



“Career Point Limited Q1 FY2017
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Career Point Q1 FY2017 earnings conference call, hosted by Systematix Shares & Stocks 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 this conference call, please signal an operator by pressing “*” and 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 & Stocks. Thank you and over to you Sir!

Rahul Jain: Thank you. Good morning everyone on behalf of Systematix Shares. I welcome the senior management of Career Points represented by Mr. Pramod Maheshwari – Chairman, CEO & MD of the company, Mr. Mahesh Bhangriya – Vice President of Corporate Strategy at Career Point. I would request Mr. Maheshwari to take us through the Q1 numbers and give us some insight into the recent development of the company. Sir over to you now! Thanks.

Pramod Maheshwari: Thank you Rahul. Good morning ladies and gentlemen. This is Pramod Maheshwari, Managing Director and CEO 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 most of you have received the copy of our earning update on your e-mail. It is also available on Investor relationship section at our website www.cpil.in. First I will give you update on the business then Mahesh will take you through the financial overview of first quarter of the current financial year.

If you look at our company, Career Point has evolved from a test player to a total learning solution provider. Strategically, we have been fairly successful in placing the company as perfectly aligned with the current industry and economy dynamics.

Initially we started diversifying into the formal education through school and universities. That has actually provided annuity and sustainability to the company, which is essential element for any successful enterprise.

Then we aligned our expansion with the government and economy’s current focus that is skill development. It was very cautious and thoughtful decision and within a very short span of time we have now reached at a stage where we can take advantage of this large opportunity available in the country. Our confidence is build upon the company’s successful association with Central and State Government agencies along with affiliation to various Sector Skill Councils.

While we were diversifying into formal and skill development space; in tutorials, we increased our focus on asset like school integrated program. Parallely, observing the increased use of technology among youth, we also started using technology to deliver tutorial education because demand for such product is growing repeatedly and the market for these services is not confined with country boundary.

The best thing with us in ed-tech space is our longstanding reputation as an education brand. What we have experienced lately is that most of the technology companies in education space are facing challenges. Because to make a successful education technology business; we believe, along with the technology in content, your recognition and acceptance as an educational brand is very crucial. That is the key reason, Career Point's wholly owned educational technology subsidiary is witnessing high growth not just in topline but also at profit level.

Unlike other ed-tech or e-commerce players, we do not incur significant expenses on marketing and promotion. So in brief the company business is gradually getting the best place to capture the enormous potential and opportunities available in right pocket of education sector and economy at large.

Coming to the division specific update, I will first start with the tutorial service division where we have enrolled more than 9000 students, precisely 9125 by the end of first quarter against 12570 in the same period previous year. The decline in enrolment is attributed to two key reasons. First, declined interest in engineering courses which has impacted the number of aspirants preparing for engineering and therefore the enrolment; second, Supreme Court's decision in regards to AIPMT which is now known as NEET that is National Eligibility cum Entrance Test.

Though the decision of Supreme Court for conducting a single entrance examination for all state across the nation is positive for the company, but conduction of NEET this year itself has delayed the entire session. The NEET was held on 24 July hence enrolment cycle is postponed from first quarter to post July.

As mentioned in previous call, in tutorials we have opted an asset like strategy to expand through school-integrated mode. With this approach, we have added three more esteemed institutions in our network along with our existing partnership with renowned Birla School at Pilani and Kishangarh, Techno Group of West Bengal. We are now partnered with Adani School at Mundra, Gujarat; Jindal School at Odisha and School of Scholars at Malkapur in Maharashtra.

I am also pleased to share the update that Career Point is recently partnered with Velammal School from Tamil Nadu. We are chosen their content partner where we would need to provide our content to their group of premium residential schools. Government is also encouraging its focus on test-prep segment. Therefore, along with the private schools, we are also working closely with the government for various projects in tutorial space. I hope you will soon here more on this in our next updates.

Coming to Career Point Gurukuls; as per the plan, Career Point Gurukul Mohali has been launched. We are confident to replicate the success of Career Point Gurukul Kota at Mohali location as well. Next Gurukul launch at Rajsamand is also in process and shall be operational by upcoming academic session 2017-2018.

In e-learning offering, the growth has been pretty dynamic, the video lecture solution on pen drive and SD card are now set for the next level growth.

Now moving to formal education division; which comprises of higher education, school education and vocational education, we had more than 6600 enrolments by June 30, 2016 against closed to 5900 a year ago. The enrolment split between different vertical is given in presentation. Just to highlight that majority of school admissions are completed by the first quarter. However, enrolment in higher education institution and vocational education would take place in next quarters as well.

