



“CL Educate Limited Q2 FY 2023 Earnings Conference Call”

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Management:

Mr. Satya Narayanan R – Chairman, CL Educate Limited

Mr. Arjun Wadhwa – CFO, CL Educate Limited

Video Link: [Earnings Conference Call Q2 FY2023](#)

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Investor Presentation: [Q2 FY2023](#)

CL Educate Limited – Earnings Conference Call – Q2 FY 2023

Arjun Wadhwa: Good Afternoon Ladies and Gentlemen. Welcome to CL Educate Limited's Q2 FY23 Investor Conference Call. I am Arjun Wadhwa – CFO, CL Educate Ltd. I will your host today. Joining me on call today is Mr. Satya Narayanan R. – Chairman, CL Educate Ltd. This analyst call as always will be recorded, transcribed, and made available in the investor zone on our website within next 24-48 Hrs.

I will start by taking you through the early part of our presentation – Corporate Updates & the Financials. Following which Mr. Satya will run you through the business updates. As always there will be an opportunity for you to ask questions after the presentation concludes. So, I request you to please type your questions in the chat box at the bottom right-hand corner of the screen. Preferably note them down and add to the chat box later and we will address them as we come to end of the session.

Firstly, let me just say that it is a great privilege for us to host you in the Metaverse. As you are aware, we have developed the Metaverse completely in house from scratch and we thought this was a great opportunity to give you, our shareholders, our ambassadors an opportunity to see the Metaverse in action and up close and of course if you like the experience, do spread the word. In case if you have not already explored the Metaverse, please spend some time after this call to explore all that Metaverse has to offer. There are 3 buttons on the bottom left-hand corner of your screen, which on being clicked will give you an opportunity to explore various sections of Metaverse. You can walk into the mall, check out some deodorants which one can buy online right now. Its pretty amazing experience. So do check out the same when you do get the chance. As you might have noticed if you would have logged in a little bit early, in our pre-session video we had an Avatar based Metaverse experience as well, which is under development. What we see right now is very much the tip of the iceberg and of course the possibility of the Metaverse once you start plugging in things like Augmented Reality (AR), Virtual Reality (VR) are simply mind-blowing and endless. From our business perspective, our role is to help the brands move out of the 2D environment that a dot com (".com") universe currently limits them and to give their consumers an experience of the new 3D world that exists for the youngsters of the day. But we will cover that and much more in the MarTech part of the presentation.

Let me get started by walking you through a strategic roadmap and the specific corporate actions we have taken over the last 12-18 months.

Coming straight to slide #6 of the ppt. Specifically over the last 12-18 months all of you would have followed, as our long-time shareholders, you would have noted that we have made a very conscious attempt to liquidate our unproductive land and building assets that used to exist, most of which belong to our K-12 business or our B-school business from the early 2000s. The market was conducive for this for over the last 12-18 months and we have made a conscious effort to liquidate these assets. This has resulted in a potential release of about Rs 78 Crores Cash. As you can see, the Indore transaction is in progress as we speak, and we have received Rs 3 Crores advance. The remaining amount of Rs 14.5 Crores will flow to us by the end of this financial year. All of this was also meant to a conscious effort into also returning the value to the shareholders. We have made certain very specific activities in terms of our Stock Split – Q2 FY22, Buyback – Q4 FY22 which carried in to first quarter of this year and as we have recently announced 1:1 Bonus Issue yesterday. This is very much

part of our strategic roadmap and as you will witness in the next 12-18 months, we will continue to find ways to return value to our shareholders.

Moving forward, I spend a little bit of time on our financials. As you would have seen in the results which we announced yesterday, our revenues are up significantly by 53% from Rs. 106 Crores in H1 FY22 to Rs. 161 Crores in H1 FY23. Correspondingly our EBITDA is up 24% from Rs. 15 Crores in H1 FY22 to Rs. 18.6 Crores in H1 FY23. There is a gap between revenue growth and the EBITDA growth, which we will discuss as we move forward in the presentation. The margin flow will run slightly behind the revenue growth, largely on the account of our conscious attempt that we made towards our marketing spend and the investments in product, people, and technology. Specifically in terms of PAT, it has grown from Rs. 6.2 Crores in H1 FY22 to Rs. 17.2 Crores in H1 FY23, a growth of 177%. This includes the net exceptional gains which we had on account of the sale of our Greater NOIDA property which would account for Rs. 6.5 Crores on the PAT level. So, on an apple-to-apple basis, it would be Rs. 6.2 Crores in H1 FY22 of PAT as compared to Rs. 10.5 Crores in H1 FY23. Our EPS is also up by 172% from 2.14 in H1 FY22 to 5.82 in H1 FY23.

