when we were discussing last. I think given the fact that there has been a set back in the US, we would probably temper that down a little bit may be by a percentage point.

Moderator: Thank you. Our next question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

S Ramachandran: I just wanted to get your comments in terms of the India business. We have seen most of the India business now going live in terms of production. So I just wanted to know by end of this year we should think it will substantially come down? And what was the hardware contribution this quarter?

Pratibha K. Advani: Yes, the hardware for this quarter was Rs.17 crores.

Arvind Thakur: So this quarter it was Rs.17 crores and it will steadily keep going down, in fact next quarter it will be quite negligible

Pratibha K. Advani: We expect between Rs.7 crores to Rs.10 crores for next quarter.

S Ramachandran: In terms of the India business, from a revenue point of view, do you think it will go down further and further, not only hardware but the entire India piece?

Arvind Thakur: Yes, that is right, we would be expecting more business from our international geographies rather than the India business.

S Ramachandran: In terms of pipelines specifically how would you qualify – would it be more skewed towards BFS, Travel or do you think pipeline is more evenly spread across the other verticals also? And in terms of horizontals, would we be more on the infrastructure side? Just wanted to slice and dice the pipeline on where things stand now.

Sudhir Chaturvedi: So in terms of our pipeline, across the US and Asia Pacific the pipeline continues to be good. In terms of verticals, we are seeing a decent pipeline in Travel and in Insurance. Arvind mentioned the client-specific issues that we have had, but other than the client-specific issues it is a vertical that we are strong in, in the US, and there are growth opportunities towards the second half of the year.

S Ramachandran: We had a pretty large capex this quarter. So just wanted to know, would you be hiking what you were broadly looking at from capex point of view in FY2015 or is this expected, in the next three quarters on a comparative basis, to be far lighter?

Pratibha K. Advani: We will pretty much stand by the guidance that we gave earlier on the year of about Rs.150-odd-crores of capex, and some of it has got pushed forward which would have come in the next quarter.

S Ramachandran: My last question was in terms of other income, it is pretty low. So just wanted to know is it because of the mixture of assets that we have invested in or revenue recognition issue because Rs.3-3.5 crore of other income on Rs.200 crore cash balance seems pretty low.

Pratibha K. Advani: Most of our investments are in mutual funds and we recognize the interest when we liquidate those assets, and that is why the accrued income is low. Also, a large part of the cash sits in overseas geographies. That is why you see the yields lower.

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

Manik Taneja: Just wanted to get your thoughts on our outlook on business within the European geography because peers seem to be doing well in Europe, just trying to understand what are your thoughts in terms of business from Europe? And secondly with regards to this set back that we have had in a couple of large clients in BFSI, how does that change our outlook in terms of significant focus in driving more penetration in US as well as Financial Services for us?

Sudhir Chaturvedi: In Europe in Q1 we have had from a constant currency perspective flat growth. That was more in line with our projections that we had, and we had in the beginning of the year expected some lag in growth in Europe for the year. We are seeing some reasonable momentum, especially in Continental Europe in business with conversations, but European business tends to start small and then grow over a period of time. So again it is something that we will expect contribution towards in H2. In terms of the US, that will be a focus geography as I mentioned in the last quarter's call also, and I will go back to what I said about the pipeline; the pipeline is good especially from Travel and Insurance perspective, and BFS is also good from the latter half of the year perspective.

Manik Taneja: Just trying to understand outlook on margins; you have indicated that you want to exit FY15 at about 16% EBITDA margins. How should one look at margins more in the next couple of quarters, because Q2 will also have an adverse effect from this revenue ramp down that we have seen in some of the large clients?

Arvind Thakur: As we said, it is going to be back-ended in Q3 and Q4, so that is where we expect the margin uptick in line with the business uptick that we will expect in Q3 and Q4.

Manik Taneja: Any particular reason our cash balance has gone down significantly in the current quarter – is that largely to do with the high capex and dividend payout or it is just a capex number?

Arvind Thakur: As I explained earlier, it has to do with the receivables and the big capex spend.

