



Pricing pressure will continue this year: NIIT

May 26 2009, Tuesday

NIIT Technologies has announced its fourth quarter results. The company's Q4 net profit was up at Rs 26 crore versus Rs 17 crore, QoQ.

Arvind Thakur, CEO, NIIT Technologies, said the environment for IT companies continues to remain challenging. "We have seen pressures in different segments around pricing. Particularly for us, we have had to secure new business in our retail and distribution segment at significantly lower prices," he said. "So, I think depending upon the impact that different industry segments have been experiencing, there have been different levels of pricing pressure. I believe every customer is looking at improving their cost structure and so pricing pressures are imminent and would continue. I think in the current context, what we need to look at is how do we provide value and customers are really looking at more for less."

Here is a verbatim transcript of the exclusive interview with Arvind Thakur on [CNBC-TV18](#). Also watch the accompanying video.

Q: You saw a de-growth of about 3.9% in your volumes quarter on quarter (QoQ) on account of the Forex hit. But net-net, it was flat. What is the outlook going forward because most companies are expecting a bounce back some time around September this year? Take us through this quarter and what you see as the trajectory for the next six to 12 months in terms of volume growth?

A: As you would have seen in our results, there are two things that we need to talk about. One of course is the impact on account of crystallization of effective hedges, which have been quite significant, and that has reduced our revenues by about Rs 22 crore.

The other of course has been that the environment has been fairly challenging globally. As you would have seen and experienced, most large organizations in the industry segments that we have been operating in have been severely impacted. They have gone on a mode where they are cutting their IT spend.

So, the value proposition has been really to be able to provide more for less. In the quarter, we have experienced many situations where engagements that were on the cards have been delayed significantly. Existing engagements have been extended so that the current spend has got reduced while the programmes have been kept live. So, there has been an impact on the business as well. So, both these have contributed to reduced revenues in this particular quarter.

Going forward, I believe that while we see some stability here in the domestic market and the euphoria associated with the formation of a stable government, the industry per se in — the IT sector — is really operating in a global environment where I think the recession is deep and long. We believe that a good part of the year would be challenged in a similar manner as we have seen in the past.

Q: I believe that price cuts have been an imminent concern for you as well. What is the prognosis there? How do you sense blended realizations will pan out for the next couple of quarters and for the ensuing year in general and what does this do to your margins going forward?

A: We have seen pressures in different segments around pricing. Particularly for us, we have had to secure new business in our retail and distribution segment at significantly lower prices.

So, I think depending upon the impact that different industry segments have been experiencing, there have been different levels of pricing pressure. I believe every customer is looking at improving their cost structure and so pricing pressures are imminent and would continue. I think in the current context, what we need to look at is how do we provide value and customers are really looking at more for less.

So, what we can expect to see is: companies such as ourselves, which provide a lot of services from offshore to be positioning their offshore capability in a more significant manner — while that is likely to impact the topline because offshore revenues are normally lower than onsite revenues, it will help sustain margins during the year.

Q: What is the prognosis for ROOM, because I believe there was revenue de-growth there as well?

A: ROOM during the year has, in fact, done well. It has not only grown in revenues but it has improved its margins. We launched a new platform during the year and we acquired quite a few significant customers with that new platform.

But once again, I think what we really need to look at is how is the financial services industry, and in particular the insurance industry going to deal with the challenges it is experiencing in the marketplace and depending on that, we will see how ROOM grows in the coming year.

Q: The rupee has really gained post elections and is now at 47.80 to a dollar from the 50-odd levels. What are the outstanding hedges? What is the prognosis in terms of your Forex position? How is the rupee movement going to impact you? And even on the euro and the GBP, do you have any outstanding hedges, what is the general outlook there?

A: Obviously the strengthening of the rupee is going to be beneficial for us because we have taken long hedge positions on the US dollar. At this point in time, we have USD 188 million as forward covers at Rs 41.50. So, any strengthening of the rupee is only going to benefit the organization. As far as the Pound and other currencies are concerned, since we really don't have vanilla hedges available for supporting forward positions on these currencies, we have not really taken a strong position in hedging in these currencies.

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