



“Career Point Q2 FY13 Earnings Conference Call”

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MODERATOR: MS. SWATI NANGALIA – ANALYST, IDFC SECURITIES LTD.

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY13 Earnings Conference Call of Career Point hosted by IDFC Securities Ltd. As a reminder, all participants' 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 this conference call, please signal an operator by pressing '*' followed by '0' on your touchtone phone. At this time I would like to hand over the conference to Ms. Swati Nangalia from IDFC Securities. Thank you. And over to you ma'am.

Swati Nangalia: Thanks, Shyma. Good morning and welcome to the Q2 FY13 earnings call for Career Point Ltd. Today we have with us representing the management team, Mr. Pramod Maheshwari – the Chairman and Managing Director; and Mr. Mahesh Bhangriya – Vice President, Corporate Strategy. I will now hand over the call to Pramod ji for making the opening remarks.

Pramod Maheshwari: Thank you Swati. Good morning, ladies and gentlemen. This is Pramod Maheshwari, Managing Director and CEO for Career Point Ltd. Thank you all for joining our investor conference call. With me on the other line from Kota, I have my colleague Mr. Mahesh Bhangriya - Vice President, Corporate Strategy and Investor Relations. I believe most of you have received the copy of earning updates on your e-mail. It is also available on our investor relation section on our website at www.cpil.in.

To begin with, first I will give you an update on our business which will be followed by a financial overview of second quarter and first half of fiscal 2012-13.

I would like to start with update on Tutorial business. As you all aware that till Q1FY13 there were a lot of confusion on examination pattern. And after an overhang of confusion on examination pattern followed by clarity in the end of month of June this year, we are now pleasantly observing a reasonable good performance on enrollment fronts. The negative difference of our last year's enrollment number has been squeezed by end of first half compared to the first quarter of this year.

In the second quarter we have also extended our network by adding a branch in Patna in Bihar and also a franchisee center in Gorakhpur in U.P., which shall be operational by next academic session. Few more franchisees and branches are in pipeline.

Here I would also like to briefly share you an update on our Residential Coaching Campus at Kota. As you are aware that we are setting up a residential integrated campus for 1500 students where we will be providing coaching services as well as schooling to the students. The campus is now ready with the residential school and coaching facilities, and students of the next academic session will be founding recipients of this enterprising solution.

We have added, as I said, capacity of 1500 students in this campus and will start enrolling students from this year Q4FY13 onwards. Here, the students will not only be getting coaching services but also getting schooling as an integrated program.

In addition to this, we have online ventures like 'CP Live' where we provide Online interactive tutorial services at multiple centers, ecareerpoint.com for Online Test Series, iExam are also increasing their contribution with minimal additional expenditures. Just to share with you, we are in process of launching a new service that would be sort of 'Video Lectures On-Demand Over Internet,' which we are planning to launch in December this year.

Coming to the Formal Education, we are pretty excited with the successful launch of our university project. The overall response has been quite excellent. In fact we had to announce the closure of new admissions in Career Point University at Kota. Reiterating the fact that we want to maintain our DNA of excellence in all systems and methodologies. As of today, we have a total number of enrollments of 610 plus students in our University at Kota. Enrollments are further increasing with the result of new courses launch. Recently, we announced the commencement of Ph.D. program as well.

We are also happy with the performance on operational front. Various academic and non-academic processes such as classroom activities, seminars, cultural events, hostel activities, departmental functions, all are in place at our Formal Education institutions. The successful launch and smooth functioning in first year of operations have been quite stimulating for us.

In addition to our higher education project, we have seen a good progress in setting up a chain of schools, leveraging our brand and expertise in the sector. As you all aware that we are setting up our own schools, we have already started two schools this year; one in Kota, second in Jodhpur. We have now adopted asset light model for schools also with the mix of franchising and management model. In this process the company has three brands under school division; one is Career Point International School, second in Career Point World School and the last one is Career Point Public School.

Just to share with you recently we have signed franchisee and management agreements with two schools and two more school projects are in pipeline. Out of these two agreements which I just shared, one is signed for the franchise of Career Point World School at Bilaspur in Chhattisgarh. The other agreement which we have signed recently is Management Service Contract by Career Point School division at Tonk - that is in Rajasthan. These all developments are part of an aggressive growth plan for this division to expand its presence throughout the country.

The update also signifies that Career Point identity has integrated solution provider across the education value chain and we believe that with aggressive growth plan in higher education and school division, coupled with Tutorial business is contributing to top line as well as the bottom line. This is all brief about our business update. Now, I would request Mr. Mahesh to give you the financial update. Over to you Mahesh.