Manik Taneja: So dividend will get paid out in this quarter?

Arvind Thakur: Dividend is in the current quarter, yes.

Moderator: Thank you. Our next question is from the line of Nitin Padmanabhan from Espirito Santo. Please go ahead.

Nitin Padmanabhan: I was just trying to understand; if I look at your deal pipeline it seems to be improving consistently. At the same time if I look at the ability to predict growth, that seems to be a little difficult, because if I look at the last four quarters the number of clients giving more that $10 million of revenues has come down from 9 to 6, so it appears more like the existing business is seeing a down swing whereas the new business is taking time to come on board. What do you think is driving this unpredictability in revenues? When do you think we should be able to get a reasonable handle on that? Number two is, is there a significant amount of short term projects that sort of impacts overall? So I just wanted your thoughts on that as to what would bring back predictability in revenues.

Arvind Thakur: We are an organization in transition where we are moving our business from large domestic government contracts to global international engagements in the US. When you look at these large domestic government contracts, they are projects over a fixed period, and as we have been discussing have a significant component of hardware. So as we are moving this business there is a gap that is getting created with these projects coming to the conclusion and moving into the O&M phase. That needs to be covered by fresh business that we are getting in international geographies. We were hoping that we would have good momentum in the US and continue with that through the year, but as we have just shared with you there has been a set back which has contributed to that gap taking time to fill up. So I think that is what is really happening in the business.

Nitin Padmanabhan: Broadly in terms of the ramp down, I was just trying to understand, are these short-term projects or are these long term projects, because for ramp downs to happen so quickly, in terms of visibility, what really hurts visibility even in large US-based accounts?

Arvind Thakur: In this case it has been a very client-specific rather sudden, and so therefore we have not been able to have that predictability. Normally, had these external events not happened, business would have grown and scaled in these accounts. So actually what has happened is there has been actually a swing, instead of the account growing it has come down. So that is what has contributed to this decline which is not very common, it is uncommon but it has happened.

Nitin Padmanabhan: By when do you expect the new business to really start ramping? You did mention Q3, but I was just trying to understand do you think there will be some amount of transition cost involved and that is why you are looking at 16% as an exit?

Arvind Thakur: Yes, I think that is what Sudhir also mentioned even with this large program which he said is a consolidation, we have to take over which takes time, and so during that period there will be additional expenses, and that is the reason why margins will be depressed going forward.

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

Srinivas Seshadri: I had 2-3 clarifications; firstly, Sudhir mentioned that the Europe geography in constant currency is flattish, but if I look at your reporting EMEA as geography has come down from 38% to 36% of revenues which implies that there has been reasonable bit of a decline in the revenue. So outside Europe, in the MEA markets, was there any major challenge in terms of the revenue declining, if you can just elaborate on that please?

Arvind Thakur: Yes, I think you are correct… probably Sudhir got the number wrong, there is actually a decline in UK and Middle East, so if you look at the overall EMEA there is a decline in revenues in Europe.

Srinivas Seshadri: Arvind, I was just trying to corroborate this with the vertical mix typically to my understanding EMEA was more stronger on the Travel side, so we have seen a decline in the EMEA this quarter while the Travel revenues have grown. So can you kind of explain what is the kind of clients where you have faced a pressure in terms of the revenues may be on industry basis?

Arvind Thakur: One of our clients for example has moved offshore a lot of work which was being done onsite, so that has contributed to the decline, at least in one client. So like I said, the reduction in EMEA was something that was planned, we knew of it, it was the reduction in the US which happened quite suddenly.

Srinivas Seshadri: And this client would be in which vertical?

Arvind Thakur: This has been in the Travel.

Srinivas Seshadri: Despite that the Travel overall pie has actually increased?

Arvind Thakur: Travel has increased for a number of reasons. Of course, we have been adding new clients as Sudhir talked about, and also we were able to deliver the Airport Authority engagement which was a significant milestone that we achieved.

Srinivas Seshadri: The second question is on the growth outlook for the second quarter. I was a little unclear there in terms of are you guiding for basically stable revenues at overall basis or is it that the Services business revenues will be stable, and there could be some negative pressure on the overall revenues for the second quarter?

