



## “Aptech Limited Q3FY13 Earnings Conference Call”

**January 23, 2013**

### **APTECH LIMITED REPRESENTATIVES**

**MR. NINAD KARPE – CEO & MD**

**MR. T. K. RAVI SHANKAR – CFO**

**MR. NILESH VANI – HEAD OF STRATEGY & IT**

**MR. SAURABH GADA – SR. GM, INVESTOR RELATIONS**

**Disclaimer:** *Transcript has been edited to ensure readability without any change in the meaning of the text.*

**Moderator** Ladies and gentlemen good day and welcome to the Aptech Limited Q3-FY13 Earnings Conference Call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing '\*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Saurabh Gada, thank you and over to you sir.

**Saurabh Gada** Welcome everybody to Aptech Q3-FY13 Quarterly Conference Call. We have with us today Mr. Ninad Karpe – Managing Director & CEO of Aptech, Mr. T.K. Ravishankar – CFO of Aptech and Mr. Nilesh Vani – Head of Strategy and IT at Aptech. I would now like to handover the call to Mr. Ninad Karpe for his opening comments.

**Ninad Karpe** Thank you for joining us in this conference call. The next 10 to 15 minutes, I will give an overview of what is happening in Aptech and then I will respond to any questions that you may have.

Overall, our new sign up income registered a growth of 18% over the last year and our PBT also has shown a 15% increase over last year, which is a healthy sign. Top-line has reduced, but it is mostly attributable to change of accounting method of MAAC which we are changing from their accounting method to Aptech accounting method and it will take some more time to be totally aligned to the accounting method of Aptech. We have shown good growth in PBT, there has been some tax because of impact of MAT, but PBT has grown by 15%. The board has announced yesterday an internal dividend of 15%, Rs. 1.5 per share, so shareholders will get interim dividends soon. In terms of retail revenue, broad mix continues to remain the same. Royalty which is the major component, roughly 56 to 60% every year has always been received from royalty and which shows that business does have some

bit of robustness, which ensures that royalty keeps coming on a regular basis.

On the expenses front – we have controlled the expenses quite well running with the right amount of resources, putting the right amount of people and the right amount of expenses and that has shown results whereby Q3 of this year, our overall expenses are lesser than Q3 of last year and this is despite a normal increment which we gave to the employees and the normal inflation related expenses. To control expenses, we have evaluated in terms of whether we need to outsource noncore activities, running a tight ship and all of that has enabled us to keep the expenses at a very, very reasonable level. In terms of balance sheet, we believe we have a very strong balance sheet with roughly 110 crores of cash and cash equivalent, we do not have any debt and debtors are reasonable compared to the size of overall balance sheet in the region of 21 crores, so we have a fairly strong balance sheet too. In terms of the brands which are doing well, international continues to show growth of roughly 15% over last year.

In terms of Enterprise Business – we have a strong tailwind on Aptech Testing, in next quarter of course we will do CMAT test, but other than that we do have marquee clients in Aptech Testing, so Aptech Testing will continue to do well. Arena domestic has got little flattish growth in terms of income.

In IT Training – the little fall is also attributed towards the fact that we have actually franchised lot of our own centers in IT, which implies directly that we no longer get the Top-line and it immediately impacts the Top-line of IT training.

Overall in terms of the basket, which we continue to hold on a continuing basis, International has shown growth. Aptech Testing has shown some bit of growth and will continue to show growth. Arena has been flattish and IT training decline is by and large attributable to the closure or franchising out of own centers. On MAAC, because of change in accounting methods the figures are not by and large comparable.

We continue to remain optimistic on International revenue as well as Testing especially with the recent success of some of the movies. Recently a movie Life of Pi where lot of animation work was done in studios in India, which we believe roughly as per the reports we have, 40% of the animation work in movies like that is now being outsourced to India. So we believe that we will still continue to see higher demands for such courses. Interestingly, Arena and MAAC are both top brands in India with Arena having good market leadership and its stride is not just animation, but everything from multimedia, animation, special effects to all those things in between, so there is good potential to attract people right from multimedia to special effects.

