



“Zee Learn Q4 FY2018 Results Conference Call”

May 09, 2018



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Zee Learn
May 09, 2018

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2018 Results Call of Zee Learn hosted by Emkay Global Financial Services. We have with us today Mr. Kumar, Director of Zee Learn, Mr. Mukhopadhyay, CEO, Mr. Pradhan, CFO, Mr Khanna, AVP Finance, and Mr Acharya, Senior Manager – Corporate Strategy. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr Naval Seth from Emkay Global. Thank you and over to you Sir!

Naval Seth: Thank you. Good evening everyone I would like to welcome the management and thank them for giving this opportunity. I would now hand over the call to Mr Khanna for his opening remarks. Over to you Sir!

S Khanna: Thank you Naval. Good afternoon everyone this is Subodh here. Thank you for joining us today. This conference call has been organized to update our investors on the company and its performance on Q4 and year ended March 31, 2018. We hope that you have had a chance to go through the company's results, which is uploaded on the company's website www.zeelearn.com.

To discuss the results and the company's performance today, we have Mr Kumar, Director, Mr Mukhopadhyay, Chief Executive Officer and Mr Pradhan, Chief Financial Officer. We will start with a brief note from Mr Kumar. We will then open the floor for question and answers. I would like to remind everybody that anything that we say, which relates to our future outlook should be taken in the context of the risk we take. We would like to add that this call is purely for our investors and analysts. Thank you. I will now hand over the call to Mr Kumar. Over to you Sir!

A Kumar: Thank you. Welcome everyone. I would like to take about 5 to 10 minutes from you people and update you on the various things which have happened to us in this last quarter and the last financial year and also give you a bit of sense of where we may be headed in the coming time.

While most of you would be aware, just as a recap, the Education sector in India is about \$100 billion market, around 50% of this emanates from K12 and Preschool segment, which are the larger segments and growing at around 15% to 20%. About 15% of the market is



Zee Learn
May 09, 2018

higher education and about 35% to 40% is the balance market, ie. supplementary services, which includes Test preparation, Tutorial, Vocational services, etc. So if you analyze the market it is basically in two silos. The first part is within the four walls of the school or the college, which is where Zee Learn operates today. The other part, which is outside the four walls of the institution, we are not present there in any significant manner today. So in K12 we have our Mount Litera Zee schools; in preschools we obviously have Kidzee; in higher education though we are not present directly, Essel Group has an offering there in form of Himgiri Zee University in Dehradun, which is a good upcoming University.

With the addition of Mahesh - MT Educare in the next financial year, when the acquisition process gets finalized, we will be getting a strong foothold in outside the four walls of the education institutes, which is test prep, tutorials etc., thus making us enabled to service all the segments of the education sector, within and outside the schools and the college institutions.

To add further, you guys normally would be looking at Zee Learn's topline and financial numbers, but what is it that we actually handle as a business ? So if you take about 130000 to 140000 students of our preschools and about 60000 to 65000 students of our high schools ie. around 200000 odd students and if you add the collections of all these students together, our system revenue of all the institutions together will be about 2000 Crores. So that is our real size - Zee Learn is the management company where a part of this system revenue gets logged in, which is what you see in these financials.

Next, coming to the update of Zee Learn results which you would have obviously seen, the last quarter and the last financial year have been healthy for us; in the last financial year the topline and PAT both grew approximately 50%, PBT more than doubled, EBITDA was up around 73%, there was a good growth in the number of schools and in the number of enrollments within those schools which hopefully should help us continue with the growth trend in the coming years.

Coupled with this business growth, we have also improved our various other financial parameters, which Umesh subsequently will be updating you during the call, one key feature there is the business has significantly reduced its receivables. Another initiative in these financial aspects is that not only the receivables have been reduced, the receivables have been made more secure by seeking deposits for the properties that we have rented out to the trust operated schools, which secures and makes the business better.



Zee Learn
May 09, 2018

Many of you would also be very curious and wanting to know the update on MT Educare acquisition that Zee Learn is going through. So first of all the process is still on. Sometime back we had done a primary infusion of about 200 Crores, which was equivalent to about 44.5% post money shareholding for us. Right now there is an open offer going on and assuming it is fully subscribed it will give Zee Learn another 26% shareholding in that company. So in another maybe three to four weeks the whole acquisition process should get completed and Mahesh tutorial will probably become a majority owned subsidiary of Zee Learn. What Mahesh tutorial brings for us on the table and how does this acquisition help Zee Learn and Mahesh tutorial; I wanted to say a few words on that. In the backdrop, I mentioned to you that Zee Learn operates within the four walls of the school. Mahesh tutorial on the other hand operates outside the four walls of the school. So both of these businesses coming together would help us service the market holistically in a 360-degree manner.

There are also strong synergies in the two businesses. The Zee Learn students get access to very high-end content, curriculum, tutorials, test preparation opportunities from Mahesh Tutorial especially for the students of the higher classes of IXth, Xth, XIth and XIIth in our Mount Litera system. On the other hand, Mahesh Tutorials gets access to these around 200000 students of Zee Learn System which can be potential customers for them. Mahesh Tutorial also gets access to our franchisee network of almost 2000 people who can be considered for becoming franchisees of offerings from Mahesh Tutorial. Also, Mahesh Tutorials is present in around 60 to 70 odd cities whereas Zee Learn is present in about 700 to 750 odd cities, so it will be a very good opportunity for Mahesh Tutorial to take help from Zee Learn and become truly Pan India, offering spread in many more cities and of course when you are sort of working the two large education companies together you enjoy a lot of synergies and benefits on operational perspective, which could be for supply chain and for various support and business process activities within the two companies.