As we all know that placement is one of the key focus areas for higher education institutions. Career Point University Kota recorded best placement in the region with 700 plus placements in 97 esteemed organizations during the session 2015-2016. Actually, the campus placement provides endorsement by other corporates to our service quality and brings higher referral for new enrolments. I believe that is the reason our both universities are performing much better in terms of new enrolment compared to other regional players and even compared to their previous year's performance.

This year at Career Point University Hamirpur, we launched an undergraduate course in Hotel Management. Interestingly, new admissions have already crossed the entire capacity and we required to report a waiting list. Similar response has also been observed in other courses such as B.Sc Agriculture, Bachelor of Computer Application etc. At Career Point University Kota in addition to the MBA in Supply Chain Management with Safe Express, MBA in BFSI with FLIP; we have also started MBA in Interior Designing from this academic session that is 2016-2017.

Based on the market research of our potential overseas target areas, we have also commenced Master in Public Health at Career Point University Kota. In skill development too, we were successful in providing placement to more than 50% of the total candidates plus self-employment opportunities. The entry in skill development has been satisfying and exciting too. It is really a need of the nation and provides us a large opportunity to deliver the quality education to reach the masses.

Just to have the glimpse of opportunity; the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) version 2, which is one of the Central Government's flagship scheme and Career Point is a participant in this, was launched on July 2016 to train more than 1 Crores youth for the next four years with an outlay of Rupees 12000 crores. Based on our initial progress, partnerships and affiliations, we are quite hopeful for a higher growth going forward in this division.

Now I would like my colleague Mahesh to give you financial update. Over to you Mahesh!

Mahesh Bhangriya:

Thank you. Good morning ladies and gentlemen. I am pleased to share an overview of our financial results for first quarter ended on June 30, 2016 of the current financial year. Let me first give you a brief update on enrolment numbers.

By end of the period, we had 16270 enrolments in both formal and informal education division against 18438 a year ago. The decline in total enrolments was due to drop in tutorial divisions only. Other divisions have shown higher enrolments compared to previous year. In school division, the enrolments are close to 3500 with y-o-y growth of 27%.

In higher education, previous year's enrolment number includes numbers from technical campus at Rajsamand as well which we are converting to CP Gurukul from next year. Adjusting this number, our higher education enrolments are also higher than previous year. In fact, it shows more new enrolments because gradually the pass out numbers are also increasing year on year.

Coming to financials at standalone level; the company reported an income from operation of Rs.16.1 Crores in the quarter, which is almost same to Rs.16.2 Crores reported same period previous year. The key highlight here is the increased contribution from new growth avenues. The new businesses have provided a more sustainable base for future growth, which as mentioned earlier in the call, is more aligned with the current industry dynamics. If we look at total income, including the other income on standalone basis, it has stood at Rs.17.8 Crores against Rs.18 Crores in Q1 FY2016.

Just to bring your notice here, last year we had a one-off income of Rs.44 lakh from an asset sale in the first quarter. Adjusting this, the total income grew by 1% year-on-year. At consol level, the company reported income from operations of Rs.18 Crores with y-o-y growth of 3%. The growth at console level is mainly attributed to two of our wholly owned subsidiaries Career Point Eductech Limited which is into education technology businesses and second Srajan Capital Limited which is an NBFC.

Coming to margins, the reported EBITDA on standalone basis came at Rs.3.08 Crores with y-o-y growth of 3%. At console level, the EBITDA was further increased by 38%. The reported EBITDA was Rs.4.64 Crores with margins of 25.7%. The year-on-year margin improvement of 648-basis points speaks about operational efficiency which company has achieved against previous year.

The operational efficiency was achieved despite higher cost of study material. The cost of study material as percentage of sale increased from 2.1% to 3.3%. The growth in EBITDA and EBITDA margins reiterate management's continuous focus on profitability and sustainability of the business.

The net income at standalone level was reported at Rs.2 Crores in the quarter under review against Rs.2.35 Crores in same quarter last year. However, if we adjust this number with the last year one-off profit from the asset sale, we will see an increase at bottomline as well. At consol level, the reported net profit of Rs.2.3 Crores was almost same as first quarter of the previous year. As on June 30, 2016, net-worth of the company was Rs.355 Crores and cash equivalents were Rs. 38 Crores.

Coming to the key subsidiary operations, I am pleased to update that our subsidiary Career Point Edutech Limited reported a y-o-y growth of 35% in revenues at Rs.21 lakhs with EBITDA of 84% in the quarter. Srajan Capital Limited our wholly owned subsidiary for NBFC activities grew by 172% at revenues of Rs.1.36 Crores and profit after taxes of Rs.35 lakhs.