Mahesh Bhangriya:

Thank you Pramod ji. 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 first half of current year.

As we mentioned earlier in this call, by end of first half of the financial year, we could reduce the negative difference over last year's enrollment numbers in Tutorial services division as compared to end of first quarter of the year. Our enrollments of about 24,000 by end of September this year are 12% down year-on-year against 17% down by end of June this year. Furthermore, the downside effect at revenue level was also neutralized to a certain extent by improved realization in fee per student and revenue increase from Formal Education division.

The income from operations was down by just 2.5% at Rs.35.63 crores on consolidated basis in the first half of FY 13 as compared to same period last year. The company has realized Rs. 3.08 crores of income from lease rentals at wholly owned subsidiary CP Infra in first half of this year including Rs.1.66 crores in the second quarter. If you look at the consolidated numbers of total income including the other income, it has stood at Rs.24.78 crores for second quarter and Rs. 43.24 crores for whole first half with 1.1% and 1.5% year-on-year growth, respectively.

One of the key highlight of the period was margin improvement. In the quarter, EBITDA for the company was increased by more than 10% year-on-year at Rs.11.97 crores with margin improvement of 400 basis points. Though, on standalone numbers the EBITDA came at Rs.8.14 crores with EBITDA margin of 38.9% which is down by about 8 percentage point over Q2 FY 12; however, the margin was improved by about 21 percentage point over first quarter of this year on a standalone basis.

We are quite happy that in the event of a temporary pressure on top line, we were still able to improve the profitability by reducing the controllable cost. As, a decline in G&A expenses was the key factor behind the improved efficiency in business operations. The G&A expenses were reduced by 28% in second quarter and more than 10% in first half of this year against their respective same period last year.

The net income for the company on consol basis was up by 36% at Rs.7.79 crores for the quarter and up by 20.5% - with earnings per share of Rs.6 - for the first half of this fiscal year. As on 30th of September, the net worth of the company was more than Rs.3 billion and the company was having more than Rs.100 crores of cash and cash equivalents. Now, I would like to request Mr. Maheshwari to summarize the updates. Over to you.

Pramod Maheshwari:

Thank you, Mahesh. In conclusion, this quarter has given us many positive things, starting from clarity on examination pattern, improved enrollments, the successful launch of our university projects, the quality of improvement in business margins, expansion of Career Point franchisee, etc. If you look at the product portfolio, Now Career Point is a complete education company, catering the complete life cycle of students starting from Kindergarten to Ph.D.

We are already a leader in Tutorial space and running operations through nationwide extensive network of company operated branches, franchisee centers, technology-enabled live classroom, online courses, school integrated program and distance learning program. With this, the

company now has also strong presence in Formal Education stream by offering various services to K12 schools, colleges, universities in multiple geographies.

With all this we are working to strengthening ourselves by boarding our product portfolio, leveraging the fast and cost effective technology solutions and increasing geographical presence through organic as well as inorganic growth to accelerate the growth path and to become global leader in education. Now, the floor is open for question and answers.

Moderator: Thank you sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Praniti Modi from SKS Capital, please go ahead.

Praniti Modi: Actually, I just missed out on the enrollment numbers. Could you please guide me with that?

Mahesh Bhangriya Close to 24,000 by the end of September, which is also mentioned in the investor presentation.

Praniti Modi: Sir this is the first half number right?

Mahesh Bhangriya Correct.

Praniti Modi: And sir the quarterly numbers year-on-year?

Mahesh Bhangriya This enrollment number which we have mentioned is by end of the first-half. Hence, the second quarter number would be the difference from first quarter number which is reported during Q1 results.

Pramod Maheshwari In first quarter we had total of 15,262 enrollments.

Praniti Modi: And sir could you just guide us with the number of enrollments that you are targeting through the year?

Pramod Maheshwari: The academic session has already begun. Most of the enrollments take place in first and second quarter. For remaining quarter Q3 and Q4, only for the short-term courses enrollments would take place which should be somewhere close to 1000 for the current academic and financial year.

Praniti Modi: And could you just guide us with the franchisee model? What is the pay out that you receive from the franchisees and any new franchisee that you are coming up with all the expansion plans and any new university or city expansion that you are looking at?

Pramod Maheshwari: **First let me** give you a brief about the franchisee business model. In this we charge two types of royalty from our franchisee. One is called 'Brand License Fee' which ranges from rupees 20 lakhs to 30 lakhs for three years, non refundable, and we accrue the same over the three years. Apart from this we also charge ongoing support royalty which is 20% of the gross collection by the franchisee. Currently, we have 13 franchisee centers and we are in process of appointing more franchisees which will be operational by next financial and academic year.

