



“NIIT Technologies acquires Proyecta Sistemas:
Post-acquisition analyst/investor briefing conference call”

August 16, 2011

Moderator: Ladies and gentlemen good day and welcome to the NIIT Technologies briefing call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. 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: Thank you and welcome everyone to this conference call to discuss our acquisition of Proyecta Sistemas. Present along with me today at this call are Mr. Rajendra S. Pawar, our Chairman, Mr Arvind Thakur, our CEO, and Ms. Pratibha Advani, our CFO. We will begin this forum with opening remarks by Mr. Arvind Thakur and after that the floor will be open for your questions. A transcript of this call will become available within a few days on our website and with that I would like to hand over to Mr. Thakur.

Arvind Thakur: Thank you Abhinandan and good afternoon everybody. I am very pleased to share this transaction with you today this afternoon where we are announcing the acquisition of a software services company in Spain, which is called Proyecta Sistemas and I would like to give you a little background to this acquisition.

As you are all familiar, NIIT Technologies is a leading global IT solutions provider with a very sharp focus on a few industry segments primarily being travel and transport and BFSI. Our Travel and Transport contributes to 35% of our revenues, BFSI 41% of our revenues. And we have a very balanced geographic mix in our geography where we do business. North America contributed to 37% of our revenues, EMEA to another 37% and the balance came from the rest of the world.

And in the past calls, being quarterly calls, we have been sharing with you a very strong recovery that you have seen in our business with industry leading growth in the last financial year, where we grew 35% for the full year and our profits were up 44% for the full year and this came in the back of superior customer satisfaction as a result of a very sharp focus that we have in our industry segment that provides value.

And we have been continuing with this momentum in the current financial year as well, where we announced two transformational deals; one in Europe and the other in the US and this is happening in the back of a very strong growth that we are seeing in our international business and overall we saw a 9% quarter-on-quarter growth in our Travel and Transport business and 8% quarter-on-quarter growth in the BFSI segment.

Essentially, when we look at our approach to addressing Europe, which as you all know, the European Union is the largest combined economy at about \$16 trillion more than the US itself. Our approach to addressing Europe has been very systematic. As you know Europe is a very heterogeneous market where each country is very unique, both in its business practices as well

as language and cultural differences, and it's a strong focus for the company. We began our activities in the UK and then moved on to the Netherlands and Belgium, where we could get along quite well by extending our activities in the UK, but when it came to addressing the Germanic region, it became necessary for us to have a much larger local presence and we did that through acquisitions over the period of last five years or six years, and established our presence in the DACH region. We are announcing the extension of our footprint to Spain, which as you all know is among the top five EU economies. It's the sixth largest market for IT outsourcing in Europe. And even though the economy is somewhat challenged we are seeing reports which talk about a 2.7% growth in ICT in the year 2011.

What we notice in the market is IT deployment is becoming imperative as a result of the challenging economy to improve productivity, reduce cost, increase customer loyalty, as well as increase the customer base. But then in this context that we have entered into this new geography or I would say new country with the acquisition of a firm which is very sharply focused in the Travel as well as a Financial Services space and that is the area of focus for us as a company as well.

Proyecta is a company which was founded in 2002 and is headquartered out of Madrid in Spain, has revenue of approximately US\$10 million with marquee customer engagements, both in the Travel as well as the BFSI space. It runs a profitable operation at about 10% EBITDA and has over 100 people as part of the organization. It has good expertise around these industry segments in CRM, business intelligence revenue and yield management, web and mobility application, so all technologies which are current and relevant to these industry segments.

In terms of its vertical focus, as I mentioned, very sharply focused in the Travel and BFSI space, predominantly in the Travel, which contributes to 68% of the revenues and BFSI to 23% of the revenues. The balance being other clients, but interestingly, it's a company which services industry leaders in each segment. Just to share with you a sampling of the customers that they service in the travel space include Iberia, international airline, travel-related companies like Solimat, Pullmantur very large travel operators in travel space. The financial services organizations like Merrill Lynch, large Spanish banks like Santander, BBVA and so on. So as you can see, it has a clientele which is marquee and very relevant to our business.

In terms of the transaction structure, essentially NIIT Technologies has taken on 100% ownership of the company, which is Proyecta and it will operate as a fully-owned subsidiary of NIIT Technologies UK which is our wholly-owned subsidiary in UK, so they would basically acquire this company. The management team will continue to manage the day-to-day operations. That's potentially the overall structure of the transaction.

