

“NIIT Tech Targets Government Sector”

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By R. JAI KRISHNA

NEW DELHI -- NIIT Technologies Ltd. will focus on supplying governments in India and South and Southeast Asia in an effort to offset falling sales to other clients, the mid-sized software company's chief executive said.

"This year, given the slowdown we have seen in the economy, we are going to bring in far greater focus on the government sector because that would be one sector which would be spending in these times," Arvind Thakur told Dow Jones Newswires in a recent interview.

The company has been hurt by the global economic slowdown. In the quarter ended March 31, its revenue fell 9% and net profit declined 15% from a year earlier.

Sales to governments contributed 5% to NIIT Technologies's total revenue of 9.80 billion rupees in the financial year ended March 31, and Mr. Thakur said the company's "greater focus" on the sector is to increase that figure.

"The numbers would be significantly more in the coming year, given that the other segments are challenged."

New Delhi-based NIIT Technologies provides software and other information-technology services to the retail and distribution sectors; banking, finance and insurance as well as travel and transportation companies.

To offset the pressure on margins - another casualty of falling revenue - NIIT Technologies is offering more of its business on a nonlinear model, where revenue is from licensing or usage of products and not based on the number of people working on a project.

Most Indian software companies bill their clients based on the number of people working on customer-specific projects, where recurring costs are higher.

For instance, Mr. Thakur said, NIIT Technologies would provide procurement software as a service and would receive a fee each time a government unit uses it. "The more number of times they use, the more they pay," he said.

The company will also offer the pay-per-use model to other customers, who needn't have to buy its software products, Mr. Thakur said.

"By the very nature of the business, nonlinear business generates better margins" because of lower recurring cost.

Operating profit margin in the just-ended quarter narrowed to 17.8% from 18.8% a year earlier.



About 27% of revenue currently comes from the nonlinear business model, which the company rolled out last year. "Over three years, 40% of our revenues should be nonlinear," Mr. Thakur said.

To save costs the company has stopped hiring and is renegotiating rental rates, Mr. Thakur added. It is also moving more staff to low-cost locations in India - offshore locations - from client locations - onsite.

"If you move work offshore your top line declines, because onsite billing rates are obviously better, but profits improve. By moving offshore we are able to sustain our margins" because of the lower cost, Mr. Thakur said.

At the end of March the company had 4,238 employees, down by 200 people.

NIIT Technologies is looking at acquisitions in an effort to add new technologies to its existing line of operations, Mr. Thakur said.

As much as 45% of the company's revenue comes from banking, financial services and insurance. Transportation accounts for 28% of revenue and retail segments 13%.

"Size is not important, our balance sheet can leverage whatever is required (for acquisitions)." he said. "Fit is most important; it must fit well and strengthen our position that we are currently focusing on."

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