



“Career Point Limited Q2 Financial Year 2015
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Career Point Q2 FY 2015 results conference call, hosted by Elara 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. Aliasgar Shakir from Elara Securities. Thank you and over to you Mr. Shakir!

Aliasgar Shakir: Thank you and a warm welcome to all of you for the earnings conference call for Career Point. We have with 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 results overview; then we can open the floor for Q&A. Over to you Pramod ji!

Pramod Maheshwari: 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 by now most of you have received the copy of earning updates on your email. It is also available on our website in investor relationship section on our website at www.cpil.in.

To begin with I will give you an update on our business, and then Mahesh will take you through the financial overview of the second quarter and first half of the current financial year. I would first start with the Tutorial Services Division where the upward trend endorses our past claims that the Tutorial Services Division will be delivering a better performance going forward.

Enrolment in Tutorial has increased with double-digit growth rate this year reaching more than 18000 by the end of second quarter. One important aspect with this year’s growth which I would like to highlight is significant rise in two years long-term classroom program. This growth in two year’s long-term classroom program sets a platform for the next year enrolment growth in advance.

Another interesting fact this year enrolment is that all the verticals contributed in this growth. When I say all the vertical, it includes pre-engineering that is JEE-Main and JEE-Advance, premedical that is AIPMT and pre foundation. So the business is not done by one particular division only.

The show at residential campus that is Career Point Gurukul also deserves a special remark in the performance of current academic session. Enrolments at CP Gurukul are also double against last year. The residential coaching cum school campus now has students from more than 22 states of the county. We are getting students from northeast, Jammu and Kashmir and many remote areas.

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This certainly indicates the residents and parents' trust in the unique concept and ensures a long-term sustainable business to the company. Strategically we have also achieved high growth in students who avail both school and tutorial services against students who opt only for tutorial service in residential campus. On the top of this, the increased enrolment brings an operating leverage and results in improved margins for the division.

Now moving to the formal education division, which is continuing its outstanding performance. The total enrolment in the division, including higher education and school education, are now close to 5000 by the end of first half of current academic session, which is almost 40% higher than FY 2014 numbers. The contribution in growth was mix of both higher education and school education vertical.

Just to remind you, both the verticals of the formal education constitute three units each at multiple locations. Higher education includes Career Point University at Kota, Career Point University at Hamirpur and Career Point Technical Campus at Rajsamand whereas school education includes Global Public School in Kota, second residential school as part of CP Gurukul and third day-boarding school at Jodhpur.

I would like to highlight a point on placement of first batch of MBA students at our university. 70% of those who opted for the placement were placed before they graduated from the University. Our focus on life skill along with the professional education is highly appreciated by the esteemed recruiters. As highlighted in the last year's annual report; Academic Excellence, Practical Training, Conducive Environment and Learning beyond Classroom are essential pillar and basic principal of education delivery at Career Point Institutions.

We are also pleased with the financial performance of our higher education projects. Generally the gestation period for large projects like universities is five to seven years. However, our university projects are already out of gestation and they are currently in just third year of their operations. This gives us the confidence to move ahead with our strategy of an asset light business model in this division.

This quarter the company executed a transaction proposed in the last quarter and sold the infrastructure assets of the higher education institution with a premium to their valuation as per the registered valuer. Though the transaction price was lower than the book value of the asset as per the Company Act; however, the price is higher than the depreciated value as per the Income Tax valuation.

The objective of the transaction is to simplify the overall structure at the same time the company made a significant return with this investment considering a sum of rupees 17 Crores as lease income earned from those assets in past. All in all the transactions will not only provide a clean structure but also be more tax efficient for the company.

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

Mahesh Bhangriya: Thank you. Good morning ladies and gentlemen. I am pleased to share in an overview of our financial results for second quarter and first half ended September 30, 2014. In this quarter, we added 5,828 new enrollments in the Tutorial Service Division. This resulted into total enrollments of 18,209 by the end of first half of current financial year.

