



## “Aptech Limited Q4FY13 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 Q4 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 phone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Saurabh Gada. Thank you and over to you sir.

**Saurabh Gada** Welcome everyone to Aptech's Q4 Quarterly Earnings Conference Call. I have with me today Mr. Ninad Karpe – Managing Director and CEO of Aptech and Mr. T.K Ravishankar – CFO of Aptech. I would now like to hand over the floor to Mr. Ninad Karpe for his opening remarks.

**Ninad Karpe** Hi everyone. This is Ninad. I am delighted that all of you could join for this Q4 conference call. I will spend next 15-20 minutes to try and summarize some strategic issues, cover some key areas and then we can have a round of Q&A.

Q4 was quite good for us. In fact, we are quite satisfied and fairly excited with the final results which we delivered, where our top line for the quarter was roughly Rs. 48 Crore as opposed to Rs. 40 Crore in the same quarter of last year. This is a significant 19% growth. Also our operating EBITDA and PAT grew a lot along with that.

One of the reasons for the strong Q4 was our Aptech Testing business. In Aptech testing we do online testing for a number of government, educational institutions and some companies. We do have centers but when we have large number of tests, we hire temporary facilities. Overall last year, in Aptech testing, we did 1.8 million tests as compared to 1.5 million the year before. Aptech Aviation has been growing through a rough patch

for a long time, but this is the second quarter when it has been EBITDA positive. We think it is now on the right track of becoming EBITDA positive from here onwards. In the international space, although the retail market has been soft, in the non-retail part which includes ITEC program and Malaysia, where we do corporate training, there we have seen a pretty good growth of 90% and 70% respectively. We continue our belief on the long term story that we need to try and be present on a franchise basis in all emerging countries in the world and with this in our minds; we have also signed some new centers. In Q4, we have signed 2 centers in Afghanistan. It of course takes a couple of months for the center to be operational. But this is indication of the fact that we are again pushing the boundaries where we need to operate in.

So, moving on, our income for FY13 was Rs. 169 Crore as against Rs. 174 Crore the year before. But this drop is largely because we are changing our method of accounting in MAAC. MAAC, as you are aware is a company that we acquired and it had a different method of accounting. We want to now dovetail that method into Aptech method of accounting which is far more conservative and because of the accounting method change, MAAC revenue has dropped. It will still take at least one or two more years, it will probably take two, so that there are no further impacts in terms of method of accounting. Operating EBITDA has grown significantly by 11% and the majority of that is fundamentally because of our steep growth in Aptech Testing business. Directors in the board meeting recommended a final dividend of 25%, which combined with the interim dividend of 15% gives a good dividend of 40% to our share holders. Directors have also proposed buyback up to 25% of paid-up capital and free reserves for a price up to Rs. 82 per share. Rs. 82 is a 52 week high of Aptech on the date of the board meeting that was the reason we decided Rs. 82 as the price at which shareholders can participate in the buyback. If the entire 25% of paid-up capital and free reserves is utilized, then roughly Rs. 64.65 Crore will get reduced from the Cash & Bank Balance. But of course, these are maximum numbers and as we go along, we will know exactly how much we buy. We

need to have postal ballot of shareholders. All that regulatory process has started.

On comparison between FY13 and FY12, we had received dividend of Rs. 50 Crore from China in FY12, but in FY13 we have not received any dividend. So, all the comparisons have to be seen from that perspective. When you look at PAT of Rs. 76 Crore in FY12, one has to take into account the fact that Rs. 50 Crore was from China. The company is now paying normal tax for two of its subsidiaries viz. MAAC and Aptech Testing. Overall, if you remove the impact of MAAC in the top line, there is some bit of growth from last year.

Now moving onto the summary of the quarterly results, we had a strong quarter showing a 19% growth in the top line. From a seasonality perspective, it is significant to compare Q4 FY13 with Q4 FY12. Despite higher taxes, we have recorded a PAT of Rs. 15.5 Crore in the quarter as opposed to Rs. 9.8 Crore in the same quarter of the earlier year.

