



“CL Educate Limited Q3 FY-20 Earnings Conference Call”

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Management:

Mr. Nikhil Mahajan – Executive Director & Group CEO, Enterprise Business, CL Educate Limited

Mr. Arjun Wadhwa – CFO, CL Educate Limited

Lisa:

Ladies and gentlemen, Good Day and welcome to the CL Educate Ltd Q3 FY '20 investor conference call. As a reminder all participants mics will be in the listen only mode and there'll be no opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal the operator with typing * and then 0 on the phone. Please note that this conference is being recorded. I know hand the conference over to Mr. Arjun Wadhwa, CFO, CL Educate Ltd. Thank you, and over to you sir.

Arjun Wadhwa:

Thanks, Lisa.

Hi everyone, I am Arjun. I am the CFO of CL Educate and joined on this call by Nikhil Mahajan. He is our executive director and CEO of our enterprise business. The two of us will be taking you through this call today.

I'd like to start by thanking all of you for joining us and I'll move ahead directly onto slide no. 6 which is YTD Q3 FY '20 consolidated financial results, a snapshot of where we are at this point of time. I am delighted to share that our total enrolments have gone up 37%. On a comparative basis we were about 62,000 students at same time last year, this year we are closer to 85,000. A large part of this is as a result of efforts we made in the digital space and in our attempts to sachet-ize some of our products. I'll be sharing more details on that at a later point in time. Our core businesses - our MBA Test Prep, our law Test Prep have also shown growth albeit in smaller terms but they've also shown growth over the same 9-month time period. Because of our attempts to sachet-ize the products and because of our change in our product mix, the revenue from operations have seen a slight decrease. We're down by about 1.5% but the billing from our test prep business during this time period has actually grown. So, while the revenue might be down on a 9-month perspective, I am not overly concerned by this figure because of the billing that has contributed to the revenue has grown and that is a function of the enrolment growth that we have also seen. The decrease in revenue has also meant that our EBITDA is also lower than it was same time last year. We were at 33 and little bit at Dec '18; we're now at a little bit over 31. The EBITDA is one basis for comparison but as I shared with you in our H1 and Q2 call, we also looked at adjusted EBITDA figure where we take into account the one time effects that impacted the EBITDA same time last year and if we also take corresponding adjustments for the same time this year our adjusted EBITDA has actually grown 43%. So, from a business MIS perspective, the adjusted EBITDA is the figure that we look at very closely and that I am happy to share have grown 43%. I'll share the working of this in the future slides. But just in terms of the numbers themselves there are up from about 24.5 to about 35 Cr. The net profit as result of the EBITDA also going down is lower on a comparative basis. But just like in the case of the adjusted EBITDA, if I take a look at the adjusted net profit, taking into account what has changed, the one time impacts that were there in Dec '18 which are not there in Dec '19 and also the change in accounting policies that have happened over the last two years on the account of IND AS 115 and IND AS 116; the adjusted net profit has also shown an increase of about 51%.

Just to give you a quick snapshot of where we are heading into the last quarter; enrolments are up 37%, the revenue is marginally off. But as I shared billing in the test prep space has grown so I remain confident going forward. The EBITDA is down marginally but the adjusted EBITDA which is a reflection of

our business performance and the adjusted net profit, both of those have grown significantly over the same time last year which are two numbers we look at very closely. I'll explain this in a little bit more detail in my next slide. I've also written some details here for you to understand what we are talking about. Let me start with the reported EBITDA right at the top and take into effect the Impact of IND AS 115 just to repeat what we have shared in our last four investor calls. The complete impact of IND AS 115 was taken in Q4 FY '19. We did not take impact over the course of each of the first three quarters last year because it was a new accounting policy and it took us a little while to work out the exact details of the same. So, the entire impact of that fell in Q4. Hence, the Q3 numbers are not necessarily directly comparable. The corresponding impact on a 9-month perspective would have meant my EBITDA for this would be 0.16 Cr higher. The next line that you'll see on the sheet is the vocational reversal that we've taken into account here. There are two elements that go into this, first of all we do a write off on a quarterly basis on some of our outstanding vocational debtors from the government. We have taken an additional write-off of 1 CrCr this quarter. So for this year we have taken a consolidated 9-month write-off of 3.75 CrCr. If I were to ignore that and just compare the business performance on a one-off basis, I'd add this back to my EBITDA to get to my adjusted EBITDA figure. If I were to compare this with last year; last year we have taken a similar reversal at about this time which was about 3.6 CrCr. But I have also received a benefit of an ECL reversal to the tune of 5.7 CrCr in Q3 last year. That ECL reversal came on account of our collecting of about 7.5 CrCr from the government in that quarter itself, which was a large outstanding which was due to us at that time last year. So, that 7.5 CrCr which came in created an ECL reversal of 5.7 CrCr so the net impact of that on my vocational business would be negative 2 CrCr. So, just to explain that once more; 3.6 CrCr on the account of vocational write-off I have taken last year and 5.7 on account of ECL reversal that was an outcome of the 7.5 CrCr that came in. So the net impact of that would be 2.13 CrCr.

