



## “Aptech Limited Q3FY15 Earnings Conference Call”

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### **APTECH LIMITED REPRESENTATIVES**

**MR. NINAD KARPE – CEO & MD**

**MR. T. K. RAVI SHANKAR – CFO**

**MR. SAURABH GADA – AVP, 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 Q3 FY15 quarterly result investor call of Aptech Limited. As a reminder all participants' lines will be in the listen-only mode. 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. Saurabh Gada. Thank you and over to you.

**Saurabh Gada** Welcome everyone Aptech's Q3 FY15 conference call. I have with me today Mr. Ninad Karpe - Managing Director & CEO and Mr. T. K. Ravishankar – CFO of Aptech. I would now like to handover the floor to Mr. Karpe for his opening remarks.

**Ninad Karpe** Thank you all of you for joining this call. Today is an interesting day to have a call, but I will focus more on Aptech results and what we have achieved and where see ourselves going ahead. The last quarter has been interesting in many ways for Aptech we have had some good things happening, some challenges and of course our focus remains. We really want to become a global career education company, so our focus will continue to have three baskets. One is domestic retail; one is international and third is on the enterprise business. So this is where we want to continue.

In the last few quarters particularly, we have pushed very hard on placements and we had separate team pursuing more placements. Our career enrolments have gone up. Of course, little bit impact has happened on the assessment business particularly because we are conducting CMAT which is a large business for us in assessment space that have been impacted because of Supreme Court decision and students appearing for CMAT have dropped down substantially compared to last year.

So with that I will now quickly move on to some of the highlights. If you remove the accounting changes with impact of MAAC and of course if you remove the Assessment business amount, we still do see a 6% revenue

growth for the quarter on a year-on-year basis. More interestingly and importantly our international retail business has grown fairly healthy it is 24% on account of projects and new sign ups. We have entered new geographies, we are continually expanding in the international retail business.

On Testing business or Assessment business, our revenue has gone down by 32% in the quarter. Quarterly Operating EBITDA has therefore dropped to Rs. 48 million compared to Rs. 76 million last year. Our profit after tax is dropped to Rs. 27 million as against Rs. 55 million last year. In this figure, we have a deposit interest income of Rs. 10 million basically because last year we had huge cash and we have now after that period done a buyback and our cash balance has reduced from last year.

So if we see on an YTD basis our operating revenue has dropped compared to last year by 6% as reported. It is a slight drop of 6% as we have reported it. Our operating EBTIDA is now Rs. 175 million as opposed to Rs. 220 million and profit after tax has also come down. For Q3, again, our operating revenue has dropped by 6%. It was Rs. 386 million last year now it is Rs. 362 million. Operating EBITDA also has dropped from Rs. 76 million to Rs. 48 million. So this is how Q3 looks as well. There has been overall drop in all the parameters in Q3 as well.

In terms of cost; employee cost has gone up marginally by 3%. We have, in the last two to three years, managed to hold on to our cost levels despite some expansion in sales and some expansion in our sign up revenue. The cost has remained the same so overall if you see all the cost parameters training education was slightly lower; marketing and advertisement slightly lower; admin is lower; depreciation is slightly higher because of change of rates prescribed by the Companies Act. We have not changed any rate in the way we provide the depreciation. The law has changed and we are now providing as per the new law. But, overall in terms of cost for the YTD, we're almost flat and same situation is there for Q3. Employee cost is marginally up but all other costs are more or less flat which is a good sign a sign that we are controlling cost, we are franchising, we are outsourcing some of our admin functions and processes, and as we go ahead we will continuously maintain

this momentum of outsourcing as much process functions as possible and controlling our cost. In terms of segment revenue for Q3, Retail has slightly dropped to around Rs. 298 million from Rs. 311 million and Non-retail is around Rs. 61 million from Rs. 77 million. The segment EBIT has also dropped little bit compared to last year. This is Q3 results.

The cash and cash equivalent as of December is now Rs. 437 million. In March it was Rs. 471 million. We have paid dividend in June, but we are still generating cash on a month-by-month basis. So there is cash accretion from the business, but those reductions are because of the dividend we had paid last year. The board has approved interim dividend of Rs. 1.50 per equity share which comes to 15% on face value of Rs. 10 at a meeting held on 9<sup>th</sup> of February. So that has been recommended by the board. Some of the interesting highlights of last quarter was that our new center sign-ups, which was a sign of people's optimism in this business and a lead indicator of the fact that moving ahead we should see some bump up in the business. It normally takes 12 to 18 months if not more and these are indications of optimism in the business. Sign-up income has increased by 13% for this quarter.

