



## “Educomp Solutions Limited Q1FY11 Results Conference Call”

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**Moderator**

Ladies and gentlemen, good evening and welcome to the Q1FY11 Earnings Conference Call of Educomp Solutions Ltd. As a reminder all participants will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Shantanu Prakash – Chairman and Managing Director of the company. Thank you and over to you sir.

**Shantanu Prakash**

Thank you and good evening everyone. I would like to welcome you to Educomp's first quarter earnings call for the financial year FY11. I am joined on this call by Sangeeta Gulati, the Chief Financial Officer of the company, Mr. Sonjoy Mohanty – President Corporate Affairs and Mr. Raman Bajaj – Vice President Corporate Affairs. We are very happy to share with you our numbers for the first quarter of the financial year FY11 ending June 30, 2010.

The financial year 2011 has started off well for us and we have increased our profits by close to 22%. The financial highlights of the quarter are as follows. On a standalone basis, income from operation for the quarter is Rs. 165.8 crores, an increase of 12% over the corresponding quarter last year. On a consolidated basis the income from operation for the quarter is 227.9 crores, an increase of 17.6% over the corresponding quarter last year. The EBITDA for the quarter on a standalone basis is 60.5 crores and the EBITDA margin has clocked in at 36%. Similarly the EBITDA for the quarter on a consolidated basis is 69.2 crores with an EBITDA margin of 30.4%. The lower EBITDA in this quarter is due to an increase in the cost of goods sold and salary expenses which I will discuss shortly. The net profit after tax for the quarter on a standalone basis is 44.2 crores, an increase of 21.9% over the corresponding period last year. And the net profit after tax for the quarter on a consolidated basis is 36.5 crores, an increase of 6.6% on a YoY basis. The annual net profit margin for the company after tax on a standalone basis is 26.7% up from 24.5% last year and on a consolidated basis it is 16% down from 17.7% in the same period last year.

Our earnings per share for the quarter is 4.64 basic and 4.44 diluted on a standalone basis. On a consolidated basis their EPS is 3.83 basic and 3.69 diluted. As we will note in this quarter there are a few exceptional expenses that have resulted in lowering the company's EBITDA resulting in reduced profitability. The decrease in standalone EBITDA is due to an increase on COGS and an increase in salary expenses due to the induction of 160 new sales and marketing personnel in our flagship SmartClass division. We see this as an investment in growing the SmartClass business from where it is today to over 20,000 schools and 300,000 classrooms over the next six years. Thanks to our efforts in making the business 'capital light' and outsourcing the non-core activities, we can now capture the demand coming to us from all parts of the country and thus we have added 160 sales and marketing personnel increasing our sales force to 380 people, the largest such sales force in the country. EBITDA is also lower because of increase in cost of goods sold which is due to "work in progress" SmartClass

classrooms for which hardware has been partially implemented but revenue has not been recognized due to partial implementation.

Our consolidated EBITDA in this quarter is also lower as compared to the same quarter last year due to increase in COGS and salary expenses, at the holding company level as explained earlier, as well as increase in planned losses in niche subsidiaries like Educomp Raffles, IndiaCan – our joint venture with Pearson, Savvica, authorGEN and LearningHour etc. which has amounted to 10.43 crores in the quarter. An amortization effect of the license procured by our US subsidiary Learning.com in FY10 from Connected Tech without any corresponding revenue booked in the quarter has also added its to the lower consolidated EBITDA.

I will now go into the segmental overview. In the School Learning Solutions segment, our total quarterly revenue came in at 159.1 crores. This is a growth of 14.9% over the corresponding quarter in FY10. In the SmartClass part of the business, we implemented 6750 classrooms during the quarter reaching out to over 3.4 million students across 3921 schools. The adoption rate for SmartClass remains robust with the number of schools implemented growing almost 5 times on a YoY basis increasing by over 388% over the same period last year. Even on a QoQ basis the number of schools where we implemented SmartClass in this quarter increased almost 1.7 times or 68% over the previous quarter. Indeed SmartClass product demand is coming in from all quarters and we have geared up to capture this demand by adding 160 people to our sales force. The rapid penetration of SmartClass in schools across the country gives us comfort that we are on track to meet or exceed the FY11 guidance of 25,000 to 30,000 classrooms. I am also happy to share that SmartClass pricing remains robust and the effective price per student per month in this quarter came out to be just above Rs. 145. As you know we sell on a 'per classroom' basis and our 'per classroom' pricing has stayed constant at an average of about Rs. 3.9 lacs per classroom. SmartClass contributed revenues of 138.6 crores and a PBIT of 62.4 crores in this quarter. Please note that the revenue recognized in this quarter is only from execution of tripartite contracts i.e. Edusmart model and no deferment of content pertaining to previous years has been considered as the model change from 'BOOT' to 'Tripartite Edusmart model' basis as well as 'Transfer of existing schools to Edusmart' only started taking place from the second quarter of the last financial year. You might have also noted that we have also deferred 22.5% of the revenue of the SmartClass segment in this quarter to the corresponding quarter next year in line with our business model.