On the overall break up of our retail revenue, Royalty continues to be a significant portion of our revenue and that is fundamentally from the fact that we have a franchise model and in the franchise model, Royalty will remain a big component of our income. Growth in ITEC revenue, which is international retail project, is something which is another significant movement.

Our costs are still fairly under control. We have seen an increase in cost as compared to previous year because of increase in cost for execution of CMAT exam. Roughly Rs. 2 Crore is attributable to increase in cost for CMAT. In MAAC, there have been provisions for doubtful debts, which are fundamentally a result of different accounting method and related to student dropouts. But overall, we have kept costs under fairly tight control and we will continue to ensure that costs remain under control. On the balance sheet, I must draw attention to the fact that cash & cash equivalent as on 31<sup>st</sup> March, 2013 were Rs. 120 Crore. Since we had this kind of cash balance and we were generating operating cash every year, the board felt

that we should have a buyback arrangement. Debtors are also fairly under control at Rs. 25 Crore. Some amount of this is from the Testing business, where we are yet to receive some money for the execution of CMAT exam. But overall, from a revenue perspective, Rs. 25 Crore is fairly good controllable size of debtors.

In some brands of Domestic Retail there has been some bit of decline. Overall Domestic Retail revenue excluding MAAC though is higher than last year. In International Retail also IT Training revenue has declined, but overall there is a growth. In the Enterprise Business though there is a good amount of rise. In International Retail, we still see a strong demand for Arena. At the end of this presentation, I will highlight some of the measures we are taking to ensure that our international retail business starts picking up again.

Our operating EBITDA in the Enterprise and Domestic Retail space has gone up significantly, but in the International Retail segment there is a slight decline. We are not too concerned about it because we think we do have a strategy to improve the EBITDA margins of International Retail. The interesting part, of course, is that Aptech Aviation has crossed with an EBITDA break-even level on a full year basis and we hope and we think that we will be able to ensure that it remains in the positive zone from now onwards. Overall Operating EBITDA in Q4 FY13 was 33% as against 27% in Q4 FY12. So, there is an overall increase.

For the quarter, we have added 33 centers, which is a fairly healthy addition to a network. Aptech Computer Education, we still see growth happening in the domestic and international market. So, network addition continues at a pretty good rate. In terms of enrollment, it has been either a little bit flattish or slight decline. But as far as our courses are concerned, it is a mix of a lot of courses. There are short term courses, long term courses. All kind of courses are there. So, these numbers have to be seen in that light. In terms of booking, there is an overall increase to Rs. 43 Crore from Rs. 41.7 Crore in Domestic Retail in the quarter on a Y-o-Y basis. But in International Retail, there is an overall decline, with steep decline in IT training.

In the Assessment & Testing business, we have consciously stayed away from paper and pencil tests, which are hand-written, and are positioning ourselves as online testing providers. So we only do limited number of paper and pencil tests and majority of the tests are non-paper and pencil. In terms of Training Solutions, it is part of a wholesome product which we offer to our customers, but the bigger piece is Assessment & Testing.

We continue to remain in the 430 – 435 range as far as permanent employees are concerned. We are outsourcing as much work as possible. In addition to the employees on company rolls, there are other people who are on contract basis. But overall, despite the growth in our revenues, we are not seeing a significant increase. In fact, we are trying to maintain our employee count at this current level.

We have signed an MOU with NSDC in Q4. This is over a 10 year period. We do hope to train more than 2 million students. This is not yet activated. MOU is signed. We are going through the process of identifying which training to be provided, which areas, and all that process is going on. It will still take a couple of months before we start rolling out project with NSDC. We have also signed MOU in the last quarter with UCX. We are hoping to enter into the financial market training with UCX providing us their expertise and we rolling out training and products with them. We had invested in a company in Poland which has started rolling out our product in Poland and hence we have received royalty of \$7000 and dividend is also received by us from Poland.

We have a strong focus on placements and they have increased in the last quarter as well. We have franchised out one Aptech Computer Education own center and one MAAC own center. We do franchise our own centers when we think that it has settled down and we do not require to go on with that center any more. We conducted close to 134,000 tests for CMAT exam and believe that it was one of the largest ever execution in such a short period of time. We had a property in Chennai which was rendered surplus

after a lot of functions were centralized and we have sold it in the last quarter for roughly Rs. 15 Crore rupees.

