



“Educomp Solutions Limited Q3 FY11 Conference Call”

February 11, 2011



Moderators:

- Mr. Shantanu Prakash – CEO -- Educomp Solutions Ltd**
- Ms. Sangeeta Gulati – CFO – Educomp Solutions Ltd**
- Mr. Sonjoy Mohanty -- President, Corporate Affairs -- Educomp Solutions Ltd**
- Mr. Raman Bajaj -- Vice President, Corporate Affairs -- Educomp Solutions Ltd**



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Moderator: Ladies and gentlemen good evening and welcome to the Q3 FY'11 earnings conference call of Educomp Solutions Limited. As a reminder for the duration of the presentation all participants would be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. 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. My name is Shantanu Prakash. I am the CEO of Educomp Solutions and I welcome all of you to the third quarter earnings call for FY'11. Joining me on this call are my colleagues, Sangeeta Gulati the CFO 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 and outlook for the third quarter of the financial year ending December 31, 2010. The third quarter for us has been an excellent quarter where we saw our net profits increase by 75% on a YOY basis. Overall, we continue to make rapid progress across all our business plans. Our Digital Content Solution business SmartClass continues to penetrate the market aggressively on the back of a very successful TV advertising campaign. Our K12 schools are fast becoming the most well known brands in most of the cities where we have launched. We are gearing up further to launch our services for helping the first AICTE accredited Engineering and Management campus in the coming academic term, which will make us a mainstream Higher Education player. Our Vocational business has seen an unprecedented growth since the inception of the joint venture with Pearson and we have close to 280 vocational points of presence in the country. Further, our Online and Supplemental education platforms are fast establishing a strong presence of online users and we have created the largest e-learning footprint in India with over 2.5 million online users. Educomp now reaches 25000 schools and 15.5 million learners across the world. We have the largest customer reach among education companies worldwide and yet our customer penetration in all

our businesses is still in the low single digits. Clearly, we have a long run way of growth ahead and we are on our way to becoming one of the top education companies in the world.

Let me now share the detailed financial highlights of this quarter. On a standalone basis, the income from operations for the quarter is Rs.276.4 Crores, an increase of 36% over the corresponding quarter last year. On a consolidated basis, the income from operations for the quarter is 357.5 Crores, an increase of 37% on a YOY basis. Profits before tax or PBT for the quarter on a standalone basis is 128.4 Crores, an increase of 28% over the same quarter last year. The PBT margin therefore has clocked at healthy 45%. Similarly the PBT for the quarter on a consolidated basis is 125.7 Crores, an increase of 24% over the same period last year. The PBT margin on a consolidated basis is 34%.

Net profit after tax for the quarter on standalone basis is 112 Crores an increased of 75% over the corresponding period last year while the net profit after tax for the quarter on a consolidated basis is 96.7 Crores an increase of 58% on YOY basis. The net profit margin for the company after tax on a standalone basis is 40%, up by 30% compared to last year. On a consolidated basis, PAT margin is 26%, up from 22% in the same period last year.

Our EPS for the quarter is 11.74 basic and 10.7 diluted on a standalone basis. On a consolidated basis, the EPS is 10.13 basic and 9.23 diluted. I am very happy to share that all our businesses are on track and we are fully on track to meet our stated guidance for FY11 on both revenue as well as profits which is a top line of Rs.1300 to 1350 Crores and a bottom line of approximately Rs.330 Crores.

Let me now go into the segmental overview.

In the School Learning Solutions segment, our total consolidated quarterly revenue came in at 279.4 Crores. This is a growth of 41% on a year-on-year basis. We added another 949 schools to our SmartClass portfolio and implemented the product in 7085 classrooms taking the total reach of SmartClass to 5534 schools and 3.9 million students across the country.

On an average, we added about 7.5 classrooms per school in the quarter. So far in the nine months of FY11, we have implemented SmartClass in a total of 19,144 classrooms and we are well on our way to achieving our target of 25,000-30,000 classrooms as guided. As you are well aware, the nature of our business is seasonal and Q4 is usually our strongest quarter.