Let me now give you some color on the Smartclass business performance on a 'like-to-like basis', i.e. in case we had not changed the business model and would have continued with the previous BOOT model.

- On a BOOT versus BOOT like-to-like comparison, SmartClass revenues are up 44% over the corresponding quarter last year.
- Comparing the Tripartite Edusmart model with the 'BOOT plus Outright Buy' model earlier SmartClass revenues this quarter are up 38% on a YoY basis

- And finally, comparing the Tripartite Edusmart model with the erstwhile 'BOOT plus Outright Buy' model, SmartClass profit before tax is up by 38% on a YoY basis

Continuing with industry leading disclosure practices, we have include detailed analysis in our investor update on the like-to-like comparison of SmartClass revenues and profits this quarter with a corresponding quarter last year.

One of the questions that has been asked which we would like to address via this call is about our margins. Are our margins choppy? We believe that our margins are not choppy and indeed are quite sustainable as per the management guidance. One of the reports that I recently read reported that SmartClass margins have declined to 45%. We would like to correct the picture. We wish to draw the attention of investors to our model and the FAQ and management notes that have been circulated in earlier quarters which explain the change of our model. To reiterate, out of the contract value of 100, the company will bill a total of 75 towards hardware and content and will recognize only 52.5% in the first year and recognize 22.5% in the subsequent year. As you are aware, the cost and other expenses in the first year as per the model are generally around 30% leaving a margin of 23.5 which gives an EBIT of 45% in the first year and in the second year approximately 90%. Thus on a blended basis for two years our EBIT margin in SmartClass is approximately 58%-60%. Our margins are thus exactly in line with our model as is demonstrated by stable per classroom pricing.

We also wish to draw your attention that in Quarter 1 the only revenue that is recognized is the 52.5% of new classroom additions while 22.5% will be recognized in the subsequent years. In this quarter there are over 1000 classrooms that have been partially implemented due to the fact that schools were on vacations for about 2 months of the quarter. The result of which is that it pushed the COGS up without recognizing the revenue on these classrooms. This is not a matter for a concern for us and we expect COGS to be normalized in the forthcoming quarter. We also state that the company is well on track to meet our revenue as well as our profit guidance for FY11. The work in progress classrooms have risen due to partial delivery where content as well as part of the hardware has not been billed. While hardware cost to the extent supplied is recognized in COGS, the COGS appear to the optically higher which, as just stated, will be normalized in Quarter 2. We are cognizant of the fact that some analysts have compared our results to their own expectations. In our view our results should be compared to our stated guidance of revenue and profit to ascertain whether our performance is in line with the guidance or not. Let us now address the question of revenue growth in SmartClass. Reported revenue growth in SmartClass is 12% on a standalone basis, despite SmartClass schools increasing almost 5 times from 173 in Q1 of FY10 to 844 in this quarter. In Q1 of FY10, revenue booked for the segment was 102.26 crores which includes revenue towards addition of 173 schools in Q1 as well as the cumulative BOOT revenue accruing from 1737 schools over the previous years, thereby leading to a revenue of 102.26 crores for 1910 schools. We would like you to note that even out of the 173 schools that we added in Q1 FY10, 21 were on Outright Buy and 150 were on BOOT basis. Comparing the revenue of Q1 FY10 wherein revenue was on a BOOT and Outright Buy basis with the revenue of Q1 FY11

is not the right way to compare. To ensure a like-to-like comparison, we have to restate Q1 FY11 additions of schools on the earlier BOOT model. We have done this comparison and have shown this in the investor update on Page 9 and 10, which clearly depicts a like-to-like growth of 44% in revenue and 38% in PBT.

Let me now turn to the other part of the School Learning Solutions segment which is the ICT business. Currently our ICT solution classrooms are being implemented in the states of Bihar and Assam. ICT contributed revenues of 20.5 crores and a PBIT of 4.39 crores in the quarter, even though we did not add any new contracts in the quarter. As you are well aware, we have strategically defocused our capital allocation to the ICT business due to lower margins and longer receivable cycles. As a result and as communicated earlier as well, we will only be allocating a limited amount of capital to this business and hope to selectively pick contracts where we can make good margins.