Just to also remind you Mahesh - MT Educare is a highly asset light company and it is quite an iconic brand in the geographies that it has been operating in and it is very strong in Western and Southern India and it has very strong brands like Lakshya, Mahesh Tutorials, Chitale classes etc. and not to forget Robomate which is a very robust digital offering from them which has a potential of not only making their delivery better in the face-to-face classroom training courses but also as a purely online methodology for reaching students not only in India, but also outside, I am referring to the Indian Diaspora.



Zee Learn
May 09, 2018

So both these companies coming together, I think, should make a very good holistic offering from Essel Group, which would financially be very sound and be able to manage the entire lifecycle of the students right from Preschool to K12 to Vocational to Test preps to Tutorials etc., and to Higher education also, so it will be a complete lifecycle management.

In the end I would like to also give you a bit of insight on to what we would like to achieve in the next sometime for both Zee Learn and Mahesh Tutorials as a combined entity. One very important initiative, which the team has already started working upon is divesting the real estate portfolio of the owned, operated schools of Zee Learn, so these are about 600 to 700 Crores assets in Zee Learn and its subsidiaries books and if we are able to REIT it out or divest it while continuing to have the schools, it will not only make our financial parameters better it will also release a lot of funds for future growth, as and when we require it.

For Zee Learn specifically as a business, one of the key challenges is that we are already there in about 700 to 800 cities, so one key challenge for us is to go down the pop strata and to be able to access more layers of the population and more students. So for that we are working on new models to enable us to do that which will be a new very significant initiative in the coming sometime. We would also be going in for multi-tier branding and to cater to the needs of various segments, we might be introducing new brands for our offerings.

We are also considering new channels for expansion so if you look at International and Global markets, for the same school offerings there are many other channels. For example, the Corporate channels, Day care, After school activities, etc., which is also a new initiative that we are looking at.

For Mahesh Tutorials, for expansion, it would primarily be expansion to new geographies and strengthening their portfolio offerings to make their Engineering, Medical, MBA, GMAT, GRE and all these additional courses more robust.

Mahesh Tutorials is in Government Vocational business in a big way, Zee Learn is there in B2C Vocational business in a small way. We would be looking at combining the synergies of both and making a stronger foray in Vocational business and of course the benefits of integration and synergies.



Zee Learn
May 09, 2018

So if both these businesses together integrate and work well, as a forward looking statement, I think in the next five years you should see the combined business increasing at least threefold organically and, if like any other businesses, if we evaluate inorganic opportunities, you would probably end up seeing a much higher number.

Now while I have taken this opportunity in this call approximately to give you a little bit of a colour on this, more details we would like to share with the investor community in another 15 to 20 days where we would like to hold a face-to-face investor meet where we will be going a little bit more into depth in our performance and our future plans so that you could have more transparency, insight and also a sense of where this currently largest listed education company in India will be headed. So thank you for reposing the fate in the company and I look forward to interact with you periodically and I will hand over to Deb now who would provide you a bit more colour on the specific performance of the Zee Learn business segments and thereafter Umesh would tell you more about the financial highlights and parameters. Thank you Guys!

D Mukhopadhyay:

Thank you Sir for setting the context and let me share with all of you that our FY2018 was a landmark year for Zee Learn. We established several records on both on the operating and the financial parameters and let me give you some of the specifics, which led to that fantastic performance.

The total number of preschools signed in the last one year was 354 and the number of K12 Mount Litera Zee Schools that were signed was 14, the total operational centers across 700 cities in this country stands at 1813, the number of K12 schools, which also includes 5 COCO schools, which are company owned and company operated stands at 122, the total number of kits that we dispatched, an important measure of enrolment, stands at 134867, which is roughly around 135000. The total number of K12 kits that has been dispatched is around 53000. The average fee, since there were some questions in the past regarding our average fee, per preschool student in a Kidzee center stands at 38520. The revenue that we get is the royalty. The average fee for a K12 student stands at 38000 and these are some of the key highlights. As all of you are aware that we run 5 CBSE COCO schools at Goa, Bhatinda, Karnal, Patiala, and Nagpur and we have more than 3000 students in this five schools. We also run an IB school at BKC Mumbai, which has roughly around 400 students. I now would like Umesh to share a few additional financial details to all of you before we open for questions.



Zee Learn
May 09, 2018

U Pradhan:

Thank you very much Mr Kumar and Mr Mukhopadhyay and I once again welcome all of you on the call. I am very happy to share the numbers and as you all are aware that in a span of five years practically at Zee Learn, at a consolidated level our EBITDA now stands more than 100 Crores, which is more than the consolidated turnover of 2013, so that is a very big statement Zee Learn management has done and we are proud of that and we assure you that from the management side that Zee Learn will keep on this trend and keep beating the expectations that you guys have from us.

