



“Career Point Limited 3QFY14 Earning Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Career Point Q3 FY 2014 earnings conference call, hosted by IDFC Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nikhil Salvi from IDFC Securities. Thank you and over to you Mr. Salvi!

Nikhil Salvi: Thank you. Welcome you all to this earning conference call for Career Point. We have with us the senior management team Mr. Pramod Maheshwari - Chairman & Managing Director and Mr. Mahesh Bhangriya - Vice President Corporate Strategy. I would request Pramod ji to make the opening remarks and then we can open the floor for Q&A. Over to you Pramod ji!

Pramod Maheshwari: Thank you Nikhil ji. Good morning ladies and gentlemen, this is Pramod Maheshwari, Managing Director & Chairman of Career Point Limited. Thank you all for joining our investor conference call. With me, I have my colleague Mr. Mahesh Bhangriya – Vice President, Corporate Strategy and Investor Relations. I believe that you must have received the copy of earning-call update on your email and it is also available at our investor relationship section on our website www.cpil.in.

To begin with, I will give you an update on our business which will be followed by financial overview for the third quarter and nine month of the fiscal year 2013-14. I would start first with the Tutorial Services that is in formal education in which we have enrolled 3180 new enrolment in the third quarter of the current academic session. Comparing this with the last year, the new enrollments in the third quarter of previous year were 1705. This increasing trend endorses our claim that the change in examination pattern was temporary and it is gradually getting neutralized and, we believe, it will get neutralized going forward completely.

In fact, a very good response from the student to CP Star activity, CP Star is a scholarship test in admission process which we conduct every year. This year more than 2 lakh students across the country appeared for the admission in the scholarship test and it created an exciting platform for coming academic session. Based on this examination we give admission to the student for several programs, which we conduct for various competitive examinations.

The conversions for the next academic session, admission has already begun. We can clearly observe that the case of conversion is much better compared to previous year. In fact just to share with you for next academic session, as on date we have registered approximately 15% of growth in enrollment as compared to last year and we are confident that this improved performance will continue for the entire coming academic session in financial year.

As you all aware that we have also started residential campus last year, CP-Gurukul, which is Career Point Residential Coaching cum School facility and it has positioned the company very well to provide long term sustainable business. For the coming year, the occupancy will be

increased to 1500 enrollments vs 700 in previous year with the capacity utilization up to almost 100%. A few tie ups with various schools where we run integrated programs are under process of renewal or couple of agreements has already renewed which indicates excellence in our delivery of tutorial program in school locations as well.

As declared earlier that we will also be expanding our network by franchising mode, though with a very selective and cautious approach. In this line, we have made up progress by adding three new franchisees at promising locations - one is in Ahmadabad, another in Akola and third is in Bareilly, UP. All three new franchisees will be operational from next academic session. We are quite hopeful for the division growth in coming year based on the early signs coming from various new initiatives.

Now moving to formal education in which we have schools, colleges and university operation. As many of you are aware that it was a well-planned strategy move for the company to diversify into formal education division. This division is capital intensive and has relatively longer gestation. However, it delivers a long term sustainable business to the company where entry barriers are also quite high.

Here I would like to acknowledge the fact that the business of such nature gives the negative impact on groups return on capital in the initial period. However, as these businesses are getting shape, return on capital going forward will improve. The management has also started taking initiative to leverage few assets which are now generating good cash flows to service the debt to improve the return on capital.

We recognize the power of investing for students, employees and all our stakeholders. We are continuing our business decisions to achieve a long term sustainable growth in business consideration rather than short term profitability in the divisions. As per our philosophy we could position the company into a unique league, having presence in the entire value chain from preschool to university, having operation in both segments lucrative tutorial services as well as sustainable formal education, running all the modes of education delivery which include physical classrooms, internet base e-learning solutions, mobile-based applications and similar other mode of deliveries. We now are called as a diversified complete education company with integrated solutions across the value chain.

Just highlighting the progress at our existing institutions in formal education division; various events on academic and non-academic activities have attracted a lot of praise amongst peers, media and society. Socio-culture activities, Scientific and Entrepreneurial workshops, Educational seminars and conferences are presently top of this particular fraternity. The strong foundation of these institutions, which are build for decades, certainly place Career Point in a very unique club. Enrolling more than 80 research scholars in doctorate program at various disciplines also demonstrate an academic excellence of these institutions. From the new academic session, you will also see an expanded product portfolio in higher education with new courses along with higher traction for existing programs.

That is a brief about our business update. Now, I would request my colleague Mahesh to give you the financial update, over to you Mahesh.