However, I am happy to share that we are currently carrying out a SmartClass Pilot project in 4 government schools in Pondicherry, which is a first instance where we have seen interest in the SmartClass product for use in government schools. I am also happy to share that in the quarter gone by, Educomp won the e-India 2010 Award under the digital learning category for the best private sector initiative of the year in digital learning.

Coming now to the K-12 segment, which is becoming a fast growing and an important growth engine for the business. This segment as you are aware, consists of our “Roots-to-Wings” business, our EuroKids subsidiary and are very core and strategic high schools business which is structured under our subsidiary Educomp Infrastructure and School Management. In the K-12 Schools segment, our total quarterly revenue came in at 30.5 crores, growing 37.4% over the corresponding quarter in FY10. The quarter PBIT was 11.7 crores growing 35.1% on a YoY basis. In the preschool part of the segment, we remained the largest preschool company in the country with over 700 preschools which are divided amongst our brand “Roots-to-Wings” and EuroKids. In the K-12 schools part of the business we now have a visibility of 73 schools in our portfolio which includes operational schools under our various brands, schools under construction, schools operational on rented premises and schools under the Dry Management joint venture model as well as land sites where construction is about to start. We are fast becoming the largest and perhaps the only corporate player running a network of private schools in India. The total number of operational schools in our portfolio stays at 43 which cumulatively serves over 25,000 students. Additional schools are going to be operational soon and our national footprint is fast increasing.

We have also signed a joint venture with the Lavasa Corporation to set up a residential international school in Lavasa, thus completing the whole spectrum of range of schools operated by Educomp. Lavasa is India’s first and largest planned hill city being developed by Hindustan Construction Company.

In the schools part of our business under EISML we had revenues of 20.5 crores during this quarter and an EBITDA of 15.3 crores, with the EBITDA margin being 74.9%. Our PAT was 5.06 crores with a PAT margin of 24.7%.

Moving on now to our Higher Learning Solutions segment, which consists of our joint venture with Raffles and our joint venture with Pearson in the areas of Higher Education and Vocational Education respectively. In the Raffles joint venture we now have 7 Raffles Millennium International colleges operational in cities like Delhi, Bangalore, Chandigarh, Kolkata, Hyderabad, Ahmedabad, and Chennai. These colleges have an international feel about them where students study an internationally recognized curriculum through international faculty from US, UK, Italy, Spain and Singapore in courses like Fashion Design, Interior Design and Commerce. And we have recently launched a course in Management as well. The higher education sector continues to remain very interesting. The space is slowly but surely opening up. With a shortage of 1500 universities in India and a large number of students having to leave the country to look for higher education opportunities abroad, we believe there is a huge demand for quality higher educational capacity in India from the growing middle class will propel the force driving reform and change in the sector. In addition, one of the highlights of the quarter is that Educomp as a part of the joint venture has already planned entry into strategic partnerships with other NPOs to set up a full fledged education campus to facilitate AICTE approved courses like engineering in three streams; Computer Science, Electronics and Communications and Information Technology by providing the best-in-class courses and curriculum.

Moving on to the vocational part of the business, IndiaCan our joint venture with Pearson has been one of the most phenomenal growth stories within Educomp. IndiaCan has been on a very fast growth trajectory ever since the joint venture was signed about four quarters back and already has over 250 points of presence operational across the country. This is again a very unique business that spans across customer segments with programs and courses across a wide variety of vocations and employability skill-sets. Our ETEN CA program is a leading such program for CA coaching in the country which is growing very strongly with 106 operational centers and over 15,000 enrollments. In the quarter the ETEN CA program has also been rolled out in South India and I am delighted to share with you that the two students who topped the Accounting course in both PCC and Final of the may batch of the chartered accountancy exams are both Educomp ETEN students.

The PurpleLeap part of the vocational business now has a network of 95 colleges up from 80 in the last quarter and plans to reach 160 colleges this year targeting 14,000 students enrolled.

Our retail vocational center business, a third part of our vocational business now has a network of 50 centers, up from 40 in the last quarter, with courses in English Language Training and IT. We have also entered into a pact with NDTV to roll out media training programs.

Our partnership with Pearson who are world leaders in vocational education is growing very well and we believe we are building a unique vocational education business unlike any other in the country. As guided earlier this business as well as the Raffles higher education business will continue to remain in investment mode and we believe that the amount of losses required to be incurred in these businesses are extremely low compared to the value that these businesses have the potential to create in the future.

