



“Career Point Limited 2QFY14 Earning Conference Call”

November 18, 2013



ANALYST: Ms. SWATI NANGALIA

MANAGEMENT: MR. PRAMOD MAHESHWARI, CMD & CEO

MR. MAHESH BHANGRIYA, VP – CORPORATE STRATEGY

Moderator: Ladies and gentlemen good day and welcome to the Q2 FY 2014 earning conference call of Career Point, hosted by IDFC Securities Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Swati Nangalia. Thank you and over to you Madam!

Swati Nangalia: Thanks. I would like to welcome you all to the Q2 FY 2014 earnings conference call for Career Point Limited. 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 over the call to Pramodji for making the opening remarks and giving us an outlook on the business post which we can move on to the Q&A. Over to you Pramodji!

Pramod Maheshwari: Thank you Swati. Good morning ladies and gentlemen. This is Pramod Maheshwari, Managing Director of Career Point Limited. Thank you all for joining our investor conference call. With me I have my colleague Mr. Mahesh Bhangariya – Vice President, Corporate Strategy and Investor Relations. I believe that most of you have received the copy of our earning updates on your email. This update is also available in our investor relation section on our website at www.cpil.in.

To begin with, I will give you an update on our business, which will be followed by financial overview for the second quarter and first half of the fiscal year 2013-14. I would first start with the update in Tutorial Services Division, in which we have enrolled more than 6500 new enrollments in the second quarter of the current academic session.

As explained in our previous earning call, the changes in selection criteria in engineering entrance examination, which use controversial normalization formula last year surprised everyone, and students and parents reacted negatively to the same, which impacted the enrolment this year and affected the Tutorial Division financials performance compared to the last year. However, now the things are settling down. The students are gradually adjusting themselves with the new system, and which in my opinion, the new systems has increased need for the quality Tutorial Services.

We expect next year our Tutorial Division will recover the enrolment loss due to improved market conditions and also due to the new initiatives such as residential coaching and school integrated program, which now have visible and sustainable business prospects. Just to give an update, this year we started residential cum school campus in Kota, which got fantastic response though the market sentiments were not positive.

I consider this year as a transition phase. We have actually moved Tutorial Division business mix to more long-term and relatively less susceptible to any regulatory challenges. 700+ fresh admissions in very first year of operation of our residential coaching cum school campus that is

CP Gurukul is a remarkable achievement by the Tutorial Division. We are observing strong demand for this concept and next year taking the total capacity of this campus to 1500 students and we are also planning to launch day-boarding at the same campus.

For the next academic session we have aggressively started reaching out to the large number of students across the nation through the launch of CP Star, which is a scholarship test for admission and rewards. Under this initiative, we announced scholarship worth more than Rs.37 Crores and cash prize of Rs.73 lakhs for meritorious students seeking admissions at Career Point. The details of CP Star are available at website of our Tutorial Division that is www.careerpoint.ac.in.

The student response to the CP Star is quite phenomenal. Due to strategic reason, I cannot reveal much of the detail and statistics related with CP Star at this juncture, but we are very excited with the student attrition and confident of achieving very positive results out of it. Last month we had also launched Tutorial Services for GATE that is Graduate Aptitude Test in Engineering, which is being conducted to give admission for M-Tech program in IIT and also it is screening criteria for seeking job in many public sector units.

We had launched this division with current focus on four engineering branches, which contributes more than 80% of the total GATE segment and these branches are Electronics and Communication, Computer Science and Information Technology, Mechanical Engineering and fourth one is Electrical. We believe that this GATE division going forward will attract large number of students. As just to share the data, last year more than 12 lakh students across nation appeared for GATE examination. So this is about Tutorial.

Now I will move to the Formal Education. The Company has started reaping the benefits of its investment in this division. After all the regulatory approvals and successful launch, all our formal education institutions have started creating a benchmark in their respective segments. Just for the sake of our new investors, I would point out that presently we are running two universities, one at Kota in Rajasthan and second is at Hamirpur in Himachal Pradesh along with an engineering college in Rajsamand, which is near Udaipur in Rajasthan.

In all, within two years of operations of these institutions, in fact one and a half year of operation of this institution, we have enrolled more than 1800 students in various three to four year programs. We also operate three co-educational CBSE affiliated K-12 Schools, out of these two are launched this year and eight crossed more than 200 new enrollments in the first year of its operation. The performance at higher education space has also been quite impressive with close to 1000 new enrollments and higher education institution this year. We are getting more courses and other offering to give existing institutions.

