



## “Career Point Q3 FY13 Earnings Conference Call”

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**Moderator** Ladies and gentleman good day and welcome to the Career Point Q3 FY13 Results Conference Call hosted by IDFC Securities Ltd. As a reminder for the duration of this conference 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. If you need assistance during this conference, please signal an operator by pressing \* and then 0 on your touch tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Nikhil Vora of IDFC securities Ltd. Thank you and over to you sir.

**Nikhil Vora** We have with us the senior management team of Career Point represented by Mr. Pramod Maheshwari – Chairman & Managing director and Mr. Mahesh Bhangaria – Vice President Corporate Strategy. I will hand it over to Pramod first to make the opening remarks on the business and then Mahesh could also dwell on the numbers and then we will open the floor for Q&A. Over to you Pramod.

**Pramod Maheshwari** Thanks Nikhil Ji. Hello everyone, this is Pramod Maheshwari – Managing director & Chairman of Career Point Ltd. With me I have my colleague Mr. Mahesh Bhangaria – Vice President, Corporate Strategy and Investor Relations. I believe that most of you must have received the copy of earning updates and it is also available on investor relationship section on our website at [www.cpil.in](http://www.cpil.in).

To begin with I will give you an update on the business followed by financial overview of 3<sup>rd</sup> quarter and 9 months of fiscal 2012-13. For a change, this time, I would like to start with update on formal education business and then I will take the tutorial business.

As you all know that this year we successfully launched our higher education institutions Universities and Technical Campuses. The overall response was quite excellent to the formal education initiative.

We have completed first semester of academic session 2012-13. In this semester, we are offering polytechnic, B.Tech M.Tech PhD, BBA, MBA, BCA, MCA and Applied Sciences courses.

For the next academic session, we have added a couple of new courses, as per the students and industry requirements. For instance, faculty of law at Career Point University - Kota and Hamirpur, faculty of computer application at Career Point University – Hamirpur and additional branches in Engineering such as Automobile, Energy, etc.

We have already announced the admission for the next academic session and getting good response from the students. Despite being the new entrant in this vertical, we have already signed couple of alliances with renowned academia and industry bodies. Just to highlight a few - Career Point Technical Campus at Rajsamand has tied up with IIT Mumbai, as their resource centre for Rajasthan, for open source computing. Career Point University at Hamirpur has also signed an overseas research consulting project related to rice development in India, Bangladesh and Nepal. This that project is funded by Gates Foundation.

Career Point University Kota has been intended to set up various academies with leading corporates. The Career Point Hamirpur University is recognized to set up de-addiction center by a Division of Council of Scientific and Industrial Research. With these developments, we are quite happy with our better than expected first year of performance on this front.

To be honest with you, we have started these institutions, with a very simple strategy that is - Learn from the Best and implement the same. For this, we have adopted the best practices and systems of IITs and other leading international Universities and implementing the same in our institutions to fulfill the gap of quality education in India.

Distinguished features like multi disciplinary curriculum, credit based flexible academic system, learning life skills beyond class rooms, are creating Career Point institution a centre of excellence and making our student globally fit for a better tomorrow. With these initiatives, we believe that in coming years, specifically in higher education space, we will be getting a very good response from student and the society at large.

Coming to tutorial business, in Q3 we have added 1705 new students with about 500 in class room operations and rest 1200 at distance learning programs. As you are all aware, that tutorial business has gone through a phase of uncertainty during the current academic session as there were no clarity on examination system and format at the time of enrollment. That has impacted enrollment for the current academic session and also that has put pressure on the revenue.

However now the uncertainties are almost over, examination system is clear, which is more or less in line with the old format. For the next academic session, we are observing good response of the students. In fact we have already started enrolling students for next academic session and expecting a good response compared to this year's reduced number and we believe we will not only be able to recover the enrollment which we have lost this year, but expecting a growth over that.

For the coming academic session, we are also excited with the newly launched residential coaching and school integrated campus at Kota. The core objective behind this transformational initiative is to change the traditional way of coaching to more interactive, stress free and to provide more conducive and secure environment to the students who are coming to Kota from distant locations, so that they can utilize their full potential while converting their efforts into success.

