"Aptech Limited Q1FY16 Earnings Conference Call"

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APTECH LIMITED REPRESENTATIVES

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Moderator: Ladies and gentlemen good day and welcome to the Q1FY16 Quarterly Results Investor Call of Aptech Limited. As a remainder, 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 please signal an operator by pressing * then 0 on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Saurabh Gada of Aptech Limited. Thank you and over to you sir.

Saurabh Gada: Thank you very much and welcome everybody to Aptech Q1FY16 quarterly conference call. We have with us today Mr. Ninad Karpe – Managing Director and CEO of Aptech, Mr. Anuj Kacker – Executive Director of Aptech and Mr. Pravir Arora – EVP, International and Enterprise Business. I would like to now handover the call to Mr. Karpe for his opening remarks.

Ninad Karpe: Thank you Saurabh and good evening, good morning, good afternoon depending on which ever part of the world you are… Thank you for joining this call. In the next probably 10-15 minutes I will give you an overview of Q1 and more importantly of where we see our business headed what is our strategy and where do you think we can look forward to in terms of Aptech business. We have had a fairly positive momentum in Q1. We have had reasonably good bookings. This was a time when domestic retail has enrollment season. So we did have fairly good bookings in the domestic retail which is a good sign and all this translates to income at a future point of time. In international retail we had a large project because of which we had huge spike in the income. In the testing side, although Q1 was slightly muted compared to last year because of one particular order which was there last year but we did not have this year. Not because of any of our fault but we do have strong pipeline and all that will start unravelling in the second half of this year and of course in the international side we continue our aggression, in terms of going to more and more countries, pitching learning ladder in countries which it is not yet signed up for and training solutions interestingly we have taken the lead to create the training product specifically for the e-commerce segment, as you are all aware e-commerce segment in India is doing exceedingly well in terms of blistering pace of growth and they require not only logistics, technology, but I would imagine the most important part for this industry would be trained manpower, not just from the internal perspective, they also need immense amount of training for sellers who want to join their network. So we have announced one tie up, alliance with Flipkart where we have customized training for their sellers, which will enable the sellers to put their products and services on the Flipkart network. So this is one instance, which of course we have announced. We are in discussion with most companies and we also signed up with another company, but we are aggressively pursuing this e-commerce training opportunity, which we think will grow. The government of India has announced Skill India program and is investing a lot and we are NSDC partners in 3-4 sectors and we will pursue that opportunity as well, when it starts unraveling itself.

So going forward we are fairly confident of the second half of this year being positive. Let me quickly summarize on the Q1 performance. Our operating revenue was Rs. 502 million, it actually was 15% growth over last year. Operating EBITDA was Rs. 51 million, a 7% drop, PAT was Rs. 28 million compared to Rs. 31 million last year, same quarter, again a drop of 8%. Interest income has declined by Rs. 2.8 million and this was one of the big contributors to decline in fact. In terms of overall revenue and profitability, operating revenue has shown an increase, which is of course a good sign and that was because of one project in the international. I had mentioned in the last 2-3 calls, we are aggressively pursuing projects across emerging countries, either funded by multilateral agencies or government or in universities and we will continue on that path. So in addition to our normal retail business in international plus strategy of expanding more and more countries and more and more centers, we will be pursuing this part of picking up projects wherever it is possible.

In terms of expenses we have maintained our normal expenses which is employee cost and admin cost. I had mentioned this in the earlier call as well that we will continue to hold our fixed cost as much as possible. May be some minor increases, but the good news is that in this quarter we have managed to hold our fixed cost as compared to last year. There is increase in the training and education expenses and I will talk about it later. It is more in connection with variable cost by and large connected to the international project order which we had. In terms of segment results, we have had good increase in the retail. In the non-retail there is a bit of a drop and there is a minor kind of a loss in the EBIT of non-retail. I am not too worried about it because it is just a Q1 phenomenon fundamentally because the biggest factor was there was one large testing order last year, which was not there this year. And moving ahead we are confident of this testing business also picking up steam. So although there is a minor EBIT loss it is not something which will happen in future or which is something be a cause of concern.