Our lower interest income of Rs. 10 million compared to Rs. 17 million last year was because of buyback which was done last year. The depreciation for Q3 is Rs. 24 million compared to Rs. 22 million last year because the rates described under Companies Act have undergone a change and we have to comply with those changes so there is a slight increase in that rate. Moving ahead I just thought I will touch a little bit on the sub-segment revenue split of YTD. In the Multimedia & Animation space there has been little bit of a drop overall from Rs. 602 million to Rs. 529 million and IT training has shown a growth from Rs. 302 million to Rs. 356 million.

In the Assessment business, of course, the drop is largely because of the impact of CMAT. In Q3 also, IT training business has shown an increase compared to last year of Q3 from Rs. 82 million to Rs. 88 million. Multimedia & Animation overall has been a slight drop, but Assessment has shown a drop from Rs. 60 million to Rs. 40 million again because of various factors.

Our network of centers continue to grow particularly in the international IT training we have grown from last year 134 centers to 152. Arena is more or less stable and English is also growing. In terms of domestic there has been in Arena more or less same number of stable number of centers. In IT training, although the business has increased, we have reduced the number of centers because we are trying to consolidate the number of centers in IT training.

In terms of regional distribution in international, our big market continues to be in Asia Pacific. Vietnam is a big market for us, but interestingly Africa is growing fast in terms of revenue and network. We have now 54 centers in Africa compared to 42 last year and as we move ahead we would be looking at increasing the share of Africa in the overall pie. Yes, we have had some issues in drop of revenue in our big market like Nigeria because of some political instability there but our belief is if you have wide portfolio in basket of offering in multiple countries they act as hedge against each other as in there is a problem in one country, hopefully it gets offset by some other country pumping up.

In terms of employee count, it is still in the 410 range. We continue to hold this employees and we believe we will be able to hold this count for some time to come in our present business model because it is asset light model, leverage model and a franchise model. So we continue to have employees of around 410. International retail, again to highlight, has grown 24%. New center sign-up has also grown 52% for the International business, but interestingly Aptech Training Solutions business has also grown by 25% in this quarter. We have had some interesting events. In MAAC, we had 24 FPS which is virtually the standard for the industry in terms of events. But we also pushed events in IT training and first time we had an event in Aptech Aviation called Panorama which was extremely well received by the students.

So our intention is not to just have a student and in the center who comes studies and gets the certificate but also to give him a wholesome experience for his education with us. And that we will now, with many of these events where they get to see experts and interact with them. Placements for IT training animation also have gone up 30% this year compared to last year on

an YTD basis. On the international front we are now into Swaziland in Africa, we have now signed up and we are in the process of setting up operation there. We have done PMP training in Malaysia. We have executed IT and English training for a Japanese company in India for the seventh year in a row and we are doing a pilot project of insurance agents for IT awareness.

So let me sum up on what has happened and where we see our future. Yes, Q3 has been muted compared to last year. Yes, the entire YTD has been little muted. Most of the reasons that majority of it is fundamentally because of the drop in the Assessment business which happened because of an external environment issue, which is the order of the Court that could not be controlled by us. But, we remain positive, we remain upbeat on future because of couple of reasons. We believe we have the right business model, a model which is little takes us in the long run to growth path whereby we have hedged on three main buckets. One is the international where we are fairly aggressive and confident that it will keep growing. We are also pushing for projects in international, but obviously project income can become lumpy and we are pushing hard in various projects in other countries as well.

In domestic market, we still have a leading position in Multimedia & Animation and IT training has seen a little bit of growth this year which is a good sign and in Assessment business, notwithstanding the lower income because of one particular exam. We remain fairly upbeat on that business because more and more government exams are getting in to online mode and more and more government and other private exams prefer online. This is a business where we have been doing this for many years now. We have lot of experience on handling large volumes high stake exams and we remain upbeat on that.

So let me sum up by saying thank you for joining the call we remain cash positive, we do not have any debt in our balance sheet, our average debtors also in good shape so overall from financial parameters we are quite comfortable. Our business is churning cash profits month on month and we hope that will only improve in future.

So thank you for joining and I am now ready for any questions you may have.

**Moderator**

Thank you very much. Ladies and gentleman, we will now begin the question and answer session. Our first question is from the line of Sandy Mehta from Value Quest Investment Principles. Please go ahead.

**Sandy Mehta**

A couple of questions. One is that the operating margins have been down year-over-year in the last quarter and this quarter. Can you give us some more color on what has caused that to come down as much as it has?

**Ninad Karpe**

Yes, the margin is down on a company basis because of the situation which we had with the assessment business and that is the reason we did not get the benefit of the operating leverage. In assessment business the larger number of exams for particular client, the profit goes up significantly. So that has had an impact in this quarter. So that is the main reason why the operating margin is down.