All-in-all the growth into new business ventures and further improvement in operating margins are some of the key highlights of the quarter which set a good platform for upcoming quarters and more sustainable annuity driven growth going forward. Now, I would like to request Mr. Maheshwari to summarise the update.

Pramod Maheshwari: Thank you Mahesh. In conclusion, the first quarter of this fiscal has given a good start as per our long-term vision of the company. New enrolments in tutorial divisions are below our expectations; however, as I said earlier the company has been graduated from a single division to multiple growth avenues. Now performance of one vertical does not impact the company's profitability to a significant level. Good thing is that company's new businesses are perfectly in sync with the current and future market dynamics. We are quite bullish with our transformational initiatives and new ventures, and looking forward for an accelerated growth path for the company in coming years. Now the floor is open for question and answer.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Chetan Wadia from JHP Securities. Please go ahead.

Chetan Wadia: Good morning and thanks for the opportunity. My question is can I have the revenue breakup between formal education and informal education quarter-on-quarter and year-on-year comparison?

Mahesh Bhangriya: Out of Rs.18 Crores of total revenue, we had Rs.17.2 Crores from informal education.

Chetan Wadia: That is tutorial?

Mahesh Bhangriya: Yes, and Rs.83 lakhs from formal education division.

Chetan Wadia: And same quarter last year?

Mahesh Bhangriya: Last year it was Rs.16.71 Crores in tutorial and Rs.80 lakhs in formal education.

Chetan Wadia: In this formal education, the video on demand and lectures on SD card all the technical side of the growth that you are saying, so what is the outlook for FY2017 that you see, since it is growing at a very high rate? So what are your expectations that where it can reach by end of FY2017?

Pramod Maheshwari: The video lecture on demand business is being done under wholly owned subsidiary of Career Point that is Career Point Edutech Limited. I will just give you bit of background before I give you future outlook. We started this video on demand initiative almost one year ago. Last year we

recorded close to Rs.50 lakh of sales of video on demand in educational technology subsidiary without incurring any advertising or marketing. We were just doing pilot last year and seeing the repeat purchase we were quite motivated. This year we are slightly aggressively promoting this. So we have opted various sales channels including e-commerce websites like Amazon, Flipkart and also having our own website where we are selling these and we are seeing almost 100% growth this year so far.

We believe this is going to be a very big business opportunity for the company in tutorial space. As decentralization of tutorial if at all happens then it provides us an edge to reach out with the large masses specifically in small places where setting up center is not economically viable. I believe that this year based on the current status, our education technology subsidiary will grow approximately by 100% to 150% with very strong margins.

Chetan Wadia: One more question if I may in opening remarks you said because of the decline in interest for the engineering courses and for the NEET entrance there was a fall in the tutorial enrolment, so how serious is this trend of decline in interest in the engineering courses for your tutorial business?

Pramod Maheshwari: Engineering is of a concern, because we are observing that there are large numbers of vacant seats even in the engineering college which simply indicates that there is no taker for engineering courses in normal engineering colleges. It obviously will impact the number of students aspiring to get into engineering. So may be it is a temporary phenomenon for this year, but we are cautiously watching the behavior of the students what they are looking forward.

However, as far as the medical entrance is concerned, I personally believe the market is increased in multifold. Earlier different states used to conduct their own entrance test but recently Supreme Court has passed a decision, which has also been passed by cabinet that there will be only one single entrance examination for all medical colleges across India. So, that actually created a huge market for NEET aspirants and we believe that there is a large opportunity for future growth.

Chetan Wadia: That is it from my side and all the best Sir.

Moderator: Thank you. The next question is from the line of Gaurav Jalan from Avant Garde Wealth Management. Please go ahead.

Gaurav Jalan: Good morning. I have few questions. With regard to the tutorial enrolment, we are explaining some of the reason why the enrolments are down, but what I want to understand even though enrolment as a whole for long-term overall it down to 23% year-on-year, but revenues are almost flat. So basically if I take revenues per long term enrolment per student has gone up from about 16000 last year to almost 20000 this year. So I could not understand that and can you explain the rationality behind this. Has there been some kind of reclassification wise revenue per student or per enrolment jumping so much?

Pramod Maheshwari: There are multiple reasons for this. One is increased realization per student, so we have increased the fee structure of the student by almost 10% in regular classroom programs and approximately

by 25% in residential program. The second reason is school association programs which have also contributed higher in revenue compared to proportionate increase in student numbers.

Maresh Bhangriya: Third reason is the reduction in scholarship versus last year. A lower scholarship has been given versus previous year which resulted an overall improvement in the average realization.