We continue to have a robust balance sheet with zero debt and cash and cash equivalent continue to be at Rs. 329 million, which is fairly healthy for the size of our balance sheet and size of our business. In terms of sub-segment revenue, IT training has shown a growth and animation and multimedia there is slight de-growth, but again this is more because numbers are not comparable. There is MAAC accrual, if we neutralize the MAAC accrual income (excluding own centers) over the two periods, it is by and large flattish. This MAAC accrual, the last of it will finish by July end or July of this year and in the MAAC business, there would not be any accrual (except own centers income) from end July onwards. So that will be part of history, but of course the comparability of numbers we will discuss in future points of time. In terms of assessment training, there has been a slight dip in the revenues.

Some of our key highlights was although our domestic retail revenue declined by 4.7%, if you neutralize the MAAC accrual revenue it is in the sense flattish. In other projects we had a large international order, retail, and that has led to increase in the revenue. Around a 25% decline in Aptech testing in the current year, current quarter is something which will get corrected by the year end because we do have orders in hand which are more biased towards second half of this year. In terms of new centers, we signed up 21 new centers for a new course which we launched, Aptech Banking and Finance Academy. And that is why we have had a record 44 centers signed in Q1, total. International we had only four centers in this quarter and but overall we have had good increase in the number of centers. Lower interest income, as I mentioned earlier, was because of lower cash balance which we have. We still remain debt free company.

In training and education, expenses have gone up largely because of the revenue mix where other projects was high and these are all variable cost and that is how the training and education expenses have gone up. Depreciation is higher partly because of the new rate of depreciation and the courseware, a lot of content we have added last year has been depreciated in the normal course of business.

In terms of network, we continue to maintain a good network across brands. In the international side our presence in Asia Pacific is still the largest but we will slowly see more and more additions as we go forward in Africa, that is the place for our renewed focus and there are still a lot of countries in Africa where we feel and see lot of potential. Employee data in terms of number of employees remain constant around 400 people. We will continue to hold this number of employees even with the new initiative. We are fairly confident that we will not have any significant increase in the number of employees. We are very excited to have launched Aptech Banking and Finance Academy. We have 21 centers signed up and we are hoping by the end of next year to have 100 centers signed up for this business line and in India there is a huge scope for jobs for banking and finance and we hope to be able to ride on the wave. We will continue with the franchise model, so it is leverage model and we have products already in the market.

We have signed a new partnership in Mexico to deliver java courses and we have significant order in Madhya Pradesh for testing, we have entered Egypt with Aptech Computer Education and the Bookings in domestic retail grew by 9.6% as compared to same quarter last year. Some more details, Sudan where master franchise was renewed, e-commerce I had mentioned earlier, but I want to reiterate that is the segment we have been focusing for last 6 months.

In last two months, we made an announcement because we had signed up with Flipkart to train the resellers. We are speaking to all the leading e-commerce companies to figure out how we can meet the training needs of their people.

To summarize let me quickly conclude, as I have been mentioning in the past we will continue to hold our employee strength and cost and all this new initiatives whether it is a BFSI segment, e-commerce and many other kind of initiatives which we are going to do in the future will not significantly add to our cost and we are ensuring that none of these have any negative impact to our balance sheet, at worst they will be zero or positive cash, so all of this initiatives will in fact add to our P&L and balance sheet as we go ahead. So just to name a few, e-commerce of course has been mentioned, Banking & Finance, Government skilling projects are going on and we have announced in the past that we are also entering in the digital space in a very planned manner. We have an alliance with the company called HandyTrain, which provides mobile based training modules, that product has been launched. It is a B2B product where by large companies and government agencies can rapidly roll out training modules based on the smart phone.

We of course have our internal digital program where we have internal offering called Onlinevarsity where all our students log in to Onlinevarsity and it is a collaboration platform whereby they can get books, they can get expert videos, more than 600 videos are there and more than 340,000 digital books have been downloaded by internal students. So we have been pushing internally the digital medium which is more cost efficient and ensures that student gets richer experience when he is studying at Aptech. We are slowly expanding this to domain outside of Aptech students on website called shop.onlinevarsity.com. We are taking incremental steps, now presently we have more than 121 study courses available. These are available to not just our students but everyone. These are pure online small courses which we have made available in the last month or two. We will be rapidly expanding this portfolio. Some of these courses are internally developed by us and some of them by external partners.

