"CL Educate Limited Q4 FY-20 Earnings Conference Call"

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Management:

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Mr. Arjun Wadhwa – CFO, CL Educate Limited

Ladies and Gentlemen. Good day and welcome to analyst FY21 conference call of CL educate ltd.

If anyone wants to join the call on zoom, the link has been uploaded on the company's investor page. As a reminder, all participants' lines will be in the listen only mode and there'll be an opportunity for you to ask questions after the presentation concludes. Should you need an assistance during the conference call, please signal the operator by pressing * then 0 on your dash tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Satya Narayanan, Chairman CL Educate ltd. Thank you and over to you sir.

Satya Narayanan:

Ok. Thank you. I'll get started. Welcome everyone to this annual call, I hope I am audible. Please do confirm to me that I am audible.

Welcome to the analyst call, we have both running parallelly, there is a zoom call where we have about 15 participants and the chorus also is running and both inputs are going out. If there are any questions that come on chorus, one of us will speak that out in the Q and A part and the question to everybody.

I'll straightaway jump to the next couple of slides and go to the first page.

So the presentation that we are doing, we are covering it broadly in three parts. I'll cover the COVID-19 which is very topical and deeply impacting factor already for the last 100 days and it is not looking like it will go away in a hurry. I'll spend a couple of minutes on that. We'll pick up the business update, I'll cover the consumer part and Nikhil will cover the enterprise part and GP and Arjun will take us through the financials including some of the key decisions that the board has taken w.r.t. businesses that are continuing, that are discontinued and what is the fresh start look that we are taking on the balance sheet side.

So one of the things that all of us are seeing as you know is that COVID has reduced the industry into two segments, touch and non-touch. CL has both parts; touch is a very high value, premium business driven in over 100 locations and also its there as part of our Kestone. Non touch fortunately is well established. So what has happened as a result of COVID is that we could move the entire non touch part live in terms of fulfilment for our entire education business. However, the premium offline part it went to a standstill and when the new business development has resumed after a total stalling of it for a couple of weeks, the focus or the possibility is that we are focusing on the digital services. On the test prep side, our centers are not running. In some of the cities, the centers are open but they are not running because the consumers are not walking in and on the Kestone side its primarily digital services as you know events and conferences, they are happening only in the non-touch format.

Moving forward, you know the impact of COVID we began to see it as early as end of Jan 20 on the enterprise side but the consumer where as you know as the board exams finishes and the entrance exams season starts, that's a pretty heavy season of us, from 15th March to 30th April. I think that was a complete washout. As you know many of these things have not yet happened, the entrance exams have not happened in India, the university opening have not happened. So FY21 is still going to be hugely affected by it. Continuing, a couple of more brief commentary points, this is a new reality, and everyone is guessing, as I mentioned exams are postponed, semesters have not happened, exams conducting even in the future is very challenging to predict, forget about doing. The other thing is, as corporate as you know, each one of us in our corporate responsibility we have tightened our purse strings; costs have been cut in absolute terms, whole lot of rejigging has happened. But, another thing we are noticing is that slowly this stretch of purse string is getting visible on the consumer side and we are assuming it'll continue long into the next couple of quarters and the pricing pressure will increase. So even though the actual economy might be allowed to come back to normal by the govt. and various activities might resume what might continue to play a role is the psychology of consumers which could be manifesting itself as job losses, uncertainty, health risks for kids not going to the centers, at schools, colleges and so on. So, a lot of these things we see as something that'll effect the current financial year in a significant way.

Moving forwards, I am just covering a couple of bullets as we see, as we have already seen in march which is the end of next financial year, but since we are already at the end of the first quarter, I am doing a composite commentary for year ending FY2020 which is March, Jan-March if we broaden it for enterprise business but also for the FY 21 how does it look. You know the volume and the profitability growth is likely to be better but the revenue growth and absolute profit is going to be a challenge because the ARPUs when it is online as you know the ARPUs are likely to fall from anywhere to 40-60%. This is something, as a challenge, we are all cued into and the other significant challenge that we are working on is how do we rewrite the cost structure and including the mindset wherein, you know, digital comes first and we go after market share even if it results in temporary drops in revenues. Now if there is a challenge for us, then it is a challenge for a large no. of players, and if we are to assume that our digital quotient is much better than most people in the market place, one of the opportunities that'll come towards us will come from the disruptive state of mind that is there in all the clients whether it is enterprise or institutions, that's where an opportunity that we see. The second opportunity and I'll cover it briefly shortly; our basket expansion with a focus on a bunch of internal product baskets that is underway without demand for any additional capital, that is an opportunity and building an entire organization wise digital competencies where some of the functions that were earlier 30%, 40% , 50% digital now they are all have to be 100% digital. So that's the big opportunity and this also is going to lead us to some business outcome that we hopefully stand in good stead over the next 12 to 18 months.

