



“Aptech Limited Q1FY13 Earnings Conference Call”

July 27, 2012

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 Q1 FY13 Earnings Conference Call of Aptech Limited. As a reminder, for the duration of this conference, 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. Should you need assistance during this conference, 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 Thank you, Inba and welcome everyone to Aptech's Q1 FY13 Earnings Call. We have with us today Mr. Ninad Karpe -- Managing Director and CEO of Aptech Limited; and Mr. TK Ravishankar -- CFO of Aptech Limited. I would now like to hand over the call to Mr. Ninad Karpe for his opening remarks.

Ninad Karpe Good evening everyone. I am Ninad. Thank you for joining this conference call on Friday evening. I appreciate you taking out time on a Friday evening to join in this call. Let me give some opening comments on Q1, what has happened and where I see business going forward. Then we can have some questions and I will try and respond to your questions.

In Aptech, Q1 is normally season time, as we call it, for domestic business. Our international season starts more around August-September. So in Q1, the season normally starts in May and then it picks up in the middle of May to June. It still of course is not the peak, but we saw a particular phenomena this year that April particularly was quite low in terms of the overall consumer sentiment which impacted all industries, and to some extent our industry as well. And a little bit lag of April happened in May as well. So that has had some bit of impact on subduing the amount of enrollments we had in April-May. But, on a positive note, we saw June trend improving a bit and that trend continues now in July as well. So, we are seeing a little bit late kind of trend that also happen sometimes because in some places, the Standard 12 exams were delayed, so enrollments into our courses were also

delayed to that extent. Because of this impact in the domestic market, there was subduing impact on our income for Q1.

Overall, although there is a bit of drop in our income, around 6% to 7% drop, if you take out the impact of the accounting of MAAC. MAAC, as you are probably aware, we are slowly changing their accrual method of accounting to the Aptech conservative method of accounting, which is based on collections at centre. So if you neutralize the impact of that there is a dip of around 6.7% in the top-line. On a PBT basis, if you compare both periods after removing China dividend from last year's Q1, we have done a figure of `4.56 crores, which is a healthy growth of 50% over last year. So overall these are the broad results in terms of Q1.

One thing which we have done interestingly in Q1 is that we have invested a lot in brand building, particularly for Arena. We have started a new campaign called "Dudolls". It is there on the TV and internet. It is there in the newspapers. We have spent close to `1.8 crores in Q1 and we will probably spend another `20-30 lakhs in Q2, so roughly 2 crores we will spend this year on this campaign, which is fundamentally to build branding for Arena. We have written-off the entire amount spent, which is roughly `1.75 crores in Q1. This campaign was coinciding with the Indian season. So that's a new thing which we have done. In MAAC as well, we had some special branding. For other brands, we had product specific marketing spends. But, this is something which we deliberately felt, we should invest in this year and we have done these investments notwithstanding the fact that April and May were not good months in terms of enrollments. We feel it is time to invest in brand building. This `1.75 crores is in addition to the normal spend which we have done. This is not the only spend we have done on marketing and on branding, but the other spend is more on products and event-related marketing. This was specifically a brand spend which we did.

In this quarter, we also invested US\$500,000 in shares of a Polish company, Syntea, where we have taken a stake and this company is starting the process of rolling out our products into Poland. But this year we may not

see any significant income contribution. This is the beginning we are doing in Poland and we will probably see around \$50,000 of income.

Moving on, let me touch now a little bit about our Testing business. Typically, the business is more in the second half. Last year we had done CMAT exams in Q4. We still have a strong pipeline of testing business and we believe this business will grow. Last time I had mentioned that we are expecting this business to grow upwards of 30%. We still hold that statement. It will show growth in the future period of time to come in the current year.