Just to take you on the specific numbers. At a consolidated level our topline has increased by about 16% in the financial year, 13% in the quarter and at a consolidated level our EBITDA has gone from 33% to 38% and on a standalone level from 25% to 39% on a yearly basis. Our PBT at a consolidated level now stands at 75 Crores versus 32 Crores so there is almost increase of about 130% over last year, huge turnaround that we have done once again. We are now a full tax company, as we have been discussing this throughout the quarters. So on a PAT level the PAT profit would be a bit uncomparable compared to the last year. While saying that we still have a PAT growth of about 47% over the last year at a consolidated level. Again a huge statement I would say, so that was a very brief about some of the key highlights of the financials.

I would like to also mention as Mr Kumar has pointed out that this year we have really put an effort to bring a financial discipline in the company and that is reflecting in our balance sheet which you all would observe. Our current March 31, 2018 consolidated balance sheet would reflect outstanding debtors of 15 Crores versus 50 Crores approximately of the last year. You would have noticed that even compared to our half yearly results, the receivables have been reduced a lot. We have substantial recoveries during the period including we have received the funds from the schools also and as far as free cash flows are concerned at a free cash flow level considering that we are a full tax company this year we have generated about 65 Crores free cash flows from the operations.

As far as I remember there were some questions, when I used to meet the individual investors, on the promoter holding and I would like to take this chance to clarify to the forum that particular issue because possibly there is some kind of miscommunication happening on this. Let me clarify once for all and I would request you to note down that our promoter holding has been constant over the years and there is absolutely no decrease in terms of the promoter holding in the company, promoters are still holding the same number of shares. The only thing what has happened during the period is there is some reclassification done in the promoter holding, so some of the entities, which used to be



Zee Learn
May 09, 2018

categorized as the promoters is now being recategorized as a public or as an Indian company and therefore technically when we report to the stock exchanges you would see reduction in the number of shares from a promoter business. However, promoters have not sold any shares, the shareholders which used to appear as promoters as on March 31, 2017, still hold the same number of shares. So let me reassure that promoters have stayed in your company and they are still holding in the company with a complete confidence and they have a vision for this company. Mr Kumar has already explained you the vision for the company, so I guess with this I would like to open the call for question and answers, if there are any questions we will be happy to address that.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Avinash Kumar from Moon Capital. Please go ahead.

Avinash Kumar: Couple of questions from my side. First would be, Mr Pradhan you said about FCF generation, can you be more explicit about how much have you made in Q4 and full year both on standalone and consolidated basis and then how was those FCF use, have you use it for debt pay down and by how much? Secondly what is the prospect which you are having for REIT out of the self funded school because we believe that the REIT out will address investors' concern about the huge capex that we have incurred on the schools and also bring in more transparency? The second part of the question would be in your previous calls you have mentioned that 650 Crores of construction capital in the self owned schools and if I look at your reported balance sheet and I club together fixed assets plus investment assets it is coming to 514 odd Crores and even if I include intangible assets is coming down 620 odd Crores, so I am little curious where is your rest of capex reflected on the asset side of the balance sheet and the last part of the question would be related to your low debtors, so your debtors have come down significantly ,35 odd Crores, of why you are on fall so if you can provide more colour on how that is happened and also because your cash and current investments has just gone up by 15 Crores over last year, so where is exactly this recovery in debtors being reflected on the financial statement.

U Pradhan: Avinash can I answer all the questions, once I get all the questions from everybody, then one-on-one I will start answering would that be fine?

Avinash Kumar: Whatever suites you I am okay with it.



Zee Learn
May 09, 2018

U Pradhan: I have noted down all your questions I will answer one-by-one once I get all the questions from everybody.

Avinash Kumar: Sure it is not a problem.

U Pradhan: Thank you.

Moderator: Thank you. The next question is from the line of Yash Shah from Unicorn Investments. Please go ahead.

Yash Shah: Good afternoon. Congratulations for a good set of numbers. Sir my first question is there is a statement that we have trained 230000 plus students this year?

Moderator: Excuse me this is the operator Mr Shah may we request you to use the handset please there is a lot of echo coming from your line.

Yash Shah: Sir 230000 plus students, which we have trained it would be nice if I can get a breakup of the students from which brand is it from Kidzee or the Litera School?

U Pradhan: We have noted down your question.

Yash Shah: Second question you have mentioned that outside of the call that FY2018 was very robust for that and so we can expect the same performance and the record breaking anyway in FY2019 also?

U Pradhan: Okay.

Yash Shah: That is two from my side.

U Pradhan: So we will answer all the questions once we take questions together.

Yash Shah: Absolutely sir.

Moderator: Thank you. The next question is from the line of Rohit Chawla from Axis Securities. Please go ahead.

Rohit Chawla: Thank you for the opportunity and firstly congratulations for a great set of numbers Mr Pradhan, Mr Mukhopadhyay and Mr Kumar. First question is that we have seen our



Zee Learn
May 09, 2018

EBITDA doubling due to our asset light model so can the margin exceed beyond 39%, 40% until how it can go till where it can go this is my first question? Second question is that we were also contemplating on a new brand offering below Kidzee to target the lower price points so how are we on that front? Third question is so we have seen our core business is on a natural growth part now and the acquisition of MT Educare will be critical over the next few years, so what else will it take to ensure that even MT Educare comes on a natural growth part and currently we are infusing 200 Crores and what will be the capital infusion required to entirely improvise MT Educare's business model going forward this is my third question? Fourth question is how will the numbers reflect on a consolidated basis if we include MT Educare on the P&L side as well as the balance sheet side, so how will the revenue shape up and what will be the debt on our books and MT Educare had done some in Q3 it had done some loss; however, 90 to 10 Crores so will that be included and are there any negative surprises in MT Educare or in this education space so these are my questions?