Gaurav Jalan: Can you just explain what the school association program is and how does it increase your revenue per student?

Pramod Maheshwari: In these programs, we partner with the schools to provide tutorial services to their students. As per the pricing structure, we charge school a minimum revenue or a fixed amount per student whichever is higher. We need not to incur any capex in this; we need to just depute our faculty members at school location to provide tutorial services for their students. Schools give us fee which either they collect from the students or sponsor for the students.

Gaurav Jalan: In terms of cost structure in your tutorial business assuming let us take a scenario where your revenue for the entire remains flat on a standalone basis. For the first quarter, you have been able to maintain profits, because costs have not gone up. So what is the outlook for the costs on a full year view, do you expect kind of maintain the same cost levels as last year or do you have room for increases in cost?

Pramod Maheshwari: I think there will not be any significant increase in costs; it is likely to be more or less the same.

Gaurav Jalan: What is the amount of formal education revenues that you have booked in the standalone numbers?

Maresh Bhangriya: Rs.83 lakhs.

Gaurav Jalan: What was the amount last year?

Maresh Bhangriya: Rs.80 lakhs.

Gaurav Jalan: Why is the increase only marginal in the formal education revenue that you are booking? Given that your enrolments, should not we be getting higher revenues?

Maresh Bhangriya: If we look at the enrollment breakup of formal education division; the higher education enrolments, which are the key contributor to formal education revenue, have not gone up as of first quarter. The enrolments are likely to take place in the second quarter which shall translate incremental revenue from the formal education division.

Gaurav Jalan: I understand but that seasonality rates I am talking about year-on-year comparison, so what is quarter one last year, you would have at the same scenario where even last year Q2 would have been better, but just compared to last year why has your revenues have not gone up?

- Pramod Maheshwari:** Lot of things depends upon the admission cycle. Actually, the quarter ends at the time when admission process is about to begin or just begun like June and July. So first two weeks of July and last week of June are the critical days for admission process to take place and sometime it happens before June 30, sometime it overflow after June 30. Hence we might see these kinds of variations.
- Gaurav Jalan:** Just moving onto the capital employed in the formal education business, if you can just give an update on that as of Q4 you had Rs.132 Crores employed in the formal education business and another Rs.27 Crores in the NBFC and what are those figures like as of Q1?
- Mahesh Bhangriya:** In formal education, it is same and in NBFC, it has increased to Rs.44 Crores by Q1.
- Gaurav Jalan:** So NBFC, the capital employed in the business has been going up quite dramatically. Can you talk about like what your strategy there in terms of how fast you all will grow that business also just now you got Rs.44 Crores investment in that business and what is some of the cost ratio or any other matrix that you can disclose on that business?
- Mahesh Bhangriya:** The NBFC standalone numbers calculates ROEs of close to 23%.
- Gaurav Jalan:** This is on completely unleveraged book; or are you taking any external loans?
- Mahesh Bhangriya:** No, external loans as of now.
- Gaurav Jalan:** So what are the rate that we charge your students, how will be make a 23% ROE, what kind of interest you charge?
- Mahesh Bhangriya:** In the students' educational loans category, the rates are in the range of 12% to 14%. But the company also has other institutional or trade finance lending where the interest rates are relatively higher - somewhere between 15% and 18%.
- Gaurav Jalan:** Can you disclose some of the operational metrics in the business in terms of repayment rates and NPAs whatever?
- Mahesh Bhangriya:** Well, as of now we have not observed any NPA and the loan duration for repayment is less than a year.
- Pramod Maheshwari:** I will just add to Mahesh reply. In NBFC all the finances, which we do, are either education to the students or to the educational institution or to trade finance. Trade finances are primarily securitized and currently there is no NPA. Talking about the processes and systems, it is a very professionally driven NBFC. Usually the loan term is six months to one year, not more than that.
- Gaurav Jalan:** What do you mean by trade finance in NBFC, what kind of loan is that?
- Pramod Maheshwari:** We give finances to the traders who require working capital for five -six months to a year timeframe.