Our international season by and large, i.e. in Vietnam, Pakistan, Nigeria, etc. enrollment starts in August-September. So we will see impact of that in this current Q2. Domestic business as I mentioned earlier, April and May were not very good months, but we have seen some steady improvements in the month of June. And in July as well we are seeing some good improvements. On Aviation and English Express in the domestic markets we are now seeing breakeven or close to breakeven in that business. We are continuing with our strategy of trying to stay away from own centres as much as possible. So this period also we are trying to ensure that wherever own centres are not required we are trying to disinvest from the own centres. During the quarter we added roughly 31 new centres and our overall target for the year is to add a total of around 125 centres.

Let me speak for two minutes on the MAAC accounting method and Aptech accounting method, so you understand why we are trying to change to Aptech accounting method. MAAC accounting method traditionally has been on accrual basis whereby once the student enrolls for a course, on a monthly basis, the fee for the course divided by the total course period months is accrued. In Aptech we recognize income when the money is collected at the franchise centre from the student and that is the time we recognize revenue in our books to the extent of our share. So that's a big difference which is there. But, of course, a number of small differences also in the accounting system, so we are changing MAAC accounting to our

accounting system, which we believe is much stronger, much more robust and more conservative.

Overall, from a broad perspective where do I see business is heading, if you put it in three buckets which is domestic retail, international retail and Enterprise business, Domestic Retail, I think we will start seeing better pickup now, as June-July has looked much better than the earlier April-May month. In International, it's early, but we still do feel that there is a strong potential which will happen now in August-September. We continue to expand into other countries and it is our objective to try and expand to as many emerging countries as possible. On the Enterprise business, of which a large component is basically testing business, we still remain very upbeat. We do have a lot of places where we have bid for tests. Lot of exams, universities are going towards online testing as they find it much better and easier, and we do have a good pipeline there. So we remain upbeat and optimistic on our Testing business.

Overall, we have also turned around businesses in Aviation and in English. And we are trying to slowly ensure that we stay away from own centres and make the entire business profitable. So, broadly we still remain optimistic that the coming quarters we should see far better performance and markets in India also have improved. Markets outside India will show better momentum and Enterprise business will also show far better results in the next quarters to come.

I think by and large that's it from me. I can take any questions now if you have.

Moderator

Sure, sir, thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. Our first question is from Gautam Mambro of Value Quest. Please go ahead.

Gautam Mambro

Why have the margins improved so well in IT Training internationally and what is the reason for decline in Aptech Testing margins in this quarter?

- Ninad Karpe** International IT Training, the price points are different from India. We don't have uniform pricing of a product across the world. It depends upon the demand/supply situation there plus last year we did have Brazil Joint Venture where there was a loss, which we have now converted to Master Franchise. International has two parts of business, one is International Retail Business and second is what we broadly call ITEC and IWP, which is basically done in India for the Government and for foreign students. ITEC and IWP the margins are not as much, they are lower but International Retail certainly, the margins are quite good.
- Gautam Mambro** No, but your top-line has shrunk, but your margins have gone up substantially?
- Ninad Karpe** It's a combination of all these. Why it has gone up is firstly Brazil loss is not there this year.
- Gautam Mambro** How much was it last year? And how much was it for the full year, Brazil loss?
- Ninad Karpe** Last year what happened is we had around 40 lakhs revenue and 1 crore on the cost side, so 60 lakhs was the loss. We started franchise around July timeframe last year, hence loss was only in Q1.
- Gautam Mambro** And Aptech Testing, why has the absolute EBITDA fallen?
- Ninad Karpe** We are bidding into a lot of projects, so some projects are of higher margins, some are of lower margins, so it's a mix of all of these.
- Gautam Mambro** Will margin of Aptech Testing fall with the increase in turnover or you maintain that we will get last year's margin?
- Ninad Karpe** No, we will get last year margin. Roughly 1% or 2% here or there. It will not be 5%-10%, plus/minus 1%.
- Moderator** Thank you very much. Our next question is from Grishma Shah of Envision Capital. Please go ahead.