In terms of the financials, the enterprise value is less than 0.7 times of revenue, 80% has been paid upfront and the balance would be paid as earn out to the management team over a period of the next two years. As I mentioned earlier, it's a profitable company that we have acquired and the transaction would be EPS accretive.

So just to summarize, the synergies that we see from this transaction essentially on two strategic components; one is our vertical presence. As you know, NIIT Technologies is very sharply focused on a few industry segments and it has a vision to be the first choice in the segment that it focuses on. So this company intensifies the expertise in the Travel and BFSI verticals for the company and very important, enabled us to serve industry leaders in each segment. That is one important strategic component.

The other strategic component is the geographic spread where despite the expansion of a European footprint, which I talked about earlier, it is also a gateway for Latin American markets. There is a very traditional business connect between Spain and the Spanish speaking countries in South America and we see this as a very strategic move on part of the company to establish a Spanish footprint and engage with that part of the world in times to come.

So in short, what we have seen in the company during this financial year has been a very aggressive growth push. In the first quarter we announced a transformational managed services engagement with Eurostar in the travel domain. Earlier in the quarter, we shared with you an integrated IT and BPO transformational engagement with modest communications in the US that also enabled us to set up a near shore capability in the US and now we are talking about expanding our footprint in Europe and strengthening our vertical presence by acquiring Proyecta.

So with these opening remarks, what I would like to do is invite Mr. Pawar to share a few thoughts on this transaction, and thereafter, we will open it up for your questions.

Moderator: Thank you Mr. Thakur. Sir, this is the operator. Mr. Pawar's line has just got disconnected. I will reconnect him.

Arvind Thakur: Okay, maybe you can open it up for Q&A and we will get Mr. Pawar to talk a little later.

Moderator: Definitely sir. Ladies and gentlemen, we will now begin the question-and-answer session. Participants, if you wish to ask a question, you may press '*' and '1' on your touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2.' Participants are requested to use handsets only while asking a question. Anyone who has a question, may press '*' and '1' at this time. The first question is from the line of Sonaal Kholi from AIM Capital, please go ahead.

Sonaal Kholi: I have two queries; I apologise if you answered them already, what is the EBIT margin, I heard you mentioning about EBITDA margin for this, what would be the EBIT margin for this company?

Arvind Thakur: 10%.

Sonaal Kholi: Around 10% and are there any one-offs in this EBIT margin or this is a core EBIT margin?

Arvind Thakur: Yes, this is a core EBIT margin.

Sonaal Kholi: Sir, what would be the revenue of this company for the last financial year?

Arvind Thakur: This year about US\$10 million.

Sonaal Kholi: USD10 million?

Arvind Thakur: And 7.67mn euros.

Sonaal Kholi: Okay, thank you.

Moderator: Thank you. The next question is from the line of Shrinivas Seshadri from RBS, please go ahead.

Shrinivas Seshadri: I have a few questions. Firstly, as far as the transaction is concerned, is there any net debt or cash takeover apart from seems to be about \$7 million also of enterprise value you said, so is there any net debt or cash which is coming?

Arvind Thakur: No, there is nothing else.

Shrinivas Seshadri: Okay, so we can assume that it's 7 million kind of --?

Arvind Thakur: So what we are doing is, Seshadri, as I mentioned, 80% is an upfront payment and the balance would be earnout over the next two years.

Shrinivas Seshadri: Okay, understood. The second thing is can you give some sense on the historical growth rate for this company may be over the past few years or so where it had grown from that? That will be very helpful.

Arvind Thakur: If you look at the growth rate, actually the revenues have been declining, but the margin has improved. So if you look at last year to this year there has been an 8% decline in revenues, but margins have improved.

Shrinivas Seshadri: Okay and why has the revenue declined? Just to understand, is it because of weak Spanish economy?

Arvind Thakur: Yes, maybe the economic slow down.

Shrinivas Seshadri: Okay and what is the outlook basically given the fact that it's not gone very well in the past, on a standalone basis, what is the outlook for the company?

Arvind Thakur: The outlook is to improve. Basically, we are looking at 14-15% growth going forward.

Shrinivas Seshadri: Okay, this is on a standalone basis, not assuming any kind of synergy in terms of client management?

Arvind Thakur: Well, obviously there will be some support that we will be providing in terms of growth going forward.

