



“Educomp Solutions Limited Q1 FY13 Results Conference Call”

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MANAGEMENT: MR. SHANTANU PRAKASH – CHAIRMAN & MANAGING DIRECTOR.

MR. SANJAY JAIN – GROUP CEO.

MR. ABHINAV DHAR – EXECUTIVE DIRECTOR.

MR. ASHISH GUPTA – SENIOR VP - FINANCE, INTERIM CFO

MR. RAMAN BAJAJ – SENIOR VP, BUSINESS TRANSFORMATION & CORPORATE AFFAIRS

MODERATORS: MR. HARIT KAPOOR – ANALYST, IDFC SECURITIES LIMITED.

Moderator

Ladies and gentlemen good evening and welcome to the Educomp Q1-FY13 Earnings Conferences Call hosted by IDFC Securities Ltd. As a reminder for the duration of this conference all participants' lines will be in the listen only mode. 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Harit Kapoor from IDFC Securities Ltd. Thank you and over to you sir.

Harit Kapoor

On behalf of IDFC Securities we would like to welcome everyone to this call. From the senior management of Educomp Solutions we have Mr. Shantanu Prakash – Chairman and Managing Director; Mr. Sanjay Jain, Group CEO; Mr. Abhinav Dhar, Executive Director; Mr. Ashish Gupta, Senior VP, Finance and Interim CFO, Mr. Raman Bajaj, Senior VP, Business Transformation and Corporate Affairs. I would like to hand over the call to Mr. Shantanu Prakash to make the opening remarks. Over to you sir.

Shantanu Prakash

Good evening everyone and welcome to Educomp first quarter earnings call for the financial year FY13. My name is Shantanu Prakash, and I am the Chairman and Managing Director of the company and joined on this call with me are my colleagues Sanjay Jain, Group CEO of the company, Abhinav Dhar – Executive Director; Ashish Gupta – Senior VP, Finance and Interim CFO and Raman Bajaj – Senior VP, Corporate Affairs.

We are very happy to share with you our numbers for Q1 FY13 ending 30th June 2013. 2013 has started off with a 12% growth in the standalone revenues and 11% growth in consolidated revenues. However, the seasonality factor and adverse foreign exchange movement has adversely affected our profits compared to the corresponding quarter last year. More importantly as per our strategic priorities this year we have increased our focus on the balance sheet strengthening, consolidation initiatives and free cash flow generation. I'm also happy to share that we have paid off our FCCB liability in full on the due date. The fund due to pay off the FCCB came from a financing package of \$155 million that we closed in the month of July and I will talk about that in more detail a little later. But first I would request Sanjay to share with you the detailed financial highlight for the quarter.

Sanjay Jain

Good evening everyone and good morning to our investors from North America. I'm happy to share with you the detailed performance of the first quarter of financial year FY 12-13. I'm sure you have all received the Q1 investor update that has been circulated couple of hours ago.

Before I start with the consolidated results from Slide #3, let me give you an overall perspective on the performance in the last quarter. As you know our business is split across four business segments, the School Learning Solutions which comprises mainly of Smart Class and the Government ICT business – there, while the revenue was flattish there is a

margin decline which we would cover in a while but if we move on to the K-12 segment there is a healthy growth in the revenue with much more stronger growth in EBITDA. If you look at the Higher Learning Solutions segment excluding professional development where we run engineering colleges - there is a healthy trend of revenue growth and the operating losses are being curtailed and going forward they should improve thereafter. And the last business segment of Online Supplemental and Global, if we exclude our US company, Learning.com, there is a healthy more than 100% growth in revenue and the loss in EBIT which was there last year is now a healthy profit this year. Learning.com has been continuing to incur losses post some regulatory changes in mid of last year in the USA. That is an overall perspective where we continue to focus on improving the performance of School Learning Solutions in the coming quarters, also we can see that the current year has already started on a strong note for all the three other business segments.

Now coming to the Slide #3 of the consolidated results, the revenue for the financial year is about Rs. 3253 million which is an increase of 11% over the corresponding quarter last year. The EBITDA before FOREX movement for the quarter is INR 871 million as compared to INR 1038 million during the same period last year. There is an exceptional FOREX loss of INR 162 million in this quarter compared to a FOREX loss of only INR 6 million during the same period last year. EBITDA after the adverse FOREX impact is about INR 709 million as compared to INR 1032 million in the corresponding quarter for last year. If you recall the average value of dollar-rupee in the first quarter last year was hovering around 45 to 46 where as this year it is about 55 or so, so there is nearly a 20% depreciation in the rupee as compared to the corresponding quarter last year. Nearly 60% of the hardware material supplied in the Smart Class is import dependent and 20% adverse moment in the FOREX had its negative impact on the EBITDA margin.