We are quite happy that the segment is delivering results as per the strategic outlook and provide long-term sustainable growth to the company. Just to remind you that our company charges a fee from these institutions for various auxillary education services in this segment and also charge a lease rental on infrastructure related to services which are operated through our wholly-owned

subsidiary - Career Point Infra Limited. Therefore the contribution of formal education in performance should be seen at consol level.

So this is brief update on the business. Now I would request my colleague Mr. Mahesh to give you update on financials. Over to you Mahesh!

Mahesh Bhangariya:

Thank you. Good morning, ladies and gentlemen. I am pleased to share our overview of our financial results for second quarter and first half of fiscal 2013-14. In this quarter, we added 6509 new enrollments in Tutorial Services Division, which resulted a total of 15,740 enrollments by end of first half of current financial year.

As explained earlier Tutorial Services Division which is impacted by lower number of enrollments and affected Company's financial performance this period compared to last year; however, our performance at Formal Education Division and subsidiary operations was quite impressive and providing a more sustainable business with a visible outlook for the coming years.

The total income from operations on standalone basis came at Rs.14.12 Crores in the quarter with year-on-year decline of about 22%. At consolidated level the downside effect of revenue decline in Tutorial Division was neutralized to some extent by increased contribution from formal education division.

The income from operations was Rs.16.96 Crores in 2Q FY 2014 and Rs.32.1 Crores in the first half with a decline of about 10% as compared to first half of the previous year. The company has realized Rs.5 Crores of income from lease rentals at wholly-owned subsidiary, Career Point Infra Limited, which had Rs.98.8 Crores of fixed assets by end of the period under review.

If you look at the total income, which is including other income on consol basis, stood at Rs.20.25 Crores for the quarter and Rs.37.9 Crores for the first half, which is about 12% lower than the same period of last financial year. The Company reported operating EBITDA of Rs.1.55 Crores at standalone level and Rs.5.43 Crores on consolidated basis for the first half of this fiscal. This resulted an operating EBITDA margin of 17% about ten percentage points lower on year-on-year basis primarily due to decline in top-line at Tutorial Division.

EBITDA including other income on consolidated basis was reported at Rs.11.24 Crores with the margin of 29.6%. As mentioned in the earlier calls, the company has opted leveraging to have an efficient use of available funds, hence the profit before tax was further declined against comparable period last year due to increased finance charges. The net income for the quarter and first half was Rs.1.86 Crores and Rs.3.5 Crores respectively represented a margin of 9.2% at consolidated basis.

As on September 30, 2013 the networth of the Company was Rs.3.21 billion and the Company was having Rs.51 Crores of net cash and cash equivalence, which is after removing the bank borrowings. Now I would like to request Mr. Maheshwari to summarize the update.

Pramod Maheshwari: Thank you Mahesh. This year market dynamics was challenging with regulatory hurdles and uncertainty in students at Tutorial Division; however, we remain focused on sustainability of our operation with right business mix and are committed to further improve quality of academic deliverables while maintaining the cost efficiencies. In conclusion, I would say considering the fact that our large investment in Formal Education Division, we have transformed ourselves into a unique full-fledged education company. The investment that we have made in the last two to three years has already started paying us and I believe will pay off much higher in coming years on a sustainable basis.

Now the floor is open for question and answer.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Apurva Mehta from KSA Shares and Securities. Please go ahead.

Apurva Mehta: Thanks Sir for giving me opportunity to ask questions. Sir, in this Q2 our employee cost has gone up from 7.5 Crores to 9.2 Crores. So any particular reason for that?

Pramod Maheshwari: It is because we have added one Residential campus in Kota, which is a new campus which started operating full-fledged from second quarter onwards. So the employees cost at new campus plus a bit of increase in salary of the existing faculty members resulted an increase.

Apurva Mehta: Going forward in second half, are we seeing any improvement in margins because first half is normally where you have most of the expenses. So what is your outlook for the second half?

Pramod Maheshwari: From topline perspective, we would not be able to recover the enrolment loss or the revenue we have made this year. However, as you rightly said, majority of cost in respect to business promotions and other aspects has been incurred in first and second quarter, so third and fourth quarter will be relatively improved much better than first and second.

Apurva Mehta: On the Capex front, what is your plan for next year? Any plan for next year or we have done with Capex, most of the Capex is over?

Mahesh Bhangriya: There are two kinds of capital expenditure we are incurring. One is in Tutorial Business and second is in the Formal Education that we do through our wholly-owned subsidiary. In Tutorial business there is no significant Capex for the next year, because the residential campus is up and ready for almost 1000 students, the facilities are already completed and remaining 500 students' capacity is being finished, so not much Capex is involved.