Pratibha Advani: Seshadri, just to add to what Arvind has mentioned, while of course for the current financial year, we envisage a bit of a degrowth, so there could be 1% to 2%, but going forward there would be 14% to 15% growth. This would of course come from the existing customers as well as some of the synergy that we bring in, and of course, it also opens avenues for new markets for us.

Shrinivas Seshadri: Okay, just to get it right, in FY2012, you are expecting revenues to decline a bit from the \$10 million dollar run rate, is it?

Pratibha Advani: Yes, so there will be a marginal decline that we see and then it will take off, which normally happens when an acquisition happen, there is a transition time, etc. so we just factor that, but thereafter we should see growth.

Shrinivas Seshadri: Okay and then another is I know you said, Iberia is a client for this company, so just to get some perspective, I mean what kind of work they do with Iberia, and do you see any synergy in terms of now, is it an entry kind of strategy into the larger BA-Iberia merger entity?

Arvind Thakur: More certainly. I think, as you know, it's very important to have the right strategy in place to engage deeply with customers in Europe. So with this transaction that is what we have been able to put into place. And as I mentioned, yes, they engaged with Iberia, and they have very strong expertise in the airline space around CRM, Business Intelligence, Revenue and Yield management and also Web and Mobility Applications which are all current and very relevant for airline. So to a great extent, yes, that will support us in engaging more deeply with the entire group. As you know, British Airways and Iberia have merged and the new company is called IAG, which is International Airlines Group. So on the one hand, we are engaged with British Airways in UK, on the other hand we will be engaging with Iberia in Spain and I think that is a very strong synergy that we see with this transaction.

Shrinivas Seshadri: Okay, great, and finally, one question on when do we expect the financial consolidation of this company to happen?

Pratibha Advani: Actually, the consolidation will start happening as of today, when we announce the deal. They will get consolidated with NTL, 100% subsidiary.

Shrinivas Seshadri: Alright, thank you.

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

Rahul Jain: Yes, if you can just help out with the absolute amount of the deal?

Arvind Thakur: The enterprise value is as I mentioned 0.7 of revenues, little less than that.

Rahul Jain: Okay so 0.7times of revenues, which we are assuming is 10 million.

Arvind Thakur: Yes.

Rahul Jain: And this is the 80% component?

Arvind Thakur: No.

Rahul Jain: It is 100%?

Arvind Thakur: It is the 100% component.

Rahul Jain: Of this 80% will flow out right away and 20% over a period of time and what would be the maximum EV?

Arvind Thakur: This is the maximum EV.

Rahul Jain: So even in the best performance case, we will end up paying 7?

Arvind Thakur: That's right.

Rahul Jain: Okay and is there any business commitment or client retention, employee retention stuff?

Arvind Thakur: The earn out is linked to business plan and those payments will be based on the achievement against the business plan.

Rahul Jain: And employee retention?

Arvind Thakur: No, in fact, the focus is only on the business plan, not on employee retention.

Rahul Jain: So taking off or retaining is up to us?

Arvind Thakur: That is up to us.

Rahul Jain: I am asking because of the current sort of environment. I think it's crucial.

Arvind Thakur: There is no issue on that.

Rahul Jain: Okay and how do you see the positioning of this company in the segments it is working?

- Arvind Thakur:** Very good. In fact it is a well respected player in the Travel and BFSI, which I shared with you some clients that we engage with and they provide very specialized services, which are around Business Intelligence and Web and Mobility Applications, which are very industry-specific.
- Rahul Jain:** Okay and if you can tell who currently owns it and what is the motivation or rationale for them to exit?
- Arvind Thakur:** I think basically there were nine shareholders of this company, and of them the executive management team is going to continue and the part of the organization going forward. Essentially, motivation was really to engage more deeply with the kind of clients that they have, which I just shared with you, and their size was becoming a deterrent. So working as part of a larger organization, they would be able to service their customers better and obviously, they found this a right opportunity to monetize their shareholding and that has what motivated them to do the transaction.
- Rahul Jain:** Okay sir, is the executive management team among these nine shareholders or they are a separate set of people?
- Arvind Thakur:** They are part of this.
- Rahul Jain:** Okay and this is a complete buyout?
- Arvind Thakur:** Yes, this is a complete buyout.
- Rahul Jain:** So there is no existence of this company anymore the earlier one?
- Arvind Thakur:** Yes it's a 100% subsidiary now of NIIT Technologies.
- Rahul Jain:** Okay. How do you rate it in terms of valuation? I think it's quite reasonable what we got in terms of valuation.
- Arvind Thakur:** Yes, I think we found it to be a fair price. If you look at multiple, it's at 0.7 of revenues, 6.4 times EBITDA, so they seem to be very reasonable.
- Rahul Jain:** That's what led me to ask the question, what is the motivation? Because I think valuation is not the reason it seems. The only thing you are saying is that possibly to join hand with a bigger guy and expand it better is the motivation?
- Arvind Thakur:** Yes, that's a strong motivation.
- Rahul Jain:** Okay, fair enough. That's it from my side. Thanks.
- Moderator:** Thank you. The next question is from the line of Dipen Shah from Kotak Securities, please go ahead.

