



“Aptech Limited Q3FY16 Earnings Conference Call”

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APTECH LIMITED REPRESENTATIVES

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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 FY16 quarterly results investor call of Aptech Limited. 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 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 sir.

Saurabh Gada: Thank you very much Ali. Welcome everyone to Aptech's Q3 FY16 quarterly conference call. I have with me today Mr. Ninad Karpe – Managing Director and CEO, Mr. T. K. Ravi Shankar – CFO of Aptech and the other senior members. I would now like to hand over the floor to Mr. Ninad Karpe for his opening remarks.

Ninad Karpe: Thank you Saurabh. Good afternoon, good evening, good morning depending on which part of the world you are. Thank you for joining this conference call. What I will attempt to do in the next 10-15-20 minutes is try to give a broad coverage of what has transpired in the last quarter and what we feel and see in terms of our business outlook and our strategy going forward and after that, of course, I am open to any questions.

In terms of the last quarter despite the overall global turmoil which is going on, I would think we had a reasonable quarter. The revenues were similar to last year, but on the EBITDA margins we did have a bump up to 16.5%. I believe we can continue to maintain 14-15% range of these margins going forward on account of various reasons, one is revenue mix and secondly we have always traditionally, and continue to have a very tight control on our cost to ensure that there is maximum leverage on our asset light model.

Last quarter of this year we did not have any big new sign up in the international market compared to the same quarter last year where we did have some substantial revenue from new sign ups and, of course, that has

now impacted in terms of comparison of international revenue. We continue to expand to various new markets in the international arena and we will push for newer products in newer markets.

In the domestic market we did have quite a bit of new sign ups particularly in the animation and multimedia segment where we have fair bit of leadership between our two brands Arena and MAAC in the domestic market.

On the enterprise front we had 60% growth in Aptech Testing in the last quarter. This we would believe and think is a turnaround but, of course, 60% is one-off. We have consistently said that in this space we should look at, and it of course is lumpy depending on orders, but we are clearly targeting a growth rate of 25-30% in this segment. We think it is possible given the momentum we have and the fact that we are one of the few large players in this segment. We are continuing our focus on providing training solutions to the e-commerce segment in India, which is booming and we do hope to continue that thrust on the e-commerce segment. Overall in the long term we believe our focus on domestic, international and our testing business gives a nice basket of revenue mix, which will help us in the long run.

Our Operating Revenue was Rs. 362 million, which is more or less same as last year. However, our EBITDA was Rs. 59 million, which is around 23% higher than last year. Similarly our PBT at Rs. 40 million was 17% higher. Our PAT was 2.4% higher than last year at Rs. 28 million. There is higher effective tax rate due to some change in composition of allowances.

Last evening our Board has recommended an interim dividend of 10% on face value of Rs. 10, so that's the interim dividend which has been recommended by the Board.

Overall on the revenue and profitability basis compared to the same quarter last year as I mentioned earlier, Operating Revenue was in similar range. But at the same time profitability overall is higher than the same quarter last year.

On the Expenses front our Employee Cost remain more or less same. We have been keeping a tight control on that. Admin cost is slightly higher but nothing

which is much to worry. Depreciation is higher fundamentally because of change of rates little bit in the company law, but nothing very significantly higher. And Training and Education also we have kept a tight control. Some of them are of course variable but overall we continue with our efforts of cost management, which ensures that we are able to leverage incremental revenue greater.

On the segments results Retail results was slightly lesser than last year in terms of revenue, but nonretail was higher and in the EBITDA side also our retail EBITDA this quarter compared to same quarter last year was slightly lesser and the same thing goes with EBIT as well for Retail, so overall nonretail revenue has been slightly higher compared to the decrease in the retail.

On the Balance Sheet information, trade receivables are little higher that is because we had some large orders, which we executed in December particularly on the enterprise side and that's why these receivables have risen. But we will surely receive the money in this quarter and in coming quarters, so that increase is fundamentally because of some enterprise implementation particularly in the last few days or the second half of December.

Cash, we continue to hold Rs. 356 million. We have zero debt in our company and we do continue with a healthy cash balance.

Within the retail revenue our revenue from animation has dipped slightly. IT training also has dipped slightly, but on the nonretail side our revenue from assessment and training has increased substantially over the last year. Some of the key highlights of this quarter, domestic retail revenue decreased by 7%, majority of this decrease actually is because of the accrual income and the change in MAAC accounting method, which will continue for just some quarters more before it gets totally diluted, but by and large if we negate this impact of accrual and on a like to like basis there is no significant decline. Alliance income also particularly in IT training there has been some bit of decline. International revenue has declined basically because last year in the same quarter there was large sign up income of Rs. 70 million, we didn't have a very large sign up income in the retail segment in this quarter this year.