What is it that we are focusing on strategically? One we are saying that let's defend the defensible and what we cannot control, we don't try too hard at it. But the important thing is EBITDA positive business development and revenue is something that we are looking at. I'll cover this briefly, but what has happened as a result of COVID is that, that the geography has become extinct. Earlier, our business would have a product perspective and a geography perspective, now the geography thing is not needed so a product manager is looking after his particular product for the entire geography called India or even going out to south-east Asia, and west Asia and so on. So, in the no touch era, geography is extinct and that has helped us to unify the sales, marketing, academic organization into one unified structure that is something that, hopefully, will payout well and even on the institutional side or even on the test prep side some of the things that we are focusing more on are cash and volumes so these are the cash upfront business are given greater priority than chasing revenues and P&L with lot of collections to come later. So in short, the specific step that we have undertaken has been work from home; and we are likely to stay permanently work-from-home predominantly. So, we are looking at it from various perspectives. There is of course significant reduction in office, admin, all of those costs. But a semblance of office space is there for the teams to come and work at the bidding, or the choice of the team leaders that we have done. We have created a business response group and a couple of senior couple such as Nikhil, GP and Arjun, they are leading the business response which is focusing on cost management and I am leading the team that is focusing on revenue and growth maximization. This is how we have rewired our goals as well. To speak purely quantitatively, I think our estimates this would be a little higher than the, our estimate is that the straight loss that we experienced in the last financial year, in the month of march and a little bit would be anywhere between 25-30 Crores, this is our estimation, this is not something that can be proven but that's what our view is. I'll move forward.

I'll reduce what I mentioned in the previous slide in terms of… as I mentioned to you there is a product focused matrix where geography is not so important now and we have three product lines if I were to summarize our consumer education business. The product basket A - It covers management and law. Product basket B - It covers GATE and Civil services. The product basket C - covers the new products which are still under incubation these are growing and these are our mature cash cows. So right now the way its happening is that the product managers for each of these nine, they focus on their growth

And even one particular product basket would have three levels of people, where this is premium product, these are sachet product… this is less than Rs. 900 kind of a price, this is more than 10k kind of a price, this comes in between. So this is how we are trying to reduce our very distributed product geography matrix into pure product and digital focus and with a caveat that students will of course have the freedom to add or join our offline program which we don't see going away when the COVID fears and the other things are behind us.

Moving forwards, I'll get into the business updates now. The growth on enrolment side has been healthy because our focus on digital e-center driven has been there, as you would have known over the last 24 to 36 months and that has shown a lot of improvement. However, we could have easily done another 10-15K more if the COVID did not strike us in the month of March. But even the drop in ARPU when the shift happens from offline to online and the business completely getting pushed out, both in the consumer as well as the enterprise business. Our revenues are looking 8% down, our business EBITDA is looking 12% down from 42.5 to 37.5 Cr and about 10-12 crores attributable to COVID and our adjusted net profit as a result of some of the things we have done, it looks 12.8 Cr instead of 20 Cr last year. As you know most of the programs that happen in march are a 30 to 45-day crash programs that end up giving much higher EBITDA than the 1 year or a 2-year program. That's why when the March and April they suffer, we end up suffering a lot more from this side.

I'll move forwards, this is a summary stated a little differently. This is the growth on the volume, this is the online which is showing a very healthy growth, but this year it'll show a little differently because quite literally whatever we have done in the past 100 days is 100% online and that is showing about a 2.5x in volume but the offline is down by anywhere between 40-60% depending upon which location we are talking about. Ok. Some of these numbers are here… the grades 9 to 12 enrolments that results in engineering, medical that is showing a lot of momentum due to ARPU, the billing work that sachet products we launched with a lot of focus last year. We started it with GATE, we extended it to UPSC. Now this is available practically in every product and we this growing a lot. This is a small ticket, high EBITDA, zero fulfilment cost kind of a product category. This is something we should look at growing 10x year on year. That's the kind of target we should have, what we achieve is another matter though.

Publishing: the entire offline thing has come to a standstill. Even there the focus has been to go completely e-commerce and also reduce the distribution points from over a 100 to just 5 or 6 including the Flipkarts, Amazons and so on.