The campus is now ready with an initial enrollment capacity of 1500 students. The campus comprises of various facilities which is spread across about 20 acres of land with lush green gardens and greenery with residential, educational, recreational and emergency services. We believe this endeavor will show a sizable profit in tutorial service division next year.

Now I would request my colleague Mahesh for the financial updates. Over to you Mahesh.

**Mahesh Bhangriya**

Thank you Pramodji. Good morning, ladies and gentlemen. This is Mahesh Bhangriya – VP, Corporate Strategy and Investor Relations. I am pleased to share an overview of our financial results for the 3<sup>rd</sup> quarter and 9 months of current financial year.

As mentioned earlier in this call, in the 3<sup>rd</sup> quarter of the financial year, we have added about 1700 new enrollments in tutorial service division. Our enrollment tally of 24697 by end of December was 12% down y-o-y, mainly due to confusion of examination pattern for engineering entrances in beginning of this academic session.

The income from operations on stand-alone basis came at Rs. 18.83 crores in Q3 and Rs. 51.38 crores in 9 month of fiscal 12-13 with 11 to 12% y-o-y decline. The down side effect at revenue level in tutorial service division was neutralized to a major extent at consolidate level by increased contribution from former education division. The income from operation was down by just 2.7% at rupees 20.82 crores on console basis in Q3 FY13 as compared to same period last year.

The company has realized rupees 5.07 crores of income from leased rental subsidiaries CP Infra in first 9 months of this year including Rs.2 crore in the Q3. If you look at the consolidate numbers of total income including the other income, it has stood at Rs. 27.04 crores for Q3 and Rs.70.29 crore for 9 months with almost at similar numbers in same periods year before.

The company registered a growth at margin front. In the quarter, the EBIDTA for the company was increased by more than 5% y-o-y at consolidate level. EBIDTA margins were realized at 54% for Q3 and 45% for 9 months period with year-on-year improvement of about 300 and 200 basis points respectively.

Even the operating EBIDTA margin which is excluding the other income effect came at 41.5% in Q3 of FY13 which was up by 23 basis points over Q3 of FY12. It is mainly due to an improved efficiency in expenses related to study material and G&A expenses. We achieved a considerable decrease in cost related to rent and business promotion activities.

The net income for the company on console basis was up by 15% at Rs. 11.37 crores for the quarter and up by 18% with earning per share of Rs.12.3 for first 9 months of this fiscal year. As of 31<sup>st</sup> of December, the net worth of the company was Rs. 3.2 billion and the company was having approximately Rs. 80 crores of net cash and cash equivalents.

This is a brief update on company's quarterly financials. Now I would like to request Mr. Maheshwari to summarize the remarks.

**Pramod Maheshwari**

To conclude, I would say that this period has given us mixed results. The negative growth in enrollment in tutorial division continued the pressure on top-line, however the performance of formal education division was quite exciting, so despite having the first year of operation for our higher education institution we have achieved important milestone which are crucial to build a strong foundation for the company going forward.

At Career Point, we always aim to instill the right attitude, values and vision that will prepare the student for life time of continued learning and leadership in chosen career. With uncompromised standards of education and building a pyramid of strength, we are committed to repeat our leadership history in tutorial services to our Universities and School in formal education business operations.

I am sure the coming years will bring positive impact on the business. Now the floor is open for questions and answers.