Coming now to the quarterly stand-alone results on Slide #4, the operational revenue is INR 2077 million which is an increase of 12% on a year-on-year basis. Again the EBITDA before exceptional FOREX loss is INR 622 million giving an EBITDA margin of 30% before forex loss, here the exceptional FOREX loss on a standalone basis is INR 182 million compared to FOREX loss of INR 5 million during the same period last year. The PBT for the quarter is INR 80 million compared to INR 567 million last year while the net profit after tax for the quarter is INR 115 million. Profit After Tax is higher than the Profit Before Tax because of the fact that we redeemed the FCCB and there was a premium on the FCCB redemption for which we could get a tax shield during the current year and as a result deferred tax asset got created. . On the positive side, for the entire year we may not have any income tax outflow because there will be a tax shield on account of this redemption premium on the FCCB. The earnings per share for the quarter is 0.51 basic and 0.51 diluted on our consolidated basis. On a standalone basis the EPS for the quarter is 1.19 basic and 1.19 diluted.

I want to take a moment here and talk about the impact on our margins in this quarter and would like to bring your attention to Slide #5. As you can see the key reason behind the drop

in the margin are, there has been 7% price decline in the Smart Class as compared to the corresponding quarter of the last year which had a sole adverse impact on the EBITDA. Then there has been an adverse foreign-exchange movement on the cost of goods sold adversely impacting EBITDA by about INR 55 million. There is a corresponding increase in employee cost of INR 53 million. As you know, that for every SmartClass that we implement in a new school it is accompanied by a resource coordinator. But as the company gets more and more business from a given school this employee cost should get amortized over a larger base in the subsequent quarter. Let me also add that while the resource coordinator are getting added, the company is extremely cautious on adding any overheads in administration support and in fact we are not allowing the headcount to go up on that front. Then there is a positive impact due to increase in the volume by INR 79 million and then due to movement in some other businesses there is a positive impact of INR 17 million. So net-net this is the EBITDA bridge on the Slide #5. And as a result there is an EBITDA of INR 832 million in the 1st quarter last year which has come down to 622 million in the 1st quarter this year. Given the attractive economic in the digital content business, we have seen an increase of competition over the last year or so. To maintain our leadership position and improve our market share in the SmartClass business segment, our pricing this quarter is lower than last year and thus impacted the margin. And it is also important to note here that sales during the 1st quarter is normally more to the existing schools than relative to the new schools and hence as a result the average price per class is relatively lower but should improve as we get more school added in the subsequent quarters.

During this quarter in the School Learning Solution (SLS) business segment which is largely SmartClass we sold 6151 classrooms which is about 16% growth over of about 5300 classrooms sold last year. It is important to note here that 5300 classrooms that we sold in 1st quarter of last year was nearly about 10 to 12% of the entire year volume of 40,000 that we achieved last year. We are very confident that we will scale up in the coming quarters and the same cyclical phenomena should repeat and therefore we are poised to meet the entire year guidance of the volumes and the revenues for SmartClass and company on the whole. And in fact at this stage before I go forward I would request my colleague Abhinav to also share his reflections on where the price is currently in SmartClass and how it is expected to behave in the coming quarters.

Abhinav Dhar

The average selling price per class room in Q1 predominantly got more impacted because of our own internal strategic plan to ensure that we continue to retain our market dominance in terms of our foothold because the competitive clutter which we got to witness in this particular quarter actually warranted that this be done so that the large marquee schools which were up for grabs during this quarter are retained and carried forward over the next few quarters for us to build as referral sites. Having said that, this appears to be a completely bottomed out kind of price point at this stage which will only go better as we go forward. And I think the other thing that gives us the confidence that it will be so because in Q3 and Q4 there is an internal plan to release two new initiatives which will naturally add to our existing set of portfolio of products

which on a per unit basis is nearly about three times the cost of a Smart Class helping us maintain those averages that we had witnessed during the Q2 and Q3 of last year.