On the Testing side, we had some new orders and the revenue compared to last year has gone up by around 60%. One of the good things we have noticed in the last quarter was increase in the number of new centers sign ups in the domestic market, so we signed up 28 new centers in this quarter compared to 19 in the same quarter last year which is a healthy sign of renewed interest in our domestic business by new partners. Lower interest income of Rs. 7 million versus Rs. 10 million last year was on account of lower cash in hand.

Decline in Training and Education expenses is largely connected to lower franchise fee on MAAC and we had a bit of a decline in Admin expenses, again that is because of our tight control on cost management. Higher depreciation in course ware we had little bit and that has resulted in slightly higher depreciation because of the new rates, which have been mandated under company law.

Our network by brand, domestic and international continues to remain strong. In the international side IT Training we have a 124 centers now and Arena also has 41. So by and large are network remains very strong overall in India and outside India. Outside India we still have the largest number in the APAC region. In APAC Vietnam is where we have the largest number of centers, after that is Africa and Middle East. And in terms of revenue as well APAC is the one which has the largest number of centers.

Employee count is marginally lower at 384, we had around 400 in the beginning of the year. We will be in this range. We will certainly not increase to 400, but probably be between 380 and 390, in that range. We continue to rationalize, outsource wherever possible. In addition to this of course we have 149 non-regular staff, but this 149 was fundamentally to implement a project. They will not be in the same number. That project was a testing project. But our permanent employees will remain in the 380 to 390 range.

In Aptech English we have now appointed a lead partner. This business is in South India. We are experimenting with a lead partner model to try and increase our presence of Aptech English in south. We completed in January 2016, CMAT and GPAT exams which had around 93,000 candidates registered

across 450 centers across India. This was a very large rollout in one shot and it was successfully conducted.

Going on to some events MAAC has 12th 24FPS Awards, in Aptech Aviation we had a students' event called Panorama. We have tied up with Lakme to open centers to train people in the beauty segment and our first center was inaugurated in Ahmedabad by a film star and we are quite hopeful as we go along we will see more traction. Beauty as a segment is fairly sought-after segment by professionals and we are hopeful that we will continue to see more and more traction particularly in India. We did some projects for the government of Afghanistan by training their staff and Career Quest is our event, which we did in Qatar that also went off well. We did have a tender from the Government of India, which is in Panama and as we speak that training is going on and, of course, another project from Malaysia as well.

So these are some of the broad highlights. Let me give my summary comments on our performance and where we see going forward. Yes, we have had flat revenue, but if you remove the impact of accrual it may be a slight change in that, slight improvement in terms of increase. Profitability is fairly good, we have continued our focus on ensuring profitable growth. But more importantly we have taken lot of new initiatives whether it is the one with Lakme. In the last call I had mentioned that we are starting a school in Afghanistan. That school now enrolment will start probably by March-April and it will get going. We will not see immediate revenues, but as and when we keep expanding couple of schools in the school business, this is also on the franchise model, we are not investing money in the infrastructure. We are providing the academic support and academic systems, processes to the local partner in Afghanistan. This business is the business which sees lot of revenue after year three and year four of its opening, so we will continue to see some revenue in future. Immediately we will not see any substantial revenue.

Our Testing business we continue to remain very optimistic particularly because of rapid adaption in the Indian market in testing side, so that also is something moving forward, we will hopefully see higher revenues in terms of our expectation of 25-30% growth rate. And of course, our traditional business

in domestic in terms of retail revenue as well as international, we continue on a strong footing with good amount of cost management.

So that is broadly what I have to say from our side and should you have any questions please feel free to ask me. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Prajwal Gote from Evaluate Research Ltd. Please go ahead.

Prajwal Gote: As you rightly say retail revenue has gone down, institutional revenue has gone up. The question which I want to ask is that if I compare the revenues with the same quarter last year what I am able to see is that the incremental capital has been employed in retail sector while the retail sector has not yet performed, however, if you see in case of institutional business there is no incremental capital, but still it is performing. I just want to have a comment of yours on these sectors specifically?

Ninad Karpe: In the institutional business some of these businesses depend on receiving orders and in the last quarter we didn't implement some orders, the capital employed will remain the same by and large but business can become lumpy in the institutional or enterprise business. In the retail segment broadly the traditional businesses are in a particular zone but we are hoping we keep moving on to new and non-traditional business. We have announced of course our association with Lakme, so all of these will in future points of time reap some dividend.

Prajwal Gote: In case of dividends I wanted to know your view, what kind of dividends can we expect in the coming year?

