



## “Aptech Limited Q4FY12 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 Q4FY12 Earnings Conference Call of Aptech Limited. As a reminder, all participant lines will be in the listen only mode. 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's Q4FY12 earnings conference call. I have with me Mr. Ninad Karpe, the managing director of Aptech Limited. He will take you through today's presentation and as mentioned, we will do the question and answers later. Thank you.

**Ninad Karpe** I have with me Saurabh Gada as well as Ravi Shankar – CFO. Thank you for joining in this conference call and thank you for taking time out to be with us, today. Before going into Q4, I will indulge in speaking a little bit about couple of things which we have been doing over the last three years and then touch upon the financials of Q4 as well as FY12.

One of the things we have really been very insistent upon is the fact that we have ramped up our investor relations functions and provided as much information as possible which we think is required by the investor community. So over the last 2-3 years, Saurabh has joined our team and we have really put in lot of efforts to ensure that, we put in as much information as is required by all of you to have good understanding about the company. Having said that let me spend the next 2-3 minutes in articulating what the Aptech team has been doing over the last 2-3 years and what strategy we have been following, then I will get into results of FY12 as well as Q4 and then probably spend couple of minutes explaining to you, how we go forward from there, and then I will be delighted to answer whatever questions you have.

So over the last three years we have done a couple of things, firstly, we have consistently followed a policy of profitable growth. And what do I mean by profitable growth? We have fundamentally said that we will not get into businesses, which we think will not generate profit and required cash. We have also slowly either reduced our businesses which were not making money and ensured that we focus on businesses which we think have higher margins. The education landscape is constantly shifting and it will continue to remain that way, it is not a homogeneous industry. There are a lot of players, but Aptech as a company has decided that, over the last year three years we felt that, our basic strength is in career education. We started off our business 25 years ago by teaching computer education, but we have evolved further from there, in other courses as well. So, our aspiration is to become a global career education company. So, when I say career, we fundamentally look at not just computer education, which remains our strength, but various other career options which include multimedia, animation, hospitality, travel & tourism and other options which we continue to see, where we target people who are seeking employment. Our basic value proposition, not only in India, but outside India as well, is fundamentally in terms of, wherever there is a gap between formal education and employability, we come to support boys and girls across India and across countries get a better job, get a better employment. So employability is our main plank and main agenda in getting students.

Over the last three years, we have seen, the Indian economy has been going through ups and downs. In the formal sector, there has been, in some cases, quite a bit of increased capacity, especially in engineering. And we also have a strong non-retail business, where one of our main businesses is about testing. We did a few things in response to the challenges, which even other companies faced, in India, in Education and other areas. We have strongly gone into lot of alliances, we have done inorganic growth, and we have really focused hard on international. We have scaled up our testing business, which has now reached an inflection point. We have also rebranded the company. Aptech now holds a brand-

new contemporary brand, which over the last year and a half we have shown, not only in India, but across the world. And it has been well accepted by everyone.

We have alliances with universities in India and outside India. One of our brands MAAC has an alliance with IGNOU. We have alliances with software vendors, in India and outside India, such as Red Hat to Oracle (including Sun) to Microsoft. Some of these were responses to market needs and market requirements. The students wanted not just Aptech courses, but also to have the comfort of alliances.

We did one major thing in 2010. We took a dominant position in multimedia and animation. Our brand Arena was number one and continues to remain number one, but we acquired the number two brand which is MAAC, so MAAC is now part of Aptech family. We also acquired a small company, which was into English language training. We continue to remain optimistic about the prospects of English language training outside India particularly, and in India to some extent.

In the International space, we have a joint venture in Philippines, where we hold a 40% stake in a joint venture, and a Brazil joint venture, which was there, but we have now converted it to a master franchise with our partner now running that business. In terms of some of the new initiatives, which are more recent, we now have a partnership with Hungama to target the emerging mobile education market and also a partnership with TRRAIN foundation, which is founded by Mr. Nagesh, who was earlier with Shopper's Stop, to train the retail sector manpower. So, this is just to give you some indication of a couple of things, which we have been doing.

Let me now spend the next 2 minutes in focusing on the international market. In the international market, we have been expanding rapidly. If you see the way our pie has grown, in 2007, 27% of our retail revenue (net of China) was from outside India. And in the year 2012 (net of China and MAAC), almost 45% of our retail revenue is from international. We

had three years back said that we have a mission to ensure that by the year 2014, 50% of our retail revenue should be from outside India. We are well on target. We have already done 45% in 2012. We will probably achieve that 50%, hopefully a year in advance. What does that mean to us? Fundamentally, as a company, that the demand gap in International is still very high, the maturity of the markets is still very low, and there are a lot of entry barriers in regulations to enter the market. So, once you enter the market, you do have a heads up on the other players out there. In terms of the content which we have developed here, it is more about leveraging the content, leveraging the entire process and also there are higher price points compared to India. So, over a period of time we are going to ensure, we have what we call a multi-product, multi-geography strategy which straddles across various emerging countries and in India. Our focus will remain in India and emerging markets. This is not something which we are doing in response to something which happened here and now, this is something, as a strategy, we adopted three years back and we are strongly implementing on that strategy.