At formal education division, total 4,840 enrollments were registered by the end of first half FY 2015 against 3,465 by end of FY2014. This has given a further boost to auxillary education income in the company books.

At standalone level, the company reported an income from operations at Rs.31.06 Crores in first half with year-on-year growth of 16%. If you look at the total income which is including the other income on standalone basis, it stood at Rs.35.28 Crores for the first half of fiscal 2014-2015 including Rs.4.22 Crores from the other income.

Coming to margins, the company has performed exceptionally well at this front. During the first half of fiscal 2014-2015, the company reported operating EBITDA of Rs.3.01 Crores on standalone basis including Rs.2.06 Crores in the second quarter. This implies an operating EBITDA margin of 9.8% with YOY improvement of 4 percentage points and YOY growth of 97% in the period under review. In the major expense heads, the company realized a modest 7.8% growth in the employee cost and 13.9% growth under G&A expenses.

At consolidated level, the operating income grew by 2% YOY despite leaving out the lease rental income in the current period, which was an outcome of restructuring where our infra subsidiary has sold the fixed assets of higher education institutions. The company has realized Rs.2.46 Crores of operating EBITDA in first half of 2014-15 at consolidated level, a YOY decline of 55% was primarily due to removal of leased rental income from higher education assets sold.

In the net income, company registered a profit of Rs. 3.59 Crores in the first half of current fiscal with a margin of 10.2% and a growth of above 300% at standalone level. At consolidated level the outstanding performance was concealed under the one-off effect of the said transaction.

Hence if you look at the earnings per share before extraordinary items, it came at Rs.3.05 against Rs.1.93 in first half of the previous year. As of September 30, 2014 the networth of the company was Rs.3.26 billion and net cash including the investments and after removing the bank borrowings was reported of Rs.46 Crores in the standalone books of the company.

The current liabilities include Rs.22 Crores of advance fee received for current academic session in tutorial division. The company also had Rs.31 Crores of loans and advances in its assets. In the consolidated balance sheet the corresponding number for loans and advances in the assets were Rs.66 Crores for the period ending September 30, 2014.

This was a brief financial snapshot. Now, I would like to request Mr. Maheshwari to summarize the updates.

Pramod Maheshwari: Thank you Mahesh. In conclusion, the business and financial performance of the company in the first half of the year has been exceptionally well. Growth in topline followed by a significant improvement in margins at core business is an outcome of consistent effort by the academic and nonacademic team of the company.

Despite challenging market dynamics in previous year our team continued the focus on sustainability of company's business operation and remain committed to increase the quality of academic deliverables while maintaining the cost efficiency. It draws attention that how well the team has remained focused on its core business strength. This results in to a well balanced business model for the company with diverse revenue stream, which can counter any diversity going forward.

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 Jaiprakash Toshniwal from IndiaFirst Life Insurance. Please go ahead.

Jaiprakash Toshniwal: Good morning Sir. Wanted to understand the transaction of the building which you have sold, the Career Infra sold. Which building it is?

Pramod Maheshwari: These were the University and Technical Campus buildings. As per the earlier structure, the infrastructure subsidiary built the university buildings and leased out to the university. The buildings were constructed on the land owned by the universities. Hence, to make the structure clean, we have sold the buildings to their respective land owners.

Jaiprakash Toshniwal: This was building to the universities, right?

Pramod Maheshwari: Correct.

Jaiprakash Toshniwal: This 70.39 Crores sits in the receivables part of it, right?

Pramod Maheshwari: Currently it is in receivables.

Jaiprakash Toshniwal: This is all three university buildings or it is just one building?

Pramod Maheshwari: It is three campuses, Kota University, Hamirpur University and Rajsamand Technical campus.

Jaiprakash Toshniwal: So now these all remain under trust. So what will be the outstanding from these trusts now? This will add up into the total outstanding from that trust right?