Moving forward we come to the enterprise segment. I'll pause here and Nikhil will take us over the enterprise segment before GP and Arjun come in. Nikhil, over to you.

Nikhil Mahajan:

Good evening everybody, on the enterprise side let me cover the corporate business first. I think the corporate business was the first line of business where we started feeling the impact of COVID as early as 1st week or 2nd week of February because most of our customers which are multinational and multi country operation. We got a signal with east Asia beginning to get severely impacted in early February. So most of the physical touch events and engagements started getting cancelled right from February onto March. The physical events is roughly around 45% of the Kestone business that for the last few months completely vaporized resulting in about 10-12 Crore revenue not accruing from what we had initially planned. So for the first 45 days, a lot of corporates were figuring out what to continue and what not to look at for reaching out to their customers. Eventually, three sets of services which are predominantly digital, which are: 1. Digital outreach in marketing, 2. Customer engagement program and 3. Marketing communication & design services; these are the three lines of businesses that started pulling back business in early April and continuing into Q1 FY21. Initially when we started getting initial signs of physical events getting cancelled, we started putting together a virtual events platform andWe started developing and working on the virtual events platform which got ready by May and we have launched it in early June and we have done the first couple of events in the last 10 days of June. The response has been positive, and hopefully some of the physical events that'll not happen in the next 3 to4 quarters, some of them will get migrated to this virtual platform and we hope some kind of event continuity will remain in business. On the institutional business side, the business impact in March was limited to the last 3 or 4 weeks and as the universities and schools shut down by the 2nd or 3rd week of March, the new commitments for the activities that place post the board examination for the new admission season came to a grinding halt. Usually, after the board examination and after the university examinations, a lot of physical event take place on the ground for enabling universities and colleges to connect with the students in the run up to the next admission cycle. Now most of them have shifted to virtual. However, the new business events had come down to a grinding halt. This year we see most of the student engagement happening in a virtual environment. While the need for such services is increasing, however the propensity of physically being able to connect with the students having decreased, so there are both pros and cons of the digital environment. This is one area we are focusing on significantly because newer and newer digital and online inventories are getting created for institutions to be able to get connected with the student community. The research business, some of the existing services, which moved completely virtual, we are seeing some of the colleges wanting to postpone delivery. The majority of institutions as of now is continuing, however, some of the institutions are wanting to defer certain set of services on to the new admission season. We are working towards on how the impact of no engagement with students and students being unable to do any lab activity for the research projects that they are working on, how can that be mitigated. Some portion of the IIT Kanpur REC new project has been initiated but the details of the engagement we'll have to wait may be in the third quarter of later when the institutions open in one form or the other perhaps to be able to engage with the students.

Over to Gautam Puri and Arjun for the next portion for the asset light model and the business segment.

Guatam Puri:

Ok. I'll just take a few moments and then set the stage for Arjun to take us into the details.

Just two broad areas which I think could be of interest for everyone as these are the things that are initiated or some actions, we have taken this year. I would say one of the major actions we have taken this year. Merger, we started that process more than a year ago. The whole idea was to merge the entity so that we can have a leaner business and duplication in the process can be removed. With that thought process, we started the merger one, and we are in front of NCIC and we hope that in the next to 6 to 9 months we'll be able to complete the merger process, unfortunately that also got delayed due to the COVID issues.

The second thing that we have done and it is specific to this year's balance sheet. We have taken a hit in some of the business we were running, we had to experiment on what we think is the something that has happened to our businesses. The idea was to clearly reflect as to what kind of business we are running, some of these legacy issues were hanging on our balance sheet and the idea was as I said to remove those legacy issues so one can easily decipher the balance sheet and the financial statement will be reflecting the active line of business rather than the legacy issues or the backlog as we would normally call it.

So to the exceptional one time write offs that we have taken we can see is one in vocational and second is school and third one I would say is not much an exception but more of a regular thing though the Deferred Tax is something that I would call exceptional. Ok. Vocational, as most of you would know, we started this business sometime in 2009 and due to difficulties in collecting payments and cash flow issues, I mean money not coming in to the time of the owing, we decided to cut them to around 2015-16 and till then we have not taken any new businesses. We have been slowly closing the earlier projects and finishing our task that is ensuring the delivery and then winding up those businesses. In this business we have taken a write off of 10.3 crores and there's an effective balance that remains of about 11.5 Crores and we are reasonably confident we will be able to collect in the next year or 15 months or so. One of the challenges that has been there with this business which has forced us to probably look at the write off that we have taken and I'm sure many of you would be aware thar we have taken some write offs in the first two quarters also and we taken a bigger write off of about 6 crores in Q4 also. The current COVID situation has been that all projects are on standstill and there's no way we can revive them, atleast for the next 3 to 6 months or once the lockdown is completely removed only then something can be done. And hence it did not seem feasible to continuing with this set. As I said we expect to recover the payment of 11.67 crores from Govt. because most of these are bills which have been processed and had it not been for COVID situation probably some of it would have been given to us, we'd have collected it from the govt. also.