I'll move on to talk a little bit about other interesting business, which is the testing business. This was started some years back and last year was our inflection point where we have done a good number of tests, around 1.5 million tests were done last year. We did the prestigious C-MAT exam, which was by AICTE, we conducted the exam. This business is growing rapidly; it has grown very significantly over last 3 years with top-line CAGR of 22%. We have been early players, and we continue to remain bullish on this business.

I will now turn my attention to the fact that we have also internally reorganized ourselves, whereby we now have a common team across retail for India, team for international, team handling enterprise business, and a support team. Overall, we have managed to reduce manpower from 775 to around 600 people now. This has happened because of multiple reasons. We have changed the business model in some brands. We have outsourced some support functions and obviously at some

portions also reduced the flab. With this reduction obviously our fixed costs go down, and this will help overall in ensuring that the manpower remains by and large at that level and we continue to leverage on this lower manpower.

In some businesses, we have shown significant turnaround. Particularly in Aptech Aviation, and also in Aptech Hardware & Networking and Training Solutions. Training solutions is now profitable. Aptech Aviation is still making some marginal losses and Aptech Networking is doing well, these are the businesses which are new, which will turn around, but the potential remains high, not just in India, but outside India as well. We look at all our retail offering from the prism of India as well as outside India. Our focus remains on continuing franchising and reducing our emphasis on own centers. We had 21 centers three years back excluding MAAC and that is now reduced to 9. The whole idea is that we need to leverage our entire core capability, which is, fundamentally, franchising and retailing. In that sense, we want to just keep a few centers, which are basically, centers of excellence and franchise out the other centers.

So, overall if I have to summarize, last three years what we have done is, we have ensured there is profitability in our business and we have generated cash not just from the dividend which was received from China, but also over the last three year period, we have roughly generated free cash flow from the operations as well as interest of 74 crores. Today, we have more than 100 crores in our balance sheet, there is no debt and our overall exposure to Government business is in single digits. And our debtors are also fairly low, compared to various industry standards. We have turned around the business, in CY08 it was negative and now over the last three years PBT has grown rapidly. It is now standing at 26 crores in FY12, while it was a negative in CY08.

All our strategies are slowly evolving. Our growth engines will remain Multimedia & Animation, where we are the leaders in India. Growth engines will remain International markets, where we have a very

dominant position in a few markets. And our space of testing and assessment, where we already have couple of good customers, marquee names, and we will continue to expand on that customer base which we have. Let me now speak little bit about new initiatives we have recently done, and touch upon FY12 and the last quarter. Recently we have signed up investment in Poland; it is a small investment with a stake of roughly 9% in the existing Polish company. This company is already in the training business and with our investment this company will use the money to further our products firstly in Poland and then once that is stabilized, in the neighboring countries like Hungary and Romania. This is an interesting model where we take a limited stake in the company and ensure that we enter that market.

Just to summarize on last year's EBITDA, we have shown a dramatic and significant improvement, I would say, in operating EBITDA, which is roughly 24 crores and it shows a growth of 11.7% over previous year. It is quite a good increase over the last year and that has been achieved by all the measures which I mentioned earlier. It's not a one-off stuff which we have done, but a composite of all the items which I mentioned earlier. Our PBT for last year is 76 crores and that does of course include dividend, which we have received from China. 15% final dividend was declared, but that is pending for approval from the shareholders. On the last quarter, again our EBITDA has been very strong and has grown significantly over the same quarter of last year. We had EBITDA of almost 7 crores and that is very significantly higher compared to the same quarter of last year. And this is again a reflection of all the strategies which we have been adopting.