- Dipen Shah:** A couple of questions are there which have been answered. The other thing is how do you propose to improve the margins of this company and what's the action plan going ahead apart from margin improvement?
- Arvind Thakur:** On the question of margins, I think, Dipen, you have seen us do many transactions. I think this is the fourth or fifth transaction that we are doing. And in every situation the margins have typically been low when we started, and over a period of time it has improved quite dramatically. As you know, take ROOM, for example, I think that's a similar situation. When we acquired them, their EBITDA was at about 8% if I am not mistaken, and now it is delivering 26%-28%. So I think we will work with this organization also. Based on our experience in the past, the scaling that we will do with our clients will happen because of the complementary nature of services that we will be able to provide to their large client base. Santander, Iberia and all, they are very large global customers that they have and their own ability to scale is limited, whereas with our experience working with global corporation in the same segment we will be in a position to allow services that will enable us not only to scale our business, but also generate better margins that we leverage our offshore capabilities.
- Dipen Shah:** Okay, fair enough. Thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Radhika Merwin from PUG Securities, please go ahead.
- Radhika Merwin:** Just wanted to know, are you looking at any possible offshoring of some of the work, when mirroring some of the onsite work that you get there through this particular company and trying to leverage your offshore capability to cater to clients currently there under their portfolio?
- Arvind Thakur:** I would not think that will happen immediately in the short-term, because what we really need to do is establish this organization as the local front end and that will take I think a good 9 to 12 months. Remember, this is a smaller organization as compared to us, so I would say the width and depth of services are limited. As we bring in, the full range of services that NIIT Technologies has which we provide to other global customers, that is when we will begin to see margins improve.
- Radhika Merwin:** Okay, and the break-up of the verticals for this particular company, is it 68% from the Transport vertical, right?
- Arvind Thakur:** That's right.
- Radhika Merwin:** Okay and 23% is from the BFSI segment?
- Arvind Thakur:** Correct.

- Radhika Merwin:** Alright. In terms of the revenue run rate that you are talking about US\$10 million, this is currently with the kind of client profiles that they have or this is what you are aiming at for the year-end?
- Arvind Thakur:** This is with their existing clients.
- Radhika Merwin:** And with the large project deal that you have got on Eurostar, would you be using any of their capabilities or any of the resources to tackle this project also?
- Arvind Thakur:** That would not be required because Eurostar is essentially an engagement which is predominantly in UK, France and Belgium, so Spanish-speaking people would not be required to service that. We are only taking local capabilities in those regions to support Eurostar.
- Radhika Merwin:** Okay. Thanks a lot sir and all the best.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from RBS, please go ahead.
- Sandeep Shah:** Yeah. Sir, just if I look at the revenue per employee I am getting a figure of close to around \$58 to \$60 per hour. So it seems a little lower when I look at the European hours of billing rate, that scenario, can you explain, is it utilization which is lower or this is the billing rate which they operate at?
- Arvind Thakur:** Spain is a lower cost location as compared to Germany or France, so you will see lower rates in Spain as compared to those other regions.
- Sandeep Shah:** And what would be the geographical breakup of the revenue of the acquired company?
- Arvind Thakur:** It's basically Spain and Spain alone.
- Sandeep Shah:** Okay, so sir just coming to valuation, if we look at, we have got it at double the valuation on an EV/EBITDA versus what we operate in. So strategically you felt that organically it won't be possible for us to go directly and tap the Spain market?
- Arvind Thakur:** Yes. In fact, that is true for most of Europe. The fundamental difference between the European Union and say for example the US, is that it's a very heterogeneous market. Each country is very unique and to operate in Europe one needs to have a larger local presence. So it's easiest to do business in the UK, still okay in Netherlands and Belgium, starts becoming more difficult in Germany. So you must have local Germans to be able to effectively do business in Germany and by a local German, I don't mean just sales people, local consultants, local analysts, all the clients facing role must be local. It becomes even more difficult in France and the same is towards Spain. So essentially, this whole approach to address Europe is based on a strategy that you must have local people and the best way to do that is to acquire a local company.

