



“Career Point Limited Q4 FY2017
Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Career Point Q4 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 the conference call please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Jain from Systematix Shares & Stocks. Thank you and over to you Sir!

Rahul Jain: Thank you Janice. Good morning everyone. On behalf of Systematix Shares I welcome the senior management of Career Point represented by Mr. Pramod Maheshwari, CEO and MD of the company, Mr. Mahesh Bhangriya, VP, Corporate Strategy at Career Point. I now request Mr. Maheshwari to take us through the 4Q and fiscal 2017 numbers and give some insight into the recent development in the company. Over to you Sir now!

Pramod Maheshwari: Thank you Rahul Ji. 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 must have received the copy of our earning updates on your e-mail. It is also available on Investor Relations 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 fourth quarter in financial year 2016-2017. I am glad to share that company’s performance is improving year-on-year basis. All the divisions of the company have been performing quite well and contributing to the company’s overall growth, in fact this is in line with our vision to transform company from a pure coaching player to a complete educational service provider.

The company is now very little dependent on any specific division’s performance. The sustainability of the business growth is no more a big challenge. We are also striving hard and putting efforts to achieve the leadership position in each of division in which we operate. In last couple of years, we believe we have transformed the company into a flexible organization, which respond to the changes fast and align itself with the changing market dynamics.

Just to reiterate our business philosophy we never chase topline we believe in profits. We do not believe in burning huge cash to build businesses. For sustainable business we shall focus on its long-term acceptance and relevance to the market. Just to substantiate my statements with the facts, I would like to share that venturing into the formal education businesses including universities and schools have given the company a highly sustainable platform for the long run.

Similarly in the tutorial sensing ahead the changing business dynamics; instead of spreading footprints through network of company owned branches, we started early on school association



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projects, which provide company access to the unrepresented territories without any significant capex. In fact we were one of the first in the coaching sector to launch school association project and at present having one of the largest association network with prestigious group like BITS Pilani, Velammal Group Tamil Nadu, Techno India West Bengal, etc.

In line with this strategy our alliance with Chhattisgarh Government in Dantewada and Korba with Jindal school in Jharkhand, Adani school in Gujarat are being continued for the next academic session as well - that is 2017-2018.

Apart from school association we are growing our tutorial business and improving our footprints by way of franchises. For the coming academic session we have further added new franchises at Trivandrum in Kerala, Rourkela in Odisha, Gwalior in Madhya Pradesh and Bhagalpur in Bihar and two locations in Gujarat at Himmatnagar and Modasa. These developments have not only given our tutorial division a sustainable growth going forward, but also addressed the concern of geographical concentration.

Coming to CP Gurukuls, which are residential school come coaching campuses; I am pleased to share with you that there are no more seats for boys vacant in Gurukul Mohali. The campus was launched last year and has received overwhelming response. Similarly Gurukul at Rajsamand has also been launched from this academic session. This year we have not started residential facility, the current focus is to put academic system in place. We will start residential facility by next academic session.

CP Gurukul Kota has already been recognized for its overall excellence from academics to sports to extracurricular. Residents of this campus are performing well on all fronts. Just to share one of the example one of our residents from CP Gurukul Kota is Winner of Epson Smartest Young Indian Contest represented India in Global Youth Eco-Leaders Summit in South Korea and has been awarded by National Child Award for exceptional achievement in 2016 by honorable president of India Shri Pranab Mukherjee.

Moving to e-learning solution where we offer video lectures through pen drive and SD cards and online assessment services for competitive examinations. Our presence is increasing rapidly. This resulted annual growth of 162% in revenue of our Edutech subsidiary. The Edutech subsidiary recorded a margin of 48% while most of the e-learning peers are bleeding. This is testimony to our effective approach to build sustainable and profitable business venture. In addition to recorded video lecture on SD card and pen drive, we are launching video lecture on demand service - over Internet and mobile devices. You may visit our website Misostudy.com to have a look.

Moving to school division; we have added one more Career Point World School at Aurangabad from the academic session 2017-2018. The operation will be similar to Career Point World School Bilaspur. These are in addition to our existing school in Kota and Jodhpur.



In higher education both the universities - Career Point University at Kota, Rajasthan and Career Point University at Hamirpur, Himachal Pradesh - are performing extremely well and have started generating double digit return on our investments. Higher education is growing by view of adding new courses and higher capacity utilization of existing courses. From the coming academic session we have added new undergraduate and postgraduate and diploma courses in school of legal studies, applied sciences and have also added School of Pharmacy to run Diploma in Pharmacy, B.Pharmacy and M.Pharmacy.