So let me summarize my opening remarks and then I can take some questions. Over the last three years we have been following couple of strategies, our aspiration is to become a global career education company, our aspiration is to have 50% revenue from outside India, our aspiration is to follow a path of profitable growth. We have significantly altered fundamentals of the business and its now about leveraging on the

business to make it more and more profitable. We do have new initiatives which over a period of time we believe will play out very well. One is the mobile education space, second is the training for the retail industry and then of course in the international markets we keep doing what is required to be done in various geographies. Poland is one example which we have recently entered into. So, what are our growth engines? Of course, International where there is not just strong demand for computer education but also for Multimedia. Natural demand still remains very strong in a lot of emerging countries. In the testing business, we believe we do have a lot of upside, where we will continue to grow fast. Our Multimedia & Animation business, which we are constantly reinventing not just in India but outside India as well, will add more and more offerings which the students require. Overall, I am fairly optimistic of what we have now done over the last three years. We have reengineered the business, we have rebranded Aptech, we have changed the fundamentals blocks of the business to ensure that we now have a plank where we can only expand and leverage from our existing strengths. I have covered broadly the strategic part and covered some bit of financials. Lot of detail is available on our investor page, but I would be delighted if there are any specific questions which you have now and if I can answer them.

**Moderator**

Thank you very much Sir. The first question is from Shaukat Ali from Quantam Securities. Please, go ahead.

**Shaukat Ali**

We wanted some details on the BJB career education side, major value comes from that investment and we do not have clarity on that investment, what kind of operational and financial details are there over the last two years. Can you share some financial details of that company over the last two years, how they have performed?

**Ninad Karpe**

We now hold 22% in that company. And I hold a board seat there; obviously we're not the management, which is being done by the local partners there. So it is a private company at this point of time. I can only



say that it was always and continues to be the number one IT training company in China. Aptech Beida is the brand name by which lot of courses are offered across China by the joint venture and Aptech Beida remains a strong brand name, continues to be in a dominant position in the IT training market in China. This is what I can share with you now. If there are any further details, of course you can take it off-line with Saurabh and me.

**Shaukat Ali** We wanted to know what kind of quantum of profits that it generates, so that we can get a sense like how we can value that investment?

**Ninad Karpe** As I mentioned it's a private company, so obviously they are not obliged to put the figures in the public domain. And that will be the stand at this point of time. But, of course we can share some other details on what as I said it is still in a dominant position there.

**Shaukat Ali** It would not be easy for you to share profit and sales data for that company?

**Ninad Karpe** Well, it is a private company and that's where it stands.

**Moderator** Thank you. The next question is from Gautam Mambro from Value Quest Research. Please, go ahead.

**Gautam Mambro** Can we know the number of franchisee outlets that you have and how many franchisees have been added in the last financial year and how many have dropped out?

**Ninad Karpe** The total number of franchisees in India and abroad is 1046 as of 31<sup>st</sup> of March 2012. And you wanted added last year right?

**Gautam Mambro** Yes added last year and how many dropped out also?

**Ninad Karpe** Added last year is roughly 100, actually its 99 exact we have added last year. And dropped out are roughly 35, it could be one or two here or there but, roughly 35.

- Gautam Mambro** And my second question is regarding saving in expenses that we have done I think primarily by closing own centers. Is there any more scope for cost savings now or the peak has been reached?
- Ninad Karpe** Well, there is some scope. I would not say the same amount as the last three years because we have fundamentally done the big ticket items which are changing business models, closing own centers. We are still in the process of doing further, but it will not be in the same ratio or same range. There will certainly be some more savings, but not in the same large proportion.
- Gautam Mambro** Sir what would be the growth in enrolments across centers on a YOY basis? What would be the growth in fees across categories, value of fees or if that detail can be shared?
- Ninad Karpe** Well, see we have number of products in number of countries. It's not that our fee is same in each country, in each country there is elasticity. Our fees out of India are certainly 1.4 to 1.6 times higher (roughly) than in India, depending on the country and depending on the demand-supply gap. So, elasticity in some of these countries is higher. I think in terms of the revenue growth which we envisage, I can only say in terms of different broad categories, in India we are expecting, in domestic retail a growth of 10 to 15%. In the international retail it will be 25%, more like touching 25-30%. For Aptech Assessment it will be 30-35%. So these are the broad growth expectations. On enrolment interestingly in our business, enrolment is the mix of lot of courses there is short term, career, or mid-term, long-term courses. So that's not a reflection on what basically can impact the revenue because one career course for 2-3 years may be equivalent to many short term courses, but roughly this is a kind of indication I can give you.
- Gautam Mambro** And how many franchisees centers did we add in Q4 and what would be the target next year?

