



CAREER POINT

“Career Point Q2 FY-16 Earnings Conference Call”

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CAREER POINT

SYSTEMATIX GROUP™
Investments Re-defined



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MODERATOR: **MR. RAHUL JAIN – VICE PRESIDENT, RESEARCH - SYSTEMATIX SHARES & STOCK LTD**



Moderator: Ladies and Gentlemen, Good Day and Welcome to the Career Point 2Q FY16 Earning Conference Call hosted by Systematix Shares and Stock 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rahul Jain from Systematix Shares and Stocks. Thank you and over to you sir.

Rahul Jain: Thank you Karuna. Good morning everyone. On behalf of Systematix Shares, I welcome the Senior Management of Career Point represented by Mr. Pramod Maheshwari – Chairman, CEO and MD of the company and Mr. Mahesh Bhangriya – VP, Corporate Strategy at Career Point. I would now request Mr. Maheshwari to take us through the Q2 Results and give some insight into the recent development in the company. Over to you sir.

Pramod Maheshwari: Thank you Rahul Ji. Good morning ladies and gentlemen. This is Pramod Maheshwari, Chairman, Managing Director and CEO of Career Point Limited. Thank you all for joining our Investor conference call. With me I have my colleague Mahesh Bhangriya on other line who is Senior Vice President Corporate Strategy and Investor Relations. I believe most of you have received a copy of earning updates on your email. It is also available on Investor Relationship section at our website www.cpl.in.

To begin with, I will give you an update on our business. Then Mahesh will take you through the financial overview of second quarter and first half of the current financial year. I would first start with the update on tutorial services division where we enrolled closed to 18,700 new enrollments by the second quarter of current academic session against 18,200 by the same period last year.

Moderator: Due to technical issues in the line of Mr. Pramod Maheshwari....Mr. Mahesh Bhangriya would continue the call.

Mahesh Bhangriya: Sure. We were speaking on the number of enrollments; by the end of second quarter of current academic session, we had 18,700 new enrollments against 18,200 by the same period last year. A close look of this number depicts a pleasant outcome that growth in high revenue segment, which is long-term Classroom enrollments' is higher than growth of overall enrollments. Another positive effect about the growth in enrollment is that this growth is despite the close of two less efficient centers, as mentioned in the last call. Hence the profitability is improved by a significant level.

One more strategic information I would like to bring here is the fabulous growth in pre-medical division. It not only provides a sustainable business mix throughout tutorial division, but also endorses company's quality of teaching delivery across tutorial vertical. And, if we believe recent media updates on potential change in Engineering Entrance Exam, the pre-engineering division is also bound to grow significantly from current level.



A proposal to scrap the two-phase IIT entrance exam which was introduced in 2013 is on the agenda. As per the reports, IITs want to revert to pre-2013 system because the new admission processes are cumbersome and time consuming. The inclusion of board marks have further delayed the admission cycle and put undue pressure on the students.

Coming to CP Gurukul which is company's residential coaching cum school campus is also delivering excellent performance. A significant rise in the average fee is a result of two factors. One, due to yearly price increase and second, due to higher enrollment of students who opt for all three services which are hostel, school and tutorial available in the campus.

Considering the factors of Gurukul campus at Kota, the company management is also evaluating more Gurukul campuses at other strategic locations. The new Gurukul campuses which are under project evaluation phase will have the same concept of coaching cum residential school campus, but with a lower capacity - ideally under 1,000 enrollments.

In the quarter under review, Career Point also signed a new agreement with another school of Birla Group located at Kishangarh near Jaipur. As per the agreement, Career Point will provide tutorial services for pre-engineering and pre-medical competitive exams for students at Birla International School. The new e-learning ventures in tutorial services division are also delivering a healthy performance with expansion of new user base.

Now, moving to formal education division which consists higher education, school education, and vocational education has performed remarkably well on various fronts including new enrollments, placements, academics etc.

Before I speak on the number, let me first share you the key outputs from the recent UGC, which is University Grant Commission, inspection at Career Point University, Kota. It was 2 days affair which held on 10th and 11th of September, 2015 by a team of higher education experts from UGC, AICTE and other regulatory bodies such as BCI - Bar Council of India.

