"CL Educate Limited Q1 FY19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the CL Educate Limited Q1 FY19 Earnings Conference Call. We have with us on the call today the management of CL Educate Limited, Mr. Satya Narayanan R. – Chairman & Executive Director, Mr. Gautam Puri – CEO (Consumer Business), Mr. Nikhil Mahajan – CEO (Enterprise Business) and Mr. Sudhir Bhargava – CFO. As a reminder, all the participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Satya Narayanan R. Thank you and over to you sir.

Satya Narayanan R: Hi good afternoon everyone. This is Satya here and as already shared I have GP, Nikhil and Sudhir here with me.

I will take up through the presentation which has been uploaded and if you have that slide with you I will start with the Key Initiatives slide which is Slide #3 in the sequence. 'Key Initiatives' is the title: I am capturing on the slide quickly some of the important big rocks that we are focused on. The first one, as you can see, is about some of the changes internally that we have incorporated, some of those are incorporating and this is called 'Parivartan 2018' on the slide. As you are aware over the last 12 months we have added 4 very large segments to our portfolio including IAS, CA, GATE and CS in addition to the focus on some more areas of our science tuitions preparations. In view of that, we have also undergone through some role changes wherein I have stepped in as the Business CEO for test-prep and Gautam Puri is now focused exclusively on the delivery, content, academics, faculty which is the fulfillment part of the entire Test Prep. So, what it is now doing for us is it is a very sharply focused role that we are playing. I focus on customer acquisition, sales, marketing, expansion etc. and Gautam Puri helps me in the fulfillment part of it. That is one significant change. So, today the Consumer business update as well will be taken by me. Some part of corporate restructuring thoughts are underway at the Board. We will share with you as we go along but the whole idea is how do we simplify the structure, we have far too many entities and how does it help in efficiencies of costs and reporting and all of that. That is something that will be underway for the next 9 to 12 months. Currently we have 8 or 9 entities. We are seeing how we can reduce it to 2. Those are some larger parts of the Parivartan 2018.

The second page in the same slide we are talking about, you see when I look at now expansion of our core business over the next 12 to 18 months we are focused on executing it using three-pronged strategy. One is we have the product portfolio, how do we broaden the distribution from the number of centers, the number of cities perspective. #2 I have highlighted in the 2nd 'D' called Delivery and by Delivery - here I mean the centralized delivery to which we are moving. If you look at our GATE, IAS, CA and now we have also begun doing it for MBA and Law, the whole idea is after having integrated ETEN and after having internalized technology how can we grow from about 1500 students who are delivered through the centralized delivery model last year to about 3000 students. That is the next significant shift that we wish to make. In this we have night classes that happen directly into homes. We have the evening classes that happen into centers and into homes and we also have the MBA and Law programs now being delivered out of 2 or 3 locations where the marquee faculty is teaching and not only the students from that very center are learning but also students from multiple locations and multiple centers at each city location. That is the delivery part of our execution plan.

#3. Digital: There is a whole lot of action happening. I will refrain from going into the details of it but it is a lot about are we keeping in step with the changes in policies, NEET has gone online, IIT JEE and whole lot of changes that are happening. So, our delivery, testing all of those models are trying to keep in step with the digital shifts that are happening. The page 3 on the slide if you look at it is again about automation and technology. There is a beta that is happening of Aspiration.Ai. If you find time you can just go. It is still at the customer beta stage. But here the idea is how do we bring all of our products and services onto a single platform and enhance our customer acquisition, efficacy, improve our marketing dollar productivity. Those are the things, please take a look at it. It will give you some idea about what we are talking about. This one would be ready to go to market in about couple of quarters, not immediately. Second is within Automation lot of stuff that are happening on using technology to automate HR, Finance, Marketing and we are hoping to bring some of those to bear upon our cost efficiencies this year itself.