Mahesh Bhangriya:

Good morning ladies and gentlemen. I am pleased to share an overview of financial results for third quarter and nine months of fiscal 2013-2014. In this quarter, we added 3180 new enrollments in the Tutorial Service Division which resulted total of 18920 enrollments by the end of nine months of current financial year. As mentioned earlier, Tutorial Services Division which is impacted by lower number of enrollments is on track of recovery. The enrollment which was about 40% down compared to last year by the end of first quarter is now recovered to 26% down as compared to the same period last year.

The total income from operations on a standalone basis came at Rs. 13.8 Crores in the quarter with year-on-year decline of about 26%. At consolidate level, our performance through formal education division and subsidiary operation has been reasonably well. Our business activities in formal education division where we have incurred relatively larger investments in the last couple of years are mainly accounted at consol level. The income from operations was Rs. 16.63 Crores in Q3 of FY14 and 48.73 Crores in nine months with decline of 20% as compared to nine months of the previous year.

The company has realized Rs.7.65 Crores of income at formal education division. Considering the significant contribution from the division, we have also started reporting the segmental breakup of Formal and Tutorial services division separately. If we look at the total income which is including the other income on consol basis, it stood at Rs.58.78 Crores of nine months and Rs.20.88 Crores for the quarter which is about 15% lower than the same period of last financial year.

The company reported operating EBITDA of Rs.1.71 Crores at the standalone level and Rs.7.57 Crores on consol basis for nine months of the fiscal. This resulted an operating EBITDA margin of 15.5%. EBITDA including other income on consol basis came at Rs.17.62 Crores with the margin of 30%; this is about 15 percentage points lower year-on-year basis primary due to decline in top-line at tutorial division.

Here I would like to add a point that in the current numbers, what is visible is the temporary impact of change in market dynamics at tutorial division. But, what is not visible here is the increasing contribution from sustainable business mix for which we have incurred significant capital investment over last couple of years.

Coming to net income, it was reported at Rs.4.5 Crores for the quarter with margin of 21.4% on consol basis. The corresponding numbers for the nine months were Rs.8 Crores with 13.6% of margin. As on December 31, 2013, net worth of the company was Rs.3.23 billion and the company was having Rs.47 Crores of net cash and cash equivalent which is after removing the bank borrowings.

Now, I would like to request Mr. Maheshwari to summarize the updates. Over to you sir!

Pramod Maheshwari: Thank you Mahesh. In conclusion, as you know that this year Career Point had a pressure on enrollments at tutorial division due to regulatory hurdles. We have performed below expectations. However, amidst all the changes, the company has built a strong foundation for future growth. We have already achieved an important milestone of diversifying into annuity driven business model at formal education. Various other initiatives and new ventures are expected to accelerate the growth path for the company going forward. We will continue to execute the business in accordance with the strategic plan and aspire to position the company in to the league of global leaders in education.

Now, the floor is open for question and answer. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Purab Mehta from KSA Shares & Securities. Please go ahead.

Purab Mehta: I just wanted to ask your thought for next year, because this year is already passed. So what do you see and what can we expect as per your opinion?

Pramod Maheshwari: It is a very strategic question. There are two segments of our business - formal and informal. Our business was impacted at informal education division. So, we are now analyzing the segment and have already started working on the findings. As I said during the opening remarks that we have conducted event called Career Point Star. We got a very good attraction for that. It was the nationwide event and more than 2 lakh students participated in this examination for coming academic session. Based on that, we offer them admission in our institution.

We have started finalizing strategy in place to have more number of student enrollments with a better realization. We are also doing detailed market analysis to judge the expectations in the new format and mapping our programs according to the expectations. Initial results are quite encouraging and signals are quite positive. Thus, we are hopeful that whatever challenges we faced in current academic session will get over by next year and we will definitely be able to grow the enrollments. For the next year admission, as I mentioned earlier that we are observing about 15% of growth on year-on-year in the enrollments which have taken place.

Whilst, in the formal education which is getting fantastic attraction from the students and very positive response from other parts of the segment. This division is growing very fast and we are quite hopeful that it will significantly improve company's profitability going forward.

Purab Mehta: In formal, can you give us breakup for what you are expecting for each of your universities? What can we expect from these different universities? What do you feel the thrust area for this basically?

Pramod Maheshwari: For current academic session, we are primarily running engineering, technology and management programs where we offer diploma, undergrad-masters degrees and doctorates. For next year, we are also ready with faculty of law where we will be offering three years law and five years

integrated law programs. We also have plans to add more products like masters in science and other vocational products or certificate programs.