- Gaurav Jalan:** This is completely non-education related trade finance?
- Pramod Maheshwari:** The trade finance is non-educational.
- Gaurav Jalan:** It is collateralized or uncollateralized?
- Pramod Maheshwari:** Collateralized
- Gaurav Jalan:** Collateralized by fixed assets or inventory and working capital?
- Pramod Maheshwari:** Usually fixed assets.
- Gaurav Jalan:** Okay, how do you want to grow this business because in the lending business I mean it depends on your strategy, you can put in today 44 Crores it could go to 100, 200 Crores if you want, so what is the company strategy I mean how fast we want to grow this business?
- Pramod Maheshwari:** Presently our focus is to strength our systems and processes because when you start building books the process needs to be very strong. So the focus is currently to build processes and we are looking forward for opportunities to finance where requirement for fund is from six months to one-year time and generally collateralized by fixed assets, not by inventory.
- Gaurav Jalan:** Okay, but going forward do you expect to continue to deploy more equity in this business because normally in lending business you need to have some kind of leverage right because otherwise the economics do not making sense I mean why are you continuing to put equity in the business and not keep on some debt?
- Pramod Maheshwari:** We are open to take debt. But as I said that we are currently in processes of putting up perfect structure for the business, so as going forward we will leverage the book.
- Gaurav Jalan:** Who is the management team who is running the business, who is the person who is heading this business and what is the background?
- Pramod Maheshwari:** There is five people team, which primarily involved in this business. Out of those five, two are chartered accountants who are on our payroll and one is consultant. The CFO of the company, Mr. Om Maheshwari take cares of all key decisions. Primarily we are a region specific NBFC, so current focus is only on towns like Kota and neighborhood.
- Gaurav Jalan:** Okay you only focus on Kota and Sir what is the second town?
- Pramod Maheshwari:** And neighboring towns where we understand the business dynamics pretty well.
- Gaurav Jalan:** Just one last thing I will just go back to the capital employed for a second, what is the status of the bank loan that Kota University was supposed to get and that money was supposed to come back to the company that has been I think it has been almost a year or even more since that

process has been going on, but we have not seen those funds come through, so what is the status of that?

Pramod Maheshwari: We have already concluded the terms with the bank and we have also signed the term sheet. The documentation process is on nowadays.

Gaurav Jalan: But was not that, I mean during the Q4 conference call I think, the status was the same right? You had said that you have signed the term sheet and the documentation is on, so it is things are fairly long timeline?

Pramod Maheshwari: We had not signed the term sheet, we were negotiating a couple of terms which were not acceptable to us.

Mahesh Bhangriya: Earlier we received the term sheet from the bank, but it was not signed from our end. But now, we have concluded the negotiation on various terms and signed back from our end.

Gaurav Jalan: Sir would it be fair to assume the cash to come in this quarter and the loan to be disbursed this quarter?

Mahesh Bhangriya: I think whatever time generally the processes take, it will be completed within that timeframe.

Gaurav Jalan: The reason I am asking is as an overall strategy on the capital employed in the formal education business, so it is a bit confusing and the other thing also that you had mentioned just the underlying cash flows in the business I think last year during the Q2 call or Q3 call you mentioned that around Rs.10 Crores cash generation would be there from the formal education business, so basically where do we end up from 133 Crores as of now to end of this year let us say will this figure go down to around 90 Crores given the bank loan and the cash generation?

Mahesh Bhangriya: Yes, the investments in formal education will come down post the bank loan. But apart from the bank; two of our institutions, the universities are performing well and the loans from those institutions are coming down. But at the same time, the other two institutions whom company has given the loans which are still in process to generate the cash flows. We have already restructured their business operations. But presently the interest is being capitalized on those loans. That is the one of the region that you do not see a reduction in total loans and advances.

Gaurav Jalan: Thank you Sir.

Moderator: Thank you. Next question is from the line of Ajay Modi from Piper Serica Advisors. Please go ahead.

Ajay Modi: Mr. Maheshwari and Mahesh Ji can you quickly give me a breakup of income from operations I mean what is the income from formal and informal?

Mahesh Bhangriya: It is rupees 83 lakhs from the formal education division and 17.2 Crores from the tutorial which is informal education business.