The last within the slide is some of the opportunities that we are – these are all very core to our core segment. TEQIP is a government funded but inside the universities campus recruitment training programs. We are one of the five approved vendors of the government colleges. This is not a government business. This is a business with the institutions and this is about improving the placements and efficiencies, improving the placement records of colleges. That is TEQIP. You can look up more of it on our website or online. CRT is Campus Recruitment Training, Integrated solutions used for the institutions that we do under CL Media or Accendere. And the last is the FRM and NSE derivatives and CFAs, these kinds of programs are now becoming quite integral to the career plans of any B.Com. student or class XI and XII Commerce students or even students who are doing undergrad BBA or even MBAs at the IIMs and the top business schools. And as you would know some of these are becoming almost an expectation from the employer for the true blue chip jobs in the finance sector in your own companies as well. So, these are meaningful quick adjacencies for us that we are trying to add in this financial year.

I am now moving to slide ahead into the financial performance. The title is Q1 FY19 Financial Summary: If you will look at it the highlights of this is on a YoY basis for the Q1 our revenues from ops have gone up by about 19% and EBITDA has shown a little bit of a healthy growth in this quarter. I will cover a little bit of details in the subsequent couple of slides. And just to bring your attention to the bullet at the bottom of the screen, we had our Q1 Board Meeting yesterday and the Board has decided to announce an interim dividend of Rs. 1 per share for the current financial year.

I am moving to the next slide, which talks about segmental metrics. Not much to lever upon here. The Consumer business is showing a 29.1% growth, Enterprise is 24.1% growth. The details of which a little bit we will cover in the subsequent slides between me and Nikhil.

I am now going to the operating performance slide of the Consumer business, two slides ahead. Even this one is basically reiterating in a couple of top slides, the growth in revenues and the results. The bottom part of the slides, most of the numbers are self-evident. Maybe I will leave this and go to the next one to be able to explain some details to you. If you look at the Consumer operating metrics and I have highlighted a few bullets in circles, you know few areas in circles, dotted circles. For example, the MBA volume growths have been about 9.5% in this quarter, however going through the change in the product mix the average realization has been lower while the overall billing has gone up by 2.6%. If I were to drill down and look at the MBA basket a little bit deeper, on an average the classroom pricing has gone up by about Rs. 2000, that is about 5-7% increase depending upon which city we are talking about. But the mix of students who are taking programs online at home or the tech series have grown which are lower priced products, ideally I would have liked to see along with a 9.5% growth in volume I would have like to see as similar percentage, at least a 5% increase in pricing which is what the endeavor would be as we move forward into the rest of the season. The second one I am drawing your attention to is the IIT medical tuitions fees. If you recall we integrated the Science Parivar which is a reasonably well-known Science Tuitions brand in Bombay. This was founded by very senior professors who are part of the original Agarwal team. That integration has gone reasonably well, better than we had anticipated or as well as we wanted and that one is showing some growth so there is 100% growth in volumes and an 83% growth in billings on a QoQ basis. Civils, the 554 last year also had a carry forward when we acquired the ETEN, so that needs to be netted out. And if that is netted out about 175K, ETEN in itself has not shown growth but the centralized delivery model which includes ETEN Civils, ETEN CA and also what we are delivering has now centralized delivery for MBA, Law, GATE if it takes all the products that are now being delivered a centralized model that has shown volume growth. We hope to be able to breakeven on contribute operating margins in this financial year which was a Rs (-4) crores operating loss last year if you recall.

I am now moving to the next slide and see if there is anything that I have missed out on. On the bottom part of this slide key highlights business as usual. The ones on top I have covered. On the bottom if you recall we also have access publishing which is the civil services focused publishing part under GKP that has shown a very healthy growth and we are now trying to see how we can cross leverage our publishing programs with the test-prep programs in civil services over the coming couple of quarters in this season. The GATE and vacancies, one have been a little sluggish because the vacancies are linked to banking and other government exams, vacancies when they are announced we get a rush. Some of those programs have not happened still this year but we hope that given that the elections are going to be there early next year, the September, December period we might see a few more government vacancies opening up including banks and public sectors and so on. That is the summary, quick one of the Consumer business.