I am pleased to share with you that the team appreciated various systems and processes which we follow at Career Point University. They were highly impressed with the curriculum design, academic delivery, and overall quality of teaching. The team mentions that this university is one of the best infrastructures among the other private universities which they have visited.

They liked our compliances, enrollment progress and most important the placement efforts. The distinguish team was highly satisfied with overall progress of the university in short span of just 3 years. The feedback was very encouraging and cheerful for us with respect to our efforts in higher education division.

Coming to enrollment update on the formal education division, 1,297 new students have taken admission in the current academic session at Career Point's higher education institutions and 374 have passed out from the last year in various courses. That has been a net addition of close to 1,700 enrollments in formal education division including 749 in school division.



The progress in formal education, especially in the higher education, reflects the increased faith of students and parents fraternity in the brand Career Point for higher education space. We have also witnessed enrollment increase in very specialized courses such as Ph.D. or MPhil. The positivity of the Career Point Universe is reflected in the fact that the new admission for next academic session which is 2016-2017 has already taken place in Career Point University, Hamirpur.

Our first school franchise of Career Point World school at Bilaspur, Chhattisgarh has delivered a remarkable performance in terms of new enrollments in his first academic session. It strengthens the prospects for School franchisees going forward.

In skill development vertical, our first batch of students under the agreement with government of Rajasthan's RSLDC is also passed out. At vocational education, we are also working on association with various Sector Skill Councils and already affiliated with RASCI which is Retailers Association's Skill Council of India.

So this was a brief business update. Now, I would take you through an overview of our financial results for second quarter and first half ended September 30th, 2015.

In this quarter, we added 6,170 new enrollments in tutorial services division and this resulted into total enrollments of 18,687. At formal education division, the total 6,626 enrollments were registered by end of H1 FY15 against 4,954 by end of academic session 2015. This has given a further boost to auxiliary education income in the company books.

At standalone level, company reported the incomes from operations at Rs 33.4 crores in first half with Y-o-Y growth of 8%. If you look at the total income which is including the other income on standalone basis, it has stood at Rs 37.3 crores for the first half of fiscal 2015-2016 including Rs 3.9 crores from the other income. A decrease in other income is due to last year's one-off dividend income and profit from sale of investments.

Coming to margins, the company has performed exceptionally well at this front. During the first half of current financial year, the company reported operating EBITDA of Rs 6.8 crores on standalone basis against Rs 3 crores in the same period previous year. This implies an operating EBITDA margin of 20.3% with Y-o-Y improvement of 10.5 percentage points in the period under review. The impressive margin expansion can be attributed to operating leverage available with the company and closure of two less-efficient branch centers.

Just to bring your attention that the company's second half is better than first half in terms of margins due to prudence accounting policy in which we book income on accrual basis whereas expenses are booked on cash basis. In addition to this and considering a large operating leverage still available with the company in tutorial division, we are quite hopeful for significant margin improvement going forward from the current levels.



At console level, the company has realized Rs 7.9 crores of operating EBITDA in H1 FY16 with margin of 21.6% a year-on-year improvement of 14 percentage points. This signifies that apart from operational efficiency of parent company, the margin expansion is further fueled by business operation at subsidiary level.

In the net income, the company registered a profit of Rs 5.3 crores in first half of current fiscal with a margin of 14.3% and growth of 49% at standalone level. At console level, there has been a multifold increase in net profit, but that is due to last year's one of loss booked on asset sale of higher education institution in our infra subsidiary. However, if we look the profit before tax and extraordinarily loss, still the profit is jumped by more than four times which is Rs 7.8 crores in the first half of this year versus 1.8 crores last year.

As on 30th of September 2015, the net worth of the company was Rs 3.4 billion and net cash including the investment and after removing the bank borrowing was reported as Rs 68 crores in consol books of the company. The current liabilities included 24 crores of advances we received for current academic session in tutorial division.

So this was a brief financial update. In conclusion, we can say that the business and financial performance of the company in first half of the current fiscal has been exceptionally well. Business is back on track. Continuous growth trajectory for last 6 quarter is just the indication of long-term prospect of the company. Sustainable business mix with a large range of expansion and high scope of margin improvement are more than sufficient for us to motivate and deliver our best and create a value for all the stake holders.

