



“CL Educate Limited Q1 FY18 Earnings Conference Call”

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MODERATOR: **LOKESH BHATI – FOUR-S SERVICES**
(This transcript has been slightly edited to improve readability)

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY18 Earnings Conference Call of CL Educate limited hosted by Four-S Services. As a remainder, 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 this conference call, you may signal an operator by pressing ‘*’ then ‘0’ on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Lokesh Bhati from Four-S Services. Thank you and over to you sir.

Lokesh Bhati: Thank you. Good afternoon everyone. It is a pleasure to welcome you all to CL Educate Q1 FY18 Earnings Conference call. We have with us Mr. Satya Narayanan R., Chairman and Executive Director, Mr. Gautam Puri, Vice Chairman and Managing Director, Mr. Nikhil Mahajan, Executive Director and Group CEO Enterprise Business, and Mr. Sudhir Bhargava, CFO. The management will open the call with quarterly update followed by a short business overview and touch upon the future growth strategy for the company. After the opening remarks we will open the call for questions. Before we begin, please note that some statements in today’s call maybe forward looking and the actual results may be materially different from these forward looking statements. The information provided on the call is as of today and the company undertakes no obligation to update that information subsequently. I will now hand over the call to Satya for his opening remarks.

Satya Narayanan R.: Thank you Lokesh. Thank you everyone and welcome to the Q1 Results call. Right at the outset I have one specific task for today which is to introduce Sudhir Bhargava, our new CFO who has joined the company post IPO, post our last quarter’s call and this is a very welcome news for us.

Sudhir comes from over two decades of experience in consulting and finance. He has worked with very prestigious organizations and Sudhir’s last assignment was more than a decade. He has seen the emergence of Info Edge from a fledgling entrepreneurial entity into one of the respected listed companies and the wonderful thing is that he joined Info Edge just before they went for IPO and has been with them for over the last ten years. So, we believe that the strength and the experience that Sudhir brings to this team are going to be invaluable.

The second good news in that is that Nikhil has been doing not just a business role, but a CFO’s role and he moved in as a full-time Group CEO for our Enterprise Business and that also should augur well for our growth over the coming quarters. So, welcome Sudhir to the team and with the permission of everyone else, I will move into my presentation.

I will cover the main points of Q1 and the points that I am covering are all there between slide 4 and slide 10 on the updated Q1 investor presentation, which you can find on our website, which is www.cleducate.com. I am sure some of you are attending this call for the first time. So, just to give you little bit of a quick introduction.

Our core businesses, they consist of two verticals, one is the Consumer Business Vertical, which is headed by Gautam Puri. The second is the Enterprise Business, which is headed by Nikhil Mahajan. Both of them have been with the company since late 90s. Mr. Gautam Puri joined me in 1996 and Nikhil has been with us since 1998.

Our Consumer Business segment as you would know, consists of test-prep and training under CL or Career Launcher brand name. It also includes ETEN which has come to us from Pearson a quarter and a half ago, and also includes the GK Publications brand.

Under the Enterprise segment on the other hand, we offer services to corporates, universities, and institutions under the brands of Keystone or Accendere or CL Media.

Coming to this year, we have started on a positive note with certain achievements in our Consumer and Enterprise Business segment as well as in our overall organization level. As you are aware INDAS and GST got implemented this quarter; both of which had an impact on our business and you will hear us talk more about that as we go deeper into the presentation. For us business has grown in this quarter. The transition to the new INDAS accounting standards resulted in subdued revenue growth. The deferred revenue with the new standards has gone up by Rs 5 crores, which would all translate into profit in the subsequent quarters.

The second thing is that even among our corporate clients, the GST implementation had made an impact on the marketing spends, which were kind of held back, slowed down over this quarter. We expect that to get better as GST stabilizes. And even as an entity we know what we are going through in GST and we are assuming that that is the case with most organizations, we see this improving as GST settles down.

Now getting a little specific into the business: Consumer segment, our test-prep billings have grown by 19% in this quarter and while that has happened in the core businesses, the benefits from adding more centers and more students to the ETEN VSAT enabled model should get better as we move into the coming three quarters. The season for civil services and some of those businesses have just about begun to pick in. Mr. Gautam Puri will cover that more and if there are more specific questions we will pick that up.