I will pause, request Nikhil to come and take the Enterprise Business update.

Nikhil Mahajan: Good afternoon everybody. I am on Slide #15 which basically is the Enterprise operating metrics. So, if you broadly look at it this business has shown a growth of about 25% in terms of revenues, Corporate business has grown in this quarter at around 20% and Institutional business on a very small base have shown a growth of about 100%. Obviously, that is going to get moderated as we proceed because Q1 is usually the most lean quarter for this business and even a small increment of business in this quarter results in a reasonably large percentage growth. If you look at some of the key operative metrics in the corporate business, you will see that there has been a significant growth in the domestic business. The number of clients has increased from about 42 to 45 in the apple to apple mapping of client numbers so the per yield from each customer has improved slightly this quarter backed by slightly more deeper engagement with some of the larger corporates. On the institutional front you will see that while there has been a decline in the number of clients from 20 to 12, that is probably because some of those cases either the billing happened in the March quarter or in some cases the billing moved to the July-August-September quarter. I think by the time we end quarter 2 we will show a net growth in the client base and there will be a matching revenue increment which will get reflected. In the Research business we have off-late seen significantly positive traction with large number of new clients getting signed up in Q1 besides the renewals of the three previous clients. Though you may see a slight dip in the revenue that is predominantly because of the new seasonal billings for most of the research customers starting in July rather than it being done in Q1. I think this will get corrected as we move to Q2 and Q3. That is the broad summary on the Enterprise business.

Now if you have any questions on either the Consumer business or the Enterprise business we are happy to take.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Manju Bhashini from Sundaram Mutual Fund, please go ahead.

Manju Bhashini: Very good set of numbers sir after very muted last year that we went through. Quite encouraging start of the year this time around. You talked about that how you would have liked the billing also to have increased in your Test Prep and how the online mix is causing this sort of an overall decline in the pricing front but otherwise on the volume side around 10% odd number that you saw, is it something specific only to the MBA part of the Test Prep or are you seeing this across the board, across all lines?

Satya Narayanan R: This is very specific to MBA Manju and what we are trying to do is to stay very cued in and stay in step with the customer preferences and there are some of those shifts that happens gently, but yes answering your question this observation was very specific to MBA and as you also know in MBA our task is to also improve our relative market share and there are markets where per classroom numbers to grow. There are some very conscious price choices that our businesses are making, and we are kind of supporting that to improve the relative market share. All observation is specific to MBA in this regard.

Manju Bhashini: And what would be the share of MBA related services within Test Prep currently? Has that come off over the last 2 years?

Nikhil Mahajan: As a percentage that would have dipped slightly, especially in this quarter it has dipped though absolute volume billing have both increased in the last 2 years but this quarter if you see there is a significant jump in the billing of IIT, Medical and also Law. So, as a relative percentage of the total billing you will probably see a dip. But that is also slightly seasonal because Q1 is one of the biggest quarters for all undergraduate program enrollments which are Law and IIT, Medical in the tuition segment. So, I think yes, in absolute terms the relative percentage of MBA will probably show a slight dip but in absolute terms the total gross billing of MBA continues to increase over the last 2 years.

Manju Bhashini: Can you run me through the current mix of the service within the Test Prep, how each of these streams are currently contributing in terms of sale?

Nikhil Mahajan: So, if you look at in Q1 FY19 the total billing was about Rs. 81 crores of which MBA accounted for about Rs. 23 crores, Law Rs. 29 crores, IIT, Medical tuitions about Rs. 14 crores, GATE about Rs. 4.3 crores and others about Rs. 10 crores. So, if you look at the presentation we have given the breakup of how things have moved from quarter to quarter. So, there is a significant 27% increase in billing in Q1 from Rs 63.7 crores to Rs 81 crores. While MBA in absolute terms have increased, as a percentage it would have shrunk because the denominator has increased, driven more aggressively by increase in billing of Law and Engineering.