- Moderator** Thank you Sir. The first question is from the line of Sri Hari Seshadri from Sundaram Mutual Fund. Please go ahead.
- Sri Hari Seshadri** Out of the 18 crore in the stand-alone, how much would be the contribution of the formal education?
- Pramod Maheshwari** Rs 23 Lakhs- we have booked in this quarter from the formal education services.
- Sri Hari Seshadri** Can you give it for the past 2 quarter sir, i.e. Q1 and Q2?
- Mahesh Bhangriya** In the beginning of the session which is in the 1<sup>st</sup> quarter, it was 40 lakhs. In 2<sup>nd</sup> quarter it was 37 lakhs and in 3<sup>rd</sup> quarter, the income from formal education services on a stand-alone basis was Rs. 23 lakhs.
- Sri Hari Seshadri** So what are the average enrollments? What is the number of students enrolled, so that we could get an idea of what is the average fee per student on the formal education?
- Pramod Maheshwari** The average enrolment across all these institutions is approximately 750 and the fee which we charge from institution is on account of the management services provided to these institution which is a percentage of the revenue which they realize from the students..
- Sri Hari Seshadri** In terms of per student realization, how much would we be getting? Because the number of students is lesser than that actual target I guess, about that we had at the beginning of the year and the realization also seems to be on the lower side than that you were telling say 80000 odd fees that would be charged earlier. So that's the reason, how much lower are we from that target?
- Mahesh Bhangriya** Actually, it also depends on the services we provide. In first semester, we provide admission related services which will not be the case in the second semester. Actually, There are various services like training, content publication, book resource management, computer education, examination etc which will be demanded by these institutions at different moment of time. We charge different rate for different services. On an average it would be about 15% of the annual fee realization - on blended basis. So it is more or less around the same range but may vary in quarters depending on the respective services offered.
- Pramod Maheshwari** Just to add to this, average realization per student is about 65000 per annum towards tuition fees of the university and approximately we get 15% of that towards the various services we provide

to the university which is around Rs 10000 per student for a year which we shall be booking in our books.

**Sri Hari Seshadri** So that we will be booking on 4 quarters or how would that be? It would be reflected in all the four quarters?

**Pramod Maheshwari** See as we provide services, we bill to the institution. Hence revenue booking is spread over all the 4 quarters.

**Sri Hari Seshadri** So also quarterly there is a cost difference happening because you will also provide different services, will I have quarterly variation in terms of the cost also?

**Pramod Maheshwari** This year specifically it is happening because as the first year of operations, it comprises of many onetime services and non-uniform admissions over the months. However going forward as the business will get shape and things will be established, there will be consistency in the revenue and cost over quarter on quarter.

**Sri Hari Seshadri** And how many students are we targeting next year; from 700 what is the growth that we can see for the next academic year? Do you have clarity as compared to previous quarter?

**Pramod Maheshwari** I will give the rough breakup for this year. In Kota University we had about 650 students, in Hamipur University we got about 100 students and Rajsamand Campus we had about 65 students, it comes altogether around 800. In Kota University, we are getting good response, we have already started selling application form and inviting applications for admission for next year and we are expecting that we will be able to enroll 1500 additional students comfortably in Kota University. Last year if you remember, we just got about a month's time to promote our programs as we received the final approval from the Government in the month of May and in the month of June beginning we had to do all the enrollments. At Hamirpur we are targeting about 500 plus additional enrollments. These enrollments will be in addition to what we are already having as on date.

**Sri Hari Seshadri** So it should be 650 + 1500? That's how I should take?

**Pramod Maheshwari** Yes, so total in Kota will become 2100.

**Sri Hari Seshadri** Have you seen the response, do you see that kind of response from the student crowd, with moving the right direction? Can you make a comparison compared to the last year?

**Pramod Maheshwari** It is really not possible at this moment to make any comparison because in January last year, we had no approval from the government, so we were not promoting our University programs that time.

However just to share with you, for this year, we have started selling application form and as on date we have already sold close to 350 application forms for Kota for Engineering program. So far students aiming for BBA and MBA have not started taking any initiative in respect to joining

any university or college. Once that also begins, and as time passes response will improve further. Hence we believe that we will be comfortable to achieve the number which I just shared with you.

**Sri Hari Seshadri** Coming to the infra, you had talked about 2 crores for this quarter as revenue. Would this be the going rate for the next 4 to 8 quarters?

**Pramod Maheshwari** It will improve further going forward because as and when infrastructure is getting completed, we are handing over it to the university or institution and then we start charging lease rentals.

**Sri Hari Seshadri** The CAPEX revenue of 2 crores at 15% rate, the CAPEX went to around 55-58 crore. Still the remaining 15 crore target we had earlier, so that CAPEX, is that happening or are we going in a slower pace?