Moderator: The next question is from the line of Vipul Shah from Ripple Wave. Please go ahead.

Vipul Shah: I had two questions one on the consolidated balance sheet the other liabilities has grown from 90 Crores to 240 Crores so just wanted a colour on what is it related to and the second question is for MT Educare we have two acquirers primarily Zee Learn and there is a PAC Sprint so just wanted to understand since the press has been done to Zee Learn from the open offer how much is going to be acquired assuming full participation how much is going to be acquired by Zee Learn and how much is going to be acquired by Sprint?

U Pradhan: What is your name you said?

Vipul Shah: Vipul Shah.

Moderator: The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: My question is this year the growth seems to have slowed down considerably especially on K12, so I wanted to understand the reason for the same and what do we expect going forward? Second question is related to the stock price while you have executed your plans very well obviously the markets have not liked whatever action you have taken during the year and the stock is down probably 30% plus over the year when markets have been making new height, so how is the management going to address this issue and create shareholder value because many of us are investors for a long time, but we may earn lower



Zee Learn
May 09, 2018

returns, but we definitely do not want depreciation of capital happening like this? That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Kinjal Jagani from MM Savla Consultancy Services. Please go ahead.

Kinjal Jagani: First of all, I wanted to know what is the current capacity utilization all over? Secondly I wanted to know status on MT you have mentioned the status of MT Educare model, but we just feel that you are into a core education and when MT Educare is more into classes, the synergy I know you have given the explanation but core education and classes point of view are two different perspectives so we wanted to know in depth more if we can get more guidance into it and then we have wild fluctuations in Q4 numbers like you say see in the personal cost, administrative cost, selling and marketing cost, so is that any, I want to have a more understanding on that also even in on total direct expenses and everything? That is all from my side.

A Kumar: Umesh may I suggest that you handle the questions collected till now. Otherwise people will forget the questions. We will not be able to connect, so I suggest you to now clear up the questions of the first round. You handle the financial questions and balance business part me or Deb will check it.

U Pradhan: Let me take questions, I may not be taking the question in the same line, but I have all questions. Just let me know in case I have missed out any of the questions. Kinjal you talked about Q4 performance and let me just tell you that in our company or in our education sector basically the Q4 of and Q1 of any financial year we get the maximum revenue and obviously we incur the maximum operating cost to run the businesses, simply because this is the admission season wherein student takes admissions into the preschools and the K12 schools therefore all our franchises start paying us the royalties and our fees and they start ordering the kits, etc., in these two quarters, so typically even if you have compared our past performances you will see Q4 and Q1 are the strong quarters and thereafter Q2 and Q3 gets bit of muted. As far as the MT synergies are concerned, Mr Kumar has already explained you what kind of synergies that we would be exploiting from MT acquisition.

A Kumar: Umesh I would like to chip in here.

U Pradhan: Sure.



Zee Learn
May 09, 2018

A Kumar:

You mentioned a point about core and noncore. See, we are an Education company, as an Education company there is a share of wallet concept. Everyone needs education whether it is a 2 year old or a 60 year old, so if there is an economically viable opportunity, which is synergistic and makes sense, we would want to address it. If you would refer to our company logo it says "Think Education Think Zee Learn", so it has always been our stated goal that we would like to become a holistic 360-degree Education company and the example that I gave you is of within the four walls of the school and outside the four walls of the school. The child does not learn only in the school, he learns every living movement, so why should we not participate when the child after his six or seven hours in the school goes home. There is a learning opportunity there also very much, so that is where we come from and this noncore and core, these are all opportunities and vetted out opportunities, I would say, so I hope I was able to address your question.

U Pradhan:

Yes, moving forward as far as capacity utilization is concerned Kinjal let me tell you that we are currently on an average about 77 children in our preschools and about 625 students in our K12 schools. As far as the capacity is concerned roughly on a single shift basis the preschool had capacity of about 120 to 140 children, this depends upon the size, but on an average that is the capacity, so we are almost about 60% above capacity and as far as the K12 schools are concerned, the typical K12 schools takes about 1800 to 2000 students and K12 being six to seven years old brand is having students of a one third of a capacity.

A Kumar:

Umesh, I would like to add on here one very quick clarification. The concept of capacity in preschools is very different to K12. In preschools there are four layers - playgroup, nursery, junior KG, senior KG. Students typically enroll in any of those four layers throughout the year. However, in K12 once your school is filled up to let us say fifth or sixth grade, thereafter the school grows by one, one layer, one, one class every year and no K12 school builds the entire school in one shot. Every school will typically make 600 to 700 students capacity, run the school for two to three years and then add another module and another module. So if our average K12 school filling is let us say 600 to 700 then our average capacity of K12 across our 125 schools would be about 1000. Only when the student number starts nearing that 1000, they will construct a new wing.