- Ajay Modi:** When I see on a consolidated basis the breakup would be?
- Mahesh Bhangriya:** The break-up is given for consolidated level.
- Ajay Modi:** Okay, so second question is regarding the enrolment numbers, can you throw some light on the breakup of formal education?
- Mahesh Bhangriya:** Formal is made up of school education, higher education and vocational education, which is skill development. As given on slide number #18 of our presentation, formal education enrollments include 2984 in higher education, 3451 in school education and rest 210 in Vocational.
- Ajay Modi:** But that is on sectoral basis, I am talking about your campus basis like what is the number in Career Point University Kota and Hamirpur and Career Point Gurukul Kota and I suppose Career Point Gurukul Mohali has also begun, so what are the numbers there?
- Mahesh Bhangriya:** We do not disclose institutional break-up because of the strategic reasons.
- Ajay Modi:** But percentage breakup if I would ask you a percentage breakup?
- Mahesh Bhangriya:** It would be the same thing, Ajay.
- Ajay Modi:** If you can throw some light on, let us say what this number.
- Mahesh Bhangriya:** Well, let me throw some light on the enrollment trend in the different verticals of formal education division comprising schools and universities. There has been a growth in enrollments at school education. The enrollments at University education appear to be declined because these are net enrollments, I mean factoring the pass out numbers. The second quarter numbers shall give us better comparison as majority of new enrollments will take place in second quarter.
- Ajay Modi:** I completely understand the cyclical nature and given the fact that this year admission period is a bit longer, so what I wanted to know is when you say higher education, higher education comprises only of University Kota and University Hamirpur right?
- Mahesh Bhangriya:** Correct.
- Ajay Modi:** School education?
- Mahesh Bhangriya:** School education comprises residential and day boarding schools. Day Boarding Schools are Global Public School at Kota, Career Point World School in Jodhpur and Career Point World School Bilaspur, which is our one of franchise school. Residential school is at Gurukul Kota.
- Ajay Modi:** So this number does not have Gurukul Mohali as of now?
- Mahesh Bhangriya:** Yes, as of now we have not included. The present enrollment number in that campus is close to 50.

- Ajay Modi:** Another thing that I wanted to understand is that now the enrolments for formal education stand at 6645 right, so where would this number head to may be end of the year, I mean what percentage growth can this number see by the end of the year?
- Pramod Maheshwari:** The enrolments are almost over in school education. So there would not be any increase during the year. However, higher education enrollments will be increased in coming quarters. That would be around 700 to 1000 new enrollments. Whereas enrollment in vocational education is an ongoing process and also depends on the government orders. Here, we may see enrollments close to 2000 or more by the year end.
- Ajay Modi:** What is the average fee I mean, I suppose the average fee per student has been increased this year from last year?
- Mahesh Bhangriya:** In?
- Ajay Modi:** Formal education?
- Mahesh Bhangriya:** Yes.
- Ajay Modi:** So what is the percentage increase?
- Mahesh Bhangriya:** On blended basis, the overall increase is close to 10%.
- Ajay Modi:** In your balance sheet I see, so loans and advances has gone up from 46 Crores, 47 lakhs on March 31, 2016 to 104 Crores, so what is the reason?
- Mahesh Bhangriya:** Actually, this is a result of reclassification from long-term loans and advances to short-term loans and advances. Hence, we need to club both numbers to see the exact picture. There has been a net increase of Rs.10 to Rs.11 Crores in loans and advances which include Rs.5 Crores in NBFC subsidiary and 5 crores others.
- Ajay Modi:** So on a quick note can you help me with how is the revenue recognition done in this business, I mean how do you recognize if a student has paid in all when he has taken an admission in the university?
- Mahesh Bhangriya:** From the university, we charge on quarterly basis irrespective of what fee payment terms he has with university.
- Ajay Modi:** School part?
- Mahesh Bhangriya:** It is same. The quarterly payment terms from the schools as well.
- Ajay Modi:** So when you say this number quarterly in schools, the fees go to the trust right and the trust pays us the management fees?

- Mahesh Bhangriya:** Yes.
- Ajay Modi:** So trust pays on quarterly basis or annual basis?
- Mahesh Bhangriya:** Quarterly basis.
- Ajay Modi:** Okay, that is all from my side, thank you.
- Moderator:** Thank you. Next question is from the line of Mohit Balakrishnan from Rare Enterprises. Please go ahead.
- Mohit Balakrishnan:** On the enrolments you have seen around 30% drop, so how does that change your yearly numbers now. I mean the operating leverage that we have been talking about over the last few quarters is largely dependent on our enrolment going up, so how does that entire change it now?
- Pramod Maheshwari:** The enrolment drop is 23%, not the 30%. Yes, a decrease in enrolment numbers might not allow us to enjoy the operating leverage this year; however, the medical enrolments are still powering in. One new batch is starting today and next one is coming up in third week of this month. So the trend of medical admission will decide the numbers going forward at our branch centers but at the same time increase in school association programs have provided us an opportunity for operating leverage. So I believe the tutorial will remain more or less flat for this year.
- Mohit Balakrishnan:** In terms of revenue or in terms of enrolment?
- Pramod Maheshwari:** In terms of revenue. In terms of enrolment, a decline is likely to be observed.
- Mohit Balakrishnan:** Just in terms of your university can you broadly give how are the two universities doing in terms of some colour on the financials?
- Pramod Maheshwari:** Both the universities are profitable and performing better year on year in terms of financials. Both universities have started generating double digit return on their investments.
- Mohit Balakrishnan:** But in terms of that flowing through either our P&L or balance sheet, what is the outlook on that?
- Mahesh Bhangriya:** Both universities are generating positive cash flows, by which they are making 3 kinds of payments. First, auxiliary education service fee; second, interest payment on the loan; and third, loan repayments.
- Mohit Balakrishnan:** So the reason why I am asking this is what if you look at your debtors and also loans and advances so then have increased, so debtors is flat and loans and advances are increased by 10 Crores, so that positive cash flow is not being reflected in the numbers?
- Mahesh Bhangriya:** For this, we would need to see individual institution-wise loan break up. As mentioned, these two universities are providing the positive cash flows, but other two institutions where the company deployed money to set-up technical campuses are yet to generate positive cash flows.

