



“Aptech Limited Q2FY16 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 Q2 FY16 Quarterly Results Investor Call for Aptech Limited. As a reminder 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Saurabh Gada. Thank you and over to you sir.

Saurabh Gada Thank you and welcome everyone to Aptech's Q2 Analyst conference call. We have with us today Mr. Ninad Karpe – Managing Director and CEO of Aptech Limited, Mr. Anuj Kacker – Executive Director and COO of Aptech Limited and Mr. T. K. Ravishankar – CFO of Aptech Limited. I would like to now hand over the call to Mr. Ninad Karpe for his opening remarks

Ninad Karpe Thank you Saurabh and thank you all of you for joining this call for this quarter. In the next 10 to 15 minutes I will try and give overall update on the company's performance plus various segments and what we are planning and then we will open up for questions.

So this quarter financial results were muted and even performance is not as per our expectations. It was quite muted but the good news is that the bookings which of course in our business results in income over a period of time in future particularly in animation in multimedia showed some growth, double digit growth. And we have also launched a new vertical in this last quarter Aptech Banking & Financial Services (and announced Lakme Academy Powered By Aptech). As we roll it out obviously this model is also franchised model and we will start rolling it out slowly. We have presently rolled it out in Delhi and surrounding areas and we will see how it goes from there. We have done some bit of initiatives. I will mention to you over the course of the next 10 minutes. And we hope all of that will fructify at future point of time.

Our operating revenue was lower by 16% compared to last year and that had dent on EBITDA which was lower by 34% and PAT which was lower by 44%. The decline in income or revenue is the major reason for profit drop. More than around 80% of the decline in income was because of three factors – one is MAAC Accrual Method because of which the figures of MAAC do not become comparable. Accrual has stopped from June but comparability as well as the impact will remain for up to next June. After that the comparability will be okay, but accrual has stopped on the old method. So there was that one impact. Last year we had CMAT exam in month of September which did not happen this year because of the process of changeover and the new tender which incidentally the new tender also we got a LOI and the exam for the new one will be held in February. Last year that was in September and February but since September was not there it had an impact and on the international side there was some bit of negative impact. So all these three things put together have accounted for 80% drop off the operating revenue, which is muted compared to last year.

Overall in terms of revenue and profitability numbers there has been a drop on the revenue and a consequential impact on all the other parameters EBITDA, EBIT, and PAT. On expenses, we still maintain a fairly tight control. Employee cost has increased by Rs. 6 million but that is not something serious. It is part of regular process of increments and the regular review process. Admin costs are still very much under control and so are the other costs. Training and education costs are by and large, most of them are variable costs, and the decline is connected to the decline in the revenue itself.

In terms of the segment results – there has been a drop in most of the segments in retail as well as non-retail. And that is how even the segment EBITDA has shown a bit of a decline. In terms of balance sheet information we still maintain a robust cash position. As of September 15 we had a 379 million cash so we continue to hold good cash position for the balance sheet size we have. Animation and multimedia is our large segment now, overall, combined in terms of domestic and international. That has shown a bit of a decline and testing decline was largely because of no CMAT in the current year. I will now

turn to some of the key highlights of this quarter. The decline as I mentioned earlier was three factors – MAAC Accrual and also some local issues in international market. We have a university alliance with a university in UK which helps us mobilize students to go to that university and due to some regulatory issues the students could not travel to UK and that had some bit of impact.

In Testing business, CMAT impact was there but on the non-testing business on the enterprise side I had mentioned in the last call as well that we are strongly focusing on building together product and service offerings for training for the ecommerce segment. And we are seeing a good traction there. The non-testing revenue in the enterprise has grown 40% and we believe these segments are going to increasingly spend more money on training as they ramp up at an exponential pace. Consequentially, our hope and belief is that the eCommerce segment will also spend money to train their various resellers and employees. So we are very much in the game and we have set together a team focused on this segment and we are targeting each of these companies with our offering. We have continued our effort to sign up new centers. We signed up 23 new centers, 7 in international, and balance in the domestic market. We have signed up three centers on Lakme Academy. So we have a tie-up which we had announced sometime back. We will deliver the training and I will allude to that a little later on in my conversation as well. In terms of network of centers we still have fairly large and diversified network. In terms of regional diversification Vietnam still has a large presence so that is why APAC area has a large presence but we will increasingly see more and more centers coming up in the African region.