Manju Bhashini: And another thing was the 22% odd YoY growth that we are seeing in this segment for the Test Prep for this time around how sustainable is this? You talked about how IIT, Medical and all will have a Q1 seasonally strong one which we have benefited I am assuming and going ahead what are the segments you think will contribute and what should we assume from our expectations perspective? What is the level of growth that you think you can achieve there?

Satya Narayanan R: Answering to your question Manju, see there is a potential in each of these segments for us to do well for a considerable period of time into the future. However, I am extremely mindful of our last four quarters as well. So, I would just want to kind of put our heads down and meet every quarter and then give some numbers and let the numbers stop. You are far too seasoned than I am in kind of do the modeling.

Manju Bhashini: No, the reason I am trying to understand this is, so this is by far the largest contributor both from the sales perspective and the EBIT perspective. And here is where we may have some visibility based on our historical past and some sort of visibility on the new enrolments, what is possible and the competitive scenario. I am sure you are the best person who can tell us what is happening on the ground. Are we losing market share in any of these sub-segments to someone out there who may be again a regional competitor?

Satya Narayanan R: Is your question specific to MBA Manju?

Manju Bhashini: No, not just to MBA. It is for the entire Test Prep.

Satya Narayanan R: Okay. So, this particular question will have to be answered segment by segment because for example in MBA it is largely two national brands and each city 3 or 4 local brands kind of a play. So, there the task for us to increase the relative market share by squeezing out the smaller guys or by taking it from the market leader or where we are market leader to squeeze out the other people. So, there are half a dozen markets where we are the leader, half a dozen markets where another brand is a leader. Whereas if I look at the tuitions, the IIT, JEE and Medical we are the upstarts. We are the smallest in the market. So, there is a huge amount of runway that is available. Same is the case in GATE, IAS as well as CA. So, in all of them I think it is a lot about our execution and not as much the market opportunity. So, my own view is we need to stay very sharply focused on execution by doing stuff that is efficient into the customer acquisition and that improves our EBITDA as we move forward which will happen if we execute our centralized delivery strategy very well because instead of giving 75% to our partners we will be then giving only 42% because we take care of the delivery. Some of these are pivots that are happening but each segment has its key challenge or key task which we are focused on with different geographies and different products.

Manju Bhashini: And we have some plans of some acquisitions as well here, especially I think in the GATE part is where you are looking to acquire one of the players therein. Any progress there sir, I mean do you think growth in the Test Preps across all segments from an organic perspective itself is possible or how will you look at inorganics at this point of time, inorganic acquisitions? Would they be looked at from the growth perspective or addition of further sub-segments here or what are your thoughts here on acquisition at this point in time?

Satya Narayanan R: Just to refresh your memory Manju, if you recall, we acquired 51% in ICE GATE to enter the GATE segment towards December-January last year. ICE GATE is the fastest growing GATE brand in the country. They are still present only in about 10 locations and over a period of time we will move up from 51% to own it entirely, the way we did with Accendere in the previous 18 months. And as we speak ICE GATE is focused on growing the geographies and also trying to move into the centralized delivery model where the delivery happens the way our ETEN delivery happens for civil services and CA. So, yes, we already have a foothold. Last year we had about 10,000 students in GATE through ICE GATE. The idea is can that grow at a healthy clip for the next 8 quarters and try to become a significant national player by leveraging CL's reach.

Manju Bhashini: Another thing was we had an expectation of reduction in the operating losses that can come through by utilizing same centers for delivering multiple posters and how the online part can change the way of delivery and hence cost reduction. These were some of the things that were planned specially from the ETEN perspective. And I recall in the call also you talked about some Rs. 4 crores operating loss that ETEN had booked there about. Some progress there? What has been happening?

Satya Narayanan R: Lot of progress there in terms of actions, activities from reducing costs, improving efficiencies. We hope to see those numbers continue to reflect in a visible way as we do the second and third and fourth quarters. The utilization of classrooms, faculty, technology, bandwidth, lot of those rationalizations and cross-leveraging have happened in the last 3 to 5 months. Those will reflect as we move forward provided we also keep growing the topline, it should look in a visible way.

