"CL Educate Limited Q2 FY18 Earnings Conference Call"

November 22, 2017

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Moderator: Ladies and gentlemen good day and welcome to the CL Educate Limited's Q2 FY18 Earnings Conference Call. As a reminder all participant 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Ruchika Govila from CL Educate Limited. Thank you and over to you ma'am.

Ruchika Govila: Thank you Janis. Good afternoon everyone, it is a pleasure to welcome you all to CL Educate Q2FY18 Earnings Conference Call. We have with us Mr. Satya Narayanan R. – the Chairman and Executive Director, Mr. Nikhil Mahajan – Executive Director and Group CEO for the Enterprise Business and Mr. Sudhir Bhargava- the CFO.

The Management will open the call with quarterly update followed by a short business review and the future growth strategies for the company. After the opening remarks we will open the call for questions. Before we begin, please note that some statements in today's call may be forward-looking and actual results may be materially different from these forward-looking statements. The information provided on the call is as of date and the company undertakes no obligation to update that information subsequently.

With that said I will now hand over the call to Satya for his opening remarks.

Satya Narayanan R.: Thank you Ruchika, a warm welcome to all of you who have logged into the call. As all of you are aware its early days for us as a listed entity and given that a few of you might be logging in for the first time, I will take a minute or two to broadly give the construct of our business before going into the specific details of the quarter and H1FY18.

As you know our core business is constructed as two verticals, there is a Consumer Business vertical which includes test-prep and publishing which is headed by Gautam Puri and the second is the Enterprise Business which includes Corporates as well as Universities and Institutions which is headed by Nikhil Mahajan. The Consumer test-prep business in the last two quarters has also included the couple of acquisitions that we have done including ETEN for IAS and Chartered Accountancy and VistaMind which is a small MBA player which is now integrated into CL Educate. Under the Enterprise segment on the other hand, we have services to Corporates, Universities and Institutions under the brand of Kestone which does corporate services, Accendere which does research services for both Corporates and Institutions and CL Media which does brand and marketing for Universities. We request you if possible to download or refer to the investor presentation uploaded on our website, hope some of you had time to go through that.

Let me now touch upon the financials for the quarter and for the half year. The total income was Rs 77.2 crores during the quarter under review as compared to Rs 78.1 crores during the corresponding quarter; this reflects a drop of about 1% on a corresponding period basis. The company reported an EBITDA of Rs 9.5 crores which is 12.3% of Total Income in Q2 FY18 as compared to an EBITDA of Rs 14.04 crores which is 17.8% of Total Income in Q2 FY17. The net profit stood at Rs 4.6 crores in Q2 FY18 against Rs 7.3 crores in Q2FY17. . It is appropriate for me to name the couple of observations here before I move to the half year. The ETEN CA and Civil Services and VistaMind expenses depressed profits by about Rs 2.5 crores, the manpower for building the business for next 24 months which included addition of senior members in couple of businesses has also increased cost by about a crore. Another important aspect maybe I will touch upon it a little later but just to allude to it, there is an impact of deferred revenues adding up to almost Rs 4 crores which also has affected profits in this period that we are in discussions in.

For the half year ending September 30th, 2017, the total income was Rs 152.6 crores as compared to Rs 151.8 crore which is a marginal growth of 0.6% and the EBITDA of Rs 8.9 crores vis-à-vis Rs 17.5 crores for the corresponding period last year. So, on overall basis for H1 FY18, the net profit stood at Rs 7.8 crores versus Rs 11.2 crores during the corresponding period in the previous year. As shared earlier that some of these declines in profits were due to higher cost from the ETEN IAS, CA and VistaMind acquisitions, both of which added up to the figures that I shared earlier.

Some important operating highlights; our test-prep centers on the Consumer side have grown from 155 locations to 200 locations by September ‘17 which includes about 45 new centers of IAS and CA under the ETEN brand; total test-prep student enrollments stands at 53,800 last year which looks like 50,700 this year, out of which the decline of about 5000 numbers is coming from deferred banking and SSC products examination in this financial year. Overall in terms of billings our numbers are higher by 12% in the Consumer test-prep business. However, revenue recognition under INDAS gets deferred and therefore we have a higher deferred revenue as of September 30th of 2017 at Rs. 10 crores vis-à-vis Rs 6 crores last year. This will translate into revenue by end of the year and our estimate is that nearly 60% of the same would flow into profits. If we consider these deferred and recomputed profits at the consolidated level, the drop-in profits are relatively lower, that is from Rs 12 crores to Rs 10 crores versus Rs 11 crores to Rs 8 crores in the reported numbers. In our Publishing Business, we have added titles for Civil services products and also new titles on our own for example as you might be aware Class 10th board exams have been introduced in CBSE and we have added the sample papers from the previous boards, all of these give us a new opportunity to be tapped over the next couple of years. You'll recall that Enterprise Business suffered in Q1 since client withheld expenses waiting for the GST to stabilize. Some of the demand is back for the billing in integrated marketing services where the Corporate declined by about 9% in H1FY18 over H1 of last year. On the other hand, the Institution business has grown by about 97% for the corresponding period though that is also partly attributable to a small base that we had in research business last year.