Sanjay Jain

In fact, if I take you into our history when we started our business providing a commoditized offering to the schools in India by selling them technology and computer labs. Then we launched SmartClass digital content solution and became the provider of a differentiated product and service to the schools. We subsequently launched new innovative products and versions each year and made our solution more and more customized to the needs of the school teachers by launching the Smart Class CTS and DTS version. Very importantly the next step for us is to transform from being a product seller to a solution provider, this means changing the way we have been thinking about the business. We want to now address a larger area of customer needs. There is already a relationship across more than 13,000 schools that we enjoy and we now want to leverage that by launching more and more additional products which we will cover later in this interaction with you. We want to channelize more and more products through our strong sales and distribution network of the SmartClass sales team through a strong relationship across more than 13,000 schools. As Abhinav shared that we see the price per SmartClass to be neutral to positive going forward but also by launching more and more products like an English Language Lab and a Tablet Solution we believe the average realization from a given customer should see a healthy trend in Q3 and Q4 going forward.

Moving now to the K-12 school segments – in fact prior to the K-12 segment, the School Learning Solutions (SLS) also include the ICT segment and the company has been cautious and not pursuing any aggressive growth strategy in the ICT business to protect the working capital. Hence, there has been the status quo of the performance in the ICT business. It reaches nearly about 11,000 schools and about 5.9 million student. We would continue to pursue an extremely selective bidding strategy wherein the focus on one hand would be on high margins but very importantly the focus would also be to ensure that we minimize the working capital exposure in the ICT related business segment.

Coming onto the K-12 segment, where we have been very pleased with the performance of this segment. Our total number of operational schools are 69 wherein the number of Greenfield and acquired schools are about 38 and the number of asset light schools including the EuroSchools are 31. The four greenfield schools which were about to commence operations got launched and operate in their first year of operations. As you are aware that for the future growth of K-12 business we have completely migrated to asset light model which does not require extensive CAPEX. If you see on Slide #14, there is already a reflection of the chosen strategy wherein the CAPEX for this quarter is nearly 75% down at INR 61 crores compared to INR 244 crores in the Q1 last year. There is a healthy traction going forward in terms sheets that we are signing for the new JV schools and at present we have a visibility of 117 schools up from 84 schools last year. So therefore after having established a track record in about 38 of Greenfield and acquired schools we are now seeing more and more visibility of traction coming in from the JV schools. The efforts have also resulted in increasing number of

students enrolments in our schools to about 37,500 for the current year session, where we have seen addition of nearly 4000 students compared to fourth quarter of FY12. We believe that for all the upcoming sessions we should see more and more students getting added which will lead to improvement in EBIT margin in the K-12 segment. We would keep our investors apprised from Q-o-Q in terms of the progress on the terms sheets, actual JV schools and student enrolment.

As a result of all this efforts the revenue of Educomp Infra Schools Management Ltd the company which does the K-12 business, is 327 million this quarter, a healthy growth of 20% over the same quarter last year. EBIT for the quarter was 222 million as compared to 163 million in the corresponding quarter last year reporting a growth of about 68% over the corresponding quarter last year. There was also healthy growth in PAT in the current quarter as compared to the corresponding quarter last year.

As you observed from the investor release that nearly 50% of the capital of Educomp Solutions is deployed in K-12 segment and generating 16% revenue. As we scale up our performance on the existing 69 K-12 schools, we should see more and more traction on the capital employed in the coming quarter and years thereafter. This segment also includes a pre-school business which has witnessed quarterly revenue of INR 510 million in the Q1 which is an increase of 16% over the corresponding quarter last year. The quarterly EBIT for the pre-school business was at INR 201 million an increase of 24% on a Y-o-Y basis. The EBIT margin for this segment was 39% this quarter compared to 37% in the corresponding quarter last year.

Now we move to the Higher Learning Solutions segment, it comprises mainly of two joint ventures in the area of higher education and vocational education. There has been increase in the traction in the higher education segment. In higher education, we have a JV with Raffles Corporation of Singapore which has set up a state of the art, AICTE approved campus for engineering and post graduate diploma in management which is now fully operational with two batches of students enrolled. We had a very good start to the year with intake of 280 students which is almost 100% of the capacity in MBA and almost 70% of the capacity in the engineering course. If we exclude our professional development business then HLS segment had a revenue INR 126 million which was nearly a growth of 10% over the same quarter last year. The EBIT loss was constant at INR 89 million as compared to INR 90 million last year. Had we not spent more money into marketing and promotional effort to get in more students, one would have witnessed further reduction in EBIT loss but I think this should witness healthy trend in the coming quarter.