U Pradhan:

May I move to another question?

A Kumar:

Sure go ahead.



U Pradhan: Yes, thank you Sir. Tushar you asked us about the K12 looking on a slow track or slow growth track, let me try and answer you on merely looking on the figures perhaps you would be right if you are comparing, but let me also clarify that K12 includes the one time signup fees and therefore last year while we have signed around 21 new schools and collected the franchisee fee or one time signup fee this year we have done 14 new schools and therefore there is a signup fee decrease; however, the ongoing recurring revenue from the K12 schools is on increase and we have about 18% increase in K12 schools on financial year. Obviously the signup is unpredictable or non-seasonal kind of thing. It is important that every year, if you remember during our interaction, on an average we sign up about 15 K12 schools and in a particular year it is possible that we may exceed that number, so that is a non-comparable data, but I can assure you that K12 is on a growth track, it is clocking growth of about 18% to 20% and it will continue to do so along with the Kidzee.

D Mukhopadhyay: I just want to add to what Umesh said. There are two important indicators that we look at, one is the enrollment growth and one is the retention. If you look at our retention in K12, our retention is between 89% to 91% per school, which is in line with the market expectation or industry benchmark. The second is the enrollment growth, so purely in terms of enrollment growth or revenue growth we have registered between 18% to 19%, which is in line with the expectations and while we had good number of sign up in the previous year, last year our signups were slightly less compared to the previous year, but this has been the historical trend over the last three to four years and we are quite confident that this will also translate into our future performance. Thanks Umesh.

U Pradhan: And Tushar you talked about stock valuation, obviously frankly as a management we do not indulge into stock valuations; however, from our side as Mr Kumar also mentioned that in the next few weeks we would be holding a kind of a meeting with you all, obviously will be keeping you informed about what is going on in the business and how we will be taking this company forward, I am sure that would have some positive effects on the market.

Moving on to the other question from Mr Vipul Shah. Mr Shah you mentioned that our other liabilities have increased from 90 Crores to about 250 Crores let me also tell you that this basically on account of the security deposit which we have taken from the schools, again this was mentioned by Mr Kumar that we are securing our operations and these are the deposits that have come from the schools in return to the assets that they are utilizing to operate their schools.



Zee Learn
May 09, 2018

Moving on to Rohit Chawla. Rohit you asked us the scope of margin improvement from 39% onwards, yes the company would keep on improving the margins, but if you remember during last call I have mentioned that the rate of increase in the percentage of margin will probably keep reducing because our topline is increasing, but I am sure nature of our operation is such that every increase in the fees from the student or from the franchisees, most of the portion goes in to the bottomline and therefore rest assure that our margins will be increasing. As far as Sanskar is concerned I would like Deb to comment upon that. Let me just take your other questions and then I will request Deb to talk about Sanskar.

MT Educare you asked about the additional capex. So far while we infused 200 Crores and let me clarify you that out of 200 Crores approximately half we will utilize for their debt repayment and from the remaining half about 25% to 30% we will utilize for their working capital management and rest would be in order for their future growth. So I think that answers your question and as and when we get more and more into MT Educare and plan about their future, etc., we will come back to you, if there are any more additional infusion required.

Whether we have consolidated MT - no we have not consolidated MT Educare in our March balance sheet for two reasons, you guys would have read the note with the results, but let me clarify that. During March 31, 2018 we did not have any voting rights and the shares allotted were held in the escrow account and therefore as per the Ind-AS accounting these are shown as financial assets and when we complete the open offer this will be considered as a Investment in subsidiary in the next financial year, which is the ongoing financial year FY2019.

Whether MT would incur losses going forward, practically, when we get into MT only then we would be able to understand. As far as their performance till March'2018 is concerned the same did not got merged into Zee Learn till and therefore we would later concentrate on the future of the MT Educare.

There was one question on FY2019 outlook. I think this has been addressed more elaborately by Mr Kumar when he talked about next three to four years vision, so rest assured FY2019 would be equally good for all of you.

As far as Avinash your concern on how did we reduced the debtors let me tell you the schools has paid the entire management fees as on March 31, 2018 and schools has almost paid / or we have adjusted the lease rentals, so currently there is only about 6 odd Crores



Zee Learn
May 09, 2018

lease rentals are outstanding, which is appearing in the debtors, about 5.5 Crores to 6 Crores is outstanding from the K12 franchises and rest minor debtors were outstanding from other verticals.

As far as REIT is concerned, we have already told you that we are working on REIT or any other ways of removing those assets from our balance sheet. As and when we formalize any the proposal we will come back to you, but work has already started on that. As far as free cash flow is concerned let me share you the major portion of free cash flow comes in the fourth quarter being the most robust collection quarter we have about 46 Crores free cash flow generated in the fourth quarter and that is on a consolidated basis. On a yearly basis we have as I told you about 65 Crores free cash flow and let me tell you the utilization of the same, we have paid about 5 Crores of term loan during the year and we have paid about 19 Crores of interest and there is a cash and funds parked in mutual fund to the extent of about 34 Crores, and rest are all miscellaneous dividend, etc. I think so far I have addressed all the questions, if anything is remaining please let me know.