A Couple of other updates before I open it up for questions; post September 30th, 2017 we have acquired 50.7% in ICE GATE which is a services company providing coaching for GATE. GATE is Graduate Aptitude Test in Engineering and related exams that is an exam that students who takes to get into many PSU jobs or to do M. Tech at the leading engineering colleges including IITs. For this transaction we have paid Rs. 6.23 crores as per our understanding we will increase our stake to 65% for an additional amount of up to Rs 1.77 crores in cash over the next 27 months and the remaining 35% will be acquired within five years. This acquisition will complement our existing Publication business as well as add very important products to our test-prep portfolio. The other important point for me to update you with is that the Enterprise Business is gradually scaling up having witnessed the dip in Q1 mainly due to GST rollout. The research services while being small are scaling up very well and we remain committed to this segment. In line with this Enterprise Business, our annual conference called Melting Pot 2020, the second edition of that was held last week and which had a much wider participation this year from academia and industry at about 550 delegates who are all key decision-makers in these two segments vis-à-vis about 300 last year. You are aware that our K2 school asset sale, a part of it has been executed, the other part of realization of money that is taking little longer than envisaged, this is an update that I thought that I will make a mention of.

In the vocational business, as you are aware we have exited building business there over the last 12 to 18 months. We have focused on the job of collections. We received Rs 3.2 crores from the government of UP last quarter and we expect some more inflows from the other governments before March 2018. That brings me to the update; I will pause here for a moment and take calls from you. As Ruchika mentioned, I have Nikhil here, who heads our Enterprise Business and Sudhir, who is a CFO. And anything on that test-prep I will field questions as Gautam Puri the Head of Test-prep business is not here with us today.

Moderator: Thank you very much. We will now begin with the question and answer session. We take the first question from the line of Ankit Pande from Quant Capital. Please go ahead.

Ankit Pande: My question would be just to understand your basic outlook for the various segments that we run, I think from what I understand your Enterprise Business is something that you're looking forward to as a Publishing business or maybe a Research business. So, could you just give me a brief overview of strategic strongholds that we are excited about in our overall piece and where do we stand with respect to the lifecycle of investment?

Satya Narayanan R.: I will cover briefly both the answers, the Consumer Test-Prep as well as Enterprise and maybe Nikhil can chip in with a point or two that you may want to add. I think the perspective I would take is 18 to 24 months for a lot of investments and initiatives that we are doing to come good. If I were to give you a sense, the MBA and the Law Test Prep businesses they are Rs 65 crores and Rs 45 crores kind of a product's numbers for us. And these two segments have a denominator of career aspirants of 200,000 and 50,000 only, so just look at it from perspective of 200,000 aspirants segment gives us Rs 60-65 crores of revenue and 50,000 students aspirants segment of Law entrance gives us Rs 40-45 crore revenue. The rest of the segments are relatively new to us and those segments are anywhere from 2x to 5x the size of the MBA segment. Given that as I shared in my road shows with many of you, the knowledge segment of Test Prep also needs a new delivery model which is what we got in when we acquired ETEN and those segments can be significantly large in the couple of seasons adding very profitable growth in a negative capital deployment way by that what I mean is it's going to be significantly business partner delivered model where a franchisee steps in and builds the business, the way we have grown the MBA and Law over the last 10 years. So that's a little bit of my view of 18 to 24 months period on the Test Prep. On the Enterprise side, Kestone has a very good hold in the Corporate marketing services business that it has been in for long. The research services and the 361 DM investment that we have made which gives us a chance to grow and have a wallet share from the HR heads on learning and development. This will perhaps begin to gather momentum in 2 to 3 quarters, the investments needed for all of that has been underway for the last two quarters and we hope that this part also will show a healthy growth. I will pause for a moment and let Nikhil chip in with a point or two.

Ankit Pande: Can I just put in the couple of follow-ups just before that. You did mention something on the Test Prep side which sort of I need to understand a little bit better. You did say that the other segments that are 2x to 5x MBA segments pretty bad, would that entail a lot more investments and with that I would also like to get some clarification on the new test centers that you opened around 45 odd to (+200), are they sort of owned or have they been taken on lease?

Satya Narayanan R.: All of these centers are in the business partner model as we call it in our internal parlance Ankit, it means it's a franchisee center which means a franchisee who is appointed by us, he sets it up, he is trained and certified to do business for us and in this knowledge product almost all of the delivery also is happening from a bunch of central studios that we have in the couple of cities. So, there is no capital investment that goes into establishing new centers, the effort goes into creating the brand campaign and then the network team that goes and recruits the franchisees for growth.

Ankit Pande: Does the other part, the other segment that you mentioned apart from MBA, would they require newer investment something on the horizon do you think?

Satya Narayanan R.: No, even they don't need I think the investments that are needed would only be on the brand campaign or the franchisee recruitment campaign. It would be in the order of Rs 2 to 3 to 4 crores of investments. There is no investment in capital, in land or in owning the centers, none of those. As I was explaining earlier about the newer products and not MBA and Law because we have practically covered all the centers where MBA and Law aspirants go and seek Test Prep support for. Maybe Nikhil can make a little bit of an explanation on the Melting Pot as an initiative.