Let me take couple of minutes to talk to you about what are we looking forward to strategically, what are growth drivers and what do we think has happened in the current year, as we have already entered one and a half months in the current year. In our current year, our growth driver will continue to be Animation & Multimedia in the domestic market. It will continue to be our Testing business and we will continue our push in the international market. In the international market, in the later part of this year, we are hoping to introduce new repurposed content for English. Presently we are present in just a couple of markets outside India for English learning brand. We have been testing the markets and we figured that there is significant scope for our product and we are re-looking at the content as we have it and we are now in the process of repurposing it, redoing it to specifically cater to the international market. So, once that is done, we are fairly confident that we will be able to push and drive more revenue, but this will certainly take another 10 months before we can introduce the content. Another interesting product which we have launched last year in the later part is what we call "Learning Ladder". It is a product for training for K12 on computer education. We launched it only in the international market. Presently it is launched in one country outside India and we have got a good response in that market. We will push it through our network across many emerging countries where we are present. So, this coupled with English, coupled with push in Arena and some bit of marketing and sales efforts on Computer Education should see a good future for the International Retail business. In the domestic market, MAAC and Arena continue to be leaders in Animation & Multimedia space. There is still a strong demand from kids for joining an Animation & Multimedia course and we hope this will drive some growth next year in the domestic market. Computer education still remains familiar territory for us and which we hope will deliver growth in the next year. On the Enterprise Business, fundamentally testing business, we do have a strong pipeline. We do have a strong tailwind and we firmly believe that it should do well in the next 1 or 2 years. So, overall broadly, we are

excited about this year for a couple of reasons. The strong pipeline in Aptech Testing business. We think our International Retail next year will launch some new products as well as some tweaking of some markets and investments in some markets, we should do reasonably well. In Indian markets, the main season for us is June-July-August. June-July is the timeframe when students take enrollment. We have started new campaign this year and we are hopeful that we should see some growth in the domestic market. So that is broadly where we are.

From our overall perspective, we continue our thrust to become a global career education company. We will continue to look at newer opportunities, newer products which do have a flavor of international markets since we have experience in all these markets. And we will continue to push our boundaries. And open new centers not just in India, but various emerging markets. Our model being asset light model and our model being not as capital intensive from our company perspective, we believe we can continue to leverage across various products and across various countries.

I have broadly covered a broad spectrum of Q4 results, which we are very excited about. I have also covered last whole year's results and have given a broad indication of what we are looking forward to in the current year. With this now, I am open to any questions.

**Moderator**

Thank you very much sir. We will now begin the question and answer session. The first question is from the line of Deepinder Bhatia from Bayard AMC. Please go ahead.

**Deepinder Bhatia**

Couple of questions – some numeric and couple of strategic ones. On the sale of real estate, the gain that is shown here as Rs. 8 Crore, I want to just understand how much of the tax increase that occurred this quarter was due to this exceptional item? I am just trying to reconcile the move in taxes from last year's number to the larger number this year and how much of that could be on account of this one exceptional item?

**Ninad Karpe**

Mr. Ravishankar will respond to that.

**T.K. Ravishankar**

Now the tax component has obviously been a little higher compared to last year, primarily on account of our property sale which we have highlighted in our presentation as well. So on that the amount of tax that we had paid on MAT was about Rs. 1.7 Crore. So that was the additional impact on account of the property sale. This apart, the fact that two of the companies as Ninad mentioned, MAAC, as also Aptech Testing went into the normal computation of tax where the effective tax burden would be about 33% as opposed to our 20% tax burden on companies which are of minimum alternate tax. So these two brought out the higher burden of tax and the third indirect element would be, till about last year, we were taking the MAT entitlement credit, which as a matter of prudence, we have stopped taking and we are paying the full 20% tax that is applicable for minimum alternate tax system.

**Deepinder Bhatia**

If we reduce the Rs. 1.7 Crore from this quarter's tax number which relates to the real estate item. The balance just as a ballpark should be approximately the current run rate that we can sort of assume as the ETR going forward may be with further adjustments as the quarters develop. But at least that is the one adjustment that we need to make?