**Sandy Mehta**

And I think in your commentary you have indicated that you are seeing some signs in terms of enrolments and things like that that things might be bottoming out and perhaps next few quarters or few months things might pickup but it seems like you have a tough comparison from the March quarter of last year, but after that year-over-year comparisons get easier. So is it reasonable to expect that you will start to show year-over-year growth from the quarter that ends in June which would be a fiscal first quarter?

**Ninad Karpe**

Yes, it is possible. Last year March also we had significant income from CMAT which again will not be able to match in this quarter because of lower enrolment. But if we try to remove that impact yes, we do have a model which from the international business and other testing business we will start seeing results.

**Sandy Mehta**

And one final question is the balance sheet remains very strong and you still have very good free cash flow so you could have kept the dividend flat year-over-year and so what are your thoughts on the dividend would you look to sort of maintain it flat or grow it and then also thoughts on another buyback?

- Ninad Karpe** I think the dividend the Board decided because the kind of profits this quarter and on YTD is slightly lesser than last year so that was a reason. Our interest income have also gone down because of usage of cash but yes, we are hoping to keep dividend level once we have reached whatever was the last year's level. It will entirely depend on this quarter.
- Sandy Mehta** And then on buybacks any thoughts there?
- Ninad Karpe** I think legally we were not allowed to do till January this year, so that time frame has expired. We still hold around Rs. 43 crores or Rs. 430 million in our cash reserves. Of course after we pay dividend that will go down a little bit. We still have lot of cash but yes, that could be an option which could be looked at in future.
- Moderator** Thank you. Our next question is from the line of Jainil Jhaveri from J&J Holdings. Please go ahead.
- Jainil Jhaveri** I just had a couple of questions. I have asked the same question in all of the previous quarters' call too. Basically we wanted to know if there was still a plan on the China investment of either divestment or special dividend that they have declared or will declare or any update on that since it really, really weighs down on the return ratios of the company and does not give a very true picture to everyone else? Just wanted understand what the thought process is?
- Ninad Karpe** As I said also last time all options are open. It is a private company in China. It still has commanding position in terms of the market position. Aptech Beida is the name of the product which is offered. But again I want to say that all options are open.
- Jainil Jhaveri** No, I understand that that is a private company but us as a minority investor also we also have an option whether to stay with them or to get out. So what is from our side is the call that we are planning on taking.



- Ninad Karpe** No, today we have not taken any call so today we have received dividend two year back I think. In the last one or two years we have not received dividend but yes, presently our holding is still there as a strategic holding.
- Jainil Jhaveri** And there is do you foresee anything in the next one year in terms of either that having a dividend or even in terms of our investment being reduced over there?
- Ninad Karpe** Jaaneel, it is very difficult to predict these things as I said all options are open so as and when we come across some viable option we will do it, but presently we are holding strategic stake there of 22%.
- Jainil Jhaveri** And do you also have a guidance in terms of what kind of revenue for the full year next year FY16, what are we expecting in terms of revenues or may be even growth rate as compared to this year?
- Ninad Karpe** For Aptech, right?
- Jainil Jhaveri** Yes.
- Ninad Karpe** We have not been traditionally providing any guidance numbers in the past as well, but as I said I would imagine if all our strategy plays out we should have good in terms of if our international strategy plays out, if assessment we are able to get some orders and of course last year we started the whole process of getting project business outside India as well. So if all these three plays out and which we are working on, we should have a good year next year. Domestic retail of course is a function of sentiment plus opportunity in the domestic market and that has remained in a zone for the last two, three years and we think probably domestic retail, our main enrolment for domestic retail happens in the month of June, July, and August, we are still hopeful that this year June, July, August should be much better than last year. Last year June, July was immediately after the election so we did not see a significant upturn compared to the year before that. But we are hopeful on this. So yes, there is a bit of optimism in what I am saying and with a little bit of luck we should be able to do better.