Nikhil Mahajan: This year was a second edition of Melting Pot, last year we had first started it off, we had about 250 delegates. This year we scaled it up reasonably with about 550 delegates from about

450 organizations almost evenly split between academia and institutions and the product show-casing, new innovations where some of the last year activities in colleges and universities were showcased which has envisioned good interest and we see a healthy pipeline of interest from both academic institutions as well as corporates for the coming 3 to 4 quarters and we are extremely positive of that translating into a steady and reoccurring source of revenues in the coming years that was one. The other thing in the Enterprise Business was that in the corporate space, we have done two significant activities in the last quarter or so. One, we have added one more business segment called Youth because in leverage with CL Educate Kestone has been doing lot of activities for corporates targeting the youth between the age of 15 to 22 and in order to be enabled to harness corporate targeted towards that segment we have decided to create a dedicated focused segment. The second, we set up our Kestone International operation at Singapore last year, in H1 last year we have done a revenue of about $100,000, this year that has scaled up 6x to about 3/4th of a million dollar in the first 6 months and we expect this trend to continue in the second half. International operation gives us two critical leverages since a significant part of delivery is based out of India. We are able to earn higher margins and in line of that we are putting more energies and resources in penetrating our international operations of corporate services with adding up another operation based out of Dubai to cater to the Middle East market besides expanding the Singapore operations to cater to Southeast Asia predominantly Malaysia, Indonesia, Vietnam and those markets.

Ankit Pande: I just like to follow up where the couple of numerical if you could give me the market share that you may track in some of the Test Prep segments and also a question for Sudhir, nice to get in touch with you again Sudhir. But if you can just give me some color on the other income this quarter it was I think quite a bit of jump from Rs 3.2 crores in last quarter to Rs 4.5 crores and also the other expenses jump of about 30% YOY and would that basically come from?

Sudhir Bhargava: The other income is because of the IPO proceeds that came into the company end of March and FDs made thereon. So as old FDs are utilized this would taper out. Other expenses or un-allocable mainly pertain to increase in certain corporate level kind of expenses. There was something else that you asked.

Ankit Pande: Market share if you could just give me?

Sudhir Bhargava: In our August '17 presentation on Slide #24 you will get an idea of the number of people who write that exam and the numbers that are with us.

Ankit Pande: Ok, I will take it up from there.

Sudhir Bhargava: That Slide is #24 in the August '17 Investor Presentation, so for example the MBA test is written by approximately 2.5 lakh students and last financial year about 36,000 were availed our services either through classrooms or mock-tests or both. Similarly, for other segments we have given these numbers, in Law we clearly are the leaders, in MBA possibly #2 and trying to get to #1.

Diwakar Pingle: I will chip in a question here, this is Diwakar Pingle. I think the question I had for the management was more from a focus of restructuring, consolidation, and realignment being done in the business. So, my question to Satya is what are those key areas that we are actually focusing on to get the efficiencies in the system, what are those strategies that you are taking and how do you see this panning out over the next 12 to 24 months?

Satya Narayanan R.: I think taking exactly the couple of dimensions that you mentioned, on the consolidation side, one significant release has been that of the management bandwidth after the divestment in the K12 business and all those senior resources are now reallocated to either Enterprise or Consumer business and we believe that will pay-off well over the next few quarters. The other significant realignment again staying within the management realignment is as you are aware Sudhir has joined us and he now anchors the CFO's role and Nikhil has moved as a full-time CEO as our Enterprise Business. So, the exiting of the asset-heavy businesses has not only given us a chance of looking at capital getting released over the next few quarters but also release the management bandwidth to focus on two business lines that we think we have enough on our plate for the next three years that is Enterprise and Consumer. Within the Consumer business--again maybe I'm repeating myself but it might be useful-- with the addition of IAS, CA and GATE and the addition of the backbone of ETEN delivery platform, we now have a very large pool of customers to go and fetch by increasing our market share. And if I were to just connect with the question that Ankit asked a little while ago and Sudhir responded to, in MBA or Law out of any Test Prep segments it perhaps is a broad thumb rule that about half of them come for coaching which means in a 1.2 lakhs coaching seekers for MBA we have 35,000 students which you can call it as 22%-23%-25% kind of a market share. Whereas if you take engineering, GATE, IAS, we would be perhaps very early single-digits, so to grow that percentage by 4x or 5 x it may kind of if we kind of execute that well over the next couple of years.

Moderator: Thank you. That would be the last question for today. I now hand the floor over to the management for their closing comments.

Satya Narayanan R.: Thank you Janis. Thank you very much all of you for joining us at this call. You all are aware of our coordinates if there are any in more queries, you could address it to us and we will be happy to respond to those. As mentioned by Ruchika this presentation is already uploaded and it is available to you. Thank you very much Janis. Thank you everybody. I will ask for a closure of this call.

Moderator: Thank you very much. Ladies and gentlemen on behalf of CL Educate Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.