For your immediate recall in the professional development business we work with partners like Microsoft and Intel to channelize their philosophic dollars into teacher training projects in the school. This part of the business is lumpy and depends on availability of funds with our partners, however, it is overall insignificant in the entire revenue and EBIT basket.

I had just finished giving an overview of the higher learning solutions segment and I would now start with the fourth and last segment which is the Online Supplementary and Global business segment. This primary includes the Vidya Mandir Classes and Gateforum businesses which are our Test Prep businesses. Performance of VMC improved with a revenue growth of 40% on Y-o-Y basis from INR 96 million last year to INR 134 million this year. Similarly the performance of Gateforum improved with revenue growth of 110% from INR 14 million last year to INR 49 million this year in the 1st Quarter. Therefore, OSG segment excluding the US operation (Learning.com) witnessed more than 100% growth in revenue over the corresponding quarter of last year and the EBIT turned into positive INR 19 million as compared to EBIT loss of INR 4 million last year. Therefore, a healthy growth in revenue across the tester business resulted in to posting profit as compared to a loss in the corresponding quarter last year. Learning.com, US based subsidiary went through some unfavorable regulatory changes in the State of Texas which adversely impacted the revenues and also the profitability thereof. Learning.com had a revenue of INR 205 million compared to INR 276 million last year and incurred an EBIT loss of INR 36 million as compared to EBIT profit of INR 41 million in the corresponding quarter last year. This more than INR 70 million swing has also got an adverse overall bearing in the EBIT margins for the entire consolidated segments as well. However, the management is very focused on bringing the operations of Learning.com back to profitability and it may takes about 3 to 4 quarters. We have taken up some requisite leadership changes in the US business which should in due course bring the desired impact on the US company in the coming few quarters. On overall basis, the Online Supplement and Global segment including Learning.com had quarterly revenues of INR 805 million with growth of 52% over the corresponding quarter last year and EBIT loss of 17 million due to US operations. So that was about the operating and the profitability performance of the four segments and the overall company.

Now let me share with you some key balance sheet highlights. As you are aware of our strategic priority this year is to strengthen our balance sheet and improve the asset liability profile in line with the earning profile that we expect for our businesses. I'm pleased to share with you that on June 19th 2012 we announced a comprehensive financing package of US\$ 155 million from IFC Washington, Proparco of French development financial institution, Mount Kellett which is US \$8 billion global fund. All the three partners along with an equity contribution from promoters, injected US \$155 million into the company. All this money came in a day prior to our FCCB redemption which was due on 25th of July and the FCCB was redeemed on the due date.

Now the highlights of this package are that overall US \$155 million has about US \$70 million of debt, about US \$10 million of FCCB and the balance is in equity.

- The US \$70 million ECB has got a cost of about 5% and door to door maturity of 8.5 years with the moratorium of three years. Thus we believe this has been a significant step forward in improving the asset liability mismatch. We are ramping our K-12 business with 8.5 years

money coming in as we believe the company has made good progress on having a corresponding liability profile as well.

- US\$10 million FCCB that we got subscribed from IFC was at 40% premium to this floor price.

- There was also US \$50 million equity investment from IFC, Proparco, and Mount Kellett

- Finally our principal sponsor Mr. Shantanu Prakash representing the promoter group has committed to invest total of US \$55 million. Out of the total, there has been immediate investment of \$25 million which is US \$15 million came as equity and the balance US\$10 million came as 25% portion of the US\$40 million warrants that he had committed. All of this came in at a price of nearly Rs.194 per share which is about 44% premium to the closing price on June 18th 2012.

In fact, at this stage it would be appropriate to mention here that post the FCCB money coming in, the net worth of the company has improved by nearly INR 1464 million. This is the net impact of the share premium coming in and the FCCB redemptions premium getting knocked off from there. And as and when the exercise of warrants happens over the course of the next 18 months there would be a further augmentation of the net worth which is expected by about INR 560 million. The book value per share of the company now stands at Rs.223/share. So this entire package of US\$155 million has made good progress in line with our intent of strengthening our balance sheet in the current year and the year thereafter. Moreover investments coming in from the reputed institutional players like IFC, Proparco further strengthens the company's credibility which is not limiting to money, long-term asset liability profile of the balance sheet. The management would continue to endeavor working in this direction in the coming quarter as well.