The Career Point University has also signed a MoU with Swasthya foundation to offer UG and PG courses in Public Health Science for overseas students. The faculty of this program will also be from prestigious overseas institutions and universities. We have also executed an association with ICMA that is Institute of Cost Works and Management Accountants of India to run certificate program in Cost and Management Accounting.

Our new vertical, skill development, pre-school, this year's launches of publication division are further increasing their contribution in our own company growth. In skill development division as mentioned in the previous call, we are increasing our focus on skill assessment. We are now empaneled with Department General of Employment & Training that is DGET in seven states as an assessment agency for 11 sectors. We also have now more than 350 freelance highly experienced assessors in various verticals. All of them are either approved by Sector Skill Council or Modular Employable Skill.

Now I would request 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 result for the fourth quarter and year ended March 31, 2017.

Let me first give you a brief update on enrollment numbers, as the detailed enrollment split between different verticals is given in our earnings presentation on slide #25. We had 29,086 enrollments by end of period comprising 21,057 in tutorial and 8,029 in formal education division. This year we have started reporting of school association enrollment separately, which were earlier included in distance learning vertical.

Coming to financials, the income from operations was Rs.73.6 Crores in this fiscal with a YoY growth of 6%. At console level the revenue from operations for the quarter witnessed a growth of 10.3% over same quarter last year and in the year it was closed to 10%. The increased contribution from new school association projects and other high margin verticals resulted a growth in revenue and a much higher growth at the margin level.

The total income which is including the other income grew relatively lower as compared to operational income due to smaller investment income. As mentioned earlier that we book investment income only on maturity. The company does not recognize mark to market gains on its investment.



Coming to remarkable and continually improving operational performance, the reported EBITDA on standalone basis came at Rs.5.4 Crores for the quarter and Rs.21.1 Crores for the last 12 months, which is 20% higher versus previous financial year. The resulted EBITDA margin of 29.6% is increased by more than 300 basis points YoY.

The increase in margin is a result of operational efficiency in existing business operation and expansion through more efficient subverticals. At console level as well, the company reported an extraordinary operating performance with a YoY growth of 44% in EBITDA and margins of 35.1%. EBITDA for the year was Rs.29.4 Crores and an improvement in the margin was 812 basis points.

Moving to net profit, which was impacted by relatively higher taxes – reason being the lower investment income versus previous year, which was more tax efficient; the net income at console level was reported at Rs.17.7 Crores with a YoY growth of 22% and the PAT margin of 19%.

As on March 31, 2017, the net worth of the company was close to Rs.370 Crores and cash and cash equivalents was Rs.49 Crores excluding loans, advances and long-term investments. Thanks to receipt of Rs.35 Crores from Career Point University Kota the debtors have reduced significantly versus previous year.

The increase in inventory at console level is nothing but our investment in bonds at NBFC subsidiary. All in all the increased contribution from new business venture, an outstanding performance at profit level and a sustainable business expansion for the future growth are the key highlights for the period. Now I would like to request Mr. Maheshwari to summarize the update.

Pramod Maheshwari: Thank you Mahesh. In conclusion the year 2016-2017 has been a year to execute strategic plan and achieving continued growth rate and sustainable margin for the company in long run. The business in existing divisions has also been growing in accordance with the changing market dynamics and strategic update by the company. During this phase an exemplary financial performance specifically at profit level is quite inspiring. The management is very bullish on overall business scenario going forward. Now the floor is open for questions and answers.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Rahul Jain. Please go ahead.

Rahul Jain: I basically want to understand given that we are seeing good participation in terms of the residential business, so do we have long-term strategy in terms of how we want to grow in terms of geography as well as the scale of this business?

Pramod Maheshwari: As you know, presently we are operating three Gurukul campuses, one is at Kota which was started four years ago, another one is at Mohali, which we started last year and one is at Rajsamand, which we had just started. In Kota, the campus is operating at full capacity, so there is no further expansion possible in Kota, whereas in case of Mohali as I said initially in the briefing that this year we have no vacancy available to admit more students specifically boys in



the campus. Hence, we are planning to further increase the residential facility in Mohali campus for the next year. Currently the total capacity is around 170 students, we are planning to add 100 students capacity more for the next academic session. Similarly the Rajsamand campus is already having around 150 students residential facility available; however, this year we are not offering residential facility, we are just running it as a day school as our focus is more on putting the academic system in place.