- Pramod Maheshwari:** Yes.
- Jaiprakash Toshniwal:** Sir, on the formal education side, the revenues this quarter is just 6.75 lakh what is the reason Sir? It is just a very small number.
- Mahesh Bhangriya:** Actually the management service income is not classified under the formal education income. Essentially that is one of the major contributions from formal education division.
- Jaiprakash Toshniwal:** What is the amount? Can you tell me?
- Mahesh Bhangriya:** It is under the head as Auxiliary Education Service income and it was rupees 1.8 Crores in the first half.
- Jaiprakash Toshniwal:** Versus.
- Mahesh Bhangriya:** Against rupees 1.1 Crores in the first half of previous year.
- Jaiprakash Toshniwal:** Lastly can you update about the new MP partnership which you have with the new school? What is your view and how do plan to manage in terms of teacher's out there. It is a different state per se for you?
- Pramod Maheshwari:** As per the agreement, we will provide tutorial services to the students enrolled in the schools. It is kind of an integrated school program where the responsibility of school education lies with the school authorities and we take care of their coaching services. Hence, we will depute our faculty members in that particular school and they will take care of the coaching for competitive examination preparation.
- Jaiprakash Toshniwal:** Sir, just last question from my side. On the March end in the current investment and noncurrent investment were different. So, is there any difference classification here or how should I understand it?
- Mahesh Bhangriya:** It is just the reclassification from current investment to long-term investment based on their maturity periods.
- Jaiprakash Toshniwal:** The 50.9 Crores is the full Mutual fund investment which is in the balance sheet, right.
- Mahesh Bhangriya:** Yes.
- Jaiprakash Toshniwal:** What is the maturity period for them?
- Mahesh Bhangriya:** The maturity period for the investments under current investment is less than one year whilst the investments with maturity periods of more than one year are classified into long-term.
- Jaiprakash Toshniwal:** Thank you.

- Moderator:** Thank you. The next question is from the line of Priyank Chopra from Alpha Capital. Please go ahead.
- Priyank Chopra:** Thanks for taking my call. My question is despite the change in the industry dynamics of the IIT coaching segment, we see very little improvement in terms of earnings versus last year. Could you explain about that?
- Pramod Maheshwari:** The changes which affected the business are gradually settling down. The upward trend is an important indicator for this. Enrollments will not restore to the original number immediately, it will take its own time, but it is growing. The growth of 16% over last year is a good performance against decline in last two years.
- Priyank Chopra:** Thank you.
- Moderator:** Thank you. The next question is from the line of T. Shankar. He is an individual investor. Please go ahead.
- T. Shankar:** Good morning Sir. I had a couple of them actually. The first one is about I wanted to understand from you what is really driving the enrollments now in Kota and the non-Kota business?
- Pramod Maheshwari:** When government proposed change in format of examination, it created a very ambiguous situation and most of the students were confused about weightage from board percentage. Now with clarity on the changes, eligibility criterion and board weightage; people now able to understand the new format and adjusted themselves accordingly. It is realized that even in the new format, there is a lot of requirements for tutorials because the school education is not addressing those requirements. That is why the enrollments are growing.
- T. Shankar:** Thank you Sir. I have one more question, which is actually related to the first one which is that given that there have been changes in the format of the exam in the previous years and given that that may happen again going forward so what are the kind of regulatory risks in this business in terms of changes coming into the exam formats? How do you foresee that going forward?
- Pramod Maheshwari:** From the current level, I personally feel that the situation will be better going forward. The existing exam format is bit complex and not fair to the students. That is the reason, recently the IIT authorities has taken a decision to admit the students even with 75% marks in their board after clearing JEE Advance, which was earlier 20 percentile norms. Hence I do not see as such many regulatory challenges going forward, but one cannot assure if anybody comes up with any innovative idea and disturb the business.
- T. Shankar:** Right Sir in that case going forward what do you see as the biggest challenges and risks in the business?