In terms of the balance sheet ratios while you will observe that the debtor days of the company Q-o-Q have gone up because of the fact that we did not signed any securitization term sheets this quarter because the management bandwidth was quite involved into turning around the FCCB payment. But in the current quarter we are reasonably positive that there should be securitization coming our way and hence the increase in debtor days should be moderate and rather come down. Plus there are a lot of initiatives within the system to improve the collection and in fact over the last three months we are seeing a healthy traction in the collection from our customers. The management effort somewhere has already started to reflect in the inventory number of days which has seen a reduction to 18 days in current quarter as compared to 22 days in quarter ended March 2012. We would continue with our efforts in this direction to see that the working capital of the company is not growing as much as we want to grow our revenue and we should leverage working capital over a larger revenue base.

And lastly as part of our consolidation initiatives we would continue to focus on taking a very objective view on each and every business apart from our main business of SmartClass and K-12. Any business which is marginal to our overall revenue and profitability and outside of our overall strategic and core intent, management would take a very objective view and would not be averse to channelizing that capital into our main core businesses of Smart Class and K-12, wherein we see a significant potential of growth going forward. In fact, an objective assessment of the significant growth potential is that 13,000 schools is less than 15% of the overall potential in the Smart Class business segment. So we would be very cautious and careful that the capital is more channelized towards the relatively core businesses going forward.

This brings me to the end of my speech and I want to end by saying that given the 1st Quarter of this year is the leanest quarter, we believe we have made reasonable progress and in the coming three quarters we should scale up both in terms of volumes of Smart class. We should launch of newer products and hence, we should have not only a high volume growth, a better average realization in the subsequent quarter of the year and therefore, at this stage management believe we are well poised to be in line with our annual expectations on revenues and profitability. These were some operating and financial highlights and I would now like to handover back to Mr. Shantanu Prakash to make his closing comments.

Shantanu Prakash

Thank you Sanjay. I want to start by saying that the management is focused on three strategic priorities as I outlined in my opening remarks. With the US\$155 million fund raise behind us, which paid of our FCCB on the due date. This indeed marks an important milestone in the history of the company and is a turning point for the entire business. Not only have we tied up the requisites funding for our liabilities but we have also got highly reputed world-class partners like International Finance Corporation, Proparco and others. What is also significant is that equity has come in at a significant premium and the long-term nine years money from IFC strengthens our balance sheet quite significantly. The promoter group has also brought in equity at almost 45% premium since we do believe that the company is undervalued at this stage and we see great opportunity in creating value for all stakeholders. While the core business fundamentals are strong and we see great opportunity in all our businesses ahead we have simultaneously embarked on several important business transformation initiatives, for example, not only are we working very hard from an internal systems perspective and Sanjay alluded to how we are working hard to bring down the turnaround time for implementation, working hard on inventory, working hard on free cash flow generation, simultaneously we are also working with one of the top-rated investment banks to raise another tranche of very high quality capital in our schools business. We have engaged Boston Consulting Group to advise us on a five years strategic roadmap of the company. We are looking at streamlining operations, realizing synergies, re-prioritizing our portfolio, monetizing non-strategic assets with a continued focus to drive growth but with a very acute focus on free cash flow generation. What is also special about this quarter is the fact that last week in our annual national sales conference we launched two new products and my colleague Abhinav has

spoken a little bit about them. What I like to say is that about seven years back Educomp pioneered the digital revolution in Indian classrooms by introducing Smart Class which has become an over INR 1000 crores product line for the company. Our introduction of Tablet PCs which we believe will further redefine, not just the entire technology space for students and for K-12. This will create another large pillar of revenue monetization and profit for Educomp and therefore is very significant from that perspective. This of course is an exciting time for the entire organization, as we simultaneously look inward with an optimism for an exciting future ahead.