Last year I had received 20 lakhs a month from SP Classes as one-time revenue as part of my business agreement with that organization. That agreement ended early this year in terms of the 20 Lakhs we get. We continue to work with SP Classes in Mumbai but the fix component of 20 lakhs/month was coming to us for servicing old students of SP classes that we have taken over as part of that business arrangement. That income was a one-time income and has, as a result, been discontinued. Also, by this time last year we had written back liabilities of 4.8 CrCr on account of an ESOP and other on account of some franchise expenses. So if I take entire impact of all the fields that I spoke about in detail, my EBDITA for this year is 31, from a business MIS perspective would be an EBITDA of about 35 and for last years 33 would effectively be around 24 and a little bit. So, the switch from last year is a jump of 43% from a business performance perspective and its important that you understand that going forward that this is the impact that the business has created; the rest is all out of accounting. So, I want to make sure that the two are distinguished when you look at our numbers for this quarter this year vs the same quarter last year. This similar impact flows down the line from my EBITDA to my PBT then onto my PAT. The two significant differences that happen also from a comparative to last year's perspective is IND AS 116 which unlike 115 last year I have taken the entire impact every single quarter this year. This impact will continue in future years. So, you know what I am sharing with you Q3 FY '20 numbers of finance cost, depreciation, that they are higher than that what they were last year. That impact you'll continue to see in future years but it's important for you to understand that reason why they have changed so significantly and a large part of it is on account of IND AS 116.

Finally, the effective tax rate that'll be applicable to us this year will be considerably lower than what it was last year so you'll also notice the difference in our adjusted PAT on account of that. So in a nutshell this gives you a quick overview of where we are from a financial perspective last year to this year. Just to reiterate the enrolments, < if I go back one slide >, the enrolments are up 37%, the adjusted EBITDA is up 43% and the adjusted net profit is up 51%.

Moving forward to slide 8, this gives you a breakup of the consolidated results, I've already spent sufficient time talking about this. You notice that the total expenses for this year are higher than the total expenses for last year. That is obviously on account of what I've just shared. The ECL reversal that happened and the liabilities that were written back. So, , if I net those out, the expenses are actually lower.

So, moving forward I'll move on to slide 9 which gives you a quick overview of these segmental matrix. As most of you would be aware, we run two lines of business: consumer and enterprise. Consumer includes our test prep business and our training business. Publishing includes our books, our GKP publication business. The enterprise business is broken up into two parts: 'corporate', which is largely a B2B business and 'institutional' the B2I business where we deal directly with schools, colleges, universities etc.

Those are the four areas of business for us. If I were to look at the segmental revenues for each of these, they are up there on your screens. The test prep numbers as we have shared a couple of slides ago are down marginally, largely on account of change in product mix. The publishing numbers are down as well. I will spend a little bit of time on the enterprise business. On the corporate side, our numbers are stable and on the institutional side they have grown about 4.5 percent. So overall our total revenue from operations are 254 Cr against 258 Cr at same time last year.

Moving on to slide no. 12 now. I'll just wait for a few seconds to join me on slide 12.

Just a quick glimpse on the operating matrix related to our test prep business. The number of centers that we are currently operational in are very similar to last year. They are a 191 vs a 192. We continue to look for good business partners and we continue to add more to our franchise network, you'll see this number growing in the months ahead. The number of students in test prep as I've shared previously has grown about 23,000. That's a 37% growth and you'll notice that a large chunk of that comes from online space where our numbers have grown from about 33% to about 48%. So that's a space we continue to be very bullish on and going forward you might continue to notice that our numbers will continue to grow but on account of the product mix, the average pricing might vary going forward and this could impact revenues for specific quarters but over a period of time the multiple of p*q should be significantly higher. As shared previously, our publishing business, is very stable. We sold a similar number of books this year, as compared to last year.

Moving forwards, just a few highlights about our test prep business. As I shared previously, digital is something that continues to power us forward. Growth of 30% year-on-year, sachet-ized products seem to be working well and we've had a 24,000 growth in students on account of that; 17,000 of which have come on account of our new GATE FLIX product, which was launched earlier this year. We have also seen our AI-ML internships numbers grow. This is a joint program that we are doing in partnership with Intel and AICTE.

Going forwards, we'll continue to chase volume growth in all the product sets that we operate in. Our focus continues to be growing the different volumes, try to get more market share and to chase higher EBITDA. Some of this will come on account of Digital, some of it will come on account of variation in our product mix. As I shared this might impact our average prices, you know on a temporary basis, but in the long run the multiple of p and q will continue to grow. The MBA and Law markets continue to be extremely competitive but I am happy to share that both of these have also shown growth on a 9-month perspective so far this year. Two areas that we continue to be bullish on are IPM and Engineering-Medical. If I were to look at a third it would be civils. These are the areas that we see as high potential growth areas. IPM is potentially an explosion waiting to happen as soon as the bigger IIM's pick this course. This is a joint BBA+MBA course for students who are graduating from school moving to college. So far this is being offered by few of the IIMs. As soon as we see one of the bigger ones (Ahmedabad, Bangalore, Calcutta) pick it up, we should see a tremendous explosion in this market. The Engineering-Medical market is, I am sure a lot of you would know, cater to about 15 lakh students or so. It's a market that has some behemoths in it and we see digital being an integral element of enabling our growth in this sector and for us to get a foothold in this sector. So we'll continue to invest in these going forward.