Arvind Thakur: What we are saying is that the gap that is getting created by PFR will get filled by the Services business. So, overall it should remain at the same level.

Srinivas Seshadri: And the issues which you mentioned with respect to those two clients to my understanding, this seems to be more towards latter half of the quarter. If that is the case then would be fair to presume that there is some bit of pent-up kind of dip which you are going to see on a full quarter basis, despite that you are confident of growing the Services business, is that how to look at it?

Arvind Thakur: You are talking about Q2?

Srinivas Seshadri: Q2.

Arvind Thakur: I would say it would be a challenge, but that is what we are aiming for.

Srinivas Seshadri: So there could be some bit of a risk if there are some kind of a…?

Arvind Thakur: Yes, there could be a risk as well.

Srinivas Seshadri: And then the third was on the margins. 16% is what you are looking at. So, is that the margin on a full year basis or is this for the fourth quarter which you want to achieve?

Arvind Thakur: We are talking about 4th quarter exit margin.

Srinivas Seshadri: Which means that your full year margins will be closer to somewhere between where we are right now and the exit margin?

Arvind Thakur: Yes.

Srinivas Seshadri: So in that case I just wanted to understand because earlier our understanding was that with the PFR sliding down, etc., the margins are going to structurally go up, while during this quarter if one were to build in say 14-14.5% margin on a full year basis, one would still be actually down quite a bit on a normalized basis year-on-year. So, I just wanted to understand what are the challenges you are facing in terms of scaling up the margins at this point of time and whether the target long range margins are itself reset in terms of expectation based on what we have seen this year?

Arvind Thakur: Reflecting on the deals that we are acquiring and the upfront costs that are involved in executing it in transition that is what is putting the pressure. So, I think through this year we will see margin pressure, but as the deal get into a steady-state it will start driving margins more significantly next year.

Srinivas Seshadri: What kind of a steady-state margins are you looking at?

Arvind Thakur: You are talking about this year or you are talking about next year?

Srinivas Seshadri: No, once you get through a heavy transition period, say after this year.

Arvind Thakur: Cannot give you a number at this point in time, maybe we can take that offline, we have to look at it more closely.

Srinivas Seshadri: On the depreciation charge there is a mention that there is a one-time item in terms of the accounting recognition. So can it be kind of quantified between the capitalization of the new assets and the change in the policy, can you give some break-up?

Pratibha K. Advani:: We have actually aligned the policy with the new Companies Act. That has had an impact of Rs 21 million.

Srinivas Seshadri: So, is the current base to model on in terms of the depreciation or is there any one-off in this number?

Pratibha K. Advani: So this will be base because we have also capitalized the Airport Authority of India asset, so this will be the run rate.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: I have a couple of questions; first continuing on the depreciation side, can you help us with what changes you have made in terms of useful life of which asset and how much, what was earlier and now? Second question is about margin trajectory. You suggested exit margin of around 16%. So, we expect steady uptick or you expect most of the benefit would be reflected in Q4 kind of thing? Third question I have some data point related. Can you provide revenue break up from GIS, Morris, NIIT Insurance and Airport Authority and their respective margins? If you can tell us outstanding hedges and if possible quarterly breakup with mark-to-market hedges?

Pratibha K. Advani: I will at random pick up some of the questions that you asked. The NITL revenue is 391 million and the margin is 15%; GIS revenue is 260 million and the margin is 24%; Proyecta Spain is 185 million and the margin is 3%; and Morris is 387 million at 16% margin. Coming to your question on depreciation, the assets that have got impacted is software where the life has got reduced from 5 years to 3 years; office equipment, the useful life has got reduced from 21 years to 5 years; then equipment like air-conditioning also has got reduced from 21 years to 15 years; desktop from 4 years to 3 years and electrical from 15 years to 10 years. On your question on margin, we should start to see some improvement in margins from next quarter. Data on outstanding hedge in Q2 are 15.32 million; in Q3 13.56 million; Q4 11.87 million; and Q1 FY16 is 10.35 million, totaling to 51.10 million and the average hedge rate is 65.44 million.

