Fundraising & Strategic Initiatives

Frequently Asked Questions

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FAQs

Q1: Why fundraising in subsidiaries? By how much would the current shareholders get diluted, as a result?

A: There are three main reasons behind opting for fundraising:

1. In the current capital-market scenario, private equity in subsidiaries, as the first step, would be more effective than in the parent.
2. Each of the two subsidiaries (CL and Kestone) has distinct businesses; and this step will help them set out on a growth path on their own.
3. Fundraising will also play a role in HR strategy: through ESOP-based remuneration for the next round of growth.

Based on the capital raised, we anticipate a 10-20% dilution in each of the two subsidiaries; and effective dilution of CL Educate's stake in the subsidiaries. Since we see only digital business being spun off, rest of our businesses would continue under the aegis of CL Educate.

Q2: Do you have any M&A in mind?

A: Yes, we do; in areas, such as GATE, UPSC/Govt jobs, and online tutoring. While we already hold ~60% in ICEGATE, we are actively engaged in conversations/strategic investments in Civils and Tutoring to bolster our core area.

This, however, is an ongoing process; and depending upon options, we anticipate one or two of these coming to fruition over the next 2-3 quarters. However, at this stage, it would be inappropriate to share the names or other details.

Q3: How did you choose the investment bankers? What was the process involved?

A: A board sub-group comprising two independent board members and an executive member (Nikhil Mahajan) oversaw the entire process. We evaluated/interacted with about 15 bankers; and zeroed in on these, based on certain parameters, including:

1. Track record in/priority for the area (EdTech/MarTech)
2. Experience with the fundraising target we have in mind
3. Priority and mindshare for our transaction
4. Alignment with/no-conflict of interests
5. Geographical proximity to key markets/investors

Q4: What is the valuation expectation?

A: We expect the valuation to be that of similar-sized transactions that have occurred in the EdTech/MarTech space in the past 12 months.
For CL, the reference points would be deals such as Byju's with Aakash, Whitehat jr, Toppr, etc.
For Kestone, transactions such as Airmeet and Hopin are the potential valuation benchmarks.
At the same time, we would be guided by the best-possible path forward, including strategic alignment of thoughts, speed of closure, and so on.

Q5: Why not an FPO? Why not consider a listed entity?

A: The Indian public markets have not yet valued the EdTech space in a manner that reflects its innate and huge potential (even if one were to believe private equity is exaggerated). For instance, CL Educate is currently valued at less than the available cash and real estate on the balance sheet. This ascribes negative value to the business. Private equity markets could be considered at the other end of the spectrum.

For CL Educate, we are of the opinion that a successful raise of private equity in these businesses will not only re-rate the CL stock, but will also help us plan for an FPO at a later stage (for the next rounds of fundraising that we see as inevitable in a completely altered, digital world, in the post COVID era).

Q6: What is the estimated timeline?

A: We are looking at 120-180 days from now.

Q7: What strategies will you be adopting?

A: We have two strategic approaches in mind:

(i) CL as a platform: The over-16 segments (16-30 years) has witnessed lot less activity than its under-16 counterpart. CL could become *the* strategic platform that consolidates most of the key over-16 action in the next 2 years.

(ii) A larger strategic platform: This is the other possibility, which involves looking at CL the same way as the recent Byju's-Aakash deal. We have an open mind regarding such possibilities, as we believe consolidation will play a significant role in the EdTech domain over the next 3 years.