Over the next three quarters, we are going to see a series of business upsides, better pricing in Smart class, certainly higher volumes as we move forward to maintain our guidance for the year with 20 to 25% increase in overall revenue. Lower bill of material cost as we work with our vendors and suppliers on strength of being the largest consumers of some of the products that go into Smart Class probably anywhere in the world. We are in the process of launching 2 new products which will get unleashed and will contribute to revenues probably starting Q3, Q4. There has been lower losses in our investments oriented subsidiaries, you heard Sanjay speak about the turnaround in the TestPrep business and the supplemental business and the higher education business which is something that we have been talking to the investors and shareholders. That it is a matter of time that some of these subsidiaries which are in investment mode start producing profits and free cash flow. We also look forward to better realization from our existing portfolio of schools. We are looking forward to asset sales to unlock cash and finally let there be no doubt that as we continue to do these initiatives, we also continue to leverage our leadership quotient in Smart Class and K-12 where we are the largest players in the industry. In an independent study done by BCG recently, it was affirmed that there is 8 to 10x room for us further grow in our core businesses of Smart Class and almost unlimited potential to grow in the K-12 business.

With that I will now pause and we will open the floor for questions.

Moderator We will now begin with the question and answer session. The first question is from the line of Nitin Saigal from Bridger, please go ahead.

Nitin Saigal Will you give a little more sense on what you expect for securitization and receivables days going forward for the rest of the year?

Sanjay Jain As I was mentioning earlier that we did not avail any significant securitization in 1st Quarter which we should do in the next 2 to 3 months and that should bring down the receivables. And in terms of the number of receivables days I believe for the immediate quarter we don't see any meaningful reduction but as we scale up in two directions (A) increasing the securitization and (B) internal efficiencies in collection by Q3-Q4 we should see a gradual decline in the receivable number of days.

- Nitin Saigal** The next question is on Smart Class I guess, the average prices 3.2 lakhs, what is the price of new classrooms that you are selling and incremental additions are probably lower than that I imagine, if that is the average?
- Abhinav Dhar** The average price for the new classrooms added in existing client's schools is in the region of about 2.7 to 2.9 lakh/ per classroom
- Nitin Saigal** When you mention that you expect that to bottom out that sort of the number you are thinking that will hold 2.7 to 2.9 for new classrooms?
- Abhinav Dhar** Our belief is that those price points are going to stabilize and better over the next few quarters.
- Nitin Saigal** Last question is EBITDA margin outlook for the year, do you have a sense of what we expect it to be overall?
- Sanjay Jain** If I just slice it into the segments before I answer the overall question. Once you see the EBITDA margin for K-12 moving up, for the HLS segment we should see the loss coming down and hence the positive impact over the EBITDA margin. On the Online supplemental we should see the EBITDA margins improving. On the Smart Class segment we should see margin on an overall basis same as compared to the last year because while there is bearish pressure of price in the 1st Quarter, we should neutralize it going forward in the coming quarters. So one should see a maintenance of margins, therefore, if I put all the four segments together our entire EBITDA margins should be at the same levels as compared to last year with the expectation that there could be an upside of 150 to 250 basis points for the entire year. So in a worst case it should remain neutral with a positive upside.
- Nitin Saigal** But that means that the remaining three quarters will be Y-o-Y quite a bit better than last year's last three quarters because the 1st Quarter was down a bunch?
- Sanjay Jain** I think, Q3, Q4 should be significant better as compared to the corresponding quarters last year so we should slowly now start seeing a healthy trend from Q2.
- Nitin Saigal** Just back on pricing on Smart Class or on SLS, you mention about pricing being positively impacted by new products. Would you just help us understand on an organic basis excluding the new products, is pricing improving or is it a lot of pricing benefit you expect from our improving mix?
- Abhinav Dhar** Nothing, if you look at pricing from both perspectives, one is excluding our new initiatives coming up and the other is standalone basis as they exist today. Like I mentioned in Q1 that there had been an internal compelling strategic call that we made in securing fairly large significant number of marquee schools across the country where there were large number of classrooms installations. It was a strategic call that these marquee schools in all these cities need to be gained because we have been working on those specific accounts for a very long

time and they become very good referral sites for the others. Going forward we are confident that excluding our new initiatives though the prices are likely to remain neutral or go better. However, if you take a quick look at the new initiatives that we have recently launched and would actually see the light of the day in Q3 and Q4, specifically. I would like to mention about two of our initiatives one is around Tablets that Shantanu talked about, which are being pushed into every child's hand give us a revenue potential of nearly 15 million per school campus as against just about 2.4 million at the current average Smart Class sales per school which is about 10x higher. The other initiative that we have launched is the English Language labs where the average realization is almost about 2.5 million per classroom as against 350,000 or 400,000 per classroom in the case of Smart Class. These are the 2 initiatives which we are pushing into our existing set of 13,000 schools and fairly formidable number of schools out there who have the appetite to proceed with these initiatives.