We have couple of locations identified for which we have not started any project execution as on day. However, I will just list down the locations. The locations are Abu Road, Gwalior and Jaipur where we have already procured the land parcel and in process of starting Gurukul after we start our residential facility in Rajsamand. As a company strategy first we focus on what is already in our hand. We focus first on existing projects, we improve the business performance and make it operational and profitable and then only we go for the further expansion.

Rahul Jain: At Rajsamand, we already had the asset, so to start new operation was not the time consuming, but in case if we have land, but to create an infrastructure do we think we need to start?

Pramod Maheshwari: We have already started working for Abu. The master plan has already been ready, the architect has been appointed, he has already submitted the master plan and the layout plan of the building. However, we have not started the construction so far. We will make a decision next year sometime in the month of March post the response we get for the Rajsamand residential campus.

Rahul Jain: What is the capex that we are expecting for this?

Pramod Maheshwari: Capex for like Abu campus would be close to Rs.10 Crores. Land has already been purchased, so it is excluding land, the land is measuring around 17 acres.

Rahul Jain: So this is apart from the land?

Pramod Maheshwari: Yes, the land has already there with the company.

Rahul Jain: But if we have to understand a long-term return from this kind of a business, so how it has worked out in terms of number of students and when it should, five year is the right optimum period where we would reach the optimum size where we justify the investment or how one need to see this?

Pramod Maheshwari: To understand this you can analyze the existing Gurukul Kota and Gurukul Mohali businesses which are generating returns in double digit within three years of its operation, close to 20% on the investment.

Mahesh Bhangriya: Just to explain you through a brief calculation; campus with an enrollment capacity of 300 generates revenue of Rs 9 Crores as an average fee of Rs 3 Lacs per annum. With a margin of 55%, the project makes operating profits of close to Rs 5 Cr. That is 33% kind of return on



investment of Rs 15 Crores. Considering the initial gestation period; the return is still 20-25% or more.

Rahul Jain: And the one, which we have building now is it resi or this is also just the schooling?

Pramod Maheshwari: Residential.

Rahul Jain: And on this tutorial front how we see this trend because those concern, which we used to have in the past regarding the change in format and all those things are behind us, still we are not seeing a great enrollment growth per se, so how you see this business shaping up from a two to three year perspective?

Pramod Maheshwari: Enrollments are not restored to the earlier year in classroom formats. However, we are growing our business by school association program which is a strategy in line with current industry dynamics. We are not setting up new branches just to capture enrollments and increase bottom line, instead of that we are growing our footprints by way of more sustainable formats and efficient in terms of margins like franchising or school association programs and focusing more on utilization of capacity.

Rahul Jain: So can we say the run rate that we had in FY2017 on the enrollment front, this is the new normal and then the growth should be seen on this number as a new benchmark?

Pramod Maheshwari: I think it is too early to comment because examination result of JEE advance is yet to be declared and NEET result is also due. Post that, we will be in a better position to comment or give some sense on this.

Rahul Jain: What are the plans here because if this is how the pattern has changed and all that, but the total head count on the enrollment basis have been come off from the run rate basis, so how we see, we could increase the presence of the enrollment count in this business going forward?

Pramod Maheshwari: Thanks to multiple delivery formats, the company is on-track to achieve its growth targets. The position of tutorial classroom enrollments will be known post results of major competitive examinations such as JEE, NEET etc. However, I would like to highlight couple of points here, which will contribute in enrollment growth and eventually to the revenue. As I said, we are increasing our presence by way of school association program. We have entered into an agreement with Velammal Group in Tamil Nadu and we started our operations at around seven locations in Tamil Nadu. Similarly we have appointed around six new franchises that will also contribute growth in enrollments.

Mahesh Bhangriya: Just to add on the industry dynamics; there has been a significant growth in number of NEET aspirants. It improved from 7 lakhs to 11 lakhs, this is a clear indication of the increasing enrollment potential in medical division. In the engineering as well, the factor of board marks while ranking in JEE main has been scrapped. This shall increase the market of repeaters. I mean the students who have already secured minimum eligibility marks which are 75% marks in class



12th or in top 20% of the respective boards, will be appearing again or preparing themselves for the engineering entrance. So the market sentiments are positive for the industry.

Rahul Jain: So this jump up in the NEET enrollment is it because there was some quota shrinkage across the university or this is a separate event?

Pramod Maheshwari: No, earlier medical entrance examination was conducted by states separately. But from the previous academic session, government has made one examination for all the students across the nation. Earlier Tamil Nadu used to conduct its own entrance, Maharashtra used to conduct its own entrance, Gujarat used to conduct its own entrance, but now there is a single examination with single syllabus, which has actually increased the number of aspirants for common medical test that is NEET.