Moving forward, there are 2 additional things to be shared, as we had mentioned in our previous calls that we want to be a Net Debt Free Company. We have made a significant jump towards achieving the same. Our Long-term Debt is down by couple of Crores, but our short-term debt is almost down by Rs 27 Crores as compared to similar period last year. So, the cash that we have accrued on account of the Land Sale, some of it has been used to retire our debt and our cash position remains quite healthy right now having grown from Rs 27 Crores in H1 FY22 to about Rs. 81 Crores in H1 FY23. Also, in terms of our RoE and RoCE, at our last AGM, Mr. Satya Narayanan – Chairman spoke about taking these into double digits. We were at 5.3% - ROE and 7.6% - RoCE at the end of last year. If things go the way, they are going we should end this year at 8.9% - RoE and 9.6% - RoCE.

Quick look into our segmental position. I have already spoken about total revenue and EBITDA. Our EdTech segment grew 14% in terms of revenue on a Q-o-Q basis i.e., from Rs. 45 Crores to Rs. 52 Crores with a marginal EBITDA growth. As we shared previously as well, our focus has been gaining market share and deeper penetration in specific markets. With centers fully operational now and returning to business as usual, the costs corresponding to executing physical businesses also increases. And, as we shared, we will also be investing in specific areas including marketing.

On Y-o-Y comparison perspective, our revenues are up 52% and total EBITDA is up 23%. Of which EdTech revenue has contributed 48% with an EBITDA jump of 31%. The MarTech revenues has also grown substantially because of the returns of the physical events. What one will see now is a lot of hybrid events taking place with virtual and physical coming back together and organizations making best of both the worlds. From a short-term perspective, that has resulted in marginal dip in margins. However, if you look at it from a Q-o-Q perspective we are up from Rs. 1.5 Crores in Q1 FY23 to Rs. 1.9 Crores in Q2 FY23.

Satya I will now handover to you to give us some Macro view of the business.

Satya Narayanan R: Thank You Arjun. Coming to the Slide labelled Macro view. Focusing on the Education related Macros. One of the things which I repeat often enough and is worth repetition is that the implementation by various government policy implementing machinery post the parliaments adoption of NEP 2020 is something that we are seeing on the ground in the last 12 months, and we think that it is still early days. To give you an example, the unified entrance examination, which is quite directly relevant to us, has come into existence. The first edition of it got implemented and the

likelihood of it being held in the summers of 2023 has begun to appear in the media. So, CUET is one downstream visibility of this educational policy reforms that we are witnessing.

Secondly, there is a very conscious effort at the policy level to take Indian Education global in both ways, which is – Can Indian products and services go abroad, and can we emerge as a higher education hub through a study in India theme / project which is run by Ministry of HRD. Both of these are beginning to gain a lot of traction.

How this would be relevant to us?

Visualize that the number of students seeking admissions in India moves from 40,000 to the 400,000 that is being aimed which is going to come through from this model. CL is equipped with presence in a bunch of places overseas, but we will move in this direction as this opportunity gains traction. Similarly, the last point for me to mention here is that the way you are queued into or wish to get more information about Indian markets are likely to emerge post variations, it worth looking at the way USA has emerged through the 90's all the way till 2005 and how China has emerged between 2005 all the way to 2015 or even 2020. I think, India we believe that 2020 to 2035 including the immediate 10 years beginning 2022 it could see a lot of those happening and the outcome of that it is that Kaplan, Princeton Review etc. emerged in the USA and Tal-Education, New Oriental emerged in China. That is the broad thing which I wanted to cover on this slide.

Moving forward, taking some business updates. Firstly, we will look at Test Preparation business and then move on to the Kestone (MarTech) business.