- Ninad Karpe** 23 we added in Q4 and overall for FY13, next year we are targeting total of 125 at least.
- Gautam Mambro** Okay and what would be indicative tax rate next year?
- Ravi Shankar** We would still be in the MAT regime, which would be 20% of the booked profits.
- Gautam Mambro** And when would we go to full tax?
- Ravi Shankar** Well, as of now Aptech has got a consolidated losses of about 155 crores, so it's going to take about 3 to 4 years by which time we will go into the normal computation.
- Gautam Mambro** Okay so, I think MAT is there for some time to stay.
- Ravi Shankar** That's Right.
- Moderator** Thank you. The next question is from Rupen Rajguru from Merrill Lynch. Please, go ahead.
- Rupen Rajguru** Just wanted to know, going ahead what would be our dividend policy because now considering the fact that significant amount of our total full year PAT comes from dividend from China, so what is going to be our dividend policy going ahead?
- Ninad Karpe** Well, we have paid 15% interim and board has recommended 15% final dividend, hence totally it was 30% dividend. Last year after many years, we had declared a small dividend. We are not in a position right now to articulate a policy, but certainly the intention is there. This dividend which we are paying is net of the dividend which we received from China. As we go along and do more of these calls, we will articulate the policy in consultation with the board but at this point of time there is no stated policy of dividends.

- Rupen Rajguru** Yes, okay I understand that you mentioned earlier that you cannot share much of the details of your China partner but at least can you share what is their dividend policy, like how much percentage pay out do they give?
- Ninad Karpe** Being a private company, they obviously do not have that as well, but certainly we have over the last two years received a good amount of dividend and let's see how it goes from there. Being a private company, shareholders are of course certainly interested in receiving dividend, as much as we are interested they are also interested.
- Rupen Rajguru** So, is it safe to assume that the dividend payout there is kind of maximum, considering that they don't have major CAPEX plans?
- Ninad Karpe** The amount of dividend which they have paid over the last two years, prior to that it wasn't paid for 4 years. So they paid for two years after the period of four years. But we will have to review it every year. Their business is still cash profitable; there is no stated policy as such.
- Rupen Rajguru** Okay and any inorganic growth plans for us after MAAC?
- Ninad Karpe** We of course are always looking for opportunities. In last three years we have stated our policy to become a global career education company, so we will look at production offerings which have a flavor of taking them international. We will certainly look for something which fits in that vision or frame of mind. We are looking at career options which have a global flavor.
- Rupen Rajguru** Okay and if I remember correctly we had made some small investments in Brazil if I am not mistaken. Is it correct, one of those growth economies?
- Ninad Karpe** That's right. Our investment is still there, as in we had started a joint-venture there with a local partner. We have converted that to master franchisee in the last year. The reason being, from a business perspective we realized that our Brazil foray will be more impactful and effective if the business is managed by local partners as opposed to sending our people there to manage the business since the conditions are quite

different there. The business is still there except that now it is not a joint-venture, it is a master franchisee.

**Rupen Rajguru**

Okay but can you share how big the business is?

**Ninad Karpe**

It is too early, it is just one or two years back. We have just a got couple of centers. In Brazil as a territory, the income was 60 lakhs. It is economies where we have to harvest for long term and we will be there for a long time.

**Rupen Rajguru**

So, just to elaborate on that, can you give some sense like how big would be the largest education company in Brazil?

**Ninad Karpe**

There are no educational companies which really compete with our kind of businesses as an independent, private career education company. There are of course the formal universities, then there are what is called the certification industry, which is basically all the vendor certifications. So in that sense we're breaking new ground over there.

**Moderator**

Thank you. We have a question from Gautam Mambro from Value Quest Research. Please, go ahead.

**Gautam Mambro**

About this provision for doubtful debt, I think that is coming as a result of the integration with MAAC. MAAC's accounting policy has been changed, so how long do you expect that these bad debts will come, or will they reduce materially next year?

**Ninad Karpe**

I will just provide a broad thing and then Ravi Shankar will add to it. Basically, we believe that Aptech accounting policies are probably the most conservative because we recognize income only when money is collected at the centers. It is not on the basis of accrual, we accrue it only when money is paid by the students, so it is a fairly robust and conservative method. MAAC obviously had a different method and we are changing the MAAC method to the Aptech method. In the transition there will be some changes, but how much time we will take Ravi Shankar will tell you.

**Ravi Shankar**

As far as MAAC is concerned, we migrated from AS accounting effective 1<sup>st</sup> July 2011. So it is our estimate that this would taper off over a period of 2 to 3 years. After which the provision for doubtful debt of magnitude that you have been seeing in MAAC accounts will not be there anymore.

**Moderator**

As there are no further questions from the participants, I would now like to hand over the conference back to Mr. Ninad Karpe for closing comments.

**Ninad Karpe**

Thank you everyone for joining in this call. We have started this call after many years. We intend to do this call regularly as well as our intention remains to provide as much information as possible to our investors. Please do feel free to contact Saurabh or me, if you require any further information. Again, let me thank you for joining us in this call.

**Moderator**

Thank you very much. On behalf of Aptech Limited that concludes this conference call. Thank you for joining us.