Now the floor is open for questions and answers.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Thank you. First question is from the line of Ali Asgar Shakir from Elara Capital. Please go ahead.

Ali Asgar Shakir: I just missed the first – in the beginning, your opening remarks regarding the current enrollment that you mentioned. What I just wanted to check is what is a time frame sir you think you should take to reach close to around 20,000 sort of your enrollment numbers which you have reported few years back as you peak enrollment rates and what is the sort of margin improvement scope we have from here if we see that sort of an improvement in enrollment.

Mahesh Bhangriya: On the enrollments, we used to have approximately 21,500 in long-term classroom operations at our branch centers during the year 2011, 2012. The total enrollments including short-term, franchisees and distance learning were close to 32,000. After a decline in year 2013 and 2014, we have been witnessing a growth trend for the last 6 quarters. With the current trend and visibility in business indicators on ground, I believe, within 2 to 3 years down the line we would be reaching at our peak enrollment numbers.



Coming to margins, yes, our margins are improving and as per the nature of the business, as the enrollments grow, major part of the additional revenue directly flows down to profit level. Hence, we believe, as we would be reaching at our peak enrollments of 20,000 plus in classroom operations, our margins would be back to 30% plus.

Ali Asgar Shakir:

Okay, that is helpful. I think sir your margin improvement can actually be even higher, because considering if you are almost growing your enrollments by 50% or more than that and you are currently at around 23% sort of margins and as you said that larger part of that will directly flow to EBITDA than probably, you know, I mean I would have the opinion probably is there a possibility you could reach sort of 35%, 40% sort of margin, because there is a vast improvement in terms of operating leverage.

Mahesh Bhangriya:

Yes, that's achievable. However, let me add that the standard margins for the industry are declined in last 3 to 4 years due to expansion of various cost levels. Presently the industry operates at 30 to 35% margin level against 35 to 40% earlier. So conservatively, we would say that we would be reaching at 30% plus.

Ali Asgar Shakir:

Okay, that is helpful. Second thing is you mentioned in your opening remarks regarding the Gurukul that is doing well and you are exploring opportunities of setting up new Gurukul of smaller capacities in other location also. I was just wondering if you can just little bit elaborate what is the stage in which we are towards exploring these new Gurukul setup and what is the CAPEX you think it could requiring, from where would it be funded?

Mahesh Bhangriya:

Well, let me first speak on the prospects of the Gurukul and why we are exploring further new opportunities. If we look at our existing Gurukul campus, it has delivered a very good performance in terms of margins and in terms of our return on the investment. So we are quite bullish and excited with this project. Having said that, when we think of new Gurukul campuses, we plan the size of new Gurukuls to be relatively smaller than the current Gurukul campus - under 1,000 of enrollments.

The locations would be very strategic places which are like small educational hubs and have a lot of catchment area from the surrounding regions. Let's take example of Indore which attract nearby students or Jaipur, Udaipur etc. In fact we are also considering our existing locations where we have our technical campuses and there is a possibility in terms of space requirements. Hence, we are evaluating Mohali and Rajsamand, where we have engineering colleges, for adding or converting in to new Gurukul campus.

Coming to Capex, for existing locations, as obvious, we would not be incurring any new Capex. And, for the new Gurukul campus where we do not have existing operations, we have plans to fund through internal accruals. There is 60 crores plus cash available with the company and, if required, debt can also be raised, to meet the fund requirement.

Ali Asgar Shakir:

So it is not yet decided whether it would be at your existing campus or new locations.