Rahul Jain: So can we say that this could be the incremental factor for the enrollment in tutorial more than the engineering exam going forward?

Mahesh Bhangriya: Yes, its' an indication for higher growth from the medical division compared to the engineering, at least in the short-term.

Rahul Jain: Understood. Thank you and I will come for the followup.

Moderator: Thank you. Next question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: Thank you for the opportunity. First question on this again the school format, Gurukul format. So how a scalable business from a three to five year perspective from the current size and what is the approach of spotting the location, how we are spotting the location?

Pramod Maheshwari: Residential school demand is very high. The more important in case of residential school is the kind of offering. The kind of format in which we operate is a combination of quality school education with preparation for competitive examination. Then, there are certain strategic locations where people prefer to migrate. We select the location where people migration is relatively easy which is well connected to neighbouring towns from where people have habit to send their kids outside. This business is quite scalable; the only challenge is in terms of acquiring the land. As I said earlier that we have three land parcels, one is in Abu, another in Jaipur and third one is in Gwalior for the residential schools. Presently we have plan to setup another school only at Abu, not at Jaipur and Gwalior as on date. We may take call for setting up a school there after putting systems in place for Rajsamand campus. From the business perspective, business dynamics it is very profitable venture. Average fee per student is not less than Rs.3 lakhs per annum and it gives almost 50% kind of EBITDA margin.

Manish Ostwal: And 20% return of capital as you said earlier?

Pramod Maheshwari: Yes.

- Manish Ostwal:** Second point is in terms of tutorial business what kind of fee increase one can assume for a year, what is the percentage increase we generally have in fees?
- Pramod Maheshwari:** The increase is in the range of 5 to 10% - kind of inflationary growth or slightly higher.
- Manish Ostwal:** Lastly, what we are doing on the digital side of the business, what are the initiative we have taken to do the use the IT in the operation so that we can reach more students?
- Pramod Maheshwari:** We are an education company and we prefer to capitalize on our strengths. Hence, what we have done is that we have recorded the lectures of our faculty members, these faculty members are renowned faculty members in acceptable to the large masses and the video lecture we are selling on USB drive and pen drive using third party IT solution, which protect the piracy. Our solutions are quite in demand. Last year in our edutech subsidiary we generated significant revenue through selling video lectures, assessment, online test series etc. We believe that an education technology company can be successful only if there is an education brand along with the quality content, that is where we add value and have an edge.
- Manish Ostwal:** Thank you so much and all the best.
- Moderator:** Thank you. We will take the next question from the line of Rahul Jain. Please go ahead.
- Rahul Jain:** Just wanted to understand very long-term strategy in terms of the resources that we have the business has been generating strong cash flows and at the same time we have historically resourceful in terms of the land and cash position, so what are the five year kind of an objective of this to improve the return ratio and broader capital deployment strategy going forward?
- Pramod Maheshwari:** As you know the company is operating both in formal and informal education space and both of these verticals present tremendous opportunities time-to-time. In formal education space, opportunities are usually capital intensive where you require larger amount of funds. Then to convert the structure more efficient, we may require more financial resources because regulations are changed. To have the larger benefits for the group, income in form of interest income is more efficient rather than service income post GST. In fact, the company management is also in opinion that we should grow our NBFC business and utilize a fund for that purpose. This is in terms of the financial resources. Second is in terms of assets, yes the company is having lot of resources in terms institutional assets etc. For this, though it's in nascent stages; the company started exploring possibility for investment trust structure where we are evaluating the possibility of selling these assets to improve our return ratios. So these things are in evaluation stage and perhaps this will require lot of internal deliberation. We will update you accordingly.
- Rahul Jain:** But that would further increase the cash resources in the business?
- Pramod Maheshwari:** Yes and the increased fund flow is to be utilized for the business purpose.



Rahul Jain: Also in terms of if I have to see the tutorial business one of the biggest reason is the influx of student in Kota as in market for this competitive exam, do we see there is a scope of creating another hub where at least in a zone where there is a lot of demand, which is across the country and there is not much people who are flowing in because of any other constraint that they may have and this could be a way of creating similar size opportunity where we may have the first mover advantage as we used to have once upon a time?

Pramod Maheshwari: In my opinion it is rare to be created another Kota like model elsewhere in the nation because this ecosystem of Kota has been created with almost 20-25 years of continuous work of various institutions. Instead of exploring possibility of creating another hub like Kota, we are working on another model which is not capital intensive and aligned with current market dynamics. We are partnering with schools where captive market is readily available. Just to give you an example, to access the Tamil Nadu market, we formed an association with Velammal Group. The group operates 45 schools across Tamil Nadu.