We continue to penetrate deeper into the private schools markets in all the tiers, tier I, tier II, and tier III towns across the country. SmartClass pricing remains robust and this quarter's average selling price per classroom was 3.8 lakhs. This gives us comfort that SmartClass is now a brand symbolizing high quality educational **IP** and that our marketshare remains the most dominant market share in India today. The strong addition of schools in SmartClass this quarter is also the result of a very successful TV advertising campaign which some of you might have seen over the past few months. This has created unprecedented awareness about SmartClass and education technology amongst millions of parents.

By targeting SmartClass to parents, we have been able to create a consumer brand out of SmartClass and clearly the real ambassadors of our product are the 3.9 million students and hundreds of thousands of teachers that use our product everyday inside the classrooms. As the SmartClass business expands, we have been seriously looking at multiple service providers to support the business in terms of installation, commissioning, and maintenance and we are happy to announce that we have now finalized the second vendor to provide hardware maintenance services and the same will be operational from April 1, 2011. We will share the final details about the service provider in the next quarter as our agreements with them are in the last stages of finalization.

The addition of the second service provider to our model is yet another major step in our stated strategy of building an ecosystem, which will consist of:

- a) Vendors and system integrators, who will work with us to provide high quality hardware services to the schools;
- b) Banks, who will finance the schools and



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c) Educomp, who will provide high quality educational intellectual property and do the customer acquisition.

We continue to push the frontiers of innovation in content and technology for schools. I am also happy to share with you another exciting development that for the first time in the history of SmartClass and probably in the history of classroom teaching across the world, Educomp is shortly going to launch a uniquely developed three dimensional digital content in schools, developed using the 3D stereoscopic technology. Children will now be able to engage and enjoy learning inside the classrooms using 3D glasses and this will add a new dimension to learning and also given Educomp a fairly unique competitive edge. We will be showcasing this unique 3D stereoscopic educational content system during our forthcoming analyst meet on February 16th.

Coming back to the numbers, SmartClass contributed revenues of 250.1 Crores this quarter, an increase of 52% on a YOY basis. The PBIT for SmartClass for this quarter is 165.4 Crores, an increase of 41% over the corresponding period and the PBIT margins remain at 66%.

Let me now turn to our second business in the SLS segment, the ICT business. As you are aware in this business, we have been pursuing a strategy of selective bidding in order to improve profitability. We have currently participated in three government tenders covering approximately 20,000 schools in the states of Gujarat, Maharashtra, and Haryana. We expect these bids to be opened shortly. In this quarter we did not add any schools to our list of ICT schools. The contract period of approximately 3200 schools in Gujarat and Chattisgarh came to an end and we transferred those schools back to the government. The ICT program currently reaches us 10,550 schools and 5.8 million students. We continue to retain our number #1 position in this business in India.

Let me now turn to our K12 school segment, which comprises of our preschool business as well as high schools. Our preschool business is gradually spreading its wings across the country and we are building a pan-India presence under two brands: Roots to Wings and EuroKids.



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We are the largest preschool company in the country with 799 preschools in our portfolio serving almost 50,000 students across two brands. The other business in our K12 stable is of course our strategic and fast growing business of setting up and running brick & mortar K12 schools, which is operated by our subsidiary Educomp Infrastructure and School Management Limited. You will be pleased to know that we now have a portfolio of 50 operational schools, which include 30 Greenfield schools and 9 Joint Ventures under Educomp, as well as 11 schools under Euroschool. Our total hard visibility of schools at the end of this quarter has increased to 81 schools, which include operating schools, land sites and under-construction sites and dry management/joint ventures.

You are well aware that our strategy in K12 schools business is to cover the entire spectrum of school customer segments and address the education capacity shortages at various price points. We therefore operate a portfolio of brands which target specific consumer segments at different price points. We run our Millennium branded schools in tier I and tier II cities like Noida, Lucknow, Agra, Bangalore, Merat, Mohali, Amritsar, Panipat, Bathinda, Karnal etc. Some of our Millennium schools have already become the best known schools in their cities commanding the highest premium in just one to two years' time.

We also run co-branded schools with some of the leading school brands in the country like Shriram School in the north, judged the No #1 school in the country by Education World magazine as well as with PSBB Schools, an iconic school brand of the south. We have a Shriram Millennium school operational in Noida, 3 PSBB Millennium schools in Chennai; 1 in Bangalore and yet another one in Coimbatore. We are likely to announce another marquee brand partnership shortly.