Praniti Modi: And any new cities that you're planning to expand like, you just like in one Tier II cities, and no Tier I city expansion that you are looking at?

Pramod Maheshwari: Our focus has always been the places where we believe that most of the students are moving to take this kind of education from neighboring towns. Based on our experience, We found that many students from smaller towns do not move to metros, because the cost of living is too high. So instead of selecting metros as a preferred location to set up our branch, we go to mini metros kind of location like Patna, Jaipur and similar cities. As mentioned earlier in the call, we already have set up our branch in Patna, which will be operational by January next year, and we will start enrolling students for next financial and academic year.

Moderator: Thank you. We have the next question from the line of Anuj Momaya from Value Quest, please go ahead.

Anuj Momaya: What has been the impact in enrollments due to this change in IIT Entrance in the Kota region?

Pramod Maheshwari: There was a pressure on enrollment because the ambiguity over proposed change in IIT-JEE pattern has created a lot of confusion this year, specifically starting from month of January till June. Hence there was almost 15% drop in enrollment in IIT-JEE courses, but now situation has improved a lot. If you look at Q1 numbers the pressure on enrollment was too high, about 20%, now the drop in enrollment has decreased to 12 to 15% at the end of Q2. We are observing that situation is rapidly becoming favorable to the institutions of Kota as cloud is clear regarding the examinations pattern. I believe next year there will not be any impact. In fact, everything will get recovered.

Anuj Momaya: So are you going to offer 12th Coaching also?

Pramod Maheshwari: Yes in fact even today, as a part of our program we do prepare our students for their board examination. As I shared with you earlier in this call that we have already set up a Residential School-Cum-Coaching facility in Kota which is spread over almost 20 acres. You can consider it as a boarding coaching taking care of board and competitive examination preparation. Just to share with you, perhaps we are the first Institute of Northern India which has come up with this kind of facility, where students will be residing in the campus, taking schooling as well as coaching facilities.

We have created this facility for 1500 students to start with, with the possibility to expand to go up to 3,000. In addition to this, as a regular program where we are not providing residential facility, we also prepare students for their board examination. From next year onwards we will be taking board preparation as separate products also.

Anuj Momaya: So will that be a separate 12th and IIT or it will be a combination?

Pramod Maheshwari: There will be two kinds of program; one is obviously integrated program where student will be prepared for 12th and IIT both combined and there will be standalone program which will be

separately for IIT & 12th. See, we get three types of students - class 11th, class 12th and 12th pass. Class 11th and 12th students have to go for regular schooling and, have to prepare for board, so for them our courses will be a kind of integrated program along with 11th and 12th. But 12th pass students, few might try to improve their 12th performance and few may not. That depends upon their past performance in board. Hence for such students, we will be having a separate product which we will be preparing them for 12th only and there will be a separate product for IIT-JEE and AIEEE that is JEE MAIN and JEE ADVANCED.

- Anuj Momaya:** What will be the fees for standalone program and this combo programs?
- Pramod Maheshwari:** That we have not decided, we are in the process of finalizing the same. However, it would be close to rupees 20,000.
- Anuj Momaya:** Close to 20,000 for the combo?
- Pramod Maheshwari:** Not for combo.
- Anuj Momaya:** For standalone 12th?
- Pramod Maheshwari:** **Yes,** And the combo course which is already present, the price is close to rupees 60,000 to 70,000 for a year depending upon in which program students are taking admission.
- Moderator:** We have the next question from the line of Grishma Shah from Envision Capital, please go ahead.
- Grishma Shah:** Sir just wanted to know a couple of things. This G&A expense that we introduced, is just like a one-off or is it a sustainable trend, what have we done there?
- Pramod Maheshwari:** There are two things which we have done to control G&A. One is controlling the advertisement expenses. as amid all uncertainty of examination pattern, we realize that there is a lot of confusion, there is no point of promoting courses aggressively. Also we had a control over other expenses. Mahesh, can you add something more to it?
- Mahesh Bhangriya:** Yes. There was a reduction in rental expenses also. Because of the some better rates we have got for our centers at different locations.
- Grishma Shah:** Okay, but next year what is therefore now the target in terms of enrollments now, since the entire confusion etc. is cleared, what is it that we are targeting?
- Pramod Maheshwari:** From the current enrollment number we are expecting almost 20 to 25% jump. We will recover what we have lost this year plus minimum 10% of jump in the enrollment.
- Grishma Shah:** Average fees would that also change given that you also have the residential students enrolling for 12th plus IIT and that 12th course etc. so would the fees go up a little bit?