Purab Mehta: Even in formal also, we will start gaining the lost ground?

Pramod Maheshwari: We are growing rapidly in formal education division and will continue to outperform.

Purab Mehta: CP Star was done first time this year or we were doing earlier as well?

Pramod Maheshwari: We have been doing this for last three years. But this year we have done it at a large scale and got a phenomenal response. This year we have reached out to 2 lakh students through CP Star compared to 50,000 last year.

Purab Mehta: Out of 2 lakhs students, how much you think will be materializing for us? What is the target or what is your goal assessment on this?

Pramod Maheshwari: Actually, it is very difficult to segregate that whether the student is taking admission based on CP Star or whether he would have join us without this. But one thing is certain that if we have reach out to 2 lakh students then we have made our visibility among 2 lakh aspirants and gave them an option to choose our services. We also give early bird discounts to the students.

Purab Mehta: Is there any escalation in the fee for informal education or this will be flat?

Pramod Maheshwari: We have increased about 7.5%.

Purab Mehta: Just reading through your financial highlights, I saw that your employ cost is going up?

Pramod Maheshwari: There are two reasons for this. One is, obviously to reach out 2 lakh student we had more people working in various territories and second is from the formal education division, where we have seem more attraction, hired more employees working on developing curriculum and process business systems. So that has actually impacted employee cost.

Purab Mehta: Next year if we will gain everything and recover to earlier track, then will the Margins be improved at 50%, 60% levels?

Pramod Maheshwari: The 50%, 60% margins will be over-optimistic, but yes the margins will improve definitely.

Purab Mehta: Thanks a lot and wish you all the best.

Moderator: Thank you. The next question is from the line of Harit Kapoor from IDFC. Please go ahead.

Harit Kapoor: Just couple of questions. I just wanted to understand, what is your Capex plan for FY 2015 and if you could break the down into the different segments?

Pramod Maheshwari: Though we have already went through the capital expenditure for existing projects. There are certain facilities, which are about to finish, will be capitalized going forward in the second academic session. However, there will be no extra capex. Thus, only work in progress will be capitalized in the coming financial year. Otherwise, no capex is required for existing business operations.

Harit Kapoor: I just wanted to know, what is stable margin that we can expect from residential school segment and can we expect expansion from hereon?

Pramod Maheshwari: There are three parts in residential school segment where we generate revenue. One is the residential service which we provide to the student where stable margins are close to 55%. Second is the school education where stable margins are close to 40% and the last is coaching services where the margins are closed to 35%. For three components we get receipt from the student separately.

Harit Kapoor: That is it from my side. Thanks.

Moderator: Thank you. The next question is from the line of Nikhil Salvi from IDFC Securities. Please go ahead.

Nikhil Salvi: I just wanted to seek more details on one comment that you made in the initial remarks. You said that you are taking initiatives to leverage your investments in the formal education space. Could you share more details if possible?

Pramod Maheshwari: Sure. So far whatever capex we have incurred to build the facilities to run universities and colleges, we have not leveraged anything. We have not taken any debt from the banks. As these are long gestation projects and we, as a management, are bit conservative and cautious in our approach while raising debt. However, now the revenue we generate from these facilities has got a reasonably visibility and is sufficient to service the debt. So, now we are thinking to leverage these assets to improve our return on capital. We are in the process of discussion and aim to raise approximately 40 Crores of debt initially for one of the facility of Career Point University at Kota.

Nikhil Salvi: Is there is a timeline to this? I might have missed if you have said something in this regard?

Pramod Maheshwari: Probably with-in next three months.

Nikhil Salvi: Going forward after these 40 Crores any more plans or would you?

Pramod Maheshwari: All the new projects have already started generating revenue. However, the ability to service the debt improves as we progress further. As of now, we are comfortable with the cash flows in Career Point University Kota which we think is sufficient to service the debt of Rs.40 Crores. Next year, we expect that our University at Hamirpur will also be in position to service the debt and then we will proceed. We have plans for next one-and-a-half year to raise debt close to Rs. 120 Crores. The idea is to free the capital invested by the company.

Nikhil Salvi: You said that you are starting three new franchisees, Ahmadabad, Akola and Bareli from the new academic session. Could you share some details in terms of how the dynamics between you and franchisee will be over the revenue share and any financial commitments from your side or any support that you would provide?

Pramod Maheshwari: It is slightly trade sensitive to share this info. However, I will give you the way we operate. We take upfront license fees from the franchisee to give them license to operate on behalf of Career Point for three years. We also charge royalty for various ongoing supports which we provide to franchisee including faculty recruitment on behalf of franchisee, marketing support, collateral designing, all operational support and complete knowhow. So, this is what our services to the franchisee and for that we charge a part of the revenue being generated at franchisee location.