Ninad Karpe: This all depends on the decision of the Board and at that point of time what are the profits. In terms of our cash position as you know we are fairly good. We presently have Rs. 35 crores, of course, before paying the 10% interim dividend and zero debt and we are churning positive cash flow, month on month, quarter on quarter. So in terms of cash flow generation we do have. And then dividend declaration I can't give you any guidance, it just depends

on the market situation and the eventual profitability for that quarter and for that year.

Moderator: The next question is from the line of Sajendra Mookim from M/s Sajendra Mookim. Please go ahead.

Sajendra Mookim: Apart from Lakme what other ventures are you seeing in that front? What do you plan for the coming quarters or next year, anything substantial? Can you please throw some light on it?

Ninad Karpe: Our retail business now we are dividing into parts, one is the traditional business of multimedia animation, IT and all which are in a sense a mature business, domestic as well as international. The new thing which we are attempting Lakme is what we have announced. Before that we had announced that we are getting into Banking & Finance segment, again we have not yet seen significant traction, which will probably happen only sometime in Q3 of next year by the time we get enrolments and we start seeing some meaningful traction. Now the centers are being set up. We have also been in the business with a partner for organized retail, at this point of time these are not very significant. All these businesses take some time to be set up, so these are presently the three new non-traditional businesses. We will continue to explore new areas of business, but presently these are the new non-traditional businesses on the retail side.

Sajendra Mookim: Any significant move on the traditional business?

Ninad Karpe: Last quarter actually was not bad in terms of the new center sign ups in domestic market. We will continue pushing hard in the domestic and more importantly in the international front. Last quarter compared to the same quarter last year might see a decline basically because there was a large sign up in the same quarter last year. But yes, on the international side whether it is Arena, whether it is Aptech Computer Education, hardware networking, we are continuing our push into newer geographies and newer areas.

Moderator: We will take the next question from the line of Prajwal Gote from Evaluate Research Ltd. Please go ahead.

- Prajwal Gote:** I wanted to know from you an update on the Chinese business?
- Ninad Karpe:** There is no significant update. As I mentioned in the previous call as per our agreement we do not get any royalty. It is only a dividend if at all we get. We have presently shown in our Balance Sheet around Rs. 108 crores as the investment and we continue to hold that that investment is good. So that's where we are. Other than dividend there is no other expectation of income from China.
- Moderator:** We will take the next question from the line of Sajendra Mookim from M/s Sajendra Mookim. Please go ahead.
- Sajendra Mookim:** Regarding this Chinese investment of Rs. 108 crores what is the expectation, what would be the receivables this year or next year in form of dividends, any expectations or any guidance?
- Ninad Karpe:** We cannot unfortunately give any expectation guidance. The accounting year actually in China is calendar year. We are now in February. So there is no real expectation. It's a private company. We hold 22% stake, it's an investment stake as far as we are concerned. We do not have management control over that. All I can say is it's a strong brand in China and there are many centers basically teaching computer education. Presently I cannot comment on dividends because their financial year is the calendar year.
- Sajendra Mookim:** Any evaluation if you can give about the investment, the fair value as on date?
- Ninad Karpe:** It is a private company and we also have only an investment stake. The best thing I can say is that we continue to hold Rs. 108 crores, which remains a good number, that's where we stand at this point of time. It's a private company. There is no other way to evaluate the amount.
- Moderator:** As there are no further questions in the queue I now hand the conference over to Mr. Ninad Karpe for closing comments.
- Ninad Karpe:** Thank you everyone for joining the call. Let me provide some brief concluding remarks. Q3 to our mind given the context of the challenges which are there

in the market especially the global markets and we do have spread in 40 countries across the world, so we do have exposure across many countries. I would imagine we have done reasonably well given the challenges. We will continue our focus on international markets. We will ensure that our traditional businesses continue to pump positive cash with a strong cost management. We will look at non-traditional businesses which normally take at least two years or more to have a proper setup and start generating some revenues and then after that a year or so to start generating meaningful revenues. So we are hoping these non-traditional streams will start generating those kinds of revenues. And of course, our bet remains on testing where we strongly believe a growth rate of 25-30% should be something which we should target. So that's where we are. In a sense we are properly positioned to take care of new business opportunities in the education space with a portfolio of domestic market, international market, testing as well as in the new areas of starting a school in Afghanistan, starting centers with Lakme, Banking & Finance and others. So overall we think all these things will start kicking in sometime later, next year when we start seeing the impact of all this and till that point of time, we will continually focus on strong growth and profit and maintaining the momentum. Thank you for joining this call.

Moderator:

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