Finally, let me come to our last segment, Online, Supplemental and Global which comprises all our investments in the online and supplemental education space as well as our two global subsidiaries.

Our online and supplemental strategy is to cater to all supplemental educational needs of our customers and this strategy continues to evolve. Educomp Leap, India's first satellite-enabled Test Prep Program is currently running in 12 cities and plans to expand to 30 cities. WizIQ.com, our portal for student-teacher exchange now has over 740,000 registered users. LearnHub, another of our subsidiaries has surpassed 1 million visitors per month mark in the quarter thus becoming the 30<sup>th</sup> most popular site in India.

The Online, Supplemental and Global segment had revenues of 29.3 crores growing about 12% over the corresponding quarter last year and a PBIT loss of 6.3 crores compared to a PBIT loss of 1 crore in the same quarter last year.

India is at the threshold of rapid broadband explosion across the country. Thanks to the recent sale of broadband spectrum licenses to the telecom sector. Companies have paid over 38,000 crores to buy broadband wireless access spectrum and almost 70,000 crores for the 3G spectrum. We believe it is not a question of if, but when increase broadband penetration will become a reality in India. Once that happens there will be a large demand for consuming educational products and services online. We have a unique portfolio of online products such as Educomp Online is over 1.5 million registered users, MathGuru, WizIQ, Learnhub, Eduignite and Studyplaces which will lead the growth of our supplemental business.

Today we have also announced the acquisition of a strategic stake in Vidya Mandir Classes. Vidya Mandir is the leading IIT Test Prep Company in India with a glorious 20 years history currently serving over 11,000 students. It has an enviable track record of over 64% of Vidya Mandir students who have regularly and consistently made it to the IITs. It is indeed one of the marquee brand names in the engineering test prep market. This company in FY11 will generate a revenue of about 20 crores and a PAT of about 6 crores. We are excited about this partnership which will help Educomp in various cross-selling opportunities and we will leverage this opportunity both through Educomp LEAP as well as in a strategic partnership with Educomp Vocational. In the coming years we hope to increase revenue and profits of Vidya Mandir Classes manifold as we increase their penetration across over 250 learning centers that we run as part of our ETEN and vocational business.

I would like to end by summarizing where we have reached so far. We are India's largest education company reaching out to over 3.4 million students across almost 4,000 private schools via SmartClass, 8.2 million students across 15,500 government schools, we run over 700 pre-schools, 43 K-12 high schools, 7 colleges, 250 vocational training centers and have over 2.5 million users of our online education services. Our vision is to touch the life of millions of students and teachers through innovative and meaningful use of technology-aided and pedagogy-based education solutions. What makes us unique is that we are probably the only education company in the world working across the entire education life cycle. With that I will pause now and we will open up for questions and answers.

**Moderator** Thank you very much sir. We will now begin the question and answer session. Our first question is from Soumitra Chatterjee from Execution Noble. Please go ahead.

**Soumitra Chatterjee** I had a couple of questions to begin with. Can you give me the like-to-like classroom additions in Q1, Q2, and Q3 FY10 so as to make the comparisons more meaningful?

**Shantanu Prakash** We do not have the like-to-like classroom comparisons for the quarters of FY10 except for Q4 which is when we started disclosing classroom numbers. For Quarter 4 it was 4028 classrooms. We have school numbers for Q1, Q2, and Q3 FY10.

**Soumitra Chatterjee** Can you give me the average classes per school during that time so that I can work out what is the number of classroom additions during that quarter would have been?

**Shantanu Prakash** Yes, for FY10 in Q2-Q3 onwards the classrooms per school were between 12 and 15.

**Soumitra Chatterjee** Okay and your current pricing is around 3.9 lakhs per classroom. Could you give me some sense of what your current cost structure is so as to get a better sense of how the margins will be going forward?

**Shantanu Prakash** Well the current cost structure for the company is mainly on account of cost of goods sold and salary of our customer acquisition team. If you go through our model which is what I explained on the call also, our approximate EBIT margin because we defer the content revenue over the first year as well as the second year is a blended margin of about 58% - 60%. So our margins are of course sensitive to our customer acquisition cost as well as the cost of goods sold.

**Soumitra Chatterjee** So in the first year you make an EBIT margin of around 41% and second year it's around 91%, is that right?

**Shantanu Prakash** About 45% and 90%.

**Soumitra Chatterjee** Okay the higher margin in second year is because the content deferment revenue does not have any cost attached to that?