These campuses are restructured in their offerings as Gurukul campuses. As of now, the interest is being capitalized and that is the reason overall loans and advances are still the same.

Mohit Balakrishnan: In terms of you mentioned in the call somebody had asked about the ROEs in NBFC it is a very nice question, but if your spreads are in the range of 12% to 18% and you are deploying all amount as equity, how would your ROE be 23%?

Mahesh Bhangriya: Because, at the subsidiary level, entire amount is not in form of equity. Parent company has also invested a portion by way of loans.

Mohit Balakrishnan: Let us say your capital at any point of time employed is let us say 100 right, that is how you will define your equity as right?

Mahesh Bhangriya: Right. So out of capital employed of Rs 100 from the parent company, if Rs.20 are invested in form of equity and rest Rs.80 in form of loans. Then, while calculating the ROE, we need to calculate it on Rs.20 of equity investment.

Mohit Balakrishnan: And last couple of questions on the tutorial side. Our enrolments have fallen by almost 25%, but our profit margins have actually sustained, actually increased by almost 100 basis point. Why and would that is sustainable?

Mahesh Bhangriya: The margins are sustained or advanced a bit on account of improved operational efficiency. For example, few faculty resources have been deployed at our new school association projects. Similarly, we are managing cost heads to improve efficiencies.

Mohit Balakrishnan: But is it sustainable because at some level you will have to sort of increase these cost right?

Mahesh Bhangriya: I do not think that for this year we will have to incur further incremental costs. Most of the costs are fixed in nature that gives us a visibility in advance.

Mohit Balakrishnan: If you look at the real metric to follow, would it be volume which is enrolment side because that shows the strength of the business?

Pramod Maheshwari: Very true. As perhaps Mahesh answered one question in the beginning that average realization per student has improved. So while we are working at the enrolment metrics; at the same time, we have to ensure that it gets translated in terms of revenue. We critically analyze, how the per student realization is moving. It makes more sense if cumulative effect of fee increment and cut in scholarship result higher revenue despite a lower enrollments. That is also one of the reason that we are not setting up new branches as of now. And, we are expanding through school partnership programs where we need not to incur any capex or center overheads.

Mohit Balakrishnan: Sir just while we are on this, so if you on an apples-to-apple basis can you give us the profitability of tutorial division excluding the hostel and the residential program, would you have that number?

- Pramod Maheshwari:** We do not report separate profits while excluding hostel and residential offerings. Also, it is difficult to allocate the costs-split because a lot of resources are shared between regular classroom coaching and residential offerings.
- Mohit Balakrishnan:** Just two more questions, one on the overall environment. Have you seen that enrolments falling across your peers as well in the region that you operate or it is more related to us because I was reading, there are few other institute which seem to be doing fairly well even now?
- Pramod Maheshwari:** There is even sharper decline in other institutions in our peer group. It is a phenomenon across.
- Mohit Balakrishnan:** Got it and lastly on the loan that was supposed to be sanctioned. You must be in touch with the bankers, so any visibility that you can give us how soon or what time can it take from now for this to happen?
- Pramod Maheshwari:** The term-sheet has been signed from both ends and now the documentation process is going on. So, I think soon we will give you the next update.
- Mohit Balakrishnan:** You also run an NBFC so you would know that typically how much time does it take from after signing a term sheet to disbursing of a loan?
- Pramod Maheshwari:** I take your point and that is why I said soon you will listen an update from us. But a specific timeline is difficult to be given because an external bank, whose processes may differ with an NBFC, is also a party in this to conclude the things.
- Mohit Balakrishnan:** Got it, the question is what are the chances of it falling through from here is largely what I am trying to understand?
- Pramod Maheshwari:** We expect it soon to be concluded because the term sheet has already been signed, processing fee is paid and documentations have been started.
- Mohit Balakrishnan:** Thank you.
- Moderator:** Thank you. Next question is from the line of Shekhar Singh from Excelsior Capital. Please go ahead.
- Shekhar Singh:** Just one thing on the revenues which we reported from the formal education of 83 lakhs and if you look at the enrolment of 6645 that works out to around Rs.1250 per student, so this is basically the portion that you are getting from the trust or what exactly this number as such because the 83 lakhs corresponding matching with 6645 enrolments?
- Mahesh Bhangriya:** It's a good point. Let me just clarify that 6645 is total student strength in our formal education institutions. Whereas, auxiliary education fee's major component is admission fee which is charged on new enrollments only. So existing students do pay their fees to the institutions but the company does not charge admission fee.