For the EdTech business, YTD Sep 22 vs YTD Sep 21 the topline has grown from Rs. 65.4 Crores to Rs. 96.8 Crores where as the EdTech EBITDA grew from Rs. 16 Crores to Rs. 21.2 Crores. The last full years numbers were Rs. 129.3 Crores of Revenue with an EBITDA of Rs. 27.9 Crores. Hopefully, we will do better than the last years numbers. That is our view but as you know as a matter of approach, we don't put out very specific numbers about the future. And I should mention right away, literally going away of the COVID phenomenon and the offline businesses coming back into action coupled with the introduction of the CUET in the 11th and 12th standards, we are finding a lot of tractions. New centers are getting added. This is the largest number of centers that we would have added in any half year in the last 25 years. We hope that its still the early stages. We have added 41 new centers in the H1 FY23. On the enrolments for test preparation, we have grown by 11% and ARPU (Average Revenue Per Unit) has grown by 30%. However please do not build too much of this into modelling, since a lot of this is because of significant chunk of online business has become hybrid and hence ARPU has grown by such huge number. Usually, the ARPU grows every year by the rate of inflation – 5%, 7%, 9% and not more than rate of inflation. Business partner billing is up by 65%. One particular change that has happened which is law exam has moved to December-November cycle. What it does is not affect the number of students but what it does affect the seasonality, consumer behavior, propensity of when to buy and when not to buy, when will they buy the Two-year and One-year program will undergo slight modification which are reasonably predictable with our experience but that is something that we must be prepared. Coming to the content, the publishing volumes are up 24%, though the paper cost as you are aware went up dramatically over last 6 months. Through various measures, our team has been able to preserve the margins. The third arm of the EdTech business is the platform business where the institutions, schools, colleges, universities, brands use Career Launcher platform to reach out to their stakeholders or customers. We have signed up 23 new universities as clients. The business has gone by 42%. Again, there are Pre & Post COVID assumptions which one can attribute to this business. The MBA Colleges beginning to push for businesses is also helping our business and one very interesting thing which is emerging for the platform thing is the gathering of momentum of CUET which is very

promising. And, you might have seen, or we might have shared with you in our earlier interactions, large of universities not just Government one's but also private universities have begun to accept CUET scores. And we believe that these numbers will balloon to a factor 3x to 5x in the next 2-3 years.

We will move forward to cover the MarTech business.

Again, starting with the numbers, YTD Sep 21 we did Rs. 39 Crores of revenue which has grown to Rs. 61.5 Crores of revenue. Last Full year we did a topline of Rs. 78.1 Crores with an EBITDA of Rs. 6.6 Crores. Whereas our half yearly EBITDA this year is at Rs. 3.4 Crores which is flat as compared to last year comparative period. Qualitatively, the entire MarTech business was mostly digital. So, it had a greater margin, but the size was smaller. This year the revenue spike can be seen due to hybrid events because offline events are bulkier in size but lower in margins. Hence the short-term impact on the weighted average of margins we see as anticipated and shared in the last quarterly meeting. One of the things that we are guiding ourselves, we need to focus and get past the pre-COVID revenue, and we believe that the margins will catch up as VOSMOS and other products gather momentum. Second broad point which I would like to make is that while our business in USA is in incubation stage and will continue to be so in next 12-15 months. We have seen a greater traction in the Asian markets. Not just India, but also notably GCC, Indonesia and Singapore. These are the geographies which we are going to be focused on for next few quarters to get to the next orbit of our revenues and profits.

VOSMOS which you are seeing, the product development team is continuously working, and their internal target is to push out the DIY version which will make it scalable. But as you know DIY version can be done after you generate a kind of user insights necessary to do the coding. But by Jan-23 we are hoping to launch the DIY version of VOSMOS.

On the Go-To-Market (GTM) side, the focus is on the just 4-5 industries where all of us are aware there is a lot of 3D play becoming hygiene to enhance the customer experience dramatically. Notably, real estate, hospitality, retail, e-commerce becoming m-commerce and further evolving to Meta-Commerce and of course our own customer space – Education where CL itself is acting as first pilot customer to make it happen for Kestone. Some clients are getting close to pilots / readiness. We will share the same as soon as the projects complete. Once our first Avatar driven store is ready, you will watch it or experience it over the next few weeks or by the time we meet for the next quarter results.