- Shantanu Prakash** That is correct.
- Soumitra Chatterjee** Okay. Shantanu, the acquisition that you have made of Vidya Mandir Classes, is that an all cash acquisition or you are paying on a stock plus cash basis?
- Shantanu Prakash** Most of the consideration is in cash. There is a very small amount of consideration less than \$1 million on account of stock as well.
- Soumitra Chatterjee** Okay less than \$1 million. Okay can you breakup the full year loss that you expect from the Raffles and the Pearson JV, this year FY11?
- Shantanu Prakash** We have earlier guided that we will loose approximately 40 crores in those subsidiaries and our losses in Q1 are in-line with that guidance.
- Soumitra Chatterjee** Okay fine. And coming to Edu Smart I think your securitization agreement with PNB states that your revenue share cannot exceed 75%. Now I was wondering whether your share can fall down or not. Whether Edu Smart can ask for a higher share in revenues?
- Sangeeta Gulati** We have already signed that contract and if there is any change in the commercial term we will inform the investors accordingly.
- Shantanu Prakash** Currently there is no change in commercial terms it remains at 75% which is our model.
- Soumitra Chatterjee** Okay so if I have to put it this way that your current revenues were 138 crores which is 75% so whether it would be right to conclude that Edu Smart's revenue would be around 1.85 billion (185 crores) which is 100% of your revenues?
- Shantanu Prakash** Yes you can simply gross it up.
- Soumitra Chatterjee** Okay. The PNB agreement also said that in case of existing schools your repayment starts after six months of securitization. If I model it accordingly your peak repayment and peak interest happens in FY14 and FY15. In that case if we are working with 25% revenue shares to Edu Smart then probably a financing interest and principal during those years could end up in some sort of a problem. In that case perhaps Edu Smart may have to ask for a higher share, that is what I am concluding.
- Shantanu Prakash** No this conclusion is wrong. All our bankers including the one you referred to have done a proper due diligence on the model before sanctioning the loans so that is a wrong conclusion.
- Soumitra Chatterjee** Okay and secondly all these three bankers with whom you have entered into the securitization agreement whether it is the same model how the PNB thing works out that the repayment schedule of existing schools and the new schools, whether it is the same thing with the ICICI Bank as well as Standard Chartered?

- Shantanu Prakash** Yes it's the same model.
- Soumitra Chatterjee** Okay and one last thing I would like to know about the K-12 segment. Your number of students have remained constant at around 24,000 in Q4 as well as Q1. So does that mean that no new students have joined in during the current academic session?
- Shantanu Prakash** Yes the number of students will not materially change. This is a seasonal business. Schools open at a certain time during the year and in most of the schools we have already taken in the admissions for this year. New admissions will now open in Q3 and Q4 of the year.
- Soumitra Chatterjee** Okay and one last thing, your visibility is around 73 schools for this year. Does that mean you are going to end at FY11 with 73 operational schools?
- Shantanu Prakash** No, we have guided that we will have around 69 operating schools by the start of the next academic session.
- Soumitra Chatterjee** Okay thanks a lot.
- Moderator** Thank you. Next question is from Divya Nagarajan from UBS. Please go ahead.
- Divya Nagarajan** One is on the working capital cycle. Debtors seem to have gone up this quarter. I thought with the asset light model coming in and the model change debtors would actually start coming off from the last quarter onwards?
- Shantanu Prakash** That is due to the fact that in our model as we get the securitization revenues coming in the debtors will reduce. There are some schools for which securitization amounts are still pending.
- Divya Nagarajan** I am not sure I understand. This is pending from the securitization that we did last year?
- Sangeeta Gulati** Divya, what we are saying is that when we transfer the entire bulk of schools to Edu Smart obviously they were converted into debtors in our books of accounts. Since then we have approached the bankers for securitization. But there are a few schools approximately 1000 odd schools for which we have not gone to the bankers for securitization because we were actually looking at our cash flows and going for the securitization with the banks. Because against 100 the banks give us 54 and if we strike a deal with these schools then in that case our cash flows are going to be much more. So it is actually a deliberate call wherein we have not approached the banks. Further for these schools the hardware has already been paid for.
- Divya Nagarajan** If I have got the numbers right out of the 3700 odd schools that you ended the last year with, 1000 schools have not been securitized?
- Sangeeta Gulati** Yes.
- Shantanu Prakash** That is correct.