**Pramod Maheshwari** See we planned more than 100 cr of CAPEX for university and other institutions. CAPEX is ongoing and some part of infrastructure under construction. Once these building get completed we will hand over these building and campuses to the University and institutions and revenue from CAPEX would improve..

**Sri Hari Seshadri** Is there a time frame that you could guide us?

**Pramod Maheshwari** There is large infra structure development is taking place, a part will be completed in the Q4 and handing over of another part will take place in Q1 and Q2 FY14.

**Moderator** The next question is from the line of Amrita Burde from Nirmal Bang. Please go ahead.

**Amrita Burde** I wanted to know the breakup of consolidated revenues that stand at 20.82 crores. Can I have the breakup between formal and tutorial?

**Mahesh Bhangriya** In consolidated revenue, there are mainly 3 components. The tutorial and formal service revenue comes in the stand-alone and lease rental revenue comes in Infra Company. From tutorial services, we had an income of rupees 17.8 crores. We charged a lease rental of rupees 2 crores in our subsidiary CP Infra. There was an income of about 23 lakhs from formal education division and rest about 80 lakhs of other income of franchise business and study material.

**Amrita Burde** Can I have the breakup of other income that stands at 6.23 crores?

**Mahesh Bhangriya** That's mainly dividend and interest income.

**Amrita Burde** Could you throw some light on integrated campus at Kota as in what phase is it in? And when will the facility be started to use?

**Pramod Maheshwari** This campus is almost complete. This campus is spread over 20 acres. It is a sort of boarding school and coaching campus. To understand, it comprises of hostels, coaching facilities, a K-12 School with recreation & other facilities. The total capacity of campus is 1500 students. We have

already started enrolling students for next academic session. Occupancy of this campus will start from April.

**Amrita Burde** What is the kind of revenue we are expecting?

**Pramod Maheshwari** There will be 3 types of activities which will take place in residential campus. One is admission in school and average fee realization per student will be close to Rs. 25000 per annum. Second is the coaching fee income, which will be close to rupees 40,000 on an average. Third revenue stream would be the hostel income that would be close to Rs. 70,000 per annum.

**Amrita Burde** What is the total CAPEX amount that you have used in building this integrated campus?

**Pramod Maheshwari** Total Rs. 45 crore of CAPEX we have incurred so far.

**Amrita Burde** Had this been used on internal accruals?

**Pramod Maheshwari** It was one of the objectives of our IPO. We used that money here.

**Moderator** The next question is from the line of Apurva Mehta from KSA Securities. Please go ahead.

**Apurva Mehta** I wanted to understand, what will be the role of formal education going forward to our revenue in 2014 and '15?

**Pramod Maheshwari** In our opinion, the formal education services business is one of the finest business in entire education services. Reason being, government has put in a lot of effort for primary and secondary education recently which results in large number of students graduating class 12, and looking forward for admission in higher education institution. So far only Government colleges and government institutions were addressing this need. But because of limited seats and other various non-performance issues related to the operation, students are exploring possibilities in private institutions. That has brought us an opportunity to venture into higher education space. If you look at various private universities, within 4 to 5 years of span, they are able to enroll somewhere from 10000 to 20,000 students depending upon the territory and the opportunity they were able to capture. As far as our strategy is concerned; we are targeting 7000 students' enrollment within 4 years of time frame in Kota University and similar enrollment in other campuses.

In addition to this, after 2 years from now, once we get that approval from Distance Council of Education, we will start distance education program as well. There we will be setting up our study centres across the nation and even overseas. So if you look at it from opportunity perspective, we believe this is a very exciting space and can impact the top-line and the bottom line of the company significantly in a very positive manner.

**Apurva Mehta** So the margins will be really good as we go forward when we had more enrollments, the margins will be better than the tutorials?