Moderator: Sure sir. We have a few questions in the queue.

U Pradhan: Yes.

Moderator: We take the question from the line of Anuj Shah, an Individual Investor. Please go ahead.

Anuj Shah: Thank you sir for taking my question. I have couple of questions one is on the DVPL side. So right now when we are modeling how should we assume the income to go ahead considering that we have about 650 odd Crores and 300 or 350 odd Crores of equity what is the expected return on that we should get in three to five years from that and second question is on the free cash flow since you said it is about 64, 65 odd Crores right now and see that it will go up what is the management trying to do with the free cash flows going ahead, will it keep going on paying debt or get into new schools or are there any plans to return it back to the shareholders? That is it from my end. Thank you.

U Pradhan: As far as DVPL is concerned Mr Anuj you can count about 15% to 20% increase in the year-on-year revenue in DVPL in terms of the lease rentals and as far as free cash flow is concerned currently we would like to retain the same, obviously we are a dividend paying company now, but currently we would like to retain and use this free cash flow for the growth opportunities and for the operations of the company.



Zee Learn
May 09, 2018

Anuj Shah: And sir just one more clarity on the DVPL side that in the long run once we are estimating that our utilization levels go up there what is the amount of return that we will be expecting not in terms of growth sir, but in terms of the amount of money that we have invested in?

U Pradhan: There are different ways of looking at it, it is not only the lease that should be counted to understand the return on the investments, on a overall scenario the schools are also paying us a management fee, so from a school perspective when you see there is a school operating surplus that school operation generates, surplus will be utilized to pay us the lease rentals and management fees and obviously that would take care of our investment and for that one will have to wait till the school reaches to the capacity, that should happen in another three four years.

Anuj Shah: I think I am looking forward to after face-to-face meeting that the management is planning.

U Pradhan: Sure.

Anuj Shah: Yes, thanks a lot.

Moderator: Thank you. The next question is from the line of Avinash Kumar from Moon Capital. Please go ahead.

Avinash Kumar: Just couple of quick followups from my side. Mr Pradhan you have spoken about that FCF generation of 65 odd Crores so can you just give me a breakup of how much has that gone into the debt repayment, how much have you retained in form of cash and in terms of dividend payout because if I look at your balance sheet current assets your cash and investments had just gone up by 15 odd Crores from the last reported numbers, so I am just curious that where is that increase FCF being utilized?

U Pradhan: I already told you that Avinash 5 Crores we have repaid the loans and about 19 Crores we have paid towards interest and rest about 2 Crores we have paid in dividend and rest is parked into mutual funds and banks.

Avinash Kumar: Fair enough and regarding your tax payment your effective tax?

U Pradhan: This is income tax payment.

Avinash Kumar: Yes, I agree that.



Zee Learn
May 09, 2018

U Pradhan: The indirect tax payments are already recovered from the customers.

Avinash Kumar: This was the income tax paid directly?

U Pradhan: Yes, because we are a full tax company now.

Avinash Kumar: Right, so why is the effective tax rate a bit higher than normal it would be around 35% odd, so why is your effective tax rate I am talking about on the income statement is it bit higher compared to the general 33% that we see?

U Pradhan: So are you comparing compared to last year to this year or how be you comparing?

Avinash Kumar: No, I am comparing as a percentage I mean your tax outflow upon your PBT.

U Pradhan: Let me tell you that the tax calculation is done on the normal gap accounting, you have to exclude all the Ind-AS adjustment that would have gone into the books to calculate the real tax liability and if you would just do on the face of the P&L we will have variation in the percentage but it is 34.7%.

Avinash Kumar: So it will be basically because of Ind-AS adjustment?

U Pradhan: Yes, tax has to be paid excluding the Ind-AS adjustment.

Avinash Kumar: Fine. I am just keeping it at two if I get a chance I will ask further.

U Pradhan: Sure please and we can talk one-on-one also.

Avinash Kumar: Sure. Thank you Mr Pradhan.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: Thank you for the opportunity again. Deb you said that the enrollments have grown 18%, 19%, but I was looking at the numbers last year our enrollments were 48800 in K12, which in his opening remarks I think Mr Pradhan mentioned it as 53000.

D Mukhopadhyay So Tushar I think I clarified it was about revenue. Enrollment typically we look from an academic year perspective, and our academic years typically starts from January till



Zee Learn
May 09, 2018

December, so academic year comparison would be the right way to use for enrollment growth, the 17% or 18% that I have said is on the revenue, the revenue growth that we have.

Tushar Sarda: Yes, so enrollment growth is less than 10% that is my worry?

D Mukhopadhyay: The right frame to look at would be the academic year Tushar so if you look at the enrollment growth from January till December of the previous year we have to use the same frame to look at enrollment growth, so our enrollment growth for K12 has been fairly consistent over the years.

Tushar Sarda: So what is the number of students added?

D Mukhopadhyay: I will give you the number. Let us take other questions I will come back to you with the exact number.

Tushar Sarda: No problem.

Moderator: Thank you. The next question is from the line of Samir Kapadia from RockStud Capital. Please go ahead.

Samir Kapadia: I joined late a bit the call so I do not know whether this question has been repeat or not but however I would ask you, can you just give me the breakup of your enrollment growth between the existing schools and new schools?