In terms of growth of centers, we have added 25 centers in the last quarter out of which international were 4 and 21 were in India. This fact clearly reflects that there is still deep potential to be harnessed. In fact on a YTD basis, we have added in the last 9 months we added 81 centers, which really shows that there is deep potential. Where is the potential? The potential we are seeing now in India is in the fact that B class and C class cities are also getting attracted by field like multimedia and not necessary special effects. But in multimedia for example Arena Animation has added total of 6 in India and one center outside India as opposed to Aptech Computer Education where we added 4 in the last quarter, so we still believe there is lot of depth for our courses in B class and C class cities, so that is why it is reflected in the addition which we have every quarter. Enrollment and booking has also grown across brands more or less except little bit in IT Training enrollment. In my initial note I had eluded through an issue in MAAC relating to IGNOU, MAAC had tied up with IGNOU and after August admissions are kept in abeyance so till July and August we have taken admissions for IGNOU and the next round typically is a small round in February-March but the more important is IGNOU admissions are said in July, so we still have time while all this discussions are ongoing. We still believe that MAAC has a strong brand name and will continue to attract enrollment on the basis of MAAC itself.

In terms of enrollment in retail, of course, the majority enrollment 62% plus are in short-term courses, but when it comes to booking it is a reverse, roughly 82% is career, with this career students obviously gives a higher revenue over a longer period of time and short term courses are typically over a couple of months. In terms of retail region wise spread, in terms of revenue 66% is roughly India and the balance is from outside India. Again talking about Enterprise business, we have shown increase in the number of tests and amount of revenue from the Enterprise business. In terms of number of employees, we remain steady in the region of 440 and this will probably be in that range because we have outsourced as much work as possible and we have kept our internal employees to the bare minimum. So what are all our key business highlights, some of the highlights let me state and let me also state where I feel optimistic and positive in the next couple of quarters. One is of course placements have grown in Aptech Computer Education and Arena roughly 48% and 33%. This reflects the fact that good people are getting hired in the market. We have tied up a master franchisee in Nepal. We are starting a course in App Development and we are starting a course called Aptech Learning Ladder. Aptech Learning Ladder will be targeted to the overseas market where we will be teaching IT and multimedia curriculum for school. This has just been test launched. The content is ready and hope to see good revenues in the coming year.

Let me summarize by saying what are the things which are doing well, we are optimistic about what are the things which can be improved further. We believe what we do is doing well in terms of our international markets have continued to grow. Our Testing Business has a tailwind in the domestic market although we have seen flat revenue in Arena, we still believe it will continue to grow as we go to smaller places, class B and class C cities and also as we see a stronger demand in future for multimedia and animation. IT education the Top-line has degrown last year because of our own centers which we franchised out, but IT education domestic will continue to show some flattish kind of growth, but IT education international will continue to grow. These are some of the things the Aptech Learning Ladder is still early, it is in the pilot stage, and we will obviously see some results in the future

and future quarters to follow. That's it from me, I am ready now and open for any questions which you may have.

**Moderator** Ladies and gentleman we will now begin the question and answer session. The first question is from Sadiq Khetani from Reval. Please go ahead.

**Sadiq Khetani** My first question is about the problem of MAAC IGNOU alliance, how will the company cope up with these things, is there any other plan for the company to offer degree courses which we are offering with the help of IGNOU and can the company offer these degree courses without the help of IGNOU?

**Ninad Karpe** Presently there is an exclusive relationship on both sides, which is we cannot as per the present agreement we cannot offer in MAAC degree courses other than IGNOU and IGNOU of course also cannot tie-up with anyone else for animation courses, so presently there is exclusivity. Having said that, we do not see any impact immediately. The majority of enrollments do happen in the June-July timeframe for IGNOU and we still do have time to sort out all the issues and ensure that there is no impact.

**Sadiq Khetani** How much time will it take to sort out these issues?

**Ninad Karpe** We are having discussions with the university, with IGNOU and we are presently talking to them, so I am hopeful that we are still in January and I am hopeful that in the next 2 to 3 months, we should be able to sort out this issue.

**Sadiq Khetani** One more question is recently we have seen that there is a technological change in the sector that is the new platforms are emerging like Android, has the company started doing training courses for the new platform like Android for example starting the App Development courses, application development courses?