- Shekhar Singh:** So the number 2984 for higher education, 3451 for school education, this is the total enrolment of these institutions?
- Mahesh Bhangriya:** Yes.
- Shekhar Singh:** This is not the fresh addition.
- Mahesh Bhangriya:** Correct, this is not the fresh addition.
- Shekhar Singh:** So if I understood correctly when a new student joins the campus then you get a certain amount of money, but if the student keeps staying in the same school or college then you do not get anything over and above this?
- Pramod Maheshwari:** The auxiliary education services comprise of couple of services including admission services and other ongoing support services. Admission service is charged one time from the institution for the fresh admission, whilst the nature of support services may vary as per the requirement of institution.
- Shekhar Singh:** Understood, just to understand Sir the number of 2984 for higher education in terms of your capacity what percentage was this?
- Pramod Maheshwari:** This is approximately 35% to 40% of the capacity.
- Shekhar Singh:** 35% to 40% capacity and same thing school like currently at three, four, five months that number is not going to change now for the year, so what is that capacity utilization?
- Mahesh Bhangriya:** Though it varies school to school, as one school is at full capacity and other new schools are at around 40% capacity. On blended basis, the capacity utilization is approximately 50%
- Shekhar Singh:** 50% of total capacity and how does the profitability change as we moved to say around 75% to 80% capacity utilization?
- Pramod Maheshwari:** As most of the costs are fixed in nature, major portion of the incremental revenue will flow down to the bottomline.
- Shekhar Singh:** Any timeline in terms of reaching that sort of capacity utilization?
- Pramod Maheshwari:** Three years.
- Shekhar Singh:** Three year from now or from the time the colleges and school?
- Pramod Maheshwari:** Three years from now excluding this year.
- Shekhar Singh:** Thanks a lot Sir.

Moderator: Thank you. We will be taking the last question from the line of Gopinath Reddy who is an individual investor. Please go ahead.

Gopinath Reddy: Sir this is regarding the enrolments in tutorials, how are we seeing this decline going forward this year? It is as you said it maybe less than last year, first question is how much percentage less it may end up because you might have already got numbers as July is also over and the second thing is going forward in the next couple of years how do we see this tutorial division performing?

Pramod Maheshwari: There is a decline in engineering aspirants enrolment; however, enrollments in medical division are still growing because the medical entrance exam was just concluded on July 24 for 12th passed students. A large number of students prepare for medical entrance examination after their class 12. So we will be able to get a clear picture in terms of enrolment numbers by end of Q2. Second question which you asked in respect to the trend, I guess there could be a pressure in engineering enrolments. However, there is an opportunity for growth in medical.

Gopinath Reddy: Okay the growth for the company is expected from the formal division in this case?

Pramod Maheshwari: There is ample growth opportunity in tutorial as well, such as School association program, e-Solutions etc. Actually, a bit of decentralization is happening in case of tutorial. To leverage this, we are expanding through partnership with school campuses and a large number of schools are also approaching us. Recently we partnered with leading educational group of Tamil Nadu – Velammal. Secondly, the technology driven solutions wherein experts' video lecturers are being provided to the students on pen drive or USB and also on the internet. This offering is also picking up.

So, in my opinion, there is plenty of opportunity to grow in tutorials but the format of delivery is gradually changing. The delivery in future will be different than the past. Good thing is that the company is completely aligned with the changed format of growth and the tutorial business will grow with the new formats.

Gopinath Reddy: Okay, last question Sir, is this the lesser interest in engineering among the students is more in Rajasthan area or across, wherever we are working as of?

Pramod Maheshwari: This is observed across India.

Gopinath Reddy: Thank you Sir. That is all from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Rahul Jain for his closing comments.

Rahul Jain: Thank you all for joining in today. Any closing comments management would like to give?

Pramod Maheshwari: Thank you very much for joining the call. I think we were running short of the time, but in case you are left with any queries please feel free to reach us. We will be happy to answer as quickly as possible. Thank you very much.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Systematix Shares and Stock Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.