Dipesh Mehta: About the Managed Services mix, if we see this quarter it has changed significantly. So can you explain what would be the implication on profitability for us?

Arvind Thakur: A few things have happened in this quarter – one is the large government programs have gone into the O&M phase which is the operating and maintenance phase. There are two parts to the program – First is systems integration where you put all the solutions together, build the software and commission it. Once you commission it, it gets into the O&M phase in that Managed Services. So that is one revenue boost that we have got. We have also now implemented the airport authority which has also gone into the O&M phase. That is another uptick that we have got in the Managed Services phase. So Managed Services essentially is Infrastructure Managed Services, so that is the reason why you see improved levels of revenue in Managed Services.

Dipesh Mehta: Then if it is that nature then I think it would have positive impact on our profitability, am I right or I am missing something?

Arvind Thakur: Yes, it has had positive impact.

Dipesh Mehta: So if I look then other business apart from these, then the margin decline would be much softer than what the numbers reflect. So considering going forward I think when we enter Q2 those benefits what we enjoyed this quarter might not be continuing. Still you expect margin to reflect those kind of uptick?

Pratibha K. Advani: If you look at the margins that the headwinds this quarter from margins has come from salary hike, lower revenue from western market and GIS which is cyclical. We have been able to offset some of those headwinds by higher Managed Services revenue. So basically that is really how the margins have moved during the quarter.

Dipesh Mehta: If possible can you provide quarterly average hedge rates?

Pratibha K. Advani: So Q2 hedge rate is 65.30, Q3 is 65.74, Q4 is 65.95 and Q1 is 64.66.

Dipesh Mehta: Airport authority… if you can share contribution?

Pratibha K. Advani: We do not share client-specific detail.

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

Shashi Bhushan: You talked about one client which shelved projects because of M&A activity. For the other clients did we lose that another contract to our competitor or other client also decided to shelve the projects?

Arvind Thakur: No, we did not lose to any competitor.

Shashi Bhushan: Second client also decided to shelve projects?

Arvind Thakur: Yes.

Shashi Bhushan: Last quarter also we had some issue with one of our top clients in Travel vertical. The problems are far too many now. What possibly could be the reason for this – is it like some of the projects that we do for clients are non-critical in nature and discretionary in nature more so that the clients are shelving the projects or canceling the projects or are there any other reasons?

Arvind Thakur: They are client-specific. I think I did talk about that client in the last quarter. It was one which was preparing for an IPO and they were dramatically improving the cost structure. Every situation is somewhat unique, that has been happening.

Shashi Bhushan: So did we start ramp up on that project which got deferred last quarter?

Arvind Thakur: No, not yet, but that is going to start ramping up in the next quarter.

Shashi Bhushan: This quarter was softer on the fresh order intake than the previous three-four quarters. Did we see any slowdown in decision making for the quarter from the client side?

Arvind Thakur: No, I do not think so…in fact, Sudhir can probably comment on this as well, I think what we have been wanting to do was to make sure that our intake is above $100 million every quarter, if you recollect last year we have been having situations of $80-85 million. So, we have been able to achieve that rate. There will be little ups and downs, but that is the direction that we are moving in. Sudhir, do you want to comment on any softness? I do not think we are seeing any softness.

Sudhir Chaturvedi: I think you covered it; going back, these are client-specific issues. Regarding the overall pipeline, if you look at our order intake last three quarters it has consistently been high. There is no softness as such in the market. There are some client-specific issue.

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

Madhu Babu: Sir, headcount addition has been a bit softer this quarter and attrition has picked up. So, how do you see hiring over the next couple of quarters and how is attrition within the company level?

Arvind Thakur: I think on attrition we are seeing that as an industry-phenomena. There appears to be far more lateral hiring seems to be taking place. We can probably look at some of the other results which are coming in and just see that as well. But, informal discussions with industry peers seem to suggest that attrition is increasing across all companies. That's why you are seeing a decline in headcount; obviously, as the revenue picks up, we will see the headcount picking up as well.