D Mukhopadhyay: You are talking about Kidzee?

Samir Kapadia: Yes, Kidzee versus Mount Litera.

D Mukhopadhyay: Our average enrollment per school is 77, but if you look at the average enrollment for Kidzee which also includes the new schools. The new schools in the first year have an average enrollment between 30 to 40.

Samir Kapadia: New students between 30 to 40?

D Mukhopadhyay: That means schools, which are less than one year old, so the right frame again would be to look at the enrollment numbers from January till December.



Samir Kapadia: Can you just come again once again like Kidzee you said the growth is how much?

D Mukhopadhyay: For Kidzee the average enrollment per center is 77 and this includes the new centers that we have added last year.

Samir Kapadia: No I was asking in terms of what is the growth percentage?

D Mukhopadhyay: So the overall growth percentage in terms of enrollment is 6%.

Samir Kapadia: For Kidzee?

D Mukhopadhyay: That is right.

Samir Kapadia: And for the new schools?

D Mukhopadhyay: For the new schools we have operationalised around 150 odd new schools and they have improved from an average enrollment of 27 we have gone to around 29 enrollments per school.

Samir Kapadia: My second question was in regards with how often do you take a price hike and like have you taken in FY2018 any price hike?

D Mukhopadhyay: Yes, consistently over the years we have had a price hike every year; however, our overall growth is a combination of our enrollment growth and increase in prices.

Samir Kapadia: You would be continuing the same trend going ahead as well?

D Mukhopadhyay: Yes.

Samir Kapadia: And how much percentage hike you generally get?

U Pradhan: Samir let me take a few of your questions. On a price hike every year we do about anything from 5% to 10% depending upon the tier in which we are present, so it is not every tier we are able to do the same kind of percentage hike. So therefore the blended average you can take as yearly we take about 5% to 6% price hike / fees hike and that is the hike that we get into our royalty payment. As far as Kidzee growth is concerned, as Deb has mentioned, the Kidzee growth in terms of enrollment seems to be muted at 6%; however, please understand that this year we had a special drive of cleaning up our network. On an average we churn



Zee Learn
May 09, 2018

about 75 to 100 centers every year. This year we have done much more than that in order to keep the network vibrant and get the noncompliant center out because child safety is atmost important for us. So therefore from existing enrollment perspective we took a hit and therefore the overall growth looks muted, but if you exclude those extra centers, which we thrown out of the network the enrollment growth would have been about 12% to 15% plus you can assume a price hike of about 5% so the preschool is giving us a growth of about 18% to 20%.

Samir Kapadia: Lastly if you can share your aspirations in terms of how do you see Zee Learn for the next couple of years are there any other specific areas of business, which you would intent to enter?

A Kumar: Deb just one second, Samir I think you joined late so when the transcript of the call is put up you can look at it or have a one to one call with Deb. We devoted the first 15 minutes on that outlook so maybe you can do that.

Samir Kapadia: Last one question like in regards with this MT Educare the vision can you share or it has also been discussed?

A Kumar: It has been discussed.

Samir Kapadia: Fine. Fair enough I would go through the transcript. Thanks a lot.

Moderator: Thank you. The next question is from the line of Vipul Shah from Ripple Wave. Please go ahead.

Vipul Shah: Again I initially asked two questions and first question Mr Pradhan answered about the other liability growth from 90 to 240, which he said that primarily security deposits from schools, which we have received. I think Mr Pradhan answered first question where the other liability he said was the growth from 90 to 240 was security deposit from schools, so is it fair to assume that these security deposits, which we have received from schools will be interest free and to be adjusted against future fee payments?

U Pradhan: So Vipul, these are refundable security deposits over the term of the lease contract that we have, and this is a better security in terms of the outstanding lease rentals that we have from the schools, so in case the school is not able to pay the lease rentals we have option to adjust the security deposits.



Zee Learn
May 09, 2018

Vipul Shah: Are these interest free?

U Pradhan: Some of them are interest free.

Vipul Shah: And the second question I had asked was on this open offer for MT Educare where Zee Learn and PAC both are the acquirers so assuming as I mentioned earlier full acceptance of the tender offer how much will Zee Learn participate in the open offer and how much will the PAC participate?

U Pradhan: PAC is kind of a guarantor as per the stock exchange norms. The entire thing will be subscribed by Zee Learn.

A Kumar: Umesh, a clarification - This is something, which is not public information right now because the open offer is still underway, so not correct to comment upon this, the open offer will take another two weeks by which time this will get clarified.

Vipul Shah: So, there is flexibility. As I understand and to my mind there is no concept of stock exchange guarantee as Mr Pradhan mentioned. It is still open, it is a flexible thing as to how much Zee Learn will participate and how much will PAC participate.

A Kumar: We will not like to comment on that specifically because that pertains to a matter, which is under process.

Vipul Shah: Yes, Open offer document also does not specify.

A Kumar: But it is like a group company so conceptually it is not an issue.

Vipul Shah: Zee Learn is a listed company and that is a promoter company so it is not exactly the same probably it is a group company we understand that.

A Kumar: So whichever way, this is not the right point to comment on it. You can check a little bit couple of days later and offhand, honestly I do not know the answer to that.

Vipul Shah: Thanks.