So to summarize, all the new initiatives we believe, as well as testing, we do have a good pipeline last year. We had done around 25-26 crores of topline which had an element of CMAT. We are confident that we will do the same amount this year despite CMAT not being there based on the present visibility. We are bidding for lot of orders and based on present visibility we will maintain the revenue stream of testing by the year end. Hopefully we should get some more orders as well. So my confidence is boosted by the fact that we have gone to e-commerce segment, government skilling hopefully will roll out fast. Our testing business on the present basis we still have visibility to match last year's revenue. Banking & Finance segment, the impact will start rolling in by Q4 of this year and certainly next year we will start seeing some impact. On the e-commerce side these are small initiatives but they will slowly take off whether it is shop.onlinevarsity or HandyTrain and our existing business retail, domestic as well as international retail, we will continue to hold and grow marginally and all this we are trying to do with maintaining our fixed cost hopefully with may be some marginal increment here or there but nothing substantial. So whatever comes in our kitty will basically then be leveraging our existing infrastructure, existing model and existing cost. So that is where we are, Q1 has been reasonably good but I think the way we are going, particularly second half of this year and thereafter will be better as the mood changes, as the government spends more and as we see the impact of all our initiatives unraveling. We should increasingly see better potential in terms of revenue and profit. So that is it from me and I am now ready for any questions if you have. Thank you.

Moderator: Thank you sir. Ladies and gentlemen we will now begin the question and answer session. We have our first question from the line of Deepinder Bhatia from Bayard Asset Management. Please go ahead.

Deepinder Bhatia: First of all congratulations on seeing some return to topline growth, quite substantial. We have been waiting for many quarters for this to emerge in full strength and finally we have seen it, all good things can happen from this point on. But what we noticed of course was, and I apologize I may have missed the first 5 or 6 minutes when you may have already commented on this, but what we did see was that the operating cost grew faster such that the revenue tailwind was fully nullified and that at the end of the quarter our EBITDA margin actually came down as well as the total EBITDA, the absolute number itself is also down, so great move on revenues but pretty much all of that eaten up with whatever happen in the operative cost line at the absolute and margin level EBITDA is actually lower than a quarter ago. Can you just comment on that and also is there some operating leverage in this particular cost item such that it is one-off build up at this stage which will eventually fade off or allow for more revenues to grow on the cost level that you have now observed in to this quarter, just if you can comment on both those aspects? Thank you.

Ninad Karpe: I think you are right. We did have rise in revenue which obviously was very exciting for all of us. It was more because of international project where the margins we knew were low, but nevertheless business was on the table and we thought we should grab it, and we did it. This can lead to probably more business. This quarter phenomenon where we had large project order, part of my whole strategy is to do lot of new initiatives, which are mentioned and hold the fixed cost line, whether it is e-commerce, whether it is Banking & Finance, testing, so all of that will start unraveling itself as we go on. Yes, this kind of low margin is one off for this quarter.

Deepinder Bhatia: So if we just do the numbers, I mean obviously, if I assume that it was a positive EBITDA project, for all the increase that occurred we may have earned virtually nothing in this particular quarter, meaning that is was so vapor thin that is why I attribute all the EBITDA change to just this incremental revenue we have to attribute a number that is minus 5 to the sales increase of about 60-65, of course it is not as clear as that; there is a mix issue here; there is a segmental sort of analysis that needs to be done, but should we fairly assumed that all the sales there is virtually no EBITDA for this new item or was it really a EBITDA margin decline substantially in other preexisting segments where you would like to comment about a little bit in terms of profitability trend? Thank you.

Ninad Karpe: There was EBITDA margin, I think what has happened is a double whammy, this of course order at low margins. But importantly, last year testing and this years' testing business there is a decline and I have mentioned that by the end of the year we will catch up. That business was fairly high margin last year which has more than (+25%) margin and that decline in testing also has hit us whereby you have seen a negative EBIT in the non-retail as well. I think we have after many quarters, now we have had small negative EBIT in the non-retail. So that has also hit us in the overall margins. So it is a combination of these two factors. In the testing business we do have orders which thereby will make up for and as of this point of time, we have orders in hand which will ensure that we reach last year's numbers despite some of the orders of last year which we do not have. You know because of various reasons not because of us. You know, either the exams are stopped or government has had some change and all. So our testing business will pick up steam.

Deepinder Bhatia: So then one last question on Banking & Finance, of course congratulations in that very exciting new segment to focus on, just wanted to understand a couple of things here. We do see the network does include the center count at 21 from what you explained subsequently you said that we should start seeing the revenues in the second half, I am assuming in the second half of the financial year or the second half of the calendar year. But either way, should we assume that the 21 number is currently producing little to low revenues right now. It is sort of on the runway where the training process or whatever, the franchise are being brought up to speed with QC and so on, that in fact the revenue stream has not yet been realized or have any revenues being realized. So what is the feedback so far that you are getting?