**Ninad Karpe** Yes we have in fact. Nilesh Vani, my colleague, who is Head of Strategy will respond to this.

**Nilesh Vani**

We have currently started offering courses on Android development platform and we would be offering courses on the Apple iOS platform also shortly, but these courses tend to be fairly short term courses, so the students who wish to do these courses already have prior skill sets in the development domain. They need to be further trained and equipped to do it as per the android platform or the iOS platform. So it is skill upgrade largely it is not fresh from scratch kind of a training program. Going forward for the next season we would also offer some of these modules in our career courses, so this area will be seen in two parts one is in the career courses where these will be as modules in the specific semester and as standalone short term courses for those who already have skills in application development and wish to pick up the modules for the App world.

**Ninad Karpe**

I hope that answers your question.

**Sadiq Khetani**

My last question is about the expansion in Africa, which I guess that the company may have few barriers in that international market, for example, if we can talk about the Africa, there may be language barrier or various political turmoil, how is the company planning to cope up with this thing in African market?

**Ninad Karpe**

Africa is a big continent and we have divided entire continent to various geographies and we are targeting now each geography separately there is French-speaking Africa, there is English speaking, there are large countries which are stable countries and there are some countries which are neither of these, so there is still a large part of Africa, which is English speaking and which has stable governments like Kenya and South Africa in that part. There is Nigeria as well where we have a presence then there is of course the French-Speaking Africa, which includes Ivory Coast, Sierra Leone and all that part. We have over the past 20 years experience of going through these countries which Indian companies are not familiar with. As you know, probably we are already present in 40 countries and we have a well developed model where we work with local partners. We share our profits with them and we just take royalty and we give them course curriculum,

train their teachers, so we do have a very well-oiled model, we are operating in countries in Russia, we are in China, we are in Mongolia, so we have in depth knowledge and expertise of operating in non English speaking markets as well as in markets which for example we have a few good centers in Sudan, which is going through its own bit of crisis there. The way we develop is we basically earn more or less royalty income and we either have master franchise or franchise in this area or have a joint venture partner who fundamentally manages the business in those regions and he has local knowledge, so we do have a well-developed, well-oiled model to get in to all these countries.

**Sadiq Khetani** You are talking about China, how many centers we have in China, any expansion, plans for expansion in China because China as you can see is a big market, education market and the world's largest market after India so any plans to expand in China.

**Ninad Karpe** No in China we now hold investment stake in a company, we hold 22% in a joint venture company and the joint venture is managed by our local partners. That company does have leading market share in terms of computer, IT education. We have been there for 10 years now and last 3 years we have restructured the joint venture whereby we now hold only 22%, so we presently have only investor stake, we do not have controlling stake in the joint venture.

**Moderator** Thank you. The next question is from Grishma Shah from Envision Capital. Please go ahead.

**Grishma Shah** If you could highlight your recent initiative for launching the English speaking courses in the international market, partly you did touch upon, but if you could highlight more?

**Ninad Karpe** English speaking what we did was 2 years back we took over a very small company which was Bangalore based and the reason we did that was we thought we could shorten the life cycle of going to the market; it was a very small acquisition. We paid only Rs. 20 lakhs and they only had a couple of



centers. Now with access to couple of centers and the content, in India of course it is a fairly competitive market price and sensitive market, but even then we are seeing the first signs of uptick in India from the English course. We are not heavily marketed in India, we are trying to cross sell our Aptech English for existing students, which itself we believe is a big opportunity. So for the Indian market that is the kind of strategy we have followed. Internationally, it is a fairly different market. In some countries in fact the per student revenue from English can be higher than any other technical course and we have now centers in around 4 to 5 countries. Vietnam we are there, we are there in Russia and in a couple of Middle East countries also. So last year-year and a half we have been wanting to take some lessons in terms of what is it that we need to do to ensure that we are successful. We are now seeing the first green shoots of good booking in the international markets on English and we are fairly optimistic that in the coming year, we should be able to go fairly aggressive in many more markets. We do already have presence in other courses in 40 countries, access is not an issue, it is that the issue of pushing this product with the access which we already have. So, our aim will be to increase from 4 to at least 20 to 30 countries next year.

**Grishma Shah**

On Page #14 or Slide #14, I just wanted to know why there is a difference in terms of margins for Arena animation and MAAC and can this be bridged? Or can this be raised for MAAC, is there a potential to just have higher margins?

**Ninad Karpe**

Some of the reasons is Arena does not have any own center and obviously the operating leverage is high. In MAAC, we do have around 5 own centers and another we have a separate model of what we call semi-owned, 7 semi-owned so roughly 12 centers are not 100% franchise centers. In a franchise model, the leverage is very high; in a non franchise model the EBITDA leverage is not as high. So, yes, there is scope for improvement, but no it is not in the same level till we have this mix of large number of own centers.