A quick snapshot of our publishing business. Overall, we have noted that the market has slowed down a little bit. We've also consciously made an attempt to reduce the number of books that we are printing and sending out in the market on account of the slowdown. Instead, you know, of doing a lot more printing, we're repairing and churning out old stock and our focus for publishing space remains on chasing high collections. The publishing market has also been impacted over the last year and a half by certain changes that Amazon and Flipkart have made at a policy level and due to this we've also had to take a higher number of returns in this business compared to previous years. So, if you go back a few slides and look at our publishing numbers, the dip on account of one: the market slowdown and two: on account of the changes on an environmental level. If I were to look at the Gross sales; our gross sales for this year are on par with what they were last year but because of the IND AS 115's impact where we have to take sales return as part of the topline, the revenue figures that you see for the group and for the publishing business on a segmental basis will be lower than what the comparable figure was last year.

I'll request you to come to slide no. 16 on enterprise business where I invite Nikhil to take over.

Nikhil Mahajan:

Good afternoon everybody. I'll quickly take you through some of the key operating parameters of the enterprise business. If you look at it on an overall basis, the growth is very marginal at 0.5 percentage of the revenue. I think this is one line of business which, since it takes out the marketing dollars from either the corporate or the institutions, the growth rate in which the space expands is directly proportional to the economic health of the economy. Last four quarters as all of us have seen has seen a sharp dip in GDP expansion and hence a lot of corporate institutions are moving very cautiously in terms of the spend on the marketing front which to some extent has flown to our business as well. If you look at it the corporates revenue for the last 9 months is more or less flat for us, institutional revenues have grown by about 5%. On an apple to apple comparison last year we have had a 2.5 Cr line of business for some work we did for Dell that isn't there this year. So, adjusted for that our business has grown about

17-18%. But on a consolidated basis the segment is more or less flat. In our corporate business International our Singapore business has now started reflecting good strength and in the nine month we've seen a growth over 100%. And I think having reached a certain threshold of revenues we are well poised to continue on an accelerated growth not only in Singapore but other markets where we are gradually moving. On the institutional front, in the last two quarters, we have tied up a few partnerships some of the notable being Narsee Monjee Institute of Management Studies, IIT Kanpur and technical training partnership with IBM. And I think these relationships and partnerships will begin to impact our business beginning next quarter which is the first quarter FY '21. And I think that this will significantly add to both the topline and bottomline. In the coming year, our immediate focus is two pronged. Focus first on the existing customers, upsell, add more value-added services, improve collections and also create more monetizable inventories for both the corporates and the institutions; especially in the digital and electric space where we are in a position to significantly up the gross margins for the corporate.

If you look at it Melting Pot as an event... we've now built out this property over the last three years. Last year, the event took place in Bangalore, Dubai and Silicon Valley. We plan to replicate this in turn in all these 4 locations. < I am on slide 18>. This year we are planning to replicate the event in these 4 markets and the first one of these is actually happening in this weekend in Mauritius which is also acting as our launch event for our partnerships with corporates and universities in Africa and Mauritius. India and middle east melting pot events will take place sometime in the month of May or June. We have not yet frozen the dates but they are likely to be somewhere in early summer. And the Silicon Valley melting pot event will take place in October as it took place in last year. And I think these events will become our torch bearers for our relations with both the institutional side as well as on the corporate side.

Moving on to slide 19, I'll just give you... as most of you would be aware of the consolidation process that we had initiated about 12 months ago; it is progressing and the NCLTs **second motion**, and the creditor meetings took place last week and the objectives were successfully achieved. The second motion filing with the NCLT is happening this week and it is likely to come out hearing either later this month or in mid-March. So, we expect this process to be fully completed by the end of July or mid-August. Just to reiterate, the effective date of this merger is going to be April 1 2019. As we have been talking about, we have been continuously focused on extending our services in markets where we see a lot of synergy with the Indian operations both in the education space and go-to-market field for both corporates and institutions. And as we have updated in the last board meeting, we are expecting that our Oman operations is likely to finally launch sometime in middle of March. We have incorporated CL Educate Africa based out of Mauritius earlier this month and the melting pot Mauritius event which is on 14th and 15th is the launch event for the launch of this organization as well as for the business. We are expecting participation from over 30 to 40 universities not just from Mauritius but from other countries in Africa and we expect some business clients to get quickly activated over the next 2-3 quarters.

This is slide 20. This is just the summary recapitulation of how CL will look post the merger goes through. Post the merger, we'll only have two business operations in only one entity. One capturing the consumer segment, other the enterprise segment, that'll make business operations lean, reporting easier and will bring in much more focus as we kick in the operations for the next fiscal year. With that I come to end of today's presentation and we throw open the ground for any Q&As that might happen.

Thank you.

Lisa:

Thank you. Ladies and gentlemen, we'll now begin with the Questions and answer session.