



“Aptech Limited Q2FY13 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 Aptech Ltd. Q2 FY13 Earnings Conference Call. As a remainder all participants' 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 0 on your touchtone telephone. Please note that this conference is being recorded, I would like to hand the conference over Mr. Saurabh Gada, thank you and over to you sir.

Saurabh Gada Thank you Marina and welcome to Aptech Q2 FY13 Conference Call, I have with me today Mr. Ninad Karpe – MD & CEO of Aptech, Mr. Anuj Kacker – COO of Aptech, Mr. T K Ravishankar – CFO of Aptech and Mr. Pravir Arora – Head of International and Enterprise Business. I would now like to hand over to Mr. Ninad Karpe for his opening remarks.

Ninad Karpe Good afternoon everyone and thank you for joining in to this quarterly conference call. Over the next 10-15 minutes I will try and give a broad outline of how we find the business, analyze some of the good things which are happening and also mention some of the challenges. You must have received the presentation sent by Saurabh, so I will briefly touch upon the salient features of the important points from business, directional and strategy perspective. Overall the quarter was fairly good for us. We have seen good growth in booking especially in the domestic market, which is a good sign. There is always a lag between growth of bookings and conversion into revenue or income and we hope to see that happening over the next coming quarters. One important event which happened in the last quarter was we conducted CMAT exam in Aptech Testing, this was the second consecutive year that we have done CMAT. It's a fairly challenging test to conduct over a period of just a couple of days. We had more than 40,000 people appearing for the test and we have successfully conducted it this

time as well. So we believe we now do have experience of conducting such high stake exams and we do see a positive trend in that business.

In the international business, there has been a mixed bag, in our main market of Vietnam, in Computer Education we are seeing some bit of maturity. That market has matured over a period of time. Having said that, we continue to remain leaders in the Computer Education market in Vietnam. In fact, this year also we have received an award for the same. We have received this award ten times in a row in Vietnam. So that continues. In Arena, overall we do a strong kind of pull in lot of markets, Vietnam as well. In Africa, some of the countries we operate in have faced some ups and downs politically and economically, but other than these two places we have seen pretty decent growth in other geographies. We will continue our focus and drive in the international market and we continue to expand into emerging countries other than India.

So these are the broad trends we have seen:

We had a growth of 11% in student booking in domestic retail market. Our operating income for the quarter, if you negate the impact of change in accounting policy for MAAC, (after we have acquired MAAC, which had a different method of accounting, we are now changing that method of accounting to the Aptech method) has grown by 6.4%. And the interesting part is again if you remove the impact of MAAC accounting, our EBITDA growth shows an impressive growth of 31% plus. That's a fairly significant growth for the company of our size. PBT has also grown before exceptional items by around 13%. We had higher tax in this quarter fundamentally because for two subsidiaries, which are MAAC and Aptech Testing (ATTEST), we now pay full tax. That's the reason there has been increase in the tax expense. But the profit before tax has grown a lot.

On changes in directors, we thought we will increase and improve the composition by adding Anuj Kacker, who has been COO of Aptech and has been with Aptech for a long time, for around 10 years. He is now an Executive Director. Mr. Maheshwer Peri has also joined the board. So with

the addition of these two persons on the board, I am sure we will have benefit of much better and improved strategy.

On the revenue analysis for Retail, roughly 60% of our revenue comes from royalty, plus/minus couple of percentage points. In this quarter it is 57%. But the interesting statistics in the revenue analysis for the quarter is that we saw a jump in sign-up fees of around 8.9% - 9% and 16.5% in renewal fees. This is a good lead indicator of the fact that there are still people interested in joining up to become a franchisee and people renewing is an extremely good indicator. So the increases in both these items are certainly something which we are extremely delighted with. With regards to University fees in Arena, we had changed the university partner and as a result of that the revenue from University fee has decreased a lot, by as much as 56%. But this is specifically because we have changed the University partner.