- Jainil Jhaveri** And one last question this accounting effect for MAC when that is expected to go on?
- T. K. Ravishankar** I think we have come to the fag-end of the accrual system, so I expect it to get tapered off completely this year, leaving only the own centers where the accrual will continue as per the accounting standards prescribed. As far as the franchise centers are concerned they will completely taper off this year by March 2015.
- Jainil Jhaveri** Okay, so March 2015 most of it will go?
- T. K. Ravishankar** Yes.
- Ninad Karpe** March 2015 he is saying, Yes.
- Jainil Jhaveri** So in this quarter basically?
- Ninad Karpe** Yes.
- Jainil Jhaveri** So June will be the first quarter where we will see actually see the growth even in the numbers in terms of even in the results basically?
- T. K. Ravishankar** Hopefully.
- Jainil Jhaveri** Basically in terms of our business does it have a link to how GDP grows and how does, is it cyclical in nature just the whole education and the training space like can you just throw some light on the business as a whole?
- Ninad Karpe** The assessment business is driven differently. It does not have a correlation. It depends on technology adoption by people conducting exam. So that is on the assessment business. On the corporate training, which is a small portion of our business, yes, it has a correlation because people generally tend to cut the corporate training cost when the chips are down. On the international market we have got very wide portfolio of countries. So we look at international market as a basket and there are so many countries and so many moving parts in terms of GDP of so many countries, but there we would foresee growth because of the sheer amount of presence you have in so many

countries and the lack of opportunities in those countries for education from providers like us, particularly in Arena, which is not available in any of these countries.

In the domestic market actually it is connected to sentiment more than the GDP growth. What is the sentiment of kids in terms of the job opportunities, which they think they have two years down the line? So now then we have to try and see if the sentiment is connected to actual GDP, it is a little tenuous connection, but there is a connection. So consumer sentiments, student sentiments and in terms of what kind of jobs they will get what kind of pay they will get and that eventually does reflect on the GDP.

**Jainil Jhaveri**

So are there any areas or pockets which you are seeing which you can may be start marketing now in terms of areas or training areas where you could be providing the students and then say for example like the financial markets currently they are doing extremely well? I am sure people must be super excited to I see so many e-mails on like finance courses and how to trade in the markets and technical courses, fundamental courses. So is there an opportunity in terms of like the flavor of the season right now is finance so can we start putting finance courses in those same or that is a different?

**Ninad Karpe**

No, we have experimented now with the finance course as well with one of the banks we are doing a course and get them hired by the bank. We do also have a course on organized retail which we are offering. Last year we trained close to 7,000 to 8,000 kids I think and that is ongoing. So these kids are then trained to become part of the organized retail industry. So we are experimenting but these are not significant revenues at this point of time. English also I have mentioned in passing outside India of course is big, but in the organized retail some bit of banking we are certainly trying to push some courses. Overall, in terms of digital education as well we have just to give a flavor for our internal students we do a lot of digital education in terms of the content is provided in a digital format out of expert videos are provided to them. So we have seriously embraced it for our students and we are hoping we can expand that further. We had experimented with some bit of mobile education last year with the volumes were not high it was provided on the

DTH platform of a leading operator and we were charging Rs. 30 a month. So we are doing number of these kind of I might call it experiments, innovations whatever but none of them have resulted in any serious revenue. But we never know some of them might just take off and could become a serious revenue earner.

**Jainil Jhaveri**

So then where do you feel like the growth is going to come from is the growth going to come from a typical Multimedia, Animation to Visual Effects business which is there in places where the developing nations basically in Africa is that where the growth is coming from?

**Ninad Karpe**

So I will put in two parts. One is where we are fairly confident that the growth will certainly happen and one is where we are taking bets that it will happen in the future. So where we are certainly confident the growth will come from is of course international markets; number one. Number two is assessment business. Of course this year have been lesser than last year but it will certainly keep growing as more and more people adapt to it. In the domestic market our Multimedia & Animation, IT and all will remain in a kind of a zone. Where we think it is likely to happen in the international market last year we have done some projects so there also it is likely to happen, but some of those other parts where we are taken some bets. I will tell you two, three of them – One is in the international market we have introduced English it is a big, big opportunity there. Second is we have introduced content for the K12 space in the international market for IT that can really do well hopefully in future. Third is on the digital space we have substantial experience of providing a blended model and I believe the kind of students we cater to, come to us really looking at a blended model. So that is something which we now have experience of delivering it, we have done it to our existing students and some of it might rub-off in the future for outside students as well. So we are experimenting couple of the models so it could certainly happen. So these are the growth parameters which we look at.

**Moderator**

Thank you. As there are no further questions I now hand the conference over to Mr. Karpe for closing comments. Over to you, sir.

**Ninad Karpe**

Thank you all of you for joining in the call. As an education company we remain committed to ensuring that we have a global presence and our focus and efforts are largely on the career education space, where we have strengths, and in the testing space. As we go along we feel confident that our strategy of having a diversified portfolio which is the domestic market, international, and testing will bear a much better results in the future. So thank you for joining the call and if there are any further questions, you can always get back to Saurabh separately. Thank you.

**Moderator**

Thank you. Ladies and gentlemen, on behalf of Aptech Limited that concludes the conference call. Thank you for joining us and you may now disconnect your lines.