- Pramod Maheshwari** Similar to tutorials. But once you are able to achieve the scale, margins could be better than tutorials.
- Apurva Mehta** So now our focus will be more on formal education rather than going for tutorials. That we can understand going forward?
- Pramod Maheshwari** We are active in both Tutorial and formal education business. The tutorial business is CAPEX light and entry barriers are low, whereas the formal education is CAPEX heavy business. Strategically, we are transforming Career Point into a total learning solution providers from kindergarten to PhD along with tutorial service provider. We are trying to have a balance of both of ventures - tutorial as well as formal education which includes Universities, Colleges, and Schools.
- We are putting efforts to retain our leadership in tutorial business space and at the same time diversifying into the formal education, so that we can have a sustainable business unit along with high margin, low CAPEX business of tutorial services.
- Apurva Mehta** Are we willing to diversify into geographies? Because most of the universities are situated around Kota and Rajasthan and everywhere. So are we trying to come to South or West or East or something like that?
- Pramod Maheshwari** Currently we are having projects in Rajasthan, Himachal Pradesh and Punjab. For time being our focus is to make these institutions as the center of excellence. However if there is an opportunity which we believe fits in our strategy and give us an opportunity to reach out the students in a territory where we are not present as on date, we are open to explore.
- Apurva Mehta** And on the tutorial side business, I had some news article that next year we are targeting 25-30% rise, in enrollments and our fee will also – the base rate will increase by around 20-25%. So is it true?
- Pramod Maheshwari** We have already increased the fee for next year by approximately on an average by 7% in various courses which we have already finalized for the next academic session. And as in the current academic session we lost enrollments about 12%, so our first target is to recover the enrollment which we have lost. Also we believe that with the clarity on examination format, we will be able to grow over that as well.
- Apurva Mehta** So the 25% we can put it on?
- Pramod Maheshwari** Cumulatively, with enrollment recovery and growth, plus fee hike, we will be able to achieve this kind of growth.
- Apurva Mehta** Total Kota income will be how much? from this Kota University which we are starting with residential university, what will be the school income, because 25000 is the admission fees, 40000 is the tutorial, hostel you are charging 70000 , so the total income combined, what can we touch?

- Pramod Maheshwari** With the additional facility for tutorial in residential campus we are expecting revenue which is the cumulative of the school fee, hostel income and tuition fee. However, you mentioned about University, this year our Kota University top-line was about 4 crore, we are expecting that next year it will be approximately 12-14 crore..
- Apurva Mehta** So next year will be more exciting for you?
- Pramod Maheshwari** We are hopeful.
- Moderator** Thank you. We have our follow on question from the line of Sri Hari Seshadri from Sundaram Mutual Fund. Please go ahead.
- Sri Hari Seshadri** I have a question regarding the Kota Residential School, the 1500 that number of students for the hostel would be only in class 11 and 12. So basically it is a school only for class 11 and 12 or is it for.
- Pramod Maheshwari** Not really. We shall be having students for all classes starting from Nursery to class 12<sup>th</sup>. As this is being a residential campus, so we are giving admission to hostel to students of class 6<sup>th</sup> to 12<sup>th</sup> and 12<sup>th</sup> pass students.
- Sri Hari Seshadri** But student would study in the school only in class 11 and 12. That is the school in which.
- Pramod Maheshwari** Student can take admission in school in any class. However the residential and coaching facilities shall be provided to students of class 6<sup>th</sup> to 12<sup>th</sup> and 12<sup>th</sup> pass..
- Sri Hari Seshadri** So the number of students that we need to have that is 1500 is limited to class 6 to 12.
- Pramod Maheshwari** Let me do calculation for you. There will be 1500 students who shall be taking admission for tutorial to residential campus, and these students are from class 6 to class 12 or 12<sup>th</sup> pass. This 1500 will be availing the facility of the tutorial as well as residential. Conservatively we can assume that 50% of this will be taking admission in school as there will be student who is 12<sup>th</sup> pass as well, who will not be taking admission in school but will be staying in the residential campus and taking tutorial services.
- Sri Hari Seshadri** Again coming to the 23 lakh of formal education income, does it include the student currently enrolled in the schools, which means how many number of students are currently enrolled because there are 3 schools which are currently operational.
- Pramod Maheshwari** There are 3 schools. One is the Global Public School in Kota, which is operational and amount mentioned by you has contribution from this as well. Other 2 schools are essentially in zero academic sessions. These are residential school in Kota and another school in Jodhpur, both are operational but this year we are in the process of getting affiliation with CBSE.
- Sri Hari Seshadri** So basically we don't have income from these schools for this current year?