Pramod Maheshwari: As far as our company is concerned, we have a diverse portfolio. We are into school education, higher education as well as into tutorial business. In tutorial business, there will always be some criteria to give admissions in premium colleges. That is most likely from competitive examinations or could be based on board percentage marks. As a company we prepare students for both the examinations be it entrance exam or be it board exam. Therefore, we feel that we are currently well prepared to address any change in the format. Any change in the format may affect the mindset of the students and parents for temporarily, but we are well prepared to address the challenges.

T. Shankar: Thank you very much Sir. That is it from my side.

Moderator: Thank you. The next question is a followup from the line of Jaiprakash Toshniwal from IndiaFirst Life Insurance. Please go ahead.

Jaiprakash Toshniwal: Sir, if I understand correctly from trust we have it is included loans and advances and trade receivables are roughly 170 Crores due now? Is it fair to say approximately?

Mahesh Bhangriya: Loans and advances figure also include few advances given to vendors and other external parties associated to the business. It is not completely the related parties like trust and societies.

Jaiprakash Toshniwal: So what was total outstanding, which we still receive from trust amount?

Mahesh Bhangriya: It is close to rupees 139 Crores.

Jaiprakash Toshniwal: As you said, you are almost reaching to the breakeven point. So what is the receivable timeline?

Mahesh Bhangriya: As per the current cash flow and profitability at institution levels, we believe that within four years we will be able to receive the payments.

Jaiprakash Toshniwal: Thank you.

Moderator: Thank you. The next question is from the line of Rahul Kakkar from SK Capital. Please go ahead.

Rahul Kakkar: Sir, if I see the coaching segment how has been the improvement in enrollment during the quarter and how do we see for the next three to five years how do we see the enrollment in the coaching segment?

Pramod Maheshwari: In the second quarter we have seen a growth of 16%. We have also seen a growth in our two year classroom programs, which promises growth in enrollment for the next year in advance. Considering the current market situation and the kind of interest of potential students for coaching services, we believe that this kind of growth or even better is expected for coming years.

- Rahul Kakkar:** In terms of schools and universities how are the enrollments? How is the traction taking place?
- Pramod Maheshwari:** It is almost growing by 40% year-on-year.
- Rahul Kakkar:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Kalpesh Parekh from Elara Capital. Please go ahead.
- Kalpesh Parekh:** Good afternoon. Couple of questions; first with this change in course pattern, you know there could be a scenario where students may not come down to Kota as such. Are you seeing that type of scenario for this IIT entrance and Kota may lose as a hub for the IIT education thing? Are you seeing that type of scenario?
- Pramod Maheshwari:** Not really. Actually this change in format came into existence almost two and a half years ago and that temporarily affected enrollment in Kota at large. But now things are getting normal and enrollments are improving and we are registering a growth. So we believe that any change in format may temporarily affect the enrollments, but on long-term basis it will not change the business scenario in Kota.
- Kalpesh Parekh:** Sir, what we should visualize as your student behave for the next two to three years type of horizon as such?
- Pramod Maheshwari:** We are expecting that we will be able to grow by 25% plus in enrollments year-on-year considering this year's growth of 16%. Last year the situation was not favorable against which we have registered the growth of 16%. We believe that we will continue be growing by 25% plus in enrollments in coming years.
- Kalpesh Parekh:** But Sir, are you planning to move beyond Kota as such. Are we planning to move to other cities also quite aggressively or we would like to restrict ourselves?
- Pramod Maheshwari:** We already have our presence at multiple locations across northern, central and eastern part of India. Our current focus is to reach to the enrollment tally which we had earlier. So the aim is to recover the business lost in last two years at existing network. Depending upon the location and feasibility, we may set-up branches or franchise; however we are not aggressively pursuing that.
- Kalpesh Parekh:** Sir, when we are comparing even within Kota, we are finding the fees what we are charging relative to other some of your competitors is on the lower side. Do you think going forward with the improving there is a room for us to improve on the fees front or something like that?
- Pramod Maheshwari:** Yes. For the next academic session, we have already finalized the fee and we have increased the fee by approximately 14%. That has already been done for the next academic session.