On the other hand our research business, though very small as of now, continues to grow non-linear. We do not to read too much into the trajectory; however, what it validates for us in a very healthy way is our strategy to have acquired the Accendere stakes fully as you are aware or I can help you recall; we were at 51% shareholders at the end of IPO in the month of March, but we have moved up and converted that into a 100% stock in the last quarter.

In this quarter we also increased our strategic investment in 361 Degree Minds as you would have tracked over the last few weeks that add immense synergies in our high margin services products businesses through the B2B2C format.

As you know two thirds of our revenue mix is from the consumers and one third comes from the Enterprise segment. The inclusion of ETEN, the inclusion of our multi-channel delivery model, which is offline, online, digital and VSAT enabled, which helps us with a nice growth trajectory as we look into the next few quarters with a broadened quarter portfolio and increased geographical penetration.

Further we do look at visualizing our businesses and therefore our balance sheets. Many of you are aware that we had divested in the K12 business prior to Q1 and we are actively working on concluding the sale of the real estate and release of that cash. As you know, liquidation of assets can be a little time consuming and that is what we are going through, but we are very, very focused on closing some of those transactions in this financial year itself.

Similarly, on the liabilities side the IPO proceeds have helped us reduce the long term debt. If there are any specific questions, Sudhir or Nikhil can take us through that. That is the broad overview that I wanted to cover. I would now request Mr. Gautam Puri to brief all of us about the Consumer Business.

Gautam Puri:

Thank you Satya. Before I start, let me just highlight that the point that I am covering will be covered in the slides 5 and 6 of the presentation. So let me start with an update on the Consumer Business. In this segment we are focusing on, as Satya had rightly pointed out, the direct interaction with our customers. Which means through Career Launcher we are focusing on the face-to-face delivery, direct physical delivery. We also in complete delivery of programs which are delivered through VOIP and through ETEN we are looking at VSAT delivered education. Class has been a classroom on our studio and soon we will then receive it through our VSAT. So that is the second part, and the third component of our Consumer Business is the GK Publishing, which is into books for competitive exam and we have a wide range of competitive exams that we cover.

So, let me start the presentation on this part in Q1, just an update. Growth has been good in our traditional product. In MBA billing grew by about 25% while in Law it went up by about 15%. This was partly due to increase in pricing and mostly due to increase in numbers.

Overall, operating revenue has gone up by about 13% in this quarter and as Satya mentioned, there is a new accounting standard INDAS and the adoption has meant deferment of revenue. So while the billing has happened, a part of it has been deferred which normally would have accrued in this quarter itself. But that does not matter frankly, because at the end of the year it will still accrue to us and this means that the subsequent quarters will look better as we go along.

So, today in Career Launcher we have probably the best portfolio available to any coaching institute or organization that is into coaching and test-prep. We have a portfolio of 12 products and, 196 offline centers. And of these 196 we have 162 to be precise which are ETEN based centers, which means that classes happen through VSAT. This is in line with basic strategy of

being asset light and banking on entrepreneurs. Out of these roughly 196 centers, less than one fourth are run by ourselves, which is 46 centers we run ourselves in the major metros and key cities. While the remaining 150 odd centers are run by our partners or franchisees as a common language goes

The integration of ETEN which we acquired in 2017 is not complete, but it is almost there. The channel still is in terms of picking up more centers. While we have actually more than doubled the number of centers because when we took over ETEN we only had 25 centers with us; that we have more than doubled to about 62 centers and from our point of view the ETEN is something which can easily take us to the next level of cities. The biggest challenge that we face in our business in the physical phase you get delivery model, availability of good faculty in smaller towns and cities. And ETEN has something which allows us to take care of it. It is our growth driver, it helps us to scale. So, while at Career Launcher the physical face-to-face center, we had a kind of a limit of about 180 – 200 centers where we could have gone to at best, with ETEN we can easily look at 3x that number in the longer term, because tier 3 and tier 4 cities all of them become available to us through this network. It takes care of the biggest headache of any test-prep or teaching of any training institute which is standardizing delivery in smaller towns and cities.