- Pramod Maheshwari** Yes.
- Moderator** The next question is from Gaurav Mehra who is an Individual Investor. Please go ahead.
- Gaurav Mehra** If you could just highlight, what the key difference are between your 3 models, the international school, the world school and your public school?
- Pramod Maheshwari** In International School we implement IB curriculum – International Baccalaureate Curriculum or IGSE. Whereas for the world school and public school we target the different market. The world school is affiliated to CBSE and Public school is either affiliated to CBSE or affiliated to state board depending upon its location. Public schools are entry level, mid-market schools, with focus is on quality academics. Whereas World schools are affiliated to CBSE and it is for upper-middle market where we focus on academics which are essential but also focus a lot on extracurricular activities. In International School, we follow IGSE or IB curriculum and that is high-end, either residential or residential cum day school.
- Gaurav Mehra** My Second question is on your residential K12 that you are planning in Abu. When do we expect this to be operational?
- Pramod Maheshwari** For time being, we have stopped the construction there because already we have 5 projects in hand, where we are incurring CAPEX, one is in Kota Residential School, which I just shared. Kota University is another project, Other projects include Hamirpur University, Jodhpur School and Rajsamand Technical campus. For the time being we have postponed that project. We will start operation of Abu School only after launching these 2 schools which are coming up in Kota and Jodhpur.
- Gaurav Mehra** If you have already got your fee structure in place for the standalone exam prep and combined for 12<sup>th</sup> standard for engineering entrance?
- Pramod Maheshwari** Combined means residential facility plus coaching facility?
- Gaurav Mehra** Yes.
- Pramod Maheshwari** We are not charging combined fees. We are offering 3 Services to a student, School, tutorial and residential and for all 3 we have separate fees structure. Even a student can take 2 services only, say the coaching plus residential. There is no benefit we are passing to student if he is taking all three services.
- Nikhil Vora** What is the total investments we have done in the formal education bit as of now and is the peak investments we will end up doing?
- Mahesh Bhangriya** We have invested about 100 crores in formal education projects and for the next couple of years, in existing projects, we are expecting about rupees 70-80 crores of further capex.
- Nikhil Vora** So total around 170 crores in formal education?

- Mahesh Bhangriya** Yeah.
- Nikhil Vora** And in how many years do you expect to sort to make decent return on capital on that?
- Pramod Maheshwari** If you look at Kota University, just case an example, so far we have invested about Rs. 40 crore. This year the revenue of Kota University was rupees 4 crores and I am expecting next year it will be close to 12 -14 crores with approximately 50% margin. So we believe within 3 to 4 years, we will start getting decent return on the investment.
- Nikhil Vora** And in each of the formal education piece, your sense is that it should take 3 years to stabilize and get to an additional level of inflows from students?
- Pramod Maheshwari** With the current status of Kota University and Hamirpur University, I believe within 3 year we will start getting decent returns and in Rajsamand campus, it may take 4 years.
- Nikhil Vora** So what will be the peak revenue that you can hit in this entire formal education piece, including the Residential, K-12 and Global Public School as in when that gets operational?
- Pramod Maheshwari** Even If I only consider Kota University, Hamirpur University and the residential facility, with these 3, within 4 years from now, we are expecting close to Rs 100 crore of revenue.
- Gaurav Mehra** That could mean 40 crores of EBITDA?
- Pramod Maheshwari** Yes.
- Nikhil Vora** In case you want to make any closing remarks.
- Pramod Maheshwari** Thank you very much for attending our conference call. In case of any query, please feel free to call or mail us. We will revert to you as soon as possible. Thank you.
- Moderator** Thank you. Ladies and gentleman, on behalf of IDFC Securities Ltd, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.