D Mukhopadhyay: Tushar, I would just like to answer one question because I think was left pending, if you are there on the call Tushar, there is a growth of 33% in enrollment for K12 in academic year



Zee Learn
May 09, 2018

2017 over the academic year of 2016 so from 42579 the total number of enrollments have moved to 56542. We can go for the next question.

Moderator: We take the question from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: Thanks Deb for the answer. So this year you have dispatched 53000 kits so enrollment will be more because there will be more dispatch in Q1 right?

D Mukhopadhyay: That is right.

Tushar Sarda: My other question related to since Mr Kumar is on the call if you can explain a little more in detail about how MT Educare helps you because from whatever we know and from whatever market perception is it is not a very successful business and the Robomate also I think the scale went up one year because they had a trust in Andhra when they made sales to captive students so apart from that they have not been able to really pickup, so what is your game plan with respect to MT Educare if you can throw little more light that would be very helpful?

A Kumar: You want me to address that Tushar ?

Tushar Sarda: Yes, please, since you are there I am taking the opportunity. Thank you.

A Kumar: First of all, I would not explain too much in detail because this is a forum for more Zee Learn performance review, and that is an acquisition still underway; however, please realize one thing, there is a market out there and then there is a company participating in the market, these are two different things. Are we saying the market is not good ? Absolutely not. If you pickup any analyst or segment report on the education segment, Test prep and Tutorials for the last five to seven years have been a very fast growing, very vibrant market though on a lower base. Thirdly the whole education game is becoming increasingly competitive. In the Indian context, students have to excel, so whether we like it or not they want to go to these additional tutorials, test preps, etc. So the market is there, the market is robust, it is growing fast and therefore it makes sense for anyone to be there who wants to be a holistic education company. Second aspect whether MT has historically done justice to it or not, it is up in the air, some people would say MT has. MT is one of those original test prep and tutorial companies and their brand is iconically strong in the geographies they are in. If you are a Mumbai person, you ask someone, Mumbai has 66 railway stations and



Zee Learn
May 09, 2018

bang in front of every railway station, there is a Mahesh Tutorials. Now obviously came competition, came Byju's, came Career Launcher, Career Point, TIME, Resonance and so on and so forth. So while they were the original Marlboro they were not really able to keep pace. So to answer second part of your question if they were doing great why would they have come to us, so obviously something was missing in the rainbow, so hopefully we would be able to fill in that - our better management acumen, our better resource status, our better strategic insights etc., and the growth of MT would not only be with face-to-face touch as an important part of that market, but the real growth would come through online and digital, that is the way to go. I do not need to share with this the success of Byju's. If you do it well Robomate is your next Byju's. If you do it well Robomate alone would probably be more valuable than your entire MT. So if you look at from that perspective - yes they must have had troubles, they must have had challenges. No promoter likes to sell his company, but together, hopefully they would also benefit, we would also benefit and the students will also benefit. I do not know whether I was able to address that question or not, but it is a little bit of a conceptual thing.

Tushar Sarda: Yes, Mr Kumar appreciate what you said, but I have my thought so maybe I will take it separately.

A Kumar: I remember meeting you in the AGM.

Tushar Sarda: Yes, I will take it up with you when we meet in the analyst meet.

A Kumar: I would be very happy to do that.

Tushar Sarda: Yes, thank you.

Moderator: Thank you. We take the next question from the line of Yash Shah from Unicorn Investments. Please go ahead.

Yash Shah: I had asked a question regarding the breakup of the 230000 students, which are served in this company this year?

U Pradhan: Let me answer that Yash about 140000 from preschool as mentioned by Deb about 52000 from K12 and remaining from youth.

Yash Shah: Thank you so much.



Zee Learn
May 09, 2018

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants I would now like to hand the conference over to the management for closing comments.

D Mukhopadhyay: First of all, let me take this opportunity to thank all of you for making it convenient to attend this call. I believe that call was insightful for all of you and you have all your queries and questions answered. However, in case if you want to have a subsequent detail discussion you are more than welcome to reach out to us and we will be more than happy to answer all your questions. I look forward to your continued support and I would like to take this opportunity to thank Mr Kumar, Mr Pradhan, Mr Khanna for being part of this call and supporting this endeavour. Thank you very much.

A Kumar: Deb, I would just like to add a couple of lines here. First of all we may want to have more interactions with our analysts and investor community because I was seeing some of the questions, some people were not pretty clear on the model, the business concept, etc., so I would advise more interactions, more face-to-face and more regular interactions and the second thing that I wanted to mention to the people on the call, Zee Learn is a company which was carved out of the Zee Group, it did not even really have an IPO, and it has done well in the last four or five years, today the bottomline is a little bit more than topline of couple of years back, but someone asked whether FY2019 would be similar to FY2018. No it will not be similar, it would be significantly better, otherwise people like me, Umesh and Deb have no roles here in this organization. We continuously have to up the bar, we continuously have to grow organically and also to seek inorganic growth opportunities. We also have to, while doing all this, maintain the highest level of transparency and corporate governance so that people do not see it only as a growth story, but they see it as a good honest growth opportunity. Thank you guys.

Naval Seth: Thank you very much all of you and once again thank you Mr Kumar for participation.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.



Zee Learn
May 09, 2018

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