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## Improved margins by 25 bps due to cost optimization: NIIT



NIIT Technologies declared its Q1 FY10 numbers where its net profit declined to Rs 10.3 crore from Rs 22.7 crore (QoQ). The company's net sales were up at Rs 116.5 crore versus Rs 115.4 crore (QoQ).

Arvind Thakur, CEO, NIIT Technologies, explaining the reason for the marginal degrowth in the company's revenue said, there always has been a degrowth between Q4 and Q1 every year.

Although Thakur refused to give any guidance, he said in spite of revenues falling by about 4%, they have been able to improve their operating margins by 25 bps. He added that this has primarily happened on account of very prudent cost optimization measures which include rationalization of head count in the organization.

*Here is a verbatim transcript of the exclusive interview with Arvind Thakur on CNBC-TV18.*

**Q: Take us through this entire quarter because we have seen a marginal degrowth this time on the forex side. It has been a little kinder to you. What about the key hits in this quarter?**

A: The Q1 of the financial year is typically a small quarter for us because we have a significant volume of business which happens in the domestic market. Around 10% of our revenues come from India which is primarily in the government sector. So if you track back to our previous years, you will always notice that there is a degrowth between Q4 and Q1 in every year. So that has been the traditional revenue profile for Q1.

**Q: Can you compare year-on-year (YoY) quarters and tell us what was the impact of forex?**

A: Yes. We have taken forward hedge positions against the US dollar and in accordance to the principles of AS30, every quarter we have to take a loss associated with the contracts that crystallized. In this quarter we have taken the loss of Rs 15.3 crore against those contracts which are crystallized, which have impacted our revenues to that extent in this quarter as well.

**Q: What has been your position in terms of other hedges right now? I believe you have completely reduced or mitigated your hedges on the euro and the Great Britain pound (GBP) and what will be your strategy going forward there?**

A: We don't have any simple hedges on the euro and the pound. For that you have to take options which we have avoided. Although we have—I don't have the exact number—a couple of million pounds in options as well. If you look at complete hedge position, currently we have about 157 million which are effective hedges and about another 9.5% in addition would be in effect to hedges which would include these options that I have just talked about.



**Q: How is business looking for the rest of the year? Would it be just pro-rata or do you think you can face additional pressures in terms of both volumes and billings?**

A: I think the environment is pretty challenged particularly some segments are quite challenged. The whole crisis started with the banking and financial services segment and the environment over there continues to remain uncertain. So looking ahead, we expect the challenges in this particular segment to continue. I would say that this financial year, in particular, would remain uncertain and volatile as we have seen in the past.

**Q: How has the order intake been this entire quarter? What are the key sectors and segments where you have got most of these orders?**

A: We had an intake of USD 43 million in this quarter and we added four new customers. We added two new customers in the travel and transport space which is a segment that we focus on and one each in the banking, financial services and the insurance space.

**Q: Could you make some gains in terms of employee cost and can you give anything by way of a year-end guidance?**

A: As a company, we don't give guidance. However, if you look at our results, you will see that in spite of revenues falling by about 4%, we have been able to improve our operating margins by 25 bps and this has primarily happened on account of very prudent cost optimization measures which include rationalization of head count in the organization.

**Q: Will that continue? Are you expecting you may have to shed more?**

A: I am not very sure about that. I think we have been doing this continuously now for quite a few quarters, and perhaps, we have bottomed out as far as this is concerned.

**Q: Could you give us some scenario currently on how pricing panned out this quarter? How eminent and significant were the pressures? Do you sense the worst is behind us in terms of pricing pressures and some sort of prognosis on how ROOM Solutions is expected to perform and even out it did this quarter?**

A: There is definitely pricing pressure and I think that has been reflecting in our revenues as well. We see about 1.4% impact of pricing going forward based on the new contracts that we have secured for the company.

ROOM Solutions has declined in revenues in this quarter primarily because of a slowdown in license sales. As you know in the software business, when you introduce a new product and if the environment is somewhat uncertain, people are hesitant to acquire new licenses. That is what is impacting the business in ROOM Solutions.

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