- Divya Nagarajan** But I thought as of March quarter all the existing Boot contracts had been securitized.
- Shantanu Prakash** They have all been transferred but all of them have not been securitized.
- Divya Nagarajan** Okay got that. Just another question, I know you explained the revenue deferral and the COGS going up this quarter. How do you see this playing out in the next quarter onwards, do you expect to see such phenomena recurring in the future or do you think that we should read it as a onetime aberration that has happened?
- Shantanu Prakash** Yes I don't think it is really an aberration, I think at any point of time there are some classrooms that are 'work-in progress' where the installation is going on. As you can see 6750 classrooms were implemented in 90 days. Out of 90 days there will be about 75 odd working days. So that is a big achievement and two months in this quarter schools remain closed because of summer holidays and that makes the implementation a bit difficult. But just as I said on the call I think this will be normalized in subsequent quarters so this should not be seen as something that will continue for a long time.
- Divya Nagarajan** Okay should I then read it as seasonality that whenever schools go into holiday period there could be....
- Shantanu Prakash** Earlier we used to install fewer number of classrooms but now the number of classrooms have gone up significantly or rather exponentially and schools remain closed because of summer holidays or vacations for two months out of three months in the quarter, that hampers our implementation programs.
- Divya Nagarajan** Perfect got it. And just to reiterate what should I look at as a full year EBIT margin for the SmartClass segment this year?
- Shantanu Prakash** That is line with our guidance. As you know SmartClass sees a 58% - 60% EBIT margin business. We have not changed our guidance on the EBIT margin and the EBIT margin basically is driven by what price we are selling at. As we have seen the sales price is fairly constant. So we do not see any degradation in the SmartClass margin during the year.
- Divya Nagarajan** From the current levels of 40% plus you will see this going up through the rest of the year, is that the current assumption to make?
- Shantanu Prakash** Also during the rest of the year there will be revenue deferrals from previous years that is going to kick in from Quarter 2. So Quarter 2, Quarter 3, and Quarter 4 the SmartClass segmental margins will be greatly improved.
- Divya Nagarajan** Sure. And just to reiterate we are on track for the full year guidance in terms of revenue impact?

- Shantanu Prakash** Yes, just to reiterate once again we are on track for the full year revenue as well as profit guidance.
- Divya Nagarajan** Thanks Shantanu, thanks Sangeeta.
- Moderator** Thank you. Next question is from Eric Chang from Buena Vista. Please go ahead.
- Eric Chang** Hi there. That was a good set of results. I have a very simple question on the cash changes during the quarter. Looking through the account receivables provided by this presentation and the last quarter presentation, I can reverse back the outstanding balances has got a change of cash provided in the notes. I have found that from the cash changes vis-à-vis what I estimate from the operating cash flows there is a discrepancy of about Rs. 3 billion, i.e., there is a reduction in AR that should have gone into cash but we have seen that it increased substantially instead. Can you give an idea of what are the other cash outflows apart from the COGS, sales and marketing, and staff costs that might have gone into this Rs. 3 billion difference?
- Shantanu Prakash** We are not able to understand your question, so it might be better if we take your question offline by email because we are not able to understand your question fully.
- Eric Chang** When I look into the presentation of March 2010 the 154 day AR receivable days which equates to about 5.6 billion is account receivables. That number by the June 2010 closure of 183 days with a reduction in the account receivables by 1.1 billion to 4.5 billion. When I look at that, combining with the 1.38 billion in new securitizations that changes into net cash inflow, but when I look at the net debt changes there was an increase of net debt. There is a very sizable difference, so I could not explain the difference between the cash inputs supposed to be coming from the new securitization and the account receivable reductions vis-à-vis the net debt changes?
- Shantanu Prakash** It will not be possible to give you a very detailed answer on your query. But just to give you a few pointers and we can take the rest of the question offline. A) There is no new securitization during the quarter. And B) the cash is also deployed in subsidiaries like Raffles, our vocational business and our K-12 business.
- Eric Chang** And can you give me an idea about the cash deployment, are we talking about 1, 2 or 3 billion deployment in subsidiaries or we are talking about a few hundred million rupees, give me some ballpark figures on the cash deployment of subsidiary?
- Shantanu Prakash** As you know most of our cash is deployed in the K-12 business and if you look at about investors update you will find that we have given you a list of schools sites that are under construction which consume capital. We can give you the detailed breakout of how much cash has gone into the K-12 business but we cannot do that right now. We can do that off-line. If you mail us your detailed queries, we will be happy to answer them.