**Grishma Shah**

In quarter 4 do you see margins in IT training, etc., improving for us?

**Ninad Karpe**

What has happened is we were in the process for the first three quarters also of trying to franchise out own centers, so we have now got 2 of its centers only of IT owned. Typically, in the domestic market, IT in quarter 4 is not such a big quarter; it is typically Q2, Q3. To some extent the international will also not be such a big one because Vietnam normally has a Chinese New Year and a holiday, so for IT training domestic and international typically Q4 is not such a big quarter.

**Grishma Shah**

But next year onwards, do you see any growth?

**Ninad Karpe**

Yes, I see the growth drivers are one is international market including English training, domestic we should see an uptick in multimedia animation. The Enterprise business, we do have a strong momentum and we will start seeing the results. Some new products have been introduced one is of course Aptech Learning Ladder, which I mentioned and the last quarter presentation I had mentioned we are doing something on the digital education. We have launched course on DTH, we are launching some courses on mobile phone. These numbers are still very small that is why we have not put in Investor Presentation, but we are doing a number of initiatives. We are doing initiative in training for the retail industry. So there are 3 to 4 small initiatives, which will hopefully keep growing. So we have existing businesses some of which have got a good momentum and of course we are on the sidelines also pushing for some new businesses.

**Grishma Shah**

What kind of investments have we done on CAPEX so far till 9 months?

**Ninad Karpe**

We have done YTD 6 crores.

**Moderator**

Thank you. The next question is from Subhankar Ojha from SKS Capital & Research. Please go ahead.

**Subhankar Ojha**

Wanted to know on this Chinese company where you have a 22% stake, did you receive any income from that during the quarter?

**Ninad Karpe**

Since we have 22% we do not do consolidation, when we get dividend, we show it as income.

- Subhankar Ojha** So for the year, you have not received any dividend, right?
- Ninad Karpe** For YTD we have not received.
- Subhankar Ojha** So you expected to receive in quarter 4?
- Ninad Karpe** Well, it is a private company, so depends on what the board decides.
- Subhankar Ojha** Because last year 9 months comparison, if you look you had 51 crores dividend income from that company?
- Ninad Karpe** Yes, we had received 50 crores odd from China.
- Subhankar Ojha** So there has not been anything just wanted to confirm.
- Ninad Karpe** No for YTD current year we have not received anything.
- Moderator** Thank you. The next question is from Nasir Khambatta from Simple Securities Private Limited. Please go ahead.
- Nasir Khambatta** I wanted to know what is the long-term vision where do you see revenues in 5 years, what kind of growth do you see. Today, Aptech has about 900 retail, 200 international, and 70 odd testing centers, how many centers are you targeting in the next 5 years or so?
- Ninad Karpe** Our long term vision is to be the number 1 career education company for the emerging markets. So for us market is not just India, India is a very important and critical market, but it will be outside India as well. We have one of the few Indian companies which have got visibility exposure and knowledge of operating in multilingual countries, non-English markets, difficult markets, emerging markets, so one part is the international part. On the India part, IT education is what we started with but in multimedia animation we are the largest player. We will continue to add verticals which are basically what you call career education, which is fundamentally targeted to students who pass class XII, so this is our retail business. What is it that we are targeting? Firstly, we are of course targeting 50% revenue from international out of the retail and 50% India so we are well hedged

from the domestic market and international market. We will have bigger basket. In terms of Enterprise business, our testing business has been going on for last many years now, roughly 8 to 9 years. We are seeing a strong momentum now and we are fairly optimistic growing the testing business in India as more and more education institutions start going to an online testing model, so that is where we are. In terms of number of centers, we want to be present in all our courses in all the emerging countries including India. In India, we want to further spread in to 'B' and 'C' class cities. We have by and large covered most 'A' class cities. Even in the present products in India, I would say we have a scope, if all goes well at least 150 centers more, if you go further down and down from 'C' and 'D' class cities. In the international space, we have around 200 centers presently. I firmly believe that we have scope for at least minimum twice of that based on the present products and if you add more products like Aptech Learning Ladder or Digital Education or all of that the scope is further increased. Also understand that each of these countries has a different cycle of evolution in terms of adoption of career education. Some are in terms of IT way behind, India has quite progressed, so each country is in a different cycle of evolution and that in itself is an opportunity.