Nitin Saigal Just on the number on the tablet was addressable market went from what to what for the tablets per school in terms of revenue potential or per classroom?

Abhinav Dhar 15 million per school campus

Nitin Saigal 15 million up from?

Abhinav Dhar Currently in our existing portfolio of products given our average consumption of about seven or eight classrooms per school our realization per school is in the region of about 2.5 million per school campus which is spread across seven or eight classrooms. What we are saying here is that when schools adopt tablet solutions, than per school campus realization is going to be about 10x of that which is where we see an upside both on the revenue front and on EBIT front.

Nitin Saigal Do you have any sense what the model is you are going to deploy tablets, is it long term contract per school per student and how you are thinking about the business?

Sanjay Jain I think, given that these are very strategy and critical information so I think, at this stage we share the best that we could. You have to just give us few more months to start unfolding plans in terms of potential launch. All I can say at this stage is there is a 5x more potential from the given school and you should see that in Q3-Q4, in terms of harnessing that potential. So I think these are some critical business information to be discussed on a larger call.

Nitin Saigal On the CAPEX, what do you guys expect now for the year FY13?

Sanjay Jain We have done about INR 600 million of CAPEX in the 1st Quarter and we believe the CAPEX for the entire year should just be the annualization of 1st quarter of FY12 which is about Rs. 2400 million with a potential for it to be slightly lower.

- Moderator** We have the next question from the line of Pankaj Chopra from Shanti Asset Management, please go ahead.
- Pankaj Chopra** My questions are very much related to the earlier, the first statement was about the pricing in the existing schools had a much lower level. Could you kindly explain to us why would that be because once the school has selected a product it is already a foot in the door so lowering price for that school is counterintuitive?
- Abhinav Dhar** Every time we add an additional Smart Class room in an existing school there are certain coordinates and certain elements of the program which are already in place.
- Pankaj Chopra** The question is, did you lower the price for them or this is the general pricing which you have been.....
- Abhinav Dhar** General pricing for additional classrooms and existing clients.
- Pankaj Chopra** So that is not undergone a change, it's only the new schools which have undergone changes, is that correct?
- Shantanu Prakash** Yes, that is right.
- Pankaj Chopra** So could you then comment on the competitive scenario, how is competition shaping up, what is market share for Educomp in this space?
- Abhinav Dhar** We continue to retain the market share that we held all through the year and we shall continue to do that. Like I said a little while earlier, the competitive activity in the marketplace has definitely shown some signs of aggression and which warranted that we responded with a strategic plan from our side in terms of retaining that market share. That is what is partially reflected in the slight drop in our prices per classroom. So having said that going forward we may see the pricing being kind of maintained or better.
- Pankaj Chopra** Are you seeing these competitors are not going to be there because once you say that it is only going to move up what you are also implying is that your pricing will tend to be higher. So are these competitors giving up, that seems quite unlikely?
- Shantanu Prakash** We have spoken about this earlier, we see definite market indicators that there is a change in competitor behavior (a) and (b) there is also a likely change in terms of the competitor mix. We believe that as volumes in this market grow due to more momentum in this Smart Class market, the customer has also become very discerning and the number of competitors that exist today, if we had to do this conversation same time next year, I believe that the universe of competitors would have significantly shrunk. In terms of how competitors are responding to what's going on in the market, we clearly see indicators that the competitors want healthy

competition which basically means that margins over a period of time are certainly likely to move up than go down.

Pankaj Chopra So essentially what I understand is that we are at a stage where competition will tend to reduce, is that the correct assessment?

Shantanu Prakash Yeah, that is correct.

Pankaj Chopra So the other question is with regard to the rollover of schools, you have a whole set of schools which are renewing, what's been the success rate on that, could you give us a percentage, I mean, a rough number?

Abhinav Dhar We are happy to inform you all the schools that came for a renewal during this period had renewed with us, or in the process of finalizing their proposals.

Pankaj Chopra But could you give us a comment on the pricing for these guys, have we had to lower something or is it okay or is it in line with the current pricing which we charge?

Abhinav Dhar It is in line with the current pricing that we charge and most of these renewals have come up with the demand for change of hardware as well which we see typical trend in our existing schools and the pricing has remained the same.