Employee count has remained by and large in the 390-400 range, over and above that we have around 70 regular staff. We did announce a tie-up with Lakme to set up academies across India and they will be called Lakme Academy Powered by Aptech. This partnership will set up beauty training centers and rollout beauticians, who will then eventually be absorbed by Lakme, as well as by other companies. We will officially launch it in Ahmedabad very soon. It is signed up and the center is getting ready and then

two more are already signed. Hopefully over the next three years we are hoping between us and Lakme we had agreed and we had announced earlier that we are hoping to set up 100 centers across India. The need and the desire and aspiration for this industry is very high as young girls and boys now are very easy in terms of getting into the segment and the demand for people in this is quite high. So we have entered this segment and now we will continue to roll-out more and more institutes in other parts of the country as well. This year probably we will have just 3 to 4 total, but hopefully next year onwards we will ramp it up depending on the market, how the market responds. Booking in domestic retail grew by around 10.8% compared to same quarter last year. ARENA showed a growth of 11.6% and MAAC showed a growth of 18.2%. We represented India in the World Skills Competition in IT at Sao Paola as well. We have just announced that we are entering into the school segment (K12) with a different model, a partnership model, a model which we understand very well which we have been doing across various business segments and we have signed up an MoU for a school in Kabul, Afghanistan. We have our existing partner there who is doing other business and our intention is to set up a CBSE school. The process has started and the first batch will get operational by, probably, April 2016. Our business model as a partner will invest in infrastructure and local teachers he will get and will run the school. We will do what we are good at which is basically brand licensing consulting, operation support, support for teacher's training, as well as support with content. We are expecting this year to just get some minor income in the region of Rs. 30 lakhs, but as this project rolls off we will look at this as a separate revenue item. It is again an asset light model. We will not be investing in properties and schools across. We will really look at the same partnership/ franchise model, which we are doing for other businesses.

We are looking at this outside India because the need and demand is far greater, far bigger and we know these markets. We have existing relationships and knowledge in these markets, so we are hoping over a period of time to be able to set up some schools regularly across various regions. We have got an eGovernance training contract from Afghanistan MCIT – Ministry

of Communications & IT. Total value is around US \$230,000 which will be executed in this year. We also re-entered Fiji and Bhutan.

On some of the awards we have got in Uganda as well as in Vietnam we have got ICT Award Vietnam 13th year in a row. We have rolled out a good exam (testing) in Madhya Pradesh and the new CMAT, which will happen in February, we have received an LOI. So in February we are hoping to get to deliver some of these orders. In terms of, I mentioned eCommerce, we are also targeting some of the taxi aggregators or cab aggregators here on a similar basis to get them to use our services to train their people. And that is part of eCommerce and new age economy companies whom we are targeting. So overall let me summarize by saying that yes, the quarterly results were muted, but we have launched lot of initiatives, which we believe will bear fruit in the long term, whether it is in terms of Banking & Finance, Lakme or a new initiative of having schools outside India on a partnership model. Some of these will bear fruit in the times to come, but overall we think we are on the right trajectory. Thank you. If there are any questions I am ready to take any questions now.

Moderator

Thank you. Ladies & gentlemen, we will now begin the question and answer session. First question is from the line of Sandy Mehta from Value Investments. Please go ahead.

Sandy Mehta

I had two questions. One is your new center renewal fees were up 16%, so looked like quite a bit of activity in these new centers. Could you comment on the profitability that you expect and what is the outlook for further new centers? And the second question is any update on the Chinese business in terms of the results of what sort of business activity they are seeing?

Ninad Karpe

Out of the new center sign-ups (in H1), 24 are for totally new lines of business. 21 is for banking and 3 are for Lakme. So these are the very new centers for the new lines of business and overall yes, in the domestic business we have signed up new centers. So that is also one of the reasons. On China there is no update, as in it is status quo. We still hold our investment stake in the company and that is where we are.