And the other advantage of ETEN is that unlike the physical classroom center where you need a certain minimum size, in each of the verticals, in each of the program, in case of ETEN that number goes down significantly. Because if you are delivering the particular class in the 50 centers simultaneously and in each of the centers you have only 10 – 15 students, cumulatively that still becomes more than 5500 students. So, economies of scale starts to kick in once you have a large number of centers of ETEN and which is why the channel that we are looking at ourselves putting up parts of these to increasing the number of centers of ETEN from 62 to a significantly higher level.

Some of the synergy between ETEN and Career Launcher will also help us in GK Publication. For example in GK Publication many of the content is sourced from Career Launcher and similarly, some of the GK Publication contain reviews by Career Launcher centers for passing their program. So, that is the second part of synergy between GK Publishing and Career Launcher. One part of synergy is between ETEN and Career Launcher and second part is Career Launcher and GK Publication.

GK Publication grew by about 16% in the last quarter and from our point of view, we continue to adopt the same growth strategy going forward. If the product portfolio, yes there can always be a few additions, but by and large we are going to stick with the product portfolio. We have to deepen the channel and we have to extend it geographically. Which means we have to look at multiple partners or multiple programs in the same city delivered by different people and go through different channels whether it is a face-to-face Career Launcher centers and whether it is an ETEN center.

In bigger towns and cities Career Launcher and ETEN Centers will exist side by side, which means Career Launcher center is doing its own business and ETEN center is taken to another segment. While it is possible that in the tier 4 cities that ETEN and Career Launcher could be combined to give it the financial viability which it needs. So, in addition to all this apart from ETEN, as some of you may be aware already, we are also running our own online program so the same program which is available in the physical mode for MBA, Law, and Bank exams are available on the VoIP mode where classes are delivered through VoIP. And some of these programs are also delivered through ETEN. So the idea is that irrespective of which channel the student prefers, we should be available to the students.

Essentially, this is what I would say in terms of test-prep part and ETEN is the key accelerator as a growth driver for us to help us in expanding the reach geographically and also it helps us in cutting down costs because the economies of scale which ETEN can bring, a physical face-to-face center cannot bring.

In addition to our existing products, as it has been announced earlier already, we are looking at acquiring a majority stake in a GATE coaching company. One of the most important segments from an engineering college perspective, GATE has been on our radar for quite some time and now we are in the process of acquiring the majority stake in this business also and we will keep you updated as and when it is done.

So, I will stop here and hand over the floor to Nikhil for a brief on the Enterprise business and I will be available for questions at the end of the presentation. Nikhil over to you.

Nikhil Mahajan:

Thanks Gautam. I will basically summarize the performance of the Enterprise business, which includes the Corporate Business, the Institutional Business including the Media and the Research initiative. As you are aware as outlined by Satya also, at the beginning of the first quarter we had increased our stake in the Research Company which we had acquired in 2016 to 100%. Last year was the first full year and we had signed up six new clients. The good thing is about the acceptance of that product. We have seen all the six clients renew their old contracts for the second batch. Basically, what this would mean is that the existing clients' the revenue which we received last year would automatically more or less double barring some discounts etc., which might accrue. We are also adding some extremely premium clients like few IITs and maybe a couple of IIMs to our portfolio which will materialize during the course of this year.

Now, for our Institutional Business, the number of universities who were our customers at the end of quarter 1 has doubled from 14 to 28 and we will continue to add newer customers or renew or expand relationship with existing university customers during the course of the remaining period.

The number of corporates, basically with whom we work has increased from 36 to 45 during the course of the first quarter. And as outlined by Satya, Q1, especially the month of June, was

a slightly subdued quarter because most corporates slashed down or deferred their marketing expense due to uncertainty about GST with lot of activity both in the service sector as well as in the manufacturing, not being sure how it will roll out and hence the production and the roll out of new products eventually had to be deferred to Q2 with many customers.