- Mahesh Bhangriya:** We would prefer to start the expansion from the existing locations. In Rajsamand, we have already started and currently undergoing with the regulatory processes related to school because the Gurukul campus will also have a school. On the locations where we do not have the operations, we are under evaluation phase and assessing various places on various parameters such as potential market size, profitability etc.
- Ali Asgar Shakir:** Right. You know the idea of probing this further is – if it is at your existing location, then it is sort of a new growth avenue without material CAPEX as you mentioned. However, if you open it in a new location, then there is a substantial CAPEX requirement. From that point of view are we cognizant of this fact that, you know, I mean we will invest heavily if at all it is at a new location and is there any emphasis that therefore, we should not really open it on a new location probably at this stage and first look at exploring only our existing locations or we are completely open at this point in spending whichever proportion is looked attractive.
- Mahesh Bhangriya:** I think it all depends on the feasibility and the expected return from our investment. We may choose the new location but only after our market research and feasibility appraisal. We would take a call for new capex post assessment on the market size, potential return and other factors.
- Ali Asgar Shakir:** Okay, sir you also mentioned regarding the UGC campus where you had a team of experts visiting and suggesting, giving very good feedbacks, did we also receive any certification for expert visit which probably could help us in our enrollments and placements.
- Mahesh Bhangriya:** The private universities, as per the regulation, do not need any certification for awarding degrees because the status of private university is granted after completing all the regulatory approvals and compliances. Post that, the act is passed in the respective state assembly with the cabinet approval. So as such, being a private university we do not require any certification. However, UGC inspections may further strengthens our academic delivery and processes through their valuable feedback and suggestions. The committee has made few suggestions in their report and I think, the observations will be coming out on UGC website.
- Ali Asgar Shakir:** Okay. On the loans and advances that we have towards the investment we have done, towards the formal education, should that be currently assumed that it will take its course of annual repayment based on whatever increased enrollment and cash the trust gets or is there any effort towards fastening that repayment from the loans and advances side?
- Mahesh Bhangriya:** Both. Apart from the cash flow improvement at university level through enrollment increase, we are also working with the banks for funding in University to expedite repayment. At our University in Kota where we are already generating high cash flows, we are in very late stages of the approval for the loan sanction with a bank – a nationalized bank. We believe that probably in a month's time that would be concluded.
- Ali Asgar Shakir:** Okay, so you are seeing that the loans and advances – could you also give us any quantum of the loans and advances that can be recovered due this exercise that you are suggesting?



Mahesh Bhangriya: For the Kota University, this is in the tune of rupees 35 crores to 40 crores.

Ali Asgar Shakir: Okay, so that is the amount we can expect to receive from the loans and advances books.

Mahesh Bhangriya: Yes.

Ali Asgar Shakir: Okay. Just last question, your competitors from Kota, Allen & Resonance have been expanding very rapidly in most of the other geographies other than Kota including Mumbai and your stands has been that, you know, because you have significant available capacity in Kota, it is first wise to fill that capacity instead of adding more capacity outside the region. Do you think that can pose as a risk for you to remain just a regional player where your peers grow as national players and gain much more market share or you think you would also revise that strategy and probably expand outside Kota to tap other opportunities?

Mahesh Bhangriya: It is a matter of the company's philosophy to operate its businesses. Instead of chasing the top-line, we prefer to be bottom-line sensitive and focus on providing sustainability to our business operations. That's the reasons that we have spread our business from just a tutorial player to a complete learning solution provider, having presence from KG to PhD. We are well aware about expansion of our tutorial competitors; however, we are in the opinion that there is no point of digging somewhere else if you are sitting on the gold mine. I am referring to operating leverage available with the company.

So once we would be reaching at a certain level, an optimum utilization of existing capacity, then we would start executing our expansion plans in tutorial division. But for the time being, our current focus is to use our time, energy, bandwidth and other resources on existing business operations. Our expansion into universities, school, colleges and the residential campus has given us business sustainability where the regulatory hurdles are less, visibility is high and it has also provided a forward as well as backward integration to existing businesses.

Moderator: Next question is from the line of Gaurav Jalan from Avant Garde Wealth Management. Please go ahead.

Gaurav Jalan: I have a few questions. One is could you please give me the breakup of your enrollments in to long-term and short term?

Mahesh Bhangriya: Sure. Out of 18,687 we have 13,267 in the long-term courses at Branch centers. Including Short-term, the number was 14,278.

Gaurav Jalan: Okay and in the franchisee?

Mahesh Bhangriya: In the franchisees, by first half we have 1,320 enrollments in the long-term and 52 in the short-term course programs.

Gaurav Jalan: And distance learning was how much?



Mahesh Bhangriya: 3037.

Gaurav Jalan: Okay. If I look at your realization on the basis of long-term enrollments, in the first half I think they grown about 4% to 5%, is that correct?

Mahesh Bhangriya: Pardon, I missed the number.

Gaurav Jalan: The realization per students has grown at about 4%, 5% solely in the first half, is that correct?

Mahesh Bhangriya: Yes.