- Eric Chang** Thank you so much for your help.
- Shantanu Prakash** Another pointer is that the debt that we show is our system wide debt and not just for the parent company, it's a system wide debt.
- Eric Chang** Got it. The capital expenditure about the 30 schools that are currently in progress, I have done some rough calculations that if I were to assume about Rs. 30-40 million per school the one quarter construction cost could not be more than Rs. 120 million. Is my ballpark assumption about the school CAPEX roughly in the right range?
- Shantanu Prakash** I think these are very broad assumptions and in the interest of time of the other callers I would request you to take these questions off-line where we can give you a more detailed response. A typical millennium school capex is around 18-20 crores inclusive of land cost ie. 200 million rupees.
- Eric Chang** That will be great, thanks for your help.
- Moderator** Thank you. Next question is from Pratish Krishnan from Bank of America Merrill Lynch. Please go ahead.
- Pratish Krishnan** Yeah hi thanks, just wanted to clarify on the securitization amount. In your press release investor update for the last quarter you have mentioned an amount of 415 crores whereas the amount is something like 665 crores in this quarter. So what is the key difference?
- Sangeeta Gulati** Pratish, on 31<sup>st</sup> of March we got 250 crores from Axis Bank as total securitization amount which was actually on the 31<sup>st</sup> March and then we were reporting on a quarter basis so we have not reported that but the deployment started from April onwards so that is the reason it is actually appearing in this quarter.
- Pratish Krishnan** So your debtors should have gone down in terms of number of days?
- Sangeeta Gulati** Now this 250 crores is actually on account of the new tripartite contracts which have been signed in Quarter 1. And the debtor days have not gone down significantly for the very simple reason that there are still approximately 1000 schools for which we have taken a deliberate call that we are now going to do securitization. We will put those schools to the bank for securitization as and when there is demand for money.
- Pratish Krishnan** Okay sure. And in terms of the work-in progress you had mentioned that 1000 classrooms, is it possible to quantify the amount, if one is to derive the actual margins for the business that would be helpful.
- Shantanu Prakash** Well Pratish at present what we have said is over 1000 classrooms are work-in-progress, so basically it is around that number.

- Pratish Krishnan** Okay and lastly in terms of the plan for the campus program. What is the game plan here and what is the kind of investments you are looking for?
- Shantanu Prakash** We have not disclosed the exact investments but broadly I can share with you our strategy. After about one year of running these joint ventures, now we have adequate experience in running a higher education business and an education campus will really mark our entry into the core courses like engineering, management and so on and we will keep our investors informed about the progress on this as we go along.
- Pratish Krishnan** Sure but I just wanted to know what would be your role here?
- Shantanu Prakash** Our role here is identical to the kind of role we play in the K-12 schools business being primarily the intellectual property and the infrastructure providers.
- Pratish Krishnan** Okay fine, thanks a lot.
- Moderator** Thank you. Next question is from Shweta Diwan from IDFC Securities. Please go ahead.
- Shweta Diwan** Hi Shantanu, just a couple of things. One is that we were mentioning last quarter in our press release that we are going to get incremental securitization without contingent liability on the parent company. Has that happened or is that something which will happen over a period?
- Shantanu Prakash** It will happen over a period, we are in advanced talks with some of our bankers for that so the moment that happens we will definitely inform our investors. The talks are going on well.
- Shweta Diwan** Okay. Secondly just wanted to get a sense in terms of our SmartClass additions that happened in the quarter, we have seen a very robust growth. Should we say that this is the kind of quarterly run-rate we can do going ahead because it's significantly higher than what I had expected in the quarter at least?
- Shantanu Prakash** Yes 25,000 to 30,000 is the guidance for the year and in the Quarter 1, I think we feel very confident and we have stated in the investors update and I repeated that on the call that, we are well on track to meet or exceed our guidance. So at this point that is all we would like to say.
- Shweta Diwan** Okay and just to get a sense the 3000 odd schools that will be implemented in FY10 when does the chunk of them come up for renewal which will probably help us to report better additions?
- Shantanu Prakash** Well it is five year cycle. You know on the top of my head I cannot give you an immediate answer to that.
- Sangeeta Gulati** 2008-2009 we had the maximum additions so that means we expect 5 years, 2013-2014.