One more point, in the institutional customer space, this year the admission cycle was slightly delayed, one due to initially the medical colleges, the NEET results getting delayed and subsequently the delay in the IIT exam results which basically resulted in the overall admission cycle running approximately one month behind schedule. So, when most colleges usually used to reopen the new session by mid-July, this year most of the colleges have opened towards mid-August or latter half of August. So, while Q1 might look subdued on the institutional revenues; however, the pipeline for the business in Q2 is reasonably strong and we expect to cover up for the shortfall in revenue in Q1.

Additionally, post our additional investment of Rs 8 crores in 361 DM of which Rs 4 crores has already been made, the entire suite of online program which 361 DM already has and this investment will enable it to create a suite of another 35 – 40 programs would also now become available to our institutional as well as corporate teams to sell to the Indian markets. So, while the investment will not only push the business growth in 361 DM, there will be incremental revenue opportunities which will come across our way with some of the products getting sold by the CL team either to the universities or to the corporates and that should get reflected in Q3 and Q4 of this year.

This is broadly in line of our overall CL's strategy to be asset light, technology enabled and to deliver products using technology and digital platforms that are highly scalable. We have been chasing collection of government receivables, though in Q1 the receivables did not come through; however, we are positive that in Q2 we should be able to report collection of a part of the receivables before September 30th. So, we will update you as and when that thing comes through.

Sudhir basically will now summarize and then we will throw it open for questions. Any of you can raise any questions at that time.

Sudhir Bhargava:

Hi, good evening. To just summarize, you know, Q1 saw some those growth in test-prep billings as Nikhil mentioned and while it was slightly subdued, lot of clients held back because of GST and some of those should start to come back, have started to come back. The asset light model focus is very much there. Rationalizing a balance sheet takes time and we are all collectively exploring options and as and when some of those happen, we will inform you. Most of the points covered including scaling of businesses, rationalizing the balance sheet etc., these some are investments, some are ongoing businesses which are being scaled. So these in my view, will take 12 months to as long as 36 months to kind of help improve profits and rationalize the balance sheet. That is all from our end and we are now ready for questions that you may have.

- Moderator:** Thank you sir. We will now begin with the question and answer session. We take the first question from the line of Prithviraj from Unifi Capital. Please go ahead.
- Prithviraj:** Just a couple of questions from my side sir, the first one is on your consumer and Enterprise business. What kind of growth rate can we expect in this particular year?
- Sudhir Bhargava:** I do not think we would like to mention any sort of growth rate in particular, but I think given the past record, we should be able to improve on it, is all I can say; given that we are adding more channels of delivery and increasing our reach, both by way of geography and products.
- Prithviraj:** Okay. Sir, are we looking for any further acquisitions?
- Sudhir Bhargava:** Yes, we have been looking at companies in the space that we operate, so, either it is to do with complementary product or technology and that is where you would expect us to be active. Satya, any other point?
- Satya Narayanan R.:** Yes, to be very specific since this question has come today and I think all of us know that we have done two or three significant investment/acquisitions in the last six months; chances are that we will focus to make these investments and acquisitions work for our P&L and if something is really super attractive and extremely enticing, we might consider that. As Sudhir said, we are always open to it. Right now to me it looks like it is time for us to put our heads down and execute for the next twelve to eighteen months.
- Gautam Puri:** And Sudhir, if I can just add a couple of lines, if we look at in the test-prep domain, our portfolio, I think we are covering almost all the important segments. Yes, there are a few segments where we are not present at all, but by and large we are present in most of the important segments from our business prospective and if the GATE acquisition goes complete, then as Satya said, our task will be first and foremost to make sure that these acquisitions start paying off and unless we have come very interesting thing coming our way, something which we can see immediate benefit coming out of it, we would not be very keen on just having an acquisition for the sake for it. It has to work for us. The existing ones have to start delivering and the new one has to be attractive and very enticing. That is it.
- Moderator:** Thank you. The next question is from the line of Mr. Ashish Kumar from IndoAdvisors. Please go ahead.
- Ashish Kumar:** I just need to ask in the test-prep how many more centers will be opened in the year and what are the new knowledge products that the company is targeting?
- Gautam Puri:** Well, when we look at centers, we have 196 centers at present out of which about 60 centers are ETEN centers and 130 odd centers are the physical face-to-face centers. When I look at the face-to-face Career Launcher of centers, I do not see that growing significantly. A few centers will be started, but the biggest challenge of these face-to-face center is the economies will work only at a certain level and once you go to tier 3 cities or at the bottom of the tier 2 cities