Gaurav Jalan: Okay, so is that for the full-year do you expect this trend to continue or should we expect the higher growth, because I think you have mentioned before that you have been taking price hikes of about 14% and also reducing the discount that you are giving, so should not your realization growth be slightly higher?

Mahesh Bhangriya: It will be slightly higher, but not at the level which you are talking about at 14%.

Gaurav Jalan: Okay, you would expect for this year the realization growth to remain at about 4% to 5% or trend higher in the second half?

Mahesh Bhangriya: It would be improved from the current level, but not significantly.

Gaurav Jalan: Okay. And then going forward as a strategy, will you keep your realization growth at around 4%, 5% or you expect that number to go up overtime in the future year?

Mahesh Bhangriya: We believe that the growth of average realization shall be somewhere around 8% to 10%. So that is the scope we have in average price improvements. However, because of some reasons we might go for the aggressive price discounts and scholarships. But there is a scope of 8% to 10% of price realization improvement every year.

Gaurav Jalan: Okay and in the formal education division, on a consolidated basis you have reported around 2.5 crores in revenues, right, for the first half. So what is the expectation for the full year for fiscal '15?

Mahesh Bhangriya: It would be close to rupees 4 Crores.

Gaurav Jalan: Okay. And going forward how is this number trend let us say the following year and year after that how will this number grow?

Mahesh Bhangriya: This number is directly related to the performance of our universities and school education division. As the enrollments are growing and the average price is increasing, so this number will further shoot up. Looking at the current enrollment trend and our plans to add the new courses, this numbers will probably grow by mid-teens on yearly basis.



- Gaurav Jalan:** Sir, last year for the full year, your formal education revenues were around 3.8 crores and this year, you are saying it is 4 crores, so this is despite the significant growth in enrollment that are seeing in your universities, sir why is it....
- Mahesh Bhangriya:** Last year's Rs 3.8 crores include a component of lease-rental as well. Actually, formal education includes lease-rental from the education institution plus a management service fee. So the management service fee component has been improved, but the lease share is reduced.
- Gaurav Jalan:** Okay and in your standalone numbers, what was the figure for formal education revenues that you booked in this quarter, in the quarter before few months?
- Mahesh Bhangriya:** Out of 36 crores revenue in the first half, we had 33 crores from the tutorials and 2.3 crores from the formal education division
- Gaurav Jalan:** Okay. You mentioned that your net cash position on a consolidated basis is 68 crores. Can you just give the breakup of that because I am calculating a slightly different figure as I am not sure where the difference is?
- Mahesh Bhangriya:** It includes rupees 2.63 crores of cash and bank balances plus 52.25 crores of current investment and long-term fmp investments close to 4 crores and current loans and advances were amount of 52 crores.
- Gaurav Jalan:** So in current loans and advances 52 crores what are you including?
- Mahesh Bhangriya:** It includes our NBFC subsidiary loan portfolio consisting of loans given to third parties and the educational loans.
- Gaurav Jalan:** But this is not money that you are going to get. I mean this is an investment effectively right. You are not going to get this money back.
- Mahesh Bhangriya:** This is our investment which is in nature of current asset and classified under the same category.
- Gaurav Jalan:** So this is the part of the NBFC loan book that is receivable in the next year what you are saying.
- Mahesh Bhangriya:** That's correct.
- Gaurav Jalan:** And then you have the debt right.
- Mahesh Bhangriya:** Yes, by subtracting the borrowing. That is how we will be reaching at the 68 crores of net cash.