**T. K. Ravishankar**

By and large, that would be the right method.

**Deepinder Bhatia**

The second question also sticking with the real estate sale, as I look at your cash balance on Page #13, I notice of course that there is an increase and you point out later on that the sale was of course significantly larger than the net increase meaning if I back out the real estate increase, the sales proceeds from the cash balance, the net number has not really risen much. In fact, it is slightly negative. Is there something in the working capital cycle this quarter or something else in the CAPEX program in the current quarter that may have called the cash balance to rise much slower than the real estate sale would have projected?

**T.K. Ravishankar**

As Ninad mentioned, there were two components, one is the Aptech Testing where we had done this AICTE examinations in the large measure in the fourth quarter and consequently a good part of that amount was receivable

on the 31<sup>st</sup> of March and subsequently those are also getting realized. So therefore, the working capital component has undergone a change consequent to this AICTE examination being conducted in the month of February. That was one and the second component was the interim dividend which was declared at the rate of 15% which also had an outflow of about Rs. 8.5 Crore. So, these 2 components put together obviously had a little reduction in the otherwise high cash balance and also the fact that the CAPEX that we had incurred during this year compared to the earlier years was a little more pronounced.

**Deepinder Bhatia**

Just moving to the expense side, there has been some really good expense management by your company for the last several quarters as you had to face industry wide down cycle. Is this as much of expense management as you could do or should we think that if there is a pickup in revenues from here, expenses are necessarily going to rise. In other words, I am trying to figure out, is this the new base case from which you have some operating leverage on the way up or at this point, expenses will rise in line with any projected upswing in the cycle as you see it?

**Ninad Karpe**

In the line items, training and education has a component which is slightly variable and it is relatable to the revenue. That line item by and large would go up and down based on the revenue from Testing business. But other than that, we have tightly controlled most of the other expenses.

**Deepinder Bhatia**

Maybe you can just talk a little bit about the dividend payout policy. I just want to understand, this quarter, you have been very generous with shareholders in both announcing a higher payout number than prior quarters as well as the substantial expected share buyback if it is completely approved and so on and so forth. What I want to understand is in this particular dividend that was announced this quarter or is proposed this quarter, is there a piece of special dividend in it or as we think about your longer term cash generation, cash requirements and sustainable payout policy, without trying to box you in any particular manner, just wanted to understand an indication, is this a sustainable level of dividend payout

percentage as a percentage of profits or is there also a mix of the special one-off in this Rs. 2.5 number that you have declared just like there is in the share buyback announcement that you currently made?

**Ninad Karpe**

What has happened is that there are a lot of factors because of which this dividend was paid and not one single factor I can pinpoint to. So, we did have Rs. 120 Crore cash with us which has been with us for a very long time. Rs. 15 Crore from that will go into dividend and assuming worst case, assuming up to Rs. 82, we buy that and up to 25%, a maximum of Rs. 64.7 Crore will get into buyback. So, that totals to Rs. 80 Crore. We will still have Rs. 40 Crore with us and zero debt. We also hope to add more cash from our operations. So, one is this cash flow equation which is there at the back of our mind suggesting that even if we look at new opportunities, we have zero debt, we will still have Rs. 40 Crore upwards and more cash to come, hopefully next year. So, based on that cash requirement to hold we are very comfortable. But yes, there is no special component or special thing in the sense, it was more driven from the fact that we are comfortable from a cash position.

**Deepinder Bhatia**

Ninad, you also mentioned that in your closing remarks, you would like to make a quick comment about how this quarter is coming along. Maybe I missed that portion but can you perhaps just comment a little bit about how the current quarter is proceeding?

**Ninad Karpe**

Yeah, it is too early. What I was trying to say that for our domestic retail, June-July are important months in terms of enrollments and marketing. We are hoping that this year, we should do far better than last year. It is too early to say how the tide is running because we are just in the middle of May. But we certainly hope more students join our Animation & Multimedia course.

**Moderator**

Thank you. The next question is from the line of Grishma Shah from Envision Capital. Please go ahead.