- Sandy Mehta** Are they seeing, with the movements in the Chinese economy and the stock market, is that impacting the business at all?
- Ninad Karpe** They still remain the top IT training company. There are no statistics but that was what they were when it was measured. So brand is still in name of Aptech Beida and we really do not have an update in terms of any other thing. The business does continue there. We just have investment stake.
- Moderator** The next question is from the line of Prajwal Gote from Evaluate Research. Please go ahead.
- Prajwal Gote** Sir I want to continue the old question, the same question regarding banking. I wanted to know what kind of revenue did you get to see in this quarter from banking and what kind of revenue did you book for banking and what kind of revenue can we expect in the coming quarters?
- Ninad Karpe** We have just launched it so in terms of regular revenue stream we do not have much. We had a sign up of 20-odd centers. It was actually in the last quarter of sign up and we earned approximately around 30 lakhs or so. This year the course has just started so the revenue will not be material because the courses just have started rolling. It may not even exceed probably 10 lakhs in this year but yes as we roll out more centers and we get more traction we are hoping that in future we will see more income flowing.
- Prajwal Gote** Okay. Sir my next question was regarding CAPEX guidance. Can you guide me what kind of CAPEX have you done for this banking thing and what kind of CAPEX are you planning to do in the coming year and overall CAPEX also for the year as a whole?
- Ninad Karpe** Overall CAPEX for the year as a company is in the region of Rs. 10 crores is what we had planned, I think depreciation level is roughly the same as that. In banking again it is a franchised model so we are not investing in the real estate or anything of that sort. It is more investment in content. Presently we have invested around Rs. 25 lakhs and we will invest around those kind of numbers in future point of time. So on an existing franchised model we are building these new courses which require just incremental investment in

terms of content. We are not adding any new people to run that business. Existing team is running it and it is on a partnership franchised model.

Prajwal Gote

Okay. This CAPEX guidance includes the CAPEX for the school also which you had just proposed? Is it the incremental CAPEX or is it the total CAPEX I mean to say?

Ninad Karpe

Rs. 10 crores will remain the total including for school. So school also is a similar model. It is model of partnership franchised model where we will not invest in the real estate and physical infrastructure. We are doing CBSE School, first in Kabul. Actually admission will start in April. So in this current year we will probably get revenue of around Rs. 30 lakhs or thereabouts from school. In terms of CAPEX, it is again content. IT content we already have for the entire K12 section so there is no cost at all. On the other content a lot of it is standard content, it is not very expensive. And in terms of getting some capability to train trainers and all yes, we might have some variable expense. But there is no significant CAPEX in running the school from our side.

Prajwal Gote

And my other question was can you give me a brief about the cosmetics in which you had – there was a news saying that you have signed an agreement with Hindustan Unilever, any update on the same sir? When can we see revenues coming in from there also?

Ninad Karpe

Yes, they will come. We have signed up with Lakme. Our first franchised center is getting ready in Ahmedabad. We are already at the end of October. So next month we will probably launch it officially. Our agreement with Lakme is again it is a partnership franchised model so obviously Lakme gives us the content and train the trainer and we actually execute it, deliver it through the franchised model and subject to whatever conditions the girls and boys who get admitted will either get absorb by Lakme or by some other institute. So it is a win-win situation. We are launching first center and I think by February-March we will probably have at least three more centers so probably 3 to 4 centers totally this year. Lakme also has announced that we are hoping to set up 100 in the next 3 years starting from now the first center. There is a lot of demand for these kind of courses. They have become aspirational and young

girls and boys want to enter this course. They are well paid as well. So it is a win-win as Lakme has knowledge, the brand name in beauty. We have the ability to do rollouts all across India on a partnership franchised model. We have the skill sets and overall that is where we are. So again there is no high CAPEX in this. Our existing team will do it and content will come from Lakme.

Moderator The next question is from the line of Sanjeev Mohta from East India Securities. Please go ahead.

Sanjeev Mohta I have a query on the China business again. So you would be having access to the financials as in how is the company financially doing, that is question #1 and secondly any visibility of any further dividend payouts coming from that investment?

Ninad Karpe Sanjeev we know it is a private company and we have investment stake in the company so that is the context of China. They do not publish any financials as being a private company. So that is the context. Dividend policy normally one would associate with the public company. Being a private company they really did not articulate any dividend policy yet. So those are kind of facts and constraints under which we are working.

Sanjeev Mohta But you as a shareholder would know financially is that company maintaining the past track record or how they are doing financially.

Ninad Karpe Yes, I am on the board of the company. So they a private company they do not disclose and obviously they do not want to disclose financial information. So that is where we are. Yes, Aptech Beida is still a very strong brand name in China in IT training market. Market also is there, and we have been one of the pioneers there in terms of setting up IT training center.

Moderator The next question is from the line of Anuj Sharma from M3 Investments. Please go ahead.