Madhu Babu: Second, last year our free cash flow generation has been very poor, I think say around Rs.5 crores, and this year Rs.150 crores capex. How do you see the free cash flow generation this year?

Pratibha K. Advani: We do not expect a major change in the free cash flow generation this year.

Madhu Babu: It is likely to be weak like last year?

Pratibha K. Advani: Yes, because of the investments that we have done in AAI. Some of that investments if you recall last year we had predicted/forecasted a much higher spend which actually got pushed forward this year, and hence we do not expect a big change. Also, as Arvind mentioned that collection from debts have been slow. This is particularly for customer in the government space. Now, unless that issue get sorted out it takes some time. If that happens then we would generate free cash flow.

Madhu Babu: Is there any possibility of offshore shift in effort mix or pyramid correction in our model which can be the positive lever for margins?

Arvind Thakur: We have already seen our onsite revenues decline in this quarter. As I mentioned earlier we saw one of our large clients in the EMEA region move from onsite to offshore. So, I think we are seeing the trend going forward which should help us with our margin.

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

Dipen Shah: Just wanted some more color on how is the ROOM Solutions business progressing? We were looking at taking that business to US. So, if you can just throw some more light on that because revenues from that business seem to be stagnated around Rs.40 crore mark.

Arvind Thakur: In fact, one of the clients we have added is in the US this quarter, but to talk about NITL in more detail, Sudhir, do you want to comment on what is happening in that business?

Sudhir Chaturvedi: As you said, we have added one client in the US. So we are taking this business from the Lloyd's of London market to the overall insurance market in the UK and also targeting the US and Middle East specifically with some of the products within this business. What we have been doing in the last two quarters is there is some market functionality that we have added which takes us beyond our competitors. And the second thing is we have been focusing on two areas – Mobility features of the products as well as the Analytics that we are providing along with the products. So there has been effort from a technology perspective also there has been input so that we stay ahead of the competition. So that is bearing some fruit and there is a good pipeline for discussions that is happening in the US. Normal product bicycles tend to be slightly longer, but they tend to be very sticky. So, the first step is to create a pipeline of new versions of products and that is what we have done.

Dipen Shah: So I think last quarter also we have added one client. Are there two clients for this business in the US, am I right?

Sudhir Chaturvedi: Last quarter we added one in the Middle East and this quarter one in the US.

Moderator: Thank you. The next question is from the line of Amar Mourya from IndiaNivesh. Please go ahead.

Amar Mourya: First of all, ma'am, if you can share the GIS revenue? I just missed out.

Pratibha K. Advani: GIS revenue is Rs 260 million.

Amar Mourya: Second, my question is primary related to the Europe geography. What I understood here is that 50% of the revenue growth is very-very muted from past two quarters. Because what I am doing here is the Morris, Proyecta, and ROOM Solutions revenue which is almost contributing 46% to the total revenue of Europe. So, when we are talking about the growth, primarily in the Europe what is likely to drive? I believe Travel and Transport there was one client which still is facing the problem. So, what is going to drive the growth in Europe basically?

Arvind Thakur: I will just make one correction…Morris is not in Europe, it is in the US but just to comment on Europe maybe Sudhir, do you want to comment on Europe.

Sudhir Chaturvedi: As I said we had in the Europe we had the quarterly plan that we had involve some increase of levels of offshoring in a client which has happened, and the other aspect is that – in fact I talked last time about focusing more on Continental Europe for growth which is the close region. So, it is something that will generate growth towards the second half of the year. Overall European pipeline is reasonable, there are some areas that we are focusing on sort of differently going forward, but I am quite confident that we will see different results in H2.

Amar Mourya: But then the expectation primarily if I talk about the Proyecta or the ROOM when we talk probably four quarters back, expectations were higher from these particular clients as well as from the overall Europe. But do you not see somehow there were something which has gone wrong? I just wanted to understand what happened wrong primarily in the Europe and why we are not able to deliver the growth in those geographies?