**Grishma Shah**

Sir, if you could highlight both Arena and MAAC, both of them are very strong brands, but Arena is supposedly doing better for us compared to MAAC. Are there any different product offerings or what is it?

**Ninad Karpe**

Yeah. They are slightly different offerings. There is some overlap. I would say roughly 40% overlap is there in terms of product offerings. MAAC is a product which is targeted to slightly high-end animation and special effects. It has got a brand and imagery of a high-end product and Arena is more for the masses. So, in terms of the consumer behavior, MAAC is slightly higher priced, slightly higher branding, slightly higher imagery. So, as I mentioned earlier, MAAC, we are going through process of accounting change. So, we will again in this year see some bit of decline in the top-line although that is by and large attributable to accounting change.

**Grishma Shah**

What are your plans for scaling up Arena given that couple of quarters back, you did say that there is a lot of local competition which is cropping up in this space? How do you think this will pan out for the next one year?

**Ninad Karpe**

We have interestingly in the last 4-5 months we have seen some bit of consolidation. We have seen lot of regional and local players either winding down or wanting to sell out or scaling down. And based on that, I had little bit of optimism in terms of Arena in the current year. So, competition is there. It will remain. We do have a dominant market share, but in the last 4-5 months we have seen scaling down of competition.

**Grishma Shah**

The other question was our signing up of NSDC. Years back, we did pull out of the government business and decided to focus more on the retail and institutional side. What has drawn us back to this NSDC tie-up?

**Ninad Karpe**

We have decided as policy stand that we will not bid for projects which are government projects where we have to invest in computers and buildings and also provide training. These are typically known as ICT projects and they are very large top-line. We have done one. But our stand remains today that we will not and we are not bidding for any ICT projects. So, NSDC is not at all comparable to ICT. It is a very different organization. Everything is training

related. There is no large component of investments, which has to be made in ICT and we need to wait a lot for money to be received from government. NSDC is basically an approval authority and we will receive money straight from the students. There are benefits for NSDC approved projects, but fundamentally we still market to the students in normal format and we will receive money from the students.

**Grishma Shah** They will come to your normal Aptech centers and under the NSDC banner, they would take some courses?

**Ninad Karpe** Correct. So, we will have a separate kind of SBU so we might have some dedicated centers so all that is being worked out.

**Grishma Shah** And these revenues will start flowing from when?

**Ninad Karpe** We will tell you when we actually launch it. It is all being discussed. As soon as we launch our first project with NSDC, we will inform the investor community.

**Grishma Shah** You booked Rs. 8 Crore from the sale of properties for the quarter, so the balance Rs. 7 Crore comes in the next quarter?

**T.K. Ravishankar** Sales proceeds have been recorded as Rs. 15 Crore and the profit of the sale has been arrived at Rs. 8 Crore.

**Grishma Shah** Okay and that has been taken in this quarter...

**T.K. Ravishankar** Balance is the book value of the asset which is to be reduced.

**Moderator** Thank you. The next question is from the line of Deepinder Bhatia from Bayard AMC. Please go ahead.

**Deepinder Bhatia** Just a little bit on the strategy side. You are in a lot of different markets. And you are trying to be the emerging market leader in this space. So, who are the other players that you see that are trying to do it on a pan EM basis? To extend the question a little bit further, are there any emerging EM players

coming out of any specific markets that are trying to create a similar pan EM strategy as you are?

**Ninad Karpe**

Yes, there are pan EM guys, but they are in specific segments. So, for example, in English, there are people who are in many countries, in IT training there are people in some countries. Although may not be in the same kind of length and depth. For Animation & Multimedia, whichever country we have been to, we have not encountered any competition of anyone offering similar courses for a two-year time horizon. So that is an area where interestingly we have not encountered any competition. But overall, I would like to believe and say based on our experience that we have not come across any company which is offering this kind of wholesome courses and not just IT training. Our strategy is still work in progress. So, presently we are at some products in some countries. We want to have all products in all the countries that we operate from. IT training, Animation & Multimedia, Aviation, Tourism and of course when we launch English that as well, plus we want to keep adding to that. So, that is our overall strategy. I hope I answered the question. Fundamentally you do not see any mid-size or any large company having this as a focus strategy and with so many products.