Anuj Sharma Again my question comes back to China, now you say it is a financial investment, so how do you track and what are your return parameters for you to continue to remain invested because financials are not disclosed how do

you appraise or possibly decide on whether it is a good investment or a bad investment.

Ninad Karpe

We had entered China I think more than 10 years back, 12 to 14 years if my memory is right. That time obviously we had an equal stake and around 7 years back there was restructuring. So when we entered there obviously it was a joint venture where we had equal stake and obviously it was equal brand name. Pursuant to a restructuring now it has become an investment stake. So it was not an investment stake right in the beginning. It is because of method of restructuring and thereabouts, after that it has become an investment stake. So by and large as a policy we really go on a partnership model, various countries we have master franchise in countries, franchisees in Vietnam, Russia all these places where basically we do our business and we appoint a business partner. This has evolved from us being at 50% stake to now being a 22% stake.

Anuj Sharma

Sorry to persist on this one but again just trying to understand because it is a substantial investment from our balance sheet and since financials are not disclosed to public at large, how do you evaluate whether it is working out well because you would have access to the financial parameters? What are the basic return parameters which you would consider for having the stake or possibly divesting it at any point of time?

Ninad Karpe

The value you see in balance sheet is pursuant to restructuring, that is value it is ascribed after restructuring. But our original investment is fairly low. It is around \$500,000 which was 14 years back and over the period of 10 years we have got dividend of Rs. 120 crores as a company. So these are some of the financials. The present amount we see in the balance sheet is because of the restructuring. It is not the amount we had originally invested in.

Anuj Sharma

But in the near future do you expect any change in reporting from this particular segment either in terms of some financial details or possibly some understanding of where or what is the value of the stake and how will it evolve forward because it could remain a private company for a long-long

time and nobody could have access to any information on this company. So any thoughts on how this will evolve?

Ninad Karpe

It is tough to mention either way. Whenever there is news obviously we will share with all of you.

Moderator

We have a follow up question from the line of Prajwal Gote from Evaluate Research. Please go ahead.

Prajwal Gote

Sir as you rightly said that the top line was muted for the quarter and as you said that the revenues might come from banking and the cosmetic sector in the coming quarters. Can you just guide me what kind of revenue growth can we expect in the coming quarters?

Ninad Karpe

So these two sectors for the year we are not expecting any significant revenue because any new line of business takes some time to pick up revenues because the way our business works once we launched any new product it takes time to market for the students to come and actually after a year or probably 2 years we start getting revenues from the old students as well as new students. So it does take time. So from both these segments put together including signoffs so we are not expecting more than 40 lakhs or thereabouts both of these. Out of which we already recognized around 20-25 lakhs. So current year because that is the nature of the business, we launched in November, by the time a student enrolls, comes, and first year students take some time. So it will take some time so in this year we do not expect both these put together not more than 40 lakhs. And I have mentioned earlier from the school this year again the school is actually getting launched in April in one country. Our plans are to go to many more countries after that but this year our income from the school is probably will not be more than 25-30 lakhs. As we get more and more students we will get percentage of fees as well.

Prajwal Gote

And the question was that excluding all this also what kind of top line growth are you expecting?

Ninad Karpe

We have mentioned in the presentation as well, in terms of training segment yes, we have had some spurt in growth. In terms of testing it all depends on the orders. Presently we do have CMAT order which has come which will roll out in February. Although on the retail side the income has dropped. The bookings have been pretty okay. So in period of time that should pick up plus I mentioned about Afghanistan order, of course it is \$230,000 which will get done in this quarter. We would also have some other orders outside India. So now what we are seeing is traditionally we have been more a retail company which we will continue to push but we also are looking at other revenue streams and these revenue streams will more than make up or probably help us in our future of the company.

Moderator

Thank you. Sir that was the last question.

Ninad Karpe

Thank you all of you for joining in this quarter's conference call. As a company this quarter was muted, but we strongly believe we are taking the right steps. We are entering into new areas, again leveraging our existing people, leveraging existing business knowledge of partnership models and ensuring that we are able to leverage and squeeze as much as possible from our existing structure without again incurring very heavy capital expenditure and our cash position also remains extremely positive. So thank you all of you for joining in this call and hope to get more chance to interact with you in future. Thank you.

Moderator

Ladies & gentlemen on behalf of Aptech Limited that concludes this conference. Thank you for joining us and you may now disconnect your line.