Nikhil Salvi: Is there any fixed commitment from the franchisee's side to you?

Pramod Maheshwari: Franchisees give a license fee initially, which is non-refundable. So it is sort of fixed commitment which they have already done. Apart from this, there is no as such fixed commitment. But yes, when we select the franchisee, they present a business plan to us and based on the business plan and satisfaction to their business plan we award them the franchise.

Nikhil Salvi: Thank you.

Moderator: Thank you. The next question is from the line of Purab Mehta from KSA Shares & Securities. Please go ahead.

Purab Mehta: Any new schools which are planning to open, considering that we had some land bank available or we will restrict for one more year?

Pramod Maheshwari: Actually the existing projects have immense potential, so we are focusing on current projects and prefer to wait for one more year for the new ones. We have land available for few more schools and we will take the call sometime in second quarter of next financial year.

Purab Mehta: How is the Jodhpur school going on, what do you feel about that?

Pramod Maheshwari: It is performing fantastically. The last year was the first year and we had about 210 enrollments in the first year itself. The second year is going to be started by month of April and we have already started enrolling students for next session. The school is getting very good response.

Purab Mehta: So will we get the target of other Rs.400 students?

Pramod Maheshwari: We will be able to achieve comfortably. The kind of traction we are observing there, we will be able to achieve our target easily.

Purab Mehta: What about the Kota school where we are planning to have 1500 student?

- Pramod Maheshwari:** Currently, the operational facility for 700 students is completely occupied. Next year we are increasing to 1500 and we are quite sure that will be able to fill the capacity completely.
- Purab Mehta:** The Hamirpur University and Rajsamand campus, how are they doing?
- Pramod Maheshwari:** They are doing reasonably well. Both are already at operational breakeven, hence both will start generating free cash flow.
- Purab Mehta:** We were offering services for various schools of Birla and others, so any new school we have added?
- Pramod Maheshwari:** We are currently negotiating with couple of more schools. Though we have not signed any agreements but next 15 days is the period when we sign new agreements.
- Purab Mehta:** Thanks a lot. Wish you and all the best.
- Moderator:** Thank you. The next question is from the line of Shalya Shah from ICICI Prudential. Please go ahead.
- Shalya Shah:** You spoke about 15% growth in the next year enrollment. Can you tell us the reason why such growth is visible compared to last year?
- Pramod Maheshwari:** Firstly, there was a lot of confusion last year among student's mind whether to prepare or not or how to prepare for examination and what will be the impact of board percentage on their performance and final merit list. Now things are very clear among student's mind and they have realized that there is no other solution except joining coaching institution. Because schools cannot help them to get rank or position in competitive examination. So the first reason is coming from the market who has understood the new format. Second reason is the improved efforts by the team. Last year we were just reaching to 50,000 students through CP star against this year's 2 lakh students. So we have intensified our approach to reach at large mass. I think these are the two reasons cumulatively helping us to enroll more students.
- Shalya Shah:** Correct, so that is one of the reason by employee costs have also gone up, so should we consider the costs that you have currently as the standard or stable cost going forward or will it go back to the levels it was before?
- Pramod Maheshwari:** We cannot fire once the job is done. So they will continue to be with us and probably we will be utilizing them for bigger operations and large projects. So the cost will be increased from here.
- Shalya Shah:** One more question, can you just comment on this tax level that you right now? Do you kind of still have deferred tax that you have?
- Mahesh Bhangriya:** We have approximately 2-3 Crores of deferred tax liabilities in our balance sheet. However, tax component this quarter has accounted a MAT credit entitlement. Or else, the average tax rate for the company comes in the range of 30%.

- Shalya Shah:** So, this will be kind of one-off thing?
- Mahesh Bhangriya:** Yes, MAT is likely to be one-off item in this financial year.
- Shalya Shah:** Thank you Sir. That is it from my side.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Nikhil Salvi for closing comments.
- Nikhil Salvi:** Thank you. Mr. Pramod ji, do you want to make any closing remarks?
- Pramod Maheshwari:** Thank you very much for all you attending our conference call. In case you have any questions and queries, please feel free to contact us or e-mail us, we will reply you as quickly as possible. Thank you very much.
- Nikhil Salvi:** We thank Mr. Pramod Maheshwari and Mr. Mahesh Bhangriya for giving this opportunity to host the call. Thank you to all the participants for being on the call. Thank you.
- Moderator:** Thank you. On behalf of IDFC Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.