- Kalpesh Parekh:** But your peers have also done in similar band?
- Pramod Maheshwari:** Currently peers' numbers are not out. Hence, I cannot comment on that, but we have increased our fee by 14% on blended basis.
- Kalpesh Parekh:** Sir, with this you also now incrementally, I mean we have already worked on it, on the hostel basis, as such this will also help us in improving the yields as such or the fees as such?
- Pramod Maheshwari:** Definitely. Hostel income along with coaching and school campus is growing rapidly. Last year in residential campus we had close to 700 enrollments and this year the enrollment are over 1300.
- Kalpesh Parekh:** So the 14% yield improvement or fees improvement, you are saying is apart from the change in mix or including because of the hostel facility or something like that?
- Pramod Maheshwari:** This 14% is purely coaching fee improvement. Improvement in hostel fee will be separate.
- Kalpesh Parekh:** So in all if I am seeing the scenario probably is two years down the line. What should be your fees improvement factoring the hostel students improvement type of scenario?
- Pramod Maheshwari:** On blended basis including hostel and coaching you may estimate the fee improvement of approximately 20% year-on-year for the next few years.
- Kalpesh Parekh:** So, basically if I am saying or if I am just extrapolating your numbers it should be from fees it should be 20% and from volume also it should be somewhere around 20% type around 40% of improvement we can visualize?
- Pramod Maheshwari:** Yes.
- Kalpesh Parekh:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Aliasgar Shakir from Elara Securities. Please go ahead.
- Aliasgar Shakir:** Pardon me if you have already answered this. Just wanted to understand Sir, the competitive landscape how is it shaping up in Kota as well as what is the competition we made or probably we be facing from other regions from where we were earlier seeing students coming to Kota?
- Pramod Maheshwari:** I will answer your second question first. We are getting students primarily from tier II towns or tier III towns. From both locations, as such, we are not experiencing any pressure in enrollment because setting up a quality institution in these locations is not economically viable. So students from those towns are coming to Kota and there is no interruption is happening. The first question which was regarding to the competitive landscape within Kota, we believe that we have our own market. Though there is a competition with other players but the way we be operating, the way

our team is working; we are best fit to challenge any kind of competition and that is reflected in our this year's performance as well. So we are well placed and well prepared to face any kind of competition in Kota or outside.

Aliasgar Shakir: Just want to understand basically last two years since your enrollments were down, probably the competition in coaching faculty may not have been as much but since now probably if it all we will see improvements in enrollments what is the risk you see in terms of coaching good faculties?

Pramod Maheshwari: We do not see any pressure in coaching of our faculty members. If you look at the attrition in our institute for the last four to five years, no significant movement of faculty members has taken place. We believe that this will continue. When the business was growing very fast at that time also we were able to retain our faculty members and in the last two years when business was relatively slower we were able to retain those people. So I do not see any pressure in retaining the faculty members or any kind of threat to coaching division.

Moderator: Thank you. The next question is from the line of Rajeev Bharti from Destimony Securities.

Rajeev Bharti: Good morning Sir. Sir, my question is regarding this transaction of Career Point Infra Limited the leased asset, I might be repeating this space, but I would just like to understand how were the receivables before the transactions and how have they changed now? How come the sale was below the book value?

Pramod Maheshwari: Let me answer your second question first. We have sold the asset based on the registered valuer's approved valuation. So, it is not the decision we have taken. It is under the recommendation, which the government certified valuer has prescribed to the assets. There is an additional point related to this. It is less than the book value, but more than the depreciated value as per Income tax act. Second question was in relation to the receivables. As there will be no outflow of lease rental now on those assets in University books, the universities will be saving over and above of their existing cash flow. With this, we expect that within four years this money will be paid to the company by the trust or university.

Rajeev Bharti: Thanks a lot Sir.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Aliasgar Shakir for closing comments.

Aliasgar Shakir: Thank you so much for being on the call.

Pramod Maheshwari: Thank you everyone. Please feel free to contact us in case you have any further questions.

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