- Shantanu Prakash** And after five years all the schools will come up for renewal and currently our renewal rate is about 100%.
- Shweta Diwan** Sure okay and just one more thing. Just a little bit clarity on the tax part. We have reported a low tax rate in the quarter. Just wanted a sense on why that is and what will be the effective tax rate for 2011 and 2012?
- Sangeeta Gulati** Shweta, we have given a note that last year whatever income we have transferred which is pertaining to the content amounting to about 293 odd crores that has already been taxed in the Quarter 4 of last year, that means before 31<sup>st</sup> of March. So the tax on that income has already been paid, okay? So my effective tax rate for the last financial year is going to be more than the normal tax rate of 34%, about 45%-46%. So accordingly since I have already paid the taxes on that income last year, so this year the effective tax rate will be significantly low. Another thing that has also happened in this year is that the book profit due to non-taxability of this income has resulted into an eligibility of a MAT which is the Minimum Alternate Tax okay? So if you look at the face of our P&L there is a reversal of MAT which means we will get the credit in the subsequent years and all this has actually resulted in the lowering of an effective tax rate. So, now in this year the effective tax rate on a full year basis will be around 10%.
- Shantanu Prakash** 10%?
- Sangeeta Gulati** Yes.
- Shweta Diwan** For FY11?
- Sangeeta Gulati** Yes.
- Shweta Diwan** And will that change out dramatically back in FY12?
- Sangeeta Gulati** Yes FY12 if we restate it back to the normal which will be 34% if the DTC comes it will be 25%.
- Shweta Diwan** Just to understand again you are saying book profit led us to the eligibility of MAT that's because of any CAPEX that we did and .....
- Sangeeta Gulati** No I have said that the income towards the content which has already been taxed in the last year amounting to 293 crores so this will not be taxed in this year right? So although we will be recognizing the revenue this year, it has already been taxed in the last year.
- Shweta Diwan** You are reversing it back.

- Sangeeta Gulati** So that has resulted into the availability of a MAT and lowering of an ETR. So I was just giving an example that last year my effective tax rate has gone up from 34% to 45%-46% and now in this year the effective tax rate will go down to around 10%.
- Shweta Diwan** Okay and just one last thing, what has been the CAPEX during the quarter?
- Sangeeta Gulati** There is no CAPEX.
- Shweta Diwan** It is just the 34 crores that we used to acquire Vidya Mandir?
- Sangeeta Gulati** No when I say no CAPEX that is only for the SmartClass business. For the content and other businesses, it is going on as per the business plan.
- Shantanu Prakash** For Content and other parts of the business the CAPEX will continue.
- Shweta Diwan** Okay. Thanks a lot.
- Moderator** Thank you. Next question is from G.V. Giri from IIFL. Please go ahead.
- G.V.Giri** I just want to ask about the `work-in-progress` classrooms would it be appropriate to consider that to be in the ballpark of 1000 or 1500 classrooms, number one. Number two, you had Q3 and Q4 of last year about 280 crores of the recognition of revenue from schools converted from the Boot to the securitization model. So would it be appropriate to imagine that in similar quarters this year you would have approximately 22.5 divided by 55.5 of that revenue coming in with a 90% EBIT margin? And thirdly, if I just calculate the sort of cash outflow due to investment which you should have had to get your cash balance to where it is now, compared to last quarter you should have had about 200 crores spending. Is that the kind of spending you have done in terms of investments in your subsidiaries?
- Shantanu Prakash** We have not disclosed the actual spending in the subsidiaries for the quarter so I am unable to answer that question. With regard to your second question about whether we will recognize our deferred content revenue from last year, yes, during the full year we will recognize approximately 293 crores and with regard to your first question about the `work-in-progress` classrooms as stated in the call these are over 1000 classrooms.
- G.V.Giri** Okay thank you.
- Moderator** Sir do you have any further questions?
- G.V.Giri** No I am done, thanks.
- Moderator** Thank you. The next question is from Himanshu Gandhi from Hansberger. Pleaser go ahead.

- Himanshu Gandhi** Yeah thanks for providing the opportunity, sir just a few clarifications. You mentioned you took stake in Vidya Mandir for 34 crores, any details on the percentage stake?
- Shantanu Prakash** We have not disclosed the percentage stake so at this moment what we are saying is this is a strategic stake.
- Himanshu Gandhi** Okay and secondly on the loss for these subsidiaries what is the number for the full year through the guidance?
- Shantanu Prakash** Well our guidance for the full year is 40 crores and for quarter the loss was 10.43 crores.
- Himanshu Gandhi** Okay and finally sir on the CAPEX for the K-12 schools you mentioned the target for the full year is 69 schools from 43 currently. So what is the kind of CAPEX that we are targeting for the year?
- Shantanu Prakash** Well we have not given a very specific number. It should be in the ballpark range of approximately 300 odd crores. It could be between 300-350 crores.
- Himanshu Gandhi** Right, thank you sir. All the best.
- Moderator** Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to have over the conference back to Mr. Shantanu for final remarks.
- Shantanu Prakash** We would like to thank all of you for joining our Quarter 1 FY11 earnings call. Thank you and good night.
- Moderator** Thank you. On behalf of Educomp Solutions Limited that concludes this conference call. Thank for joining us and you may now disconnect your lines. Thank you.