Rahul Jain: That is it from my side.

Moderator: Thank you. We take the next question from the line of Deepak Malhotra from Silver Streak Asset Management. Please go ahead.

Deepak Malhotra: Just one general question in terms of trends, which typically students are sorting to, in terms of how they are preparing for either their board or competitive exams, which is in terms of trying to access online resources and basically that kind of taking the role of a part teacher it is not in full and this is basically, for example, if you want to understand any one topic in physics today you are not really constrained by reading a book on Mr. Mahindra, which we used to study 30 years back, but you have access online to anything and this has also mushroomed in terms of lot number of such lecturers, by people on their own or otherwise or some other organizations who are now trying to basically make money out of this, so how do you see this trend picking up in the future, please. Thank you.

Pramod Maheshwari: The key challenge for a private tutor or online content is the believability and the quality of the content. As I said in one of the questions that there are many companies which have fantastic technology available, they have also created very good quality of content. But they have issue of perception on their quality. Here comes a role of an education brand. I believe that to supplement the preparation, a student would look forward for solution, which maybe recorded video lecture for a topic or multiple topics from good renowned faculty members if at all it is available or from a reputed institution, which has good credential over the years in terms of delivering the quality education.

Deepak Malhotra: So you believe that if you have such a combination where it is coming from a well branded one in terms of the lectures and today you could even develop an app because this is what is happening internationally at least and then you can just access that, so to that extent you basically can look everything on your phone or your laptop or your iPad or whatever and things would go that way, do you think that trend is going to pickup at all?



- Mahesh Bhangriya:** We do have all these solutions available with us where student can access the video lecture on demand. We in fact provide students video lecture on USB drive or SD card, which students can use on laptop or tablet or mobile phone anywhere. The trend is picking up. It is not very rapidly, but as per the trend it will start supplementing the regular education going forward.
- Deepak Malhotra:** So if you were to kind of look at your own set of student group then how much percentage of learning you think they are doing basically using these supplemental resources?
- Pramod Maheshwari:** Our classroom students do not use - they use only when they miss the class. We have video lecture library available in our institute and if anybody miss the class then only they access the video lecture library.
- Deepak Malhotra:** How many percentages of the students would have downloaded your app or would actually access these materials immediately they do not read it, but still do they access it?
- Pramod Maheshwari:** Majority of the student prefer either on SD card or pen-drive, not on app because streaming again become an issue. If there is a buffering then it creates challenges in terms of learning experience.
- Deepak Malhotra:** And they look it at it home because for example if they do not understand one lecture then it is not a bad idea to look over it again?
- Pramod Maheshwari:** Right. But the student who opted for regular coaching, they use it only to supplement their education.
- Deepak Malhotra:** So you are saying that this is a trend, which is only picking up slowly and is not really a threat to you for that matter right?
- Pramod Maheshwari:** Yes. I feel it has significant potential as to supplement the education but growing slowly.
- Deepak Malhotra:** How much percentage of your business you think this could pickup?
- Pramod Maheshwari:** That is very difficult to comment at this stage.
- Deepak Malhotra:** Yes because nowadays I have seen, when we used to study we used to likely to put pen to paper, but today the trend has changed and obviously we did not have these kind of resources available to us, today the trend is completely different and people are more savvy and they have all the resources available, so they can just basically listen to the lecture and they are understanding them pretty good, so actually some of the youngsters trying to actually do this, although I am not in favour of, but that is not really relevant here, but you are saying that this trend could still pickup and you are all prepared for it, more or less right?
- Pramod Maheshwari:** Actually I have different opinion. The students do not opt e-Learning on priority basis. Their priority is still regular classes and they want to learn directly from the tutor. They only go for



digital content when they are not having access to the quality tutor due to some reasons like logistical, financials etc.

Deepak Malhotra: Fair enough, so you are saying anyway at the moment it is insignificant, but going on two, three years maybe it could pickup right?

Pramod Maheshwari: Yes, it will pick up as a supplementary source of education.

Deepak Malhotra: Thank you so much.

Moderator: Thank you. Well that was the last question. I now hand the floor over to the management for their closing comments.

Pramod Maheshwari: Thank you very much for joining our conference call. In case you have any further queries, please feel free to mail us or call us, we will try to revert as quickly as possible. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of Systematix Shares and Stocks Limited that concludes this conference. Thank you for joining. You may now disconnect your lines.