you will start searching for one good partner and profitability. So, as far as the physical face-to-face delivery centers are concerned, we are by and large where we need to be; another 20 – 30 could be added over this period and then adding more centers will be very, very difficult, but when I look at ETEN, ETEN is where I think we will get the growth. So, right now we have about 62 centers and we are only looking to about 100 odd centers. Obviously we will try for more, but I think the legit number would be to look at about 100 centers by the end of the financial year.

Moderator: Thank you. Next question is from the line of Nisha Hitendra. She is an individual investor. Please go ahead.

Nisha Hitendra: My question is basically on your plan to revive the growth in your enterprise business?

Nikhil Mahajan: Enterprise Business has been growing steadily over the last couple of years. So, it is only in this quarter that there has been a slight lax which has happened predominantly because of GST and uncertainty in and around that. I think with GST now recently well settled and as I said earlier, recently shot pipeline of business in Q2. I think we are broadly on track on the goal we have internally set for the full year in terms of Enterprise Business. So, there is no specific action plan. The blip was a short term GST related blip which I think broadly has got overcome and on a full year basis I think we should be broadly on the target what we have set for ourselves.

Nisha Hitendra: And sir my other question is actually based on your top line growth expected from the 361 DM investment. What is the kind of revenue we are expecting from that?

Nikhil Mahajan: See there are two things. One our current investment will aid the growth of revenues at the product offering of 361 DM itself. How much we are able to achieve in the second half of the year is something that we will have to see. While we will start cross selling the product it is too early for us to put a number of what we can achieve in Q3 and Q4 during the course of this year, but I think the actual benefit of the product from the cross selling into the CL ecosystem will actually be felt only during the course of the next financial year. At this moment I do not think I will be in a position to give you a specific number; maybe three quarters down the line I think we will have a better hang of it.

Moderator: Thank you. Next question is a follow up from the line of Prithviraj from Unifi Capital. Please go ahead.

Prithviraj: Sir, just one final question. On the CAPEX side what kind of investments are we looking for this year?

Nikhil Mahajan: See ours is a very service oriented business where there is not too much CAPEX. Our CAPEX if at all will be in a purchase of a few servers, few laptops and some hardware, buildings, if we set up our own centers. A couple of them have got them set, their new CAPEX related to building a center and as the scale up of the ETEN network happens, if we set up ETEN

facilities at our existing centers then it costs about Rs 3 lakhs to Rs 3.5 lakhs per center. So, I do not think the CAPEX investment of the whole will be more than a couple of crores at that. So that is the kind of magnitude of CAPEX that we are talking about. As we said earlier, we are trying to be asset light and our basic investment will be going into IP, technology, people and buildings. Products will start being digitally deliverable at a scalable manner and not on a brick and mortar going forward significantly.

Prithviraj: Okay. Any investment in the technology side that you are looking at now?

Nikhil Mahajan: I told you it would only be a couple of servers and all that, it is just you buy additional and that will cost you Rs10 lakhs or 12 lakhs or 14 lakhs that is it. Nothing more than that.

Moderator: Thank you. Next question is from the line of Manju Bhashini from Sundaram Mutual Fund. Please go ahead.

Manju Bhashini: A couple of questions from my end. One, the receivables that we expected from the government contract and what is the status on them and the second one is our endeavor to sell off the fixed assets from the schools division. How far are we into the transaction? I think we had received some token advance a quarter back and any updates on that front?