Grishma Shah Sir, just wanted to know in your annual report you have mentioned about over capacity in some of the segments that you operate and therefore, penetration in the Tier II and III cities for the retail business. Would you like to highlight what are the plans going ahead for the next year?

Ninad Karpe We have drawn up the plans and we are in the process of implementing our first pilot in this quarter, Q2. We will be shortly announcing it. We have been working on this for almost last 6–7 months. I will give you a kind of rough idea of the plan. We do want to go to Tier C and Tier D cities as well, with a product which is relevant to that market and at price points for those markets. Delivery in those places will be through a combination of technology-based and classroom learning. And we have identified the numerous towns in India. We will start with one or two pilots in this quarter.

Grishma Shah The other thing is that we are sitting on cash right now. What is the idea of holding it or I mean do we require it for acquisition, you need cash for CAPEX, what are we going to do about it?

Ninad Karpe Our vision is to become a global career education company and we want to keep this cash to ensure that wherever we find the right opportunity of career education, we will get into that space. We are also looking at career education in terms of something which has a global flavor. It is not just something which is relevant only for India. We have done some steps. We have, for example, gone into Poland. Of course, it was a small initiative, but we have entered in the Polish market. But, those are the kind of things we want to do, where we want to get into emerging countries in the career education space. So we are always on the look out for opportunities and we will pursue anything related to career education.

Grishma Shah But then if one had to remove the 50 crores dividend income that we had received last year would last year be the worst year and this year would see sequential improvements in the quarters to come by?

Ninad Karpe This year our first quarter has been subdued compared to last year's top-line. Of course, bottom-line we have been better. But as I said in the

opening remarks, unfortunately, April-May have been bad months overall for the retail industry, not just education but all retail and consumer sentiments. We are expecting this year from now onwards quarter-wise improvement.

Grishma Shah

When we say that we want to become a Global Career Education Company what is the kind of size that we are targeting and what is the timeframe within which we are targeting?

Ninad Karpe

We had set our target in the year 2009 saying that from our retail revenues we should get 50% revenue from outside India from emerging countries. That time of course we did not have MAAC in our portfolios. So MAAC as you are aware also we acquired two years back, so it is not that we are not looking for acquisitions. MAAC we felt was the right acquisition so we acquired MAAC two years back and whenever we see a right fit to our business we will do it. So coming back to our aspiration, net of MAAC we have said that we will have 50% of our revenues from outside India by the year 2014. We are today at around 43% net of MAAC. So we are on target in terms of our need to do that. We are constantly on the look out for opportunities like Poland and other places, where we think we can take bets. In India as well, but we have decided we will remain focused in the Career Education space.

Grishma Shah

But any kind of the size we are targeting?

Ninad Karpe

No, we have not put ourselves any year-end target but certainly we are looking at catering to all markets in India and outside India.

Grishma Shah

What happens to the 22% stake that you hold in the Chinese company now? What are the listing plans there, etc. if you could highlight that?

Ninad Karpe

In China, we hold 22%. We only show income from China when we receive dividend. Nothing else is reflected. We don't get any other income other than dividend. In 2009, after the initial plan to list, we jointly decided not to

go ahead and presently it is still status quo as in there is no plan either way, when to list, what to list, there is no decision taken at this point of time.

Grishma Shah

The system-wide booking for last year was around 480 crores. What kind of growth given that subdued Q1? What kind of growth then we are looking at for this year or would it be a flattish kind of a year again?

Ninad Karpe

Booking is an amalgam of a lot of things including short-term courses, long-term courses, Enterprise, International, but yes, we are certainly looking at some growth in the domestic retail. On the international side, Q2 would be critical, but we are certainly looking at, at least a 20% growth rate, and on the Enterprise business we are looking at 30% growth rate as well. So, certainly part of that will get reflected in the bookings in the times to come.

Grishma Shah

Okay. Which other geography apart from India and China if one had to look at your presence across 1,300 centres that you are present in, holds a lot of potential going ahead, if you could highlight that?