- Sandeep Shah:** Okay and sir can you give us the nature of these services, is it more discretionary or annuity base? Because you are saying that it has declined last year, it may decline in this year in terms of revenue.
- Arvind Thakur:** Like I said essentially it involves both development and maintenance work. So when we are looking at new applications, for example, mobile applications, there could be development activities, but for example, maintaining their online platforms, those are annuity-based engagement. So both these kind of activities are being performed by this organization.
- Sandeep Shah:** Okay, but is it the revenue most skewed for development part of the work?
- Pratibha Advani:** It's more annuity now. It used to be more towards discretionary and that is when the dip happened but now it is more toward annuity.
- Sandeep Shah:** Okay. Thank you. And just last, can you give us the client concentration within the acquired company?
- Arvind Thakur:** I think they have about 15-odd clients.
- Sandeep Shah:** Okay, any colour in terms of what top 5 would be as a percentage?
- Arvind Thakur:** Top 5 would probably be most of the revenues.
- Sandeep Shah:** Okay, thanks.
- Moderator:** Thank you. The next question is from the line of Nirav Dalal from Sharekhan, please go ahead.
- Nirav Dalal:** Sir, only one question the website says about 150 consultants, so why the mismatch or --?
- Arvind Thakur:** Probably, there is a decline in the last year and there could be some temps.
- Nirav Dalal:** Okay. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Ritesh Rathod from UTI Mutual Fund, please go ahead.
- Ritesh Rathod:** I just wanted to know what are the local laws or regulations, if you want to re-trench some portion of the employee base, what kind of liability which may arise?
- Arvind Thakur:** Local laws are very simple. You have to pay 45 days of salary for every year of service.
- Ritesh Rathod:** Okay, so do we have some plan in the next 6 months or 12 months to outsource?

- Arvind Thakur:** I think they did a downsizing before we did the transaction, which is perhaps the reason why I think the earlier question was that the website says a different number. So we don't see the need to do that going forward.
- Ritesh Rathod:** Okay and in terms of top five clients, you said most of them are contributing the revenues. Is there any overlap between our client base and within the top 5 of them?
- Arvind Thakur:** No, there is no overlap, because we were not operating in Spain at all. So in a sense, we are acquiring some very good customers.
- Ritesh Rathod:** And how is the profitability or the profile of the clientele the top 5 you said are, are they growing or are they declining, what is on their P&L basis like, how it has been for last two years for those companies?
- Arvind Thakur:** I have shared with you a few names, I think some of them you would be very familiar with. Iberia, Merrill Lynch, BBVA and Santander are very good customers. I don't have the details of the financials and the growth but I believe all of them are doing very well.
- Ritesh Rathod:** Okay. Thank you. That's it from my side.
- Moderator:** Thank you. I have Mr. Pawar on the line, you may go ahead sir.
- Rajendra Pawar:** I think there were very good questions as always and I am delighted that everyone understood the strategy very well. I would say that with the recent actions I think we have great momentum moving ahead to strengthen our strategy, which is by looking at transformational deals. This one is different from the others because we build in a lot of capability with the 100 plus experienced consultants in the market with the unique language, and the practices are unique and I think also that this becomes a kind of entry point to look at Latin American Spanish-speaking countries. And the capability which I think Arvind laid out very well, the capabilities of BI and so forth. I think what we are adding through Proyecta into our system is very strong capability and of course two-thirds of it is in the vertical of choice. So it is strengthening the strategy in terms of vertical focus, it is strengthening our spread in Europe and getting ready for Latin America and I could sense that I think everybody recognizes the value of that strategy. Beyond that nothing much to add, I think I enjoyed the questions.
- Arvind Thakur:** Thanks a lot. I think operator with that we are done. I would like to just thank everybody for joining us on this call at a very short notice, and Pratibha and Abhinandan would be happy to answer your questions post this call. A presentation would get uploaded on our website (<http://www.niit-tech.com/investors/presentations-analysis>) which pretty much talks about what I have been sharing with you. So you could refer to that as well, and if there any clarifications, we will be happy to make that to you as well. Thank you very much and good evening.

Moderator: Thank you. On behalf of NIIT Technologies, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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