Arvind Thakur: Again, those are region specific issues. We have been talking about the fact that the commercial insurance space still remains somewhat stressed in terms of the business outcome and ROOM or NITL is pretty much focused only on that particular segment. That situation has not changed too much. On Proyecta initially the issues had to do with the Spanish economy, but more specifically, their largest client is Iberia which is still somewhat stressed in terms of its financial and therefore it has not been able to generate higher growth because of the intense cost restructuring that has been happening continuously in that account.

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

Abhishek Shindadkar: Just wanted to understand is it possible to quantify the impact of the loss of revenues from two clients on the EBITDA margin?

Pratibha K. Advani: What I can share with you is the impact of the degrowth of western market, they have impacted our margins about 100 basis points.

Abhishek Shindadkar: Is there any other one-off which is sitting in the EBITDA number in absolute or on a margin basis?

Pratibha K. Advani: No, just the impact of the sudden ramp down. So, obviously, the resources are still there and that impact has flown into the margin.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: We have been seeing constant cases where there have been an impact because of a client ramp down or ramp down in GIS or certain aspect. So there have been a lot of factors which have been impacting our quarterly performances historically in several quarters. So, what are we doing actually to contain such kind of sensitivity to small events and basically how we revisit our full year view in growth post this event?

Arvind Thakur: It is an unfortunate situation where we are seeing these specific issues impacting the business. When specific issues happen with large clients they tend to impact more which is what has been happening. The way we are trying to deal with it is to drive much larger pipeline of new business so that we can handle these impacts more effectively with new logos and new business that can fill in potential such unexpected drops in revenue.

Rahul Jain: By that means we have already done 15% growth on the expected order book which says that it covers up for some of the things. But based on our Q1 performance and possible outlook which we shared for the Q2, the full year growth look like a small number or do you see H2 to be much robust over H1?

Arvind Thakur: H2 will be definitely more robust over H1, but I would say if you are asking me full year growth it would probably be only in single-digit.

Rahul Jain: So basically there is a need for us to review the 290-295 million kind of a number? We have been saying historically indicates the kind of growth which may fall in the year. So 15% growth on Q4 exit basis would have translated a much higher revenue and as you are saying we may at best do a high single digit number. So, does that mean all that moves to 16% or they will need to be reviewed in terms of what we see through our 12-month orders of execution?

Arvind Thakur: The 12-month order execution is imperical and based on experience. We do not give any specific guidelines. We only provide you with data by which you can project. So, we need to analyse as each year passes as to how this empirical projection gets impacted. It assumes continuous growth. Is this continuous growth, is normal growth? Yes, from previous year you can project what your full year revenues are likely to be. But if there is a dip for some reason which is unforeseen it may impact that projection.

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

Shivam Gupta: My first question is regarding your airport deal. So Chennai has gone live this quarter and I think Kolkata would be the next. So, could you share with us the milestones when these are going to come live?

Arvind Thakur: Kolkata – we are expecting to go live in this quarter and then in all 10 airports which have to be delivered in the balance part of the year.

Shivam Gupta: So if everything goes on track so by the time we hit at the end of FY15 all 10 would be live, that is what you are saying?

Arvind Thakur: Yes.

Shivam Gupta: The second thing is a little bit around this large deal that you have won in the Travel vertical. So, if I look at it we had added some new logos and probably one of them is as per your commentary this large deal; however, executable order book still has not grown by any number. So is it that there is a 10-12 months kind of a transition period for these deals to ramp up?

Arvind Thakur: There are two things – one is of course, the ramp up will take time, because this is a transition period, and the other is because of the cut back in the US clients, that would take off some executable from the 12-month order book as well.

Moderator: The line for the current participant has just been disconnected. We will proceed with the next question that is from the line of Ganesh Shetty, an individual investor. Please go ahead.

Ganesh Shetty: What are the contribution of non-linear revenues during the quarter? How we can improve the non-linear revenues from next quarter onwards?

Arvind Thakur: Non-linear as we talk about includes Managed Services and IP-based which for this quarter has been 28%.

Moderator: Thank you. The next follow up question is from the line of Amar Mourya from IndiaNivesh. Please go ahead.