Overall on the expenses side we still managed to keep a tight control in this quarter as well. In fact, our overall expenses are lower than the same quarter of last year. We have done a lot of things to ensure that we remain competitive in this environment by shedding things that are not core to our business, outsourcing whatever possible and managing costs well to ensure that business remains profitable. Aptech Testing revenue compared to last year is almost doubled and that is largely because of huge increase in the revenue because of the CMAT exam which we conducted. This year there will be one more round, it will be announced by AICTE in February. One will have to wait and see how many people will appear, but we are confident that we would see good numbers. It's good that CMAT is conducted twice the year, so it gives student an option to appear both times or appear once in two times and it gives flexibility. So we will be conducting CMAT exam again in February.

international revenue has seen a little bit of dip primarily because of our Aptech Computer Education revenue and Vietnam seeing a little bit of competition and market maturity. So how do we counter that, we do have a strategy where we are expanding rapidly on the Arena side, for which there

is a lot of traction in Vietnam and also other markets. And we are also expanding our basket of/ portfolio of countries that we operate in. So although there is a temporary dip, primarily because of one big major item, overall we remain confident of our international strategy. We also remain confident that we will see growth in future as well.

Our overall percentage of Operating EBITDA has moved up to 28.8% in this quarter as opposed to 25.4%, which is a good increase and that is the result of lot of efforts, both on the revenue side as well as the cost side. We have added a total of 25 centers across all brands, across all geographies, in this quarter. And none of the centers have shut down, so basically this is also net addition to our center count. Talking about the number of employees we have now, it is in the region of 440 – 450 employees excluding the contract staff. So this is a good number where we think we will remain competitive for a long time to come.

So let me kind of broadly conclude my brief presentation and tell you some of the new things that which we are doing. CMAT exams are something which we have successfully conducted and we are looking forward for the next installment of CMAT exam. There is an overall increase in the bookings in the domestic business which will convert to increase in revenue in the next couple of quarters. We still have a kind of, strong tail wind in the testing business with a lot of pipeline of orders. In international business there has been a little bit of mixed bag in one country and one product, but other countries are okay. I think I will just touch briefly on some of the other items. Our total marketing spend for the first six months across Domestic Retail, International Retail and Enterprise Business has been roughly Rs. 10.72 crore (Rs. 107.2 million), which is roughly Rs. 2 crore (Rs. 20 million) more than spend in same period of last year. We are increasing our spends on marketing and branding and at the same time our profit is going up so, overall we are in a good shape in terms of judicious spend on marketing. We had announced earlier that we have entered into digital education space in alliance with Hungama and test marketing is currently going on. Our pilot project is on Airtel DTH, where we have roughly 10 to 12 thousand

subscribers. It's too early to predict how this revenue stream will evolve, but we are excited about this. In Poland we have already invested Rs. 2.65 crore (Rs. 26.5 million) in the company where the courses of Aptech are now being rolled out. And in International Retail we continue to get into new territories and new geography.

So, we now have Aptech where we have done the re-branding, we have reorganized the company, our costs are under control and we have a leverage model with same backbone for different verticals in the front end. We want to have a multi-geography, multi-product strategy and get into other geographies and other products, all related to career education. We are experimenting in the digital education space on a pilot basis, which hopefully will pan out well. Our existing business has now shown, especially in the domestic market, a good growth in booking which reflects that there is a strong momentum. So overall we see the increase in profit, the increase in booking, these are all positive trends of something fundamentally we have changed in the business to ensure that we remain competitive in times to come. These are my remarks and now I will be delighted to take questions, if you have any.

Moderator

Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from Grishma Shah from Envision Capital, please go ahead.

Grishma Shah

Sir this year has been flattish if one had to look at from the first half perspective broadly or a slight de-growth, how do you see the rest of the year going ahead for us and you also mentioned that you expanded centers, do the revenues from those centers kick-in in the second half?

Ninad Karpe

Yeah from the profitability perspective we have improved. Because of the change in method of accounting, the top lines are not comparable. We have given notes in our investor presentation to compare the figures with the impact of change in MAAC, if you see that top line has seen 6% growth. In Student booking also there is the growth.

Grishma Shah Could you share the numbers?

Ninad Karpe One minute I will share the numbers. Which numbers you want booking or income?

Grishma Shah Student enrollment numbers? I mean total number of enrollments for the first half versus first half last year?

Ninad Karpe Okay in the investor presentation it is there. I will give it to you as well, but at the same time, you know, our enrollment is a mix of short term courses, certification courses, long term and university courses so the right number to look at is the booking number. So booking in first half was Rs. 305 crore (Rs. 3,050 million) including International and Domestic Retail, last year it was Rs. 297 crore (Rs. 2,970 million).

Grishma Shah Okay, so this would accrue over what? We would realize it as the course progresses right?

Ninad Karpe That's right.