Little summary on the services part of the MarTech business. The flagship hybrid events – Large Format events have resumed. Big clients like – Dell, AWS have been executed where its not offline or online but it's a hybrid where some aspects of their Go-To-Market or the initiative or the project or an event is done purely on the online basis and some parts of it are on the ground. The Digital Marketing and the MarCom services which are being developed as a suit, they are picking up well. Hopefully we will be able to share more as we step into next few quarters. That is the summary of MarTech business.

Arjun Wadhwa: Thank You Satya. I will take over. Contact numbers are as shown on the screen. Meanwhile if you have any queries feel free to use the chat window. Kindly send the queries and we will take up the same over the Q&A session.

There is a question Satya from Mohit who is asking – What additional markets does the CUET exam open up for CL Educate?

Also, there are a few from related questions to CUET which you can handle together. The second question from Vivek – Can you share the Matrix on CUET, and franchise additions have moved and any comments on the competition, challenge that we are facing?

Third question from Rahul – What are the enrolment nos. and ARPUs as compared to other test preparation verticals.

Satya Narayanan R: I will take each of those separately. So, starting with the first question regarding addressable market. Maybe it is good to understand this by comparison. CUET is relevant to the Class-12 students and as you might have seen in few of our editorials, blogs, vlogs available on our website (Kindly go through those for deeper understanding). The first-year number of applications was 14 Lakhs and number of test takers was 9 Lakhs. Our own estimation is that these numbers will travel to 75 Lakh applications and 50-60 Lakh examination takers in the next 3-5 years. The number of students in Class-12 across the country will be approximately 1.30 Crores. So ideally the addressable market should be 1.30 Crores if everybody and every university is going to take students based on CUET which would not be happening. Hence the figure this would be settling would be between 0.70-1.00 Crores in 3-5-7 years' time. Firstly, this compares to the Gao-Kao figure in China to almost 1.10 Crores for the compatriot exam in China. Secondly, while the examination takers will be between 0.70 – 1.00 Crore the preparation for it is likely to be done by students over a 2-year period, so this program will have a 2-year version, 1 year version and the crash version which is 3-4 months version. The pricing of these we have realized are approximately – 1.5 Lakhs, 75,000 and 25,000 respectively. Hence one can do a rough estimation around the same. How does this compare with our flagship programs – MBA & Law? Law is taken by 60,000 students and ARPU can be taken as 75,000 to 100,000. 2-year program can 120,000 and one-year program will be 75,000 and crash program will be 35,000. A weighted average can be taken as 75,000. This exam (CLAT) is taken by 60,000 students and our product size in this segment is about 50-60 crores each in MBA and Law and our market share is between 25%-35% depending on the way one looks at it. In short, this is a very good, big opportunity and we are simply focusing on putting our head down and executing our plan.

Adding further, the partnership led model is what we will use even in this segment. Literally, the 4,000 towns which have more than 100,000 population is a target for us. Every district can have 5-10 centers for us. Any town which has more than 10 schools with 9-10-11-12 and each school has 500 kids. The total kids for 10 schools thus come to 5,000 kids, I think that is the kind of thumb rule that one can use to estimate this product. If there are any more specific questions are there, please feel free to share the same with us.

Arjun Wadhwa: Thank you Satya. There are a few questions about Virtual events and the platform.

There is a question from Vivek Turaga – What specific use cases are we targeting with VOSMOS and any business update on the same that we could share?

There is a question from Jagvir Singh – How will the EBITDA Margins in the MarTech business going forward?

Satya Narayanan R: I will take the first question. So Vivek, the VOSMOS, our first Go-To-Market strategy is to let our existing organization/clients to use this platform since they have confidence in Kestone's ability to run a particular event or a conference end to end. So that is one use case we are targeting. One good thing is that everything about events, last year 100% of events happened online however this year post COVID that has not come down to 10%-15% but is still hovering between 40%-60% or a 70%-30% for various clients. So, we hope that the new normal even in the thinking of the marketing teams in these large brands whether it is a Dell, HUL etc. we think that it is going to be blended.