The second area, the major area, where we've taken an impairment in our investment is the school business. We had transferred our school business to B&S strategy services and we had a 44% shares through our wholly owned subsidiary CLEIS. And given the fact that the school was for the last year or so continuously losing business and more in a precarious position from a capital point of view and the partners were unable to fund the business adequately; We thought it would be prudent to get it devalued, to get it valued again and an impairment testing and accordingly we have taken an impairment of 41.5 Crores on the investment where small related assets also, which are receivables in nature, there also we have taken an impairment of about 9.1 crores. However, this does not mean that we have given up hope of collecting this thing because we have initiated legal action against B&S Strategy Services for some of these things, which is already been initiated and some more would be initiated as per the legal advice.

The third small area, where we have taken a write-off which is of 5.8 crores broadly can be divided into two parts, one is business related of 1.9 crores, these were things that were hanging on for some time, maybe more than a couple of years and we thought it would be prudent to again clean it up rather than let it remain on the balance sheet because the chances of collection was not there, wherever we think there is a possibility we have maintained it in our balance sheet and we have also evaluated the option of taking legal action in some of those cases.

This year corrections happened When we transitioned from IGAAP to IND-AS, and that is something we are taking a write off today in this balance sheet. So that's, the broad structure out there.

So overall, this is our total write-off and impairment that we have taken in the range of 66 crores or so. This is all legacy, this is all past. None of which reflects on the existing lines of business which remains profitable And make it more profitable. With this I'll hand over to arjun to take you into the details of the financial overlook.

Arjun:

Thank You GP. I am moving ahead with the summary of our financials. These were already shared on our website yesterday. If you have not been able to access them yet they are listed under the consolidated financial statements and the standalone financial statements tab. Satya has already shared with you a brief snapshot of what our business looks like. From a business EBITDA perspective, I am going to put both of them in perspective in this slide. If I were to look at it purely from a financial perspective, our EBITDA this year has closed at 8.6 Crores. But as Gautam and Satya shared previously during this session, our business EBITDA is 37.3 crores and had it not been for the impact of COVID, we would have probably finished with a business EBITDA of 47.3 crores this year. This impact has gone right through the financials of course. Gautam has just shared with you that we have just taken an exceptional item impairment on account of the investment that we had in B&S. This impairment has happened in one of our subsidiaries CLEIS and therefore reflected both at the standalone level and at a consolidated level for CL Educate which means our net profit for the year finishes at (52.6) Crores as a result of all these write offs and as a result of the provisions that we've made over the course of the year. If I add back that 66 crores that Gautam just showed you on the previous slide, we would have finished with an adjusted PAT of about 12.8 Crores and once again, at the risk of being repetitive, had it not been for COVID this number would again have been higher and a lot closer to last year's number of 20 Crores.

The revenues Satya has already previously shared with you, we finished the year at 324 crores, against 352 crores of the previous year. Our estimate for the COVID impact for this year is about 25 Crores; about 10 crores in our test prep business, another 10 crore in our Kestone business which as Nikhil shared, has started feeling the impact of COVID as early as late Jan and early Feb, because social distancing was banned across the globe and as a result events started getting postponed or cancelled and we also had an impact of about 5 crores in our GK publications business and march for us for GK publications is our biggest month of the year for our GATE business. What our hope is that this business is not lost, the business is merely postponed because what happened to us happened to everyone in the publishing industry, all warehouses were closed, transporters were closed etc. So, if I were to add back our losses, our total revenues would be very similar to last year. From an ROCE perspective, see, because of the way that we have this year, the ROCE is negative, but if I look at again at the business EBITDA that we have shared with you previously, our adjusted ROCE for this year would be 7.8% and again had not been for COVID we would have been very close to the same figure as last year.