- Gaurav Jalan:** Okay. But I mean the reason I was just asking about this 52 crores that might be a current loan in the NBFC book, which will effectively be rolled over. Like you are not going to – one of your NBFC books, so effectively this is not cash that is reliable to the business for other needs. I mean this will remain invested in NBFC business correct.
- Mahesh Bhangriya:** You are right to an extent of NBFC portion which is close to Rs 32 crores. In fact, use of that fund also depends on the overall group's fund requirement and deployment avenues. As you might know this NBFC is a wholly owned subsidiary. The rest loan part is given to the business vendors and suppliers which will be coming back to the company.
- Gaurav Jalan:** Okay, so out of this 52 crores, 32 crores is in loans.
- Mahesh Bhangriya:** Yes. In the NBFC.
- Gaurav Jalan:** In the NBFC and the rest is actually is cash.
- Moderator:** The next question is from the line of Jagdish Bhanushali from Florintree Advisors. Please go ahead.
- Jagdish Bhanushali:** Just to understand the broader perspective as per the students that are coming to Kota, so wanted to understand where do we stand in terms of market share at present. I mean are we looking at that we have gained some market share or are we losing some market share or new classes have been opening also just wanted to have sense on that at first place.
- Mahesh Bhangriya:** In Kota, overall market is growing. Though there was a pressure in 2013-14, but from the last years onwards, the market has been growing up. And, the key players have their own market because in the tutorial, most of the students come by referrals. It's kind of an organized market where every player has their own catchment area, class of customers and target segments. So overall market is growing, our enrollments are also growing and, I believe, the market share too.
- Though I cannot comment on the market share, because none of the other players are listed and we do not have the public information available. But as per our understanding, we are growing in terms of our presence, in terms of our result outputs, in terms of quality of teaching. So the perception about our academic delivery is continually improving and that is reflected in our enrollment growth as well.
- Jagdish Bhanushali:** Right. Could you just give me a number how much is the long-term enrollment in the branches?
- Mahesh Bhangriya:** 13267.
- Jagdish Bhanushai:** Okay and in the short term?

Mahesh Bhangriya: 1011.

Jagdish Bhanushali: Just specifically wanted to understand that we were expecting some 8%, 10% of growth would be coming up Y-o-Y is what is expected, but I think it seems that does not work up in the long-term branches so wanted to get a sense, is there anything wrong in terms of our perspective or what is that exactly or it just the student enrollment, students just coming in Kota has reduced.

Mahesh Bhangriya: No, to analyze this numbers, we need to do the like-to-like comparison. We have closed two branch centers this year. So the 5% growth which you are looking right now is the non-adjusted number. If I do the adjustment of closing of our center, then the growth is 8%. We would also need to factor in the delay in medical entrance exam which made some impact on the enrollments in medical division. But even if we exclude the second aspect and just have a like to like comparison to factor in branch closure, the growth is in the range of 8% plus.

Jagdish Bhanushali: Just to clarify the closure was of branches or the franchises?

Mahesh Bhangriyay: There was closure of two branch centers.

Jagdish Bhanushali: Okay even the branch centers is there.

Mahesh Bhangriya: Yes.

Jagdish Bhanushali: Okay and specifically looking at the things that we have not cut the discount percentage what we were offering in FY15 it seems as of now. So the competitive pressures are there at the moment as well.

Mahesh Bhangriya: It is not the competitive pressure, but that is the price which you might offer to attract the quality students and your best customers. Yes, the overall price is lower than our expected realization, but we believe that going forward we would be reaching up to our expected 8% to 10% price realization improvement year-on-year.

Jagdish Bhanushali: Right. And just coming on the other income part, I think we have reported some 2.45 crores of other income, so wanted to understand out of this is that are we accounting any interest income coming from the loans and advances given to the universities?

Mahesh Bhangriya: Yes, that is included here.

Jagdish Bhanushali: So how much would that be?

Mahesh Bhangriya: Major part of this income is from the interest on loans which are given to trusts and societies, some portion includes any one-off gain on our asset sale or investment sale. As per the company's prudence accounting policy, we do not include accrued interest of dividend in our



other income. We would include the income from investments as and when we redeem those investments.

Jagdish Bhanushali: Right.

Mahesh Bhangriya: Currently what you are looking in the other income is mostly coming from the loans and advances given to related parties or to trust and societies.

Jagdish Bhanushali: Is there been actual cash flow for this time?

Mahesh Bhangriya: It varies from institution to institution. The Career Point University, Kota has surplus cash flows. So there we have realized the cash. But if the institution is in the growing phase, there the income might have been realized as receivable.

Jagdish Bhanushali: Okay, but if I could get a split, how much has come from Kota in the H2 like from total of 5 crores of other income, about 2 or 3 crores has come from Kota itself?

Mahesh Bhangriya: A significant portion is from Kota though I may not be able to give the breakup at institutional level.

Jagdish Bhanushali: Okay and just in terms of understanding, are we looking to ramp up our formal education side management fees?