Secondly, while VOSMOS is at a very early stage where we are developing use cases, for e.g. we are working with a hotel chain in India, a hotel chain in Indonesia and couple of other organizations in

Singapore where the people who are checking into your hotel can get a complete 3D experience of entering the campus, front office, enrolling – booking their rooms, getting their billing and going and checking their rooms all of which just like Arjun mentioned at the beginning, how do we help brands transition their customer experience from a 2D world to an immersive 3D world. That's the specific use case we are targeting. So, this being an example of hotel industry, similarly in the fashion industry it could be looking at, selecting, trying out a fabric or a fashion brand or could be the case in retail industry or a garment industry. So those are the one's we are doing currently. As we get past the stage into commercials, we will share more specifics with all of you.

On the EBITDA related query, EBITDA will return to last years numbers may be in 6-9 months' time. But as I said earlier while we think EBTIDA can improve further, in the beginning we are focusing a lot on profitable growth even if the EBITDA is slightly suppressed because of the transition from Online to Hybrid. And there are investments happening into brand, technology, and team since some these will be front loaded into initial phases of the VOSMOS development.

Arjun Wadhwa: Thank You Satya. There are few follow up questions on the CUET space. Manoj Dua is asking – If you could throw some color on the competition intensity in CUET space?

Satya Narayanan R: Thank you Manoj for the question. The good thing is that the large organized CUET competition coming from the IIT-JEE and NEET players because for them, one way of looking at this is adjacency but the way we are looking at it is that CUET could be a threat to pure IIT-JEE, NEET players because already a lot of tier-II & III engineering and medical colleges have begun to announce that they may not just take from IIT-JEE or NEET examination but also will take students based on CUET scores. So CUET competition in a big way in a new landscape where CL will have to fight it out with the JEE and NEET people not just for JEE NEET examinations but also for CUET examination.

A good thing for this exam is that nobody has yet started program for humanities. CL is the only one that is offering programs for all 3 streams. Allen has announced into commerce stream. But the good thing is CL has already done 11,000 subject enrolments including the Crash program and these enrolments would add up to about 3,000 students with an ARPU that a crash program and there are different kinds of product but think of this as a crash program would have an ARPU of Rs. 20,000 to Rs. 25,000 whereas a one-year program would have an ARPU of Rs. 70,000 to Rs. 90,000 and a two-year program would have an ARPU of Rs. 120,000 to Rs. 150,000 depending on city and subjects availed. So, competition will intensify. There is no doubt about it. So, first mover advantage, early market share and early result share even more importantly is significant to create a competitive barrier for Career Launcher. The good thing which we also have is a good distribution network. The number locations (180 odd locations), if they begin to gain conviction and begin to go with the CUET program, then in the first year itself we can build a formidable lead over anybody else in this segment. 50%-60% of out new partners are coming in with CUET and Boards as the first product and selectively Law and IPM are becoming their second products depending on their location.

Arjun Wadhwa: Thank you Satya. One last question.

Sameer Virmani is requesting us to comment on our Market-Capitalization and expected Valuation which has moved over last 6-12 months and where we think things are headed going forward?

Satya Narayanan R: Hi Sameer. From a business point of view and long road map which we are seeing, from a perspective of running the business, with focus on fundamentals, staying asset light, scalable, technology driven, I think those things I believe that we are in a good place. CL Educate at Rs. 400 Crore is just the starting point, and we look forward to expanding the same.

Arjun Wadhwa: Thank You Satya. One final question before we wrap up for the day.

Sameer is asking if we have any acquisition plans in the near future.

Satya Narayanan R: No Sameer. We have actively dissuaded ourselves from looking at reasonable conversations because I think we have our hands full. I think CUET should not be taken lightly. It is not a part time job. I think this is a huge opportunity and I think in my view this is the biggest opportunity I have seen since CL has been founded. Youth mobility, Student mobility which I shared last time is also a big opportunity in EdTech and we have a big project which has opened up in Kestone. This doesn't mean that we have not kept our eyes and ears open, but it would be a really good deal for us to look at an M&A at this point in time.

Organic business growth could be very fast and very cheap as compared to an acquisition. And we have seen this at least twice in the last 25 years, so I am saying it with a little conviction and not guessing.

Arjun Wadhwa: Right Satya. We will call it a wrap for today.

Thank you for your time. Thank you everyone for attending. Wish you all a good end to the year. We will see you soon in the new year. Take care.

For more information, regarding CL Educate you can visit our corporate website:

[Annual Report](#) | [Financial Statements](#) | [Quarterly Results](#) | [Telegram Channel](#)

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