I am going to move ahead, Just to explain the concept of business EBITDA, I have got a quick slide. This is how we arrive, we add back basically any revenues are added back and any write offs are knocked off so the difference between business EBITDA and actual EBITDA can be arrived and Gautam has already walked you through the write offs that we have taken; the school related asset impairments, the vocational write offs and so on. If I were to look at our adjusted PBT for this year it would be about

15 crores as against 27 crores last year, a large impact here is also on account of IND-AS 116 which was implemented for the first time in India. So hence, the comparison of PBT of this year vs last year is not really an apples to apples comparison. But now that it has been implemented this will continue to be there for all future years so the figure that we see for FY20 will be comparable with those going forward. Additionally our adjusted net profit for the year 12.8 Cr against 20.8 Cr again at the risk of sounding repetitive, it would have been a lot closer had it not been for COVID. I'll move ahead.

This is again a summary of those numbers, the one's to concentrate on here are my revenues from operations which are down about 9%, I've shared with you the primary reason for this, of 25 crores, on account of COVID. My EBITDA is also down, I've shared with you the reasons for the same and the net profit as we have shared previously is in the hands of the write-offs this year especially the exceptional items, and across the board the 66 crores that we've taken as write-offs and provisions. I'm going to move ahead now.

This is the way our segments look, specifically our test prep segment were down about 4 % compared to the previous year, as we shared previously 10 Crores of this is straight on the account of COVID so had it not been for COVID out test prep revenue would have been marginally higher than last year. The numbers, Nikhil and Satya shared earlier on but just to iterate, we have lost little bit of ground on account of COVID and we have taken significant sales returns this year on the account of the change in the government policies when it came to the e-commerce operators, specifically Amazon and Flipkart. So, if I were to do a quick comparison, our sales returns in 2018 and 2019 were in the range of 7 to 9 crores; this year our sales returns is closer to about 19 crores on account of e-shops. This is a one time exercise and that is why the publishing numbers are low as compared to last year. This impact will not exist going forward, so from a future outlook perspective this is a positive. The corporate enterprise business which we operate under the Kestone brand, the corporate business, as Nikhil shared previously, includes our events business, our customer engagement programs, our manpower business, our digital marketing business and our marketing communications business. Together this contributes 115 Crores this year against 126 crores last year and as we have shared, once again at the risk of sounding once again a bit like a broken record, there's the COVID impact that affected this business as early as January. The institutional business, which is our advertising business, where we monetize our test prep assets grew marginally. In fact it grew 8.5%, my apologies, from 18.5 Cr to 20 Cr. This includes our student recruitment business, the research work that we do, the advertising business. Again this number would have been significantly higher if had not been for COVID.

This is just a quick outlook on what our cash flow position is, March-19 to March-20 these numbers are our audited numbers. Our investments in mutual funds have grown by about 10 crores, our fixed deposits reduced over the course of the recently conclude year because we made a switch from our banking partners from Kotak to HDFC. But, those fixed deposits have again increased over the last three months, as we put together our war chest to tackle the COVID issue and our cash position at this point in time is 80 crores. This has also been benefitted by considerably better collections. In our Kestone business, we chased collections very aggressively over the last three months and that is one reason why this is reflecting here. Additionally we got a tax refund of about 7.5 crores across 3 different organizations. So that has also reflected in our healthier cash positions. And as Satya shared right at the start we put together a business continuity group which is looking at our cash management at a day-to-day basis to ensure that we stay cash healthy through these difficult times. These numbers will come down a little over the course of the next few months. For those of you who follow us regularly, you will know that September, October, November are traditionally tough months for our business but we'll have to see how that plays out this year on account of the change in the admission cycle and the exam cycle both of which got affected by COVID. And also we have taken advantage of certain govt. schemes that were available over the last three months in terms of deferment of TDS and GST, all of which expire today so those payouts will happen.

I'll move ahead to my last slide. Gautam has already spoken a little bit about our merger process, where we are. Our matter is pending in front of the NCLT, unfortunately our last 4 hearings got postponed because of COVID and our next date is set for the 10th of July. The NCLT has moved to the video conferencing mode but they have not initiated the process of hearing merger matters. We hope that the merger process, from our end just to reiterate, everything we were supposed to do for the merger completion process has been done. So, the matter is purely pending in front of the NCLT waiting for them to hear the matter and give us the green signal. We are hoping that his happens by December, but given the way things are right now the more realistic date would be the end of March; Where we hope to complete it over the course of this financial year.

That's my last slide. My colleague Amit and I are your specific touch points for anything to do with investor related queries and for those of you who are joining us on Zoom or through chorus call right now, we'd be happy to take any questions you might have.

Presenter

Thank you very much.