Ninad Karpe: So market has taken it very positively, but there is no revenue except for some signup fee. We will see revenues from Q4 this year onwards. We are targeting this year on 5000 students in this and you will see the bookings flowing from August-September and some part of that booking will convert to revenue in Q4 and the majority of it will happen next year and after that we were hoping to expand lot next year. Yes, there is an impact in the current financial that we will have but it will not be probably in Q2, little bit in Q3 but mostly in Q4.

Deepinder Bhatia: Just to dig a little deeper into this one, we must have spent a lot of time I am assuming with industry in helping, of course brining yourself up to for course material, training and the process itself to bring yourself up to the point where the product that we pass on to the franchise that is fully data tested and so on, I am just trying to understand , how much a work has gone into it for it be kind of approved in the mind of the potential employer meaning the actual industry and how much work has already gone on in the lab to make sure that the product that is coming out, the training increment to the individual concern is actually going to make the person attractive for the particular job of skill set that industry may have demanded. So how much cooperation has gone into it between you and the industry to be able to bring this product out?

Ninad Karpe: So we have been working around 18 months and more on this before we actually brought it out and we launched it this year. We have done some bit of training not in the retail side but more on the corporate side, B2B in the space as well with 1 or 2 private banks not very high number last year and that is why we kind of got flavor of it, so yes I think we have worked backwards as in where is the need, what is the banking industry looking at, so we did some B2B training to couple of banks and now the real actual excitement is in going for B2C model. So we are fairly excited and I think I am reasonably sure we should have a good revenue stream in future points of time.

Deepinder Bhatia: As far as the Flipkart type e-commerce base, that is basically going directly to business and directly to their employees on special contract that is not part of any franchise model?

Ninad Karpe: No, it is not franchisee, Flipkart is specifically the sellers. So there are presently 50,000 odd sellers and they want to make it 100,000 by the end of the year. These are small vendors, owners who want to get on to the network, who will have no knowledge of the technology, so it is the handholding to them to get on to the network and that is how it is and as I mentioned with all the e-commerce guys we have been in discussion for last 6 months or more not just reseller training, vendor training, they are multiple training requirements and the numbers are large. We have announced one, but we are in discussion with most of the e-commerce guys. It is a significant thrust.

Moderator: Thank you. We have a follow on question from the line of Deepinder Bhatia. Please go ahead sir.

Deepinder Bhatia: Just my usual periodic crosscheck, your carrying value of your Chinese business as it stands right now is again been reviewed by auditors in the last quarter or the balance sheet has been reviewed or is it just we are relying on the 31st March number at this point?

Ninad Karpe: It stands at Rs. 108 crores and it has been reviewed by management as well as by the auditors and we have kept it at Rs. 108 crore based on our review.

Deepinder Bhatia: And that number is as of 30th June right?

Ninad Karpe: Correct, that number remains same.

Deepinder Bhatia: So were you aware of any reasons to mark down the value that would have been the period so far and that there has been no markdown as far as you are aware about various valuation testing of an unlisted business, I guess, this is associate held where you only absorb dividends, you would have seen that if there was any touch change in management perception or auditor view.

Ninad Karpe: That is right. Absolutely right.

Deepinder Bhatia: Any other comments that you can make on the China business on the dividend and so on that we see periodically.

Ninad Karpe: We have to wait and see when there is no regular dividends, it has never been every year, it has been once in couple of years, so we will wait and see when we get the next dividend.

Moderator: Thank you. As there are no further questions now, I would now like to handover the floor back to Mr. Ninad Karpe for closing remarks. Over to you sir.

Ninad Karpe: Thank you everyone for joining in this call. I would like to kind of close by saying that at Aptech we have in the past 4-5 years pursued a path of profitable growth. I am sure that we will remain cash positive, add cash every year to our businesses; it is now showing results as in we have existing businesses which will continue to flow in at the existing pace and scale and we are hoping to slap on more businesses, more initiatives to our existing business without significantly increasing any cost and we feel our asset light model and the scope we have for various businesses which we are entering to not just in India as well as outside India gives Aptech a unique proposition in terms of diversity of business and diversity of risk. So thank you again for joining in this call.

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