Grishma Shah So this is over what time frame? Over what time frame Rs. 305 crore will be realized?

Ninad Karpe You know we have various courses and different durations, you know six months to two years, but you can take as an average of 12 to 15 months will be a good average over which this will accrue.

Grishma Shah Okay. And how do you see the next half panning out for us?

Ninad Karpe So the next half typically in the domestic business, there is just one mini season around January-February timeframe. Right now there is festival season, so we don't get too many bookings. But yes in International Retail, some months do well. I think the same trajectory of slight growth will continue in the next six months as well.

- Grishma Shah** You also spoke about last time regarding some capacity increase industry wise for various courses how do you see the situation now? Has it changed over the last six months?
- Ninad Karpe** Well I am not seeing any, in India particularly. In India there is no capacity addition now happening in the space where we are operating. In fact, I would think over a period of time, it would remain flattish or it will start declining because it is now becoming a place where only big brand names will survive. That is why we are also increasing our spend on branding, advertising, quality and content. We intend to keep that pace of branding going on.
- Grishma Shah** Okay, of the total revenue that we have what percentage would be, say IT related courses specifically and then the Animation related? What percentage of revenues do we derive from these two big streams?
- Ninad Karpe** There are two ways of looking at it. Out of domestic revenue of Rs. 25.7 crore (Rs. 257 million) for the quarter, Rs. 3.7 crore (Rs. 37 million) is the IT training and Rs. 7.9 crore (Rs. 79 million) is Arena. Of course we have Rs. 12.5 crore (Rs. 125 million) MAAC as well. In international market out of Rs. 9.8 crore (Rs. 98 million), almost entirely it is IT training and Arena, Rs. 6 crore (Rs. 60 million) is IT training and Rs. 3.5 crore (Rs. 35 million) is Arena.
- Grishma Shah** Okay so we are yet to see or will you take MAAC also international or we will not take MAAC?
- Ninad Karpe** Yeah we have almost setup a center in Vietnam. I think it is not yet operational, from January-February it will start taking students. We are looking at MAAC in other countries, and we are also looking at Aptech Aviation also. Poland for example where we have invested Rs. 2.65 crore (Rs. 26.5 million) in a local company and that company will roll out Aviation and Arena courses. So they are looking at Arena and aviation courses, so that project is rolling on so we are gradually expanding our product basket outside India as well.

- Grishma Shah** So given that your dependence on IT training is little lower than one of the listed players, is Aviation facing some bit of slow down given the current state of industry for you?
- Ninad Karpe** No Aviation has in fact for the first time, it has come up now this year and it has become profitable. Outside India in fact Aviation does have a scope. So in Aviation, what has happened is a lot of players were there and they have, the industry has seen a consolidation in the sector. Of course when I say Aviation I am not referring to cabin crew people, those are 9 or 10% of the people we train. Our majority people we train are for Airport management and number of airports are growing in India, so demand is a lot, actually 14% growth year-on-year, so aviation we don't see a problem at all.
- Grishma Shah** Any number that you would like to share what percentage that you will be spending on the marketing and advertising expense for the year?
- Ninad Karpe** Yeah we have spent Rs. 10.72 crore (Rs. 107.2 million) now and over the next six months probably another Rs. 6 to 7 crore (Rs. 60 to 70 million) we will spend. Last year's expense I think was around Rs. 5 to 6 crore (Rs. 50 to 60 million), so over the next six months we are spending another Rs. 1 crore (Rs. 10 million) more probably. Up to this point we have spent Rs. 2 crore (Rs. 20 million) more than last year. So over last year probably we'll end up spending Rs. 2.5 to 3 crore (Rs. 25 to 30 million) more.
- Moderator** Thank you. As there are no further questions from the participants I now hand the conference over to Mr. Saurabh Gada for further comments.
- Saurabh Gada** Ninad will make a closing remark.
- Ninad Karpe** Thank you for joining in and you know at Aptech we remain confident of ensuring that our present strategy and our trajectory works, we have rebranded ourselves, we have reinvented ourselves, we have re-organized ourselves, and all this is to ensure that we remain competitive in this present environment. Our aim is to become a global career education company and we have continued to go on that path. Thank you for joining in

and if you have any further queries, please do get in touch with me or Saurabh Gada, our Investor Relations person. Thank you.

Moderator

Thank you gentlemen of the management, on the behalf of Aptech Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect your lines.