Ninad Karpe

Today, we are strong in a lot of countries. In Vietnam we are very, very strong at this point of time. First, I tell you the countries where we have existing strength and we still think more can be done. We are today very strong in 3–4 countries which are Vietnam, Pakistan, Nigeria and Russia, these are the places. Vietnam, we are particularly very strong. This can grow further, because we are strong in the IT side. We are growing our Multimedia, Animation business there and we are slowly introducing Aviation as well. From a futuristic perspective, we have taken a bet in Poland by entering into an agreement with the Polish company. So we think that Poland and Europe market holds potential. Other than that Africa is a place where we do have some of presence in Nigeria. We have signed up a franchise now for a lot of other places in Ghana, in Cameroon, in Ivory Coast. A lot of these places have huge demands especially for Multimedia, Animation courses where we have a pretty much strong momentum because there aren't many competing people offering those courses.

- Grishma Shah** Lastly, what kind of price increases and volume have we seen in the Retail business in the Q1 or are we going to take any price increase?
- Ninad Karpe** We do a price increase normally at the beginning of the season. In domestic, we have done this year roughly 7% to 8% increase. That's the average price which we have increased this year in the domestic market. In the international market, we will be announcing prices soon, but we will have probably around 10% to 15% price increase. That will be in dollar terms of course, internationally.
- Moderator** Thank you very much. Our next question is from Gautam Mambro of Value Quest. Please go ahead.
- Gautam Mambro** Sir, after changing the accounting policy for MAAC when do we expect those provisions for bad debts to reduce?
- Ninad Karpe** They are slowly coming down, but Mr. Ravishankar, our CFO will just quickly tell you.
- TK Ravishankar** Gautam, we migrated from the accrual system that is the AS9 Accounting Policy to the collection method as of 1st of July, 2011, and normally the duration of the MAAC courses particularly in career segment would be stretching to about 20 months. So therefore our guess is till about early 2014 we would continue to have part accrual and part collections while the accrual system would continue to taper. So as the accrual system continues to taper the provision for bad and doubtful debts for MAAC would also continue to come down. So much so by early 2014 we should expect that to become nil.
- Gautam Mambro** In the International business where we have mature countries where we have been present for the last 2 to 3 years, what would be the growth like?
- Ninad Karpe** Each country has a different trajectory, but what we do is let's say in Vietnam or Pakistan where we have been there for sometime we are now expanding into other products. So we have now put in Multimedia, Animation. Just to give an example Multimedia, Animation in two, three of

these countries is growing at 35%. Because now we have 25–30 centres and over a long period of time IT may grow probably at 10%-15%. Then we will start introducing even Aviation. We are just setting our first centre of MAAC in Vietnam. So growth we are expanding in various ways, one is by geography, one is by introducing new products and most interesting part about Multimedia, Animation is that we find very little competition for the kind of offering which we have here.

Gautam Mambro Okay. What would be the percentage of revenues in dollars? Just a Currency benefit on the revenue side in this quarter I just wanted to understand.

TK Ravishankar Revenue gain is about a crore of rupees for the quarter on account of currency.

Moderator As there are no further questions from the participants I would now like to hand the floor over to Mr. Ninad Karpe for closing comments. Over to you, sir.

Ninad Karpe Thank you. I would like to thank all of you for joining in this call on Friday evening. We will continue with these regular quarterly calls and keep you updated on various developments. We are continuing on a path of ensuring that Aptech remains profitable year-on-year, quarter-on-quarter and we will certainly endeavor to improve. We are quite upbeat seeing the lag end of June and early July in terms of the market sentiment and the mood in the market as well as how the enrollments are going on. We hope to have a much better quarter and a year as well. So thank you for joining in, and if you have any specific queries at any time please feel free to contact Saurabh Gada, our Investor Relations head. Thank you for joining in.

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