Our brand for the mid-tier locations is called Takshila schools and they are operating in places like Ahmednagar, Gaya, Hoshiarpur, Sangli and so on. Further we also run budget schools in semi-urban towns like Kashipur, Gadarpur, Bazpur, Firozpur-Zirka, Nagina, Nuh, Mewat, etc., under the brand name of Universal Academy. These schools are a first of their kind in some of

these locations and we are breaking new ground by providing private schooling option to families which have so far never had such an option available. In that sense Educomp is truly a visionary in its exploration of new markets and new price points.

The high school business, which is structured under our subsidiary Educomp Infrastructure and School Management Limited, had revenues of 20.3 Crores this quarter and an EBITDA of 15.5 Crores, EBITDA margin of 69%, PAT of 3.7 Crores and a PAT margin of 16%. In the overall K12 Schools segment which includes both our preschool and the high school businesses, our total quarterly revenue came in at 30.4 Crores, an increase of 21% over the corresponding quarter in FY'10 and the quarterly EBIT for the segment of 10.7 Crores.

Moving on to our Higher Learning Solutions segment now. This segment comprises of our 2 exciting Joint Ventures with world leading organizations Raffles and Pearson in the areas of Higher Education and Vocational Education respectively.

In the Raffles Joint Venture we have 7 Raffles Millennium Colleges operational in cities like Delhi, Bangalore, Chandigarh, Kolkata, Hyderabad, Ahmedabad and Chennai. These colleges have super premium positioning and have international faculty that teaches an internationally recognized curriculum. We have also received the AICTE approval to launch Engineering and PGDM program later in this calendar year with the start of the new academic cycle.

Our vocational business called IndiaCan which is a Joint Venture with Pearson has been growing quite rapidly. We now have 279 points of presence covering 52,500 students across various vocational courses. This is a stellar performance considering that the IndiaCan Joint Venture was formed only five quarters back and now we are addressing the training needs are 52,500 students. IndiaCan is a unique business that is expanding on the back of three distinct models:

- a) ETEN or Educomp Tele Education Network is a model that leverages satellite technology to bridge the geographical divide between teacher and students all over the country
- b) PurpleLeap is a model that sets up training centers inside colleges and works with final year students to make them job ready and finally
- c) Our consumer vocational model that is based on a franchised network of centers that offers a variety of training programs and courses across Accounting, Finance, Retail, Media, and English Language Training.

As you are aware, both our joint venture businesses are young businesses and are currently in investment mode. As guided earlier both these businesses will remain in investment mode for another 12-18 months and we are happy to share that the Revenue and EBITDA losses for both these businesses are in line so far in FY'11. Our share of Raffles JV revenue in this quarter was 1.3 Crores, with an EBITDA loss of 2.8 Crores and our share of IndiaCan JV revenue was 5.1 Crores with an EBITDA loss of 4.8 Crores.

The Higher Learning Solutions segment overall had revenue of 14.6 Crores, which is an increase of 87% over the corresponding quarter last year and EBIT loss of 6 Crores compared to an EBIT loss of 4.1 Crores last year.

Let me now turn to the last segment Online, Supplemental and Global. This comprises of all our investments in the online and supplemental space as well as our two global subsidiaries. Our supplemental education strategy is to cater to all supplemental education needs of our customers. Vidya Mandir Classes, the premier IIT-JEE test prep franchise in the country added 3 more centers to its existing 3 centres in Delhi increasing capacity from 700 to 2200 students and we have achieved 100% capacity utilization post this expansion.

The national level admission test for this brand was conducted across 20 cities for admissions to its various program and about 10,000 students appeared for this exam, out of which we have selected 2200 students. Outside of Delhi we have opened six new VSAT-based centres in places like Bokaro, Bathinda, Mathura, Ahmedabad, Bilaspur and Ranchi where over 400 enrollments have been made so far.



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WizIQ, our teacher student, marketplace crossed the 1 million registered users milestone and has become the largest platform of its kind in the world. WizIQ has over 2.4 million unique visitors and has recently launched its virtual classroom interface in multiple languages like Spanish, Portuguese and Hebrew. Learnhub and StudyPlaces, our admissions advisory services business had over 150,000 new registered users taking the total reach of this platform to 1.4 million registered students.

Our total reach among users of our various online education properties is over 2.5 million users making us the largest E-learning company in India. With the impending rollout of 3G and wireless broadband in the months to come we expect to scale this business to new heights, as we believe that