Nikhil Mahajan: See, on the government receivables, as I said there were no incremental collections which happened in Q1, that we are anticipating some collections over the next four weeks and in the subsequent quarters. So, we anticipate to collect around 20% - 25% of the outstanding receivables within the current fiscal. So, that is point one. On the K12 transaction, we have concluded part A of the transaction of transferring of business and the operations of the schools are effective from July 1st. On the real estate front, the money has not yet been received because of some technicalities which the firm to which the real estate was been sold. They are in the process of sorting it out and we hope to be able to close the transactions in the not very distant future.

Manju Bhashini: If you can slightly elaborate on that front sir, because I think we were fairly confident of receiving this amount.

Nikhil Mahajan: Manju, the technicality which they have come up is something which they also had not anticipated. And as we shared earlier, we were anticipating it to have closed by middle of August or end of August at the latest. Unfortunately, it has taken a few weeks more for them and they are in the process of sorting that out and we remain positive. I may not be in a position to tell you whether it will happen in four weeks or eight weeks, but hopefully we should be able to do it pretty quickly.

Manju Bhashini: And what is the amount that we are expected to receive from them once this issue gets resolved? What is the absolute amount?

Nikhil Mahajan: See we have to receive Rs 44 crores before March 18.

- Manju Bhashini:** And on the receivables part, you made a mention of one fourth of the receivables to be achieved by FY18? And what would that amount be?
- Nikhil Mahajan:** Approximately yes and somewhere around Rs 12 odd crores.
- Manju Bhashini:** This delay in receiving money on the transfer of business, has it got anything to do with evaluations?
- Nikhil Mahajan:** It has nothing to do with it. See the business agreement is already done. Basically they have an offshore fund and they are closing some paperwork with SEBI, which is pending and that is what they have told us, that there is some problem with SEBI compliance with their offshore funds and that is the reason for the delay. They were hoping to have sorted it out by June. It has unfortunately not happened. So that is the thing.
- Manju Bhashini:** And in case this deal gets delayed further beyond our anticipation, what is the plan B that we have in place here? Just trying to understand our thought process there.
- Nikhil Mahajan:** We will look for alternate players with the same space to purchase our leaseback assets. So, it might delay the process, but the direction and the thought processes of closing it in the shortest possible time is very clear in our heads.
- Manju Bhashini:** And another one on this Enterprise, you cited about the GST as one of the key reasons for the muted growth that was witnessed this time. I am just trying to understand what is the likely impact for us and where is it really causing the pain?
- Nikhil Mahajan:** See basically what happened was due to the uncertainty lot of customers delay their marketing expenses during the month of June. That is because as you would be aware most of the FMCG and even the consumer electronic companies' old stock was being cleared and very little goods were being shipped to the retail stores. So, as a result most product launches, new marketing campaigns etc., all that happening only towards the end of July. So, that has got reflected in the new activity calendar and new activity which have begun to pick up in the beginning of August and we are seeing a recently overcrowded marketing calendar for most of the corporates. We anticipate that whatever was lost due to the four to six week GST blip will be more or less compensated by mid-October, end of October.
- Manju Bhashini:** And this gets featured in your Enterprise Corporate Business right?
- Nikhil Mahajan:** Yes Corporate Business and Kestone.
- Satya Narayanan R.:** Manju, just to emphasize one point, as Nikhil and even Sudhir mentioned, the delay on the K12 completion was a little unanticipated. It was all to do with their regulatory work, but what we want to certainly emphasize is that the intent is to ensure that that one gets to successful closure as stated right in the beginning in the opening remarks. We do want to release that

because that is very valuable capital which can be redeployed into our core businesses that are in need of cash.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

Satya Narayanan R.: Thank you very much. If there is any other follow up query, please feel free to write to any of us. Also, I would take this opportunity to extend an invitation to any one of you travelling to Delhi, if you want to get to a little bit more details of understanding the business, you are most welcome to mail us and our team from Four-S or from our office will be very happy to coordinate. You know my numbers and email. We look forward to face-to-face conversations as we move along. Thank you very much. Thanks Sudhir, Nikhil, Lokesh, GP. I will take this opportunity to thank you all formally and call for the closure of the session.

Moderator: Thank you. On behalf of Four-S Services this concludes this conference call. Thank you for joining us. You may now disconnect your lines.