- Pramod Maheshwari:** We will be charging separate fees for residential facility and courses. For courses, the fee would increase by 12% to 15%. Though, we are currently in the process of finalizing fee for next academic session. In addition to this we will be getting hostel fee from the residential facility and also enrollment fee for school. We will be charging about Rs.70,000 per annum for one student as hostel fee in addition to the course fee plus there would be about 30,000 school fees. So net-net it would be close to Rs.1.6 lakh per annum for a student for the entire package.
- Grishma Shah:** But part of it will be booked in your subsidiaries, part of it will be booked...
- Pramod Maheshwari:** No, the residential facility which we have set up is a part of the parent company. So all the revenue will come to the parent company.
- Grishma Shah:** So the entire 1.6?
- Pramod Maheshwari:** Correct. Out of these 1.6 lacs, approximately 1.3 lacs will directly come to the company. Rs 30,000 which students will pay will go to schools, from which we will charge appropriate management fees.
- Grishma Shah:** And sir how many enrollments do we have currently for the residential campus?
- Pramod Maheshwari:** We are not running residential campus this year. We are targeting enrollment next year. However, we have close to 13,000 students enrollment in Kota and out of these 13,000 students approximately 75% students are outsiders, who are staying in private hostels or the hostels which are associated with us, which are not being managed by us, but are associated with us.
- Grishma Shah:** And what is the progress now on various universities? We realize that we have got the lease rental income from one of them in?
- Pramod Maheshwari:** We got the lease rental from the entire infrastructure which we have developed and hand over to the to universities and colleges. And we started charging rental income on quarter-on-quarter basis of infrastructure which has been handover.
- Grishma Shah:** Yes but where are we booking?
- Mahesh Bhangriya** and operating income. We are booking in CP Infra , which is wholly owned subsidiary of Career Point Ltd., in sales
- Grishma Shah:** So if I look at your standalone and consolidated, the difference should I look only from income from operations or how do I look actually?
- Mahesh Bhangriya** Income from operations.
- Grishma Shah:** Income from directly in the sense?

- Mahesh Bhangriya** Right.
- Grishma Shah:** And the tax rate would be?
- Pramod Maheshwari:** full tax.
- Moderator:** Thank you. We have the next question from the line of Amrita Borde from Nirmal Bang Securities, please go ahead.
- Amrita Borde:** Could I have the breakup of other income in this quarter and the previous quarter as well?
- Pramod Maheshwari:** Other income is on account of dividend interest received on the cash lying with the company. this year the other income in Q2 was 2.72 crores on standalone basis and for the previous quarter Q1 it was about 2.00 crores.
- Amrita Borde:** Can I have the breakup of the consolidated other income which stands at around 4.91 crores?
- Mahesh Bhangriya:** We have about 1.74 crores of dividends, 1.45 crores of interest, and then we have the profits on sale of fixed asset and shares of rupees 1.46 crores in other income for 1HFY13.
- Amrita Borde:** And can I have the breakup of revenues between Tutorial and Formal Education?
- Mahesh Bhangriya:** In the Formal Education this quarter, as we have mentioned that lease rental is about 3 crores and about rupees 37 lakhs we have booked as the management fees. The rest is Tutorial income.
- Amrita Borde:** And the residential coaching campus center, I mean it will start by end of FY 13 I suppose. So what are the kinds of revenues that you will be expecting in FY 14 a ballpark figure?
- Pramod Maheshwari:** There is a capacity of 1500 students, on an average we will be able to realize close to 1.5 lakhs per students, so revenue of about 25 crores.
- Amrita Borde:** Okay. And sir we recently started Ph.D. program I believe. Have we started getting enrollments or...?
- Pramod Maheshwari:** We have already conducted entrance test for Ph.D. program. and have selected about 20 candidates for Ph.D. and they have started research in our campuses.
- Moderator:** We have the next question from the line of Shrihari Seshadri from Sundaram Mutual Fund, please go ahead.
- Shrihari Seshadri:** My first question would be on the Infra income of about 1.6 that you have mentioned. That works out to CAPEX or I mean about 45 crores?

- Pramod Maheshwari:** Let me just explain you how exactly projects are progressing in infra. See university, college and school infra development is ongoing process and as and when the infrastructure get finished, the facility is being handover to the university or to other respective institutions. Only on that part of CAPEX, the infra company charge lease rental. So far, about 45 crores of CAPEX has already been capitalized and rest is in capital work on progress. On capitalized infrastructure, we have charged rental and for a quarter it comes out close to rupees 1.5 crore.
- Shrihari Seshadri:** So when can we see the full benefits? I think you have spent about 80-90 crores.
- Pramod Maheshwari:** A couple of projects and buildings are under finishing and as and when they are getting finished we are transferring it to institution. So by second quarter FY14, you can expect all will be capitalized.
- Shrihari Seshadri:** The 1.5 lakh per annum residential program. Could you give a split between the curriculum I mean the coaching fees as well as the hostel fee?
- Pramod Maheshwari:** **About Rupees** 70,000 will be the hostel fees, approximately 60,000 to 70,000 would be coaching fees and about 30,000 towards school fees
- Shrihari Seshadri:** So we should be expecting this 1500 number from next year, FY 14 numbers?
- Pramod Maheshwari:** Yes.
- Moderator:** We have the next question from the line of Aditya Gupta from Aquarius, please go ahead.
- Aditya Gupta:** Just wanted to check of your Formal Education business. If you could just give what's the current progress like, how many K-12 schools or higher education universities are operational and obviously what's the outlook for the next couple of years on that front?
- Pramod Maheshwari:** We have three schools operational as on date. One school has been operational for almost last 10 years, the remaining two schools just commences their operation this year. Two schools are in Kota, one already operational, second one just started. Another school is in Jodhpur. Apart from these three schools, we have one more school where we are managing the operations and providing our management services, that is in Tonk. So these are the four schools operational effectively.
- In higher education, we have two universities; one in Kota and other one in Himachal Pradesh at Hamirpur. Both universities are operational. One engineering college in Rajsamand is also operational. Hence these are three projects in higher education which are operational. As far as future outlook on these projects is concerned, we are quite excited and positive by seeing the kind of attraction among students to join our programs. We believe in university space next year including Kota and Hamirpur, we will be able to add close to 2500 students; 2000 approximate in Kota and 500 students in Hamirpur.

In school operations, one school is a part of residential campus, where we don't see any kind of pressure in respect to enrollment. Because the enrollment will be given to the students who are coming to us for coaching programs. Second school in Jodhpur, which is growing and we are expecting close to 400 enrollments in Jodhpur.

Apart from these schools and universities and colleges, we are in process of appointing school franchisees. As I said in the beginning, we have already appointed one franchisee in Bilaspur, this school will be operational in FY 14-15 and a couple of schools for which we already procured the land. Construction process is yet to be started. We are quite positive with growth in Formal Education. In my opinion with a bit of gestation initially, this vertical is going to give annuity to the business with high margins.

Aditya Gupta: Sir what's the gestation period like and what's our average CAPEX per university in this model?

Pramod Maheshwari: It all depends how big university you are setting up. On an average, over the period of four years, for a reasonable good infra the CAPEX is about 80 crores to 120 crores, depending upon the quality of construction and the facility you create there. There is no operation gestation, but if you look at from the cost of capital perspective, then there is a bit pressure initially because you have to construct facility for at least 2500 students to 3000 students to start with and Initially you don't get that kind of enrollments.. That put a bit pressure initially, but on operating level, even with 300 students enrollment, you reach to operating break even.

Aditya Gupta: So just on your Tutorial business, just had a basic question, just wanted to understand how different is the economics on the franchisee model versus your own model, just wanted to understand that?

Pramod Maheshwari: In franchisee model, our role is limited. We provide faculty members which we select, but they are on the payroll of the franchisee. Our role is also to provide study material and know-how to run the business. Essentially, our cost is very little. Hence 20% which we receive from the franchisee, almost 95% of that directly go to bottom line. Whereas in our business when we run our own centers, all the costs are incurred by the company and in that case EBITDA margin is in between 30% to 40% of the revenue.

Aditya Gupta: Just one final question, on your thoughts on the longer-term vision for the business, are we open probably few years down the line in terms of consolidation, say join hands with the larger education player in order to scale up our business going forward, are we open to those thoughts?

Pramod Maheshwari: We are flexible company. Wherever we see, there is a value creation for all stakeholders, we are ready to explore possibilities. In fact, we firmly believe consolidation will definitely come in place after two to three years from now in education space. Either smaller players need to get consolidated with us or we need to get merged with larger players. .

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the floor back to Ms. Swati Nangalia for closing comments. Over to you ma'am.

Swati Nangalia: Thanks, Shyma, I would like to thank the management team of Career Point for removing time for this call. Also thanks to all the participants for joining in today. Pramod ji, would you like to make any closing comments?

Pramod Maheshwari: Thank you all for participating in conference call. In case you have any queries, please feel free to mail us., We will definitely revert back as soon as possible.

Moderator: Thank you sir. Ladies and gentlemen, on the behalf of IDFC Securities Ltd. that concludes the conference call. Thank you for joining us, you may now disconnect your lines.