**Deepinder Bhatia**

Sir, when you enter into a market, this Afghanistan market is a very good example of that and there maybe similar markets in Africa, East Europe and so on which are somewhat less familiar like for example, South-east Asia, Middle East and so on for operators coming out of India, these are brand new markets for any promoters. I am just trying to understand how do you de-risk your entry process to be able to have a shop front, have the correct connections with the right local promoters, the local entrepreneurs, and how you vet them? How do you achieve that level of comfort as you enter into a new geography that may look interesting for you?

**Ninad Karpe**

We do have a robust de-risking process and we keep improving it every year. One is we do not go in any of these markets directly by ourselves. There is a model of franchise, master franchise or in case of Poland we have limited

equity investment model and in some other markets we have a stake upwards of 10%, for e.g. in Philippines we have a 40% stake. We do have 3-4 models depending on the country. Finding the right partner can take couple of months to couple of years. In some markets, we have been wanting to enter for the last many years, we have just not found the right partner. We do have an internal questionnaire and checklist for the right partner that we require and in Afghanistan, we started looking around couple of months back and we were fortunate to find. But there are some countries in Africa where we have not yet found. So, this is a matter of business development which happens. On the de-risking part, from a partner perspective, we have a strong process of checks, internal-external, all those checks are done. On the business side, the partner brings to the table, his knowledge of the local market, his investment that he has to make in the center and the local marketing and we provide the entire academic side, from training the trainers to content to training material, everything to conduct the exam. It is a win-win situation for any entrepreneur wanting to get into education business in any of these emerging markets.

**Deepinder Bhatia**

And then just lastly on the overall product rollout over the next few years, we know what your current slate is, we know where you are working, where you are emphasizing your resources right now. You talked about it in great detail. Your presentation touches on it. But to the extent you are able to talk about it, what is currently in the laboratory? Where is the R&D currently going on internally recognizing that you do not have unlimited life cycle for some of your products? There is a point where there will be a fade out, something else new will have to come in. What are you sensing and seeing in the domestic market particularly, which is your forte that might be in the lab that you can easily talk about?

**Ninad Karpe**

In Animation & Multimedia actually the field keeps changing every year and a lot of new products keep happening. There is no real life cycle for the category. There is life cycle for specific products. So, that is the beauty of Arena and MAAC. We keep introducing new products, new offerings. In terms of Computer Education, the basic computer education still goes on.

But we keep adding new stuff. Now it is app development, cloud computing, all of that stuff keeps embellishing. So, both these things are continuing and we are still not seeing it as the end of the life cycle, we still think they have a long way to go for that and in the domestic market, Hardware & Networking, we have not penetrated as much as we wanted to. But in the B, C and D class cities, clearly Hardware & Networking has a far greater demand, at a low price points compared to Animation. So all these products are still there and in R&D of course English is there. In R&D we do have travel tourism and hospitality. In R&D what we have already announced is our MoU with UCX. In R&D we have launched a pilot last year and I have not touched upon it in Q4. It is on training for the organized retail sector, in R&D we have a small initiative with a company called Hungama where we have actually launched products on the DTH platform and the mobile platform. So there is lot of known R&D work which is happening and some of this can hopefully really take off.

**Moderator**

Thank you. As there are no further questions, I would now like to hand over the floor back to Mr. Ninad Karpe. Over to you sir.

**Ninad Karpe**

Thank you everyone for joining in this call. We were very excited with the results and our entire proposal of dividend payout as well as buyback at 52 week high, which we thought was fairly aggressive, but at the same time would also be interesting to shareholders. But the board has done that and we have done that fundamentally because of the confidence which we have in our business. A confidence that over the last three years we have reengineered the business to focus on specific products, international markets, some bit of enterprise business. We have a lot of stuff happening in the R&D lab. We will do have small initiatives which happen all the time and some of them will over time become good, give us some large juicy revenues as well as profits. So, thank you again for joining us and hope to have your participation and support in the next call as well. Thank you.

**Moderator**

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