- Nasir Khambatta** This recent discussion about MAAC and IGNOU, how much are the revenues today from this segment?
- Ninad Karpe** In the current year we have had from a booking prospective (it is easier to correlate) roughly 28 to 30% of students booking from IGNOU in the current year.
- Nasir Khambatta** That is similar to last year also?
- Ninad Karpe** Last year little less I think 5% lesser roughly 5 to 7% lesser.
- Nasir Khambatta** Can you disclose what the issues are, are there procedural issues or are they strategical issues?

- Ninad Karpe** They are procedural it is nothing connected to MAAC as a company. What IGNOU has done is in August there is a committee and they have said that till the committee has reviewed the whole alliance business, we are not the only people with whom IGNOU has tied an alliance there are many other companies and universities accreditations, so they have formed a committee to review this whole alliance business and they have said that till the committee does the review and submits the report, you cannot take new admissions, all old admissions are being processed. It is not something which is pertaining to MAAC alone or something which we have done, it is a larger issue, but it is a procedural issue.
- Nasir Khambatta** Every quarter we do have some provision for doubtful debts, just wanted to know what is the nature of these? What does this represent?
- Ninad Karpe** We have an automated process whereby if a student does not pay for 3 months or more from the date in which his invoice is due, it is not necessary that it is going bad, but it is very prudent process just to remind you in Aptech which is except MAAC, we book revenues only when actually the invoice is raised at the center. The provision is actually more a prudent policy it is not that it is actually a bad debt, but students do delay and some people have loans, some people have this so this is an automated process it is nothing that we do separately. It is a system generated, if a student does not pay for 3 months, it is automatically shown as a provision.
- Nasir Khambatta** If I remember correctly in discussion in either last quarter or the quarter before that, there were some discussion on the MAAC accounting policy change and there I think it was mentioned that MAAC was not on a cash basis whereas Aptech is on a cash basis. So what is the difference between MAAC accounting and Aptech accounting?
- Ninad Karpe** MAAC is accrual basis whereby once a student enrolls and he starts his course, on a month by month basis, his income is accrued and non-MAAC which is on a collection basis.

- Nasir Khambatta** But that is what I could not understand, if it is on collection basis we would not then have doubtful debts?
- Ninad Karpe** Also there is one part is nonpayment and second part we provide if a person stops attending classes, then we assume that he will not pay. So suppose if the payment is due later, but moment he stops attending, there are two to three automated parameters, there are fairly conservative methods, but this is not necessary that it is a bad debt; it is just a provision which we provide.
- Nasir Khambatta** I am just recollecting, there are about 6 crores of debts as of March in your balance sheet which is more than 6 months, so does this relate to MAAC or?
- Ninad Karpe** March 2012?
- Nasir Khambatta** Yes.
- Ninad Karpe** Predominantly it is MAAC.
- Nasir Khambatta** So I am now connecting this with the tax that you have paid, so why don't we just write-off these amounts and probably get a tax benefit?
- Ninad Karpe** I think there is income tax issue. There are service tax issues in all of these, so obviously in March when we are closing the books, we will take a comprehensive view.
- Nasir Khambatta** So probably you could also consider merging loss making subsidiaries like Avalon and probably could save on some tax.
- Ninad Karpe** Sure, we will consider.
- Moderator** As there are no further questions from the participants, I now hand the conference over to Mr. Ninad Karpe for closing comments.
- Ninad Karpe** Thank you everyone for joining on this call. As usual Saurabh Gada and I are available for any further specific queries any time. We are delighted to have you participate in this Conference Call. We will continue to have these calls on a regular basis. We have yesterday declared interim dividend and we are

fairly confident moving ahead that some of our strategies which we have been pursuing over the last 4 years including rationalization of cost and the right kind of people as well as spreading our risks towards various markets not necessarily India, and also focusing sharply on career education not getting into capital intensive education format like the school format where we have to invest heavily into this government contracts, we exited all of those. So all this is now showing results in terms of a good size balance sheet where we have strong balance sheet and PBT is also growing. We are confident moving ahead the strategy which we have followed will simply show better results. Thank you for joining.

**Moderator**

Thank you very much. On behalf of Aptech Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.