Pankaj Chopra So the number would be 100% rollover?

Shantanu Prakash Actually I would like to make a small comment here in the fact that Educomp is able to renew almost 100% of the schools that is actually a great testimony to not just the power of the Educomp brand but also the quality of our service and the quality of the intellectual property that resides in the school. This is the best example of Educomp's leadership and the number is actually almost 100% renewal. Smart Class is not just being five-year revenue stream for the company but actually a perpetual revenue stream. And now that significant number of schools are coming up for renewal this it is really validating our premises right from the beginning that the Smart Class revenues stream is very long-term, very stable and almost non-volatile.

Abhinav Dhar Schools that had signed with us at the time of our inception of Smart Class actually went into 3 terms of renewals because we would sign a three years contract. First few schools that came up about seven years ago actually came up for a third time renewal than all of those schools have also signed with us. So the effective tenure of engagement with Educomp has been that long despite the competitive pressures in the marketplace.

Pankaj Chopra You mentioned about the Tabs business which is about Rs. 15 million per school per annum or is it one-time?

Abhinav Dhar The order value per school when compared to the order value of Smart Class per school.

- Pankaj Chopra** But this is not an annuity business, would that be a correct assessment?
- Abhinav Dhar** It is an annuity business and we are looking at a total order value.
- Pankaj Chopra** And you mentioned about something else which I missed there was a tabs business and the second one?
- Abhinav Dhar** The second one was the English Language Labs.
- Pankaj Chopra** And the opportunity of that was how big?
- Abhinav Dhar** 2.5 million per unit as against the 350,000 to 400,000 per unit of Smart Class.
- Pankaj Chopra** The amount spent for developing these products, how do we deal with that? Does it go through the regular costing or do we capitalize that expense?
- Sanjay Jain** I think what we mentioned here that the amounts are not very significant and are well embedded into our overall CAPEX of INR 600 million during the quarter and in response to your earlier question I had said that CAPEX is likely to maintain the Q1 trend, therefore very specifically it is within that CAPEX and not much is getting spent.
- Abhinav Dhar** If you look at both these initiatives both the tabs and the English Language Labs they are predominantly leverage our existing IP that exist in content. Essentially it is about reproducing and reengineering content that already exists in the company in a format on tab and in the form of English Language Labs. To that extent nearly 80% of the investment has been leveraging our existing IP on these 2 new platforms.
- Sanjay Jain** I think one more point to add here is that it is probably a misnomer to say that we are actually incurring significant CAPEX on these products. We have an R&D lab. We have 400+ people working in Noida, Bangalore. We're actually leveraging our existing R&D strengths to further develop newer products to an extent that there is no incremental expense that is going up (A), and (B) we already have content with us over the effort of all these years. We are trying to customize this content to make it a tab friendly kind of a content where there is not a huge expenditure. There is not an incremental expense so net-net there is not much capitalization that is happening because of these initiatives as it is already being passed through our P&L on a quarter-by-quarter basis.
- Pankaj Chopra** The last area is essentially on a business structure per se I would have assumed that the businesslike Smart Class would have significant level of operating leverage because the number of schools you add, the classrooms that you add it just keep on adding revenues and your cost structure remains the same, of course you had these one-offs of FOREX impact on your raw materials, etc. But by and large if I look at the last 8 quarters the EBIT margins is

slowly trending down and quite significantly, so could you enlighten me on my understanding or give some comments which could help understand this impact?

Sanjay Jain

I think you in fact partially already answered your question that in this business operating leverage already existed and for some reasons it got clouded by advanced FOREX impact and other incidental events. It is also correct that because of the competition coming in one has seen the margins constantly coming down and that is where we actually started with a strong focus on leveraging the reach to 13,000 schools and a presence of 600 sales manpower across all districts to push in more products into the hands of the customer.. And in fact Abhinav also just gave some metrics that vis-à-vis 2.5 million per school revenue how we can make multiply five times through a tablet launch, so I think the leverage already existed and it got clouded by some events but now as we stand today we are well-poised and to leverage the benefits and start seeing it in the P&L by Q3 and Q4.

Shantanu Prakash

I guess is there are no more questions; I would like to thank all the participants on the earnings call today. Thank you and goodnight to everybody.

Moderator

Thank you so much. On behalf of IDFC Securities Ltd. that concludes this conference. Thank you for joining us and you may not disconnect your lines. Thank you.