Mahesh Bhangriya: Management fee is a factor of total revenues of formal education institutions. So that is automatically ramped up when there is a growth in enrollments, we add the new courses, or then the fee is increased. And, there is a further scope to add the new services as well. As the institutions are growing, there is a further scope to provide new auxiliary education services.

Jagdish Bhanushali: Right and just the terms of understanding, how much would we taking management fees in terms of revenue generation?

Mahesh Bhangriya: That is approximately 15%, though not fixed.

Jagdish Bhanushali: Right, but at the moment we are not taking 15% right.

Mahesh Bhangriya: It further varies to the institution to institution because as I said it is linked to the services we offer to the institution.

Moderator: The next question is from the line of Chetan Vaidya from JHP Securities. Please go ahead.

Chetan Vaidya: Sir my question is on the – for the margin expansion there is two reasons that closure of two branches and the operating leverage if I further delve on these two, then how much cost saving will happen because of the closure of two branches, can you quantify that?



Mahesh Bhangriya: The cost heads at branches are employee costs, study material expense and G&A. These all put together were close to rupees 50 Lakhs on each branch center.

Chetan Vaidya: Okay. All right and sir when you say the second reason was the operating leverage, so can you just briefly explain what elements are you considering in that, when you say because of the operating leverage the margin expanded.

Mahesh Bhangriya: Majority of our costs are fixed in nature. Our key component of the expenses is the employee cost which used to be around 32% to 35% on our peak enrollment periods. However, when there was a dip in the enrollments, the employee cost remained same or slightly increased in value term. This as percentage of revenue increased significantly. So that is the biggest component where we see the operating leverage is available.

Apart from this, other G&A items like rentals, facility related charges - electricity, maintenance etc would further fuel the margin expansion. Only the cost of study material is linked to the number of enrollments. Apart from cost of study material, most of the costs are fixed in nature.

Chetan Vaidya: Sir cost of study material that we have for the consolidated investment in second quarter, is this number normal for the quarterly run rate or we are missing something here?

Mahesh Bhangriya: It is roughly about 2.5% of the top line.

Chetan Vaidya: Okay and sir finally now that the Gurukul is also working out for you and the university is also doing well, so what kind of sustainable operating margin range that they provide for FY16 and FY17?

Mahesh Bhangriya: As we just discussed the scope of margin improvement, on that basis we are targeting, and pretty hopeful as well, to achieve 30% plus level of margins in 2017 and 2018 onwards.

Chetan Vaidya: Seventeen and eighteen onwards. Okay, it will take that. What would be the tax rate for FY16?

Mahesh Bhangriya: We record normal tax rate of 30% on our PBT. However, last year there was a deferred tax element due to the asset sale. This year we do not have that, but we have a MAT credit available which is close to 4 crores at consol level. Utilization of MAT credit will impact the effective tax rate which would be adjusted from the normal tax rate of 30% on our PBT.

Moderator: Mr. Rahul Jain, you may go out with your question please.

Rahul Jain: Just on this Gurukul thing which we were contemplating in the new location, have we shortlisted any location?

Mahesh Bhangriya: Presently, we are under the regulatory process at Rajsamand where we already have the technical campus. So that has already been shortlisted and reason being that we already have

our business operations over there. Second location is likely to be Mohali, again for the same reason, as we also have our technical campus here. So these two locations are already shortlisted and we would probably be starting our operations next year.

The other locations are in evaluation phases most likely in the major education hub. Interestingly, we also have land parcels at some of the other locations like Gwalior and Abu Road. So that would be a reason for our preference to these locations, though everything depends on the market assessment and feasibility report of those areas.

Rahul Jain: Okay, so primarily we would like to leverage on the location which we have already present. We are not looking for some new areas altogether.

Mahesh Bhangriya: We are exploring other locations as well, but nothing has been concluded as on today.

Moderator: Thank you. As there are no further questions from the participants I would now like to hand over the floor back to the management for their closing comments, over to you sir.

Mahesh Bhangriya: Thank you very much to join our earnings conference call. We would be very happy to answer any further queries or if you need any additional information, please let us know. Thanks again.

Moderator: Thank you very much sir. Ladies and gentlemen with this we conclude today's conference call. Thank you for joining us. You may now disconnect your lines.