Amar Mourya: Because of these two clients loss, is the impact on revenues approximately Rs.70 million?

Arvind Thakur: No, we do not give any client-specific details.

Moderator: Thank you. The next follow up question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Just if you could give the breakup of the 240 bps margin decline in terms of the various aspects?

Pratibha K. Advani: Salary and wage hike impacted our margins by 210 basis points, while the higher contribution from India business including the cyclical degrowth that we saw from GIS benefited some of the margins, and lower revenue from western markets took away 100 basis points.

Rahul Jain: (-210) basis points and India GIS put together some minor positive events.

Pratibha K. Advani: Yes, gave a positive which that was offset by 100 basis points of western market; the fall in revenue in the western market that took away 100 basis points from our margin.

Moderator: Thank you. The next follow up question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

S Ramachandran: Just wanted to know your thoughts on the CSR provisions that the new companies bill has. Would you be making any provisions or do you want to wait out for clarity before you start making provisions for the same?

Arvind Thakur: Even before the new companies act specified amounts to be paid for CSR, we have been doing that regularly. So that has been happening throughout the year and we are maintaining the same levels of CSR spend.

S Ramachandran: Would it be 2% of our PBT or PAT, which is the requirement as per the Act?

Arvind Thakur: Yes.

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

Kiran Gupta: Sorry, my early call dropped off, I think Arvind was answering me on the lag and the executable order book.

Arvind Thakur: There are two components – one of course we talked about the new business, there is a period of transition, therefore revenues are little skewed, and the second is we talked about decline in revenues in our US clients and so we have taken off the order book associated with that, that was executable over these next 12 months. So net effect of that is an increase of 5 million in the orders executable over the next 12 months.

Kiran Gupta: Why would you just take that component of clients who have deferred their contracts with you – is it that those contracts are no longer under discussion, they have just canceled?

Arvind Thakur: That is right.

Kiran Gupta: In your reported fact sheet if I look at the S&M excluding GIS that has gone like three people down and GIS there is some decline and there is a good spike in others. Prima facie it looks that maybe the company is I think okay with the size of work force and maybe sourcing advisors are filling in for deal sourcing. So…

Arvind Thakur: We have actually beefed up with skill sets which are shared across projects like solution architect, domain experts and also we have carved out infrastructure management services as a separate business unit and so we have added some headcount over there. So these are some of the things are contributing to the increase in the other as headcount.

Moderator: Thank you. The next follow up question is from the line of Dipesh Mehta from SBI CAP Securities. Please go ahead.

Dipesh Mehta: Just want to confirm that dividend payout that is roughly Rs.60-65 crores is not reflected in the cash balance or it is already reflected?

Pratibha K. Advani: No, it is not reflected in the cash balance that will happen in the current quarter.

Dipesh Mehta: So just to understand because you suggested next quarter capex would also be are front loaded and also should be slightly higher and the dividend payment is yet to be made and FCF is also likely to be flattish kind of a thing or maybe margin we can generate. We intend to increase our debt position or how we want to finance all those things?

Pratibha K. Advani: We will step our debtors' collection that should augment our cash position. Additionally, as and when required we do take working capital facilities from the bank.

Dipesh Mehta: What kind of DSO you intend to close year with?

Arvind Thakur: It has increased to 95 from 89; we need to bring it back to 89.

Moderator: Thank you. Participants. That was the last question. I now hand the floor over to Mr. Arvind Thakur, CEO, NIIT Technologies for closing comments. Thank you. And over to you, sir.

Arvind Thakur: Thank you very much for participating in this discussion. It has been a difficult quarter as we have shared with you, but I hope we have been able to provide you with all the insights with respect to how we are going to be recovering from this situation and the buildup of our business what has been good has been the momentum that we have in the new business that we are acquiring and we hope to keep that up in the quarters going forward. So, we are going to be getting on with the task of covering the gap that we have seen in the first quarter and we look forward to engaging with you on any other questions that you may have.

Moderator: Thank you sir. Ladies and Gentlemen, on behalf of NIIT Technologies Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.