Manju Bhashini: So, what is the current loss number from these entities? At the operating level, are they already breakeven?

Nikhil Mahajan: ICE GATE is profitable and we hope that ETEN this year will be a breakeven. So, from Rs (-4) crores which was the case last year, we will reach a breakeven situation this year.

Satya Narayanan R: The way we are also looking Manju, just to kind of put it in perspective, the acquisition of ETEN also signaled to us, acquisition of a new methodology of delivery which we call it centralized delivery, which we hope to also make happen for other core products of CL. So, as we move forward we will kind of get to a point where we will start also talking about localized delivery and centralized delivery, whether it is like ETEN products, CA and IAS or have we kind of migrated that practice into GATE and MBA and Law and RBI etc. So, as I mentioned as part of my presentation that metric is last year we had centralized delivery numbers of about 1450 or 1500 across all products put together including ETEN. Can we grow that to about 3000 is the task that I have a business lead in Test Prep.

Manju Bhashini: Which means 1500 people were addressed through a centralized delivery system last year. You are looking to double it up in this year, this quarter, right?

Satya Narayanan R: Yes.

Manju Bhashini: From the cost perspective some ballpark numbers here sir, how will your cost get reduced vis-à-vis on-premise classroom as I said centralized delivery mode, what could be on a per person basis, some numbers if you can share there?

Satya Narayanan R: One point that Nikhil made I will just reiterate saying that last time ETEN did about Rs (-4) crores. This time that would not be there. There is profit. I am almost in my head seeing it as efficiencies across various businesses and maybe if I need to kind of quantify that in my own head I am saying let me kind of grapple with that or the next two quarters to be able to see it visible in numbers and not face you know, I am still reeling under the last year's numbers. So, let the numbers stop for me Manju. But if there is any bad news I will let you know much in advance than the good news.

Manju Bhashini: Definitely. So, here the rentals and the employee cost, that is what gets shared, right?

Satya Narayanan R: Yes, rentals, employees, technology bandwidth, the number of centers that will now carry more products than just tools of productivity arguably as a number for every center. Academic delivery cost, because one faculty who is a very high-quality faculty he is teaching let us say about 150 students spread across 20 locations in an off peak hour wherein in Vijaywada a batch of 6 students of GATE are sitting which otherwise would not have been viable in the earlier model. It becomes viable in this model. So, it is an interplay of 3-4 things but we need to kind of gather enough number of cities and students for this to look that we have cracked the problem.

Manju Bhashini: Got it. Sir on the balance sheet part, can you update us on what is happening on that sale of K12, how far are we there? What is the progress we have made there and then again on the debtors part I have as of March 2018 the debtors numbers that we shared which is looking if I am not wrong? It is somewhere in the Rs. 115 crores odd for full year FY18. Anything that we managed to collect in this quarter? Some updates on the balance sheet front will help.

Nikhil Mahajan: See the K-12 deal with Cerestra isn't likely to fructify and now we are in detailed discussion with couple of alternate players. I think we have progressed a bit in that. We will update once we reach some kind of deal and conclusion and that at an appropriate stage. So, factually speaking on the K-12 nothing has happened. There are a couple of discussions which are a work in progress. On the debtors, especially the government debtors in Q1 no realizations came in. We expect something to happen in the coming quarter. So, if you realistically ask me there was no significant movement on the balance sheet front from the March quarter to the June quarter.

Moderator: As there are no further questions from the participants, I would now like to hand the conference over to Mr. Satya Narayanan for closing comments.

Satya Narayanan R: Thank you very much. Thank you for joining. Look forward to keeping you updated and hope to see CL progress down the path that we have been sharing is our way forward over the last few quarters. Thank you very much for joining as we appreciate you investing your time and coming and hearing our progress report. Thank you.

Moderator: Thank you. On behalf of CL Educate Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.