However, in Formal Education, we have to start Capex almost 18 months in advance because construction process takes its own time. So in case of University in Kota, and other institutions in Hamirpur or Rajsamand, we envisage Capex close to 20 Crores in the next one year. This will be over the period of next one and a half years.

Apurva Mehta: So 20 Crores for the next one and a half years?

- Pramod Maheshwari:** Correct.
- Apurva Mehta:** That is all from internal accrual because we are having cash?
- Pramod Maheshwari:** Internal accruals and that is for the current projects in hand.
- Apurva Mehta:** So, any new proposals which we are envisaging because it is a process, which takes around 18 months to two years time. So, are we seeing any new commencement of new projects or we are in plan out of any new university or anywhere we are planning?
- Pramod Maheshwari:** Two residential campuses projects are in hand. Though we would start capital expenditure only after first quarter of FY 2015 and out of these two projects, one is in Jaipur and the second is in Abu.
- Apurva Mehta:** That is the school residential, school cum residential will be there?
- Pramod Maheshwari:** Correct.
- Apurva Mehta:** For next year what will be the contribution from Formal Education, if everything goes well in what you are expecting? So, your income from this Formal Education will be contributing how much?
- Mahesh Bhangriya:** At present, we have got the contribution of about 20% of total income from the Formal Education Division. We think that it will be close to 30% next year, coming from the lease rental and increased fee of management services.
- Apurva Mehta:** What was the management services fee per student? The contribution is per student on the fee based or how is it? Sir, wanted to know about this management fees? Is this per student?
- Pramod Maheshwari:** Yes, it is per student. We take around 15% of the fee charged from the student by the universities towards the management fees.
- Apurva Mehta:** That is supposed to be fixed or it can be negotiated going forward if the universities make large profits going forward in the next one to two years. So, are we willing to how it works? I do not know because if the universities start making huge profit after a breakeven, so are we going to increase this management fees or will it be kept at 15% only?
- Mahesh Bhangriya:** It can be negotiated. It depends on the services which we offer. Initially the admission process is the key focus but as the institution move forward there would be more requirements of other services such as training & development, examination and course content. So, yes it can be negotiated and can be increased as per the services offered by the company.
- Apurva Mehta:** Wish you all the best for the future.

- Moderator:** Thank you. The next question is from the line of Mr. Ritesh Luthra from ID Capital. Please go ahead.
- Ritesh Luthra:** Thank you Sir for this opportunity. You explained about plans for next year. So, just wanted to get a sense on what would be the approximate topline growth you would be looking for FY 2015? Any guidance if you want to give?
- Pramod Maheshwari:** As a business plan, we are first focusing in Tutorial Business is to recover the enrollment loss. So that is the first target. We believe the recovery of enrolment loss plus increase in fees structure, we will be able to grow almost 25% in topline at Tutorial business division.
- Ritesh Luthra:** You said 25%, right?
- Pramod Maheshwari:** Yes, and the revenue from the Formal Education Division will also increase by approximately 30%.
- Ritesh Luthra:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Shalya Shah from ICICI Prudential Assets Management Company Limited. Please go ahead.
- Shalya Shah:** Thank you Sir for giving the opportunity to ask the questions. Just wanted to ask you few questions; in your company owned centers what would be your enrollment be in September?
- Mahesh Bhangriya:** It was 12025.
- Shalya Shah:** Okay what would it be one year back Sir?
- Mahesh Bhangriya:** 19421.
- Shalya Shah:** Sir, what would be your average realization for the current quarter?
- Pramod Maheshwari:** It will be close to Rs.40000 per student for full year long programs.
- Shalya Shah:** What would it be one year back?
- Mahesh Bhangriya:** It was about Rs.37000, as we realized a growth of approximately 8-10%.
- Shalya Shah:** That is from my side. Thank you.
- Moderator:** Thank you. As there are no questions from the participants, I would now like to hand the floor back to Ms. Swati Nangalia for closing comments. Thank you.

Swati Nangalia: Thanks. I would like to thank the management team, Pramodji and Mahesh for taking time out for this call, also thanks to all the participants for joining in today. Pramodji, would you like to make any closing comments?

Pramod Maheshwari: Thank you all for joining our investor call. In case you have any query, or any doubt, please feel free to contact us, we will get back to you as soon as possible. Thank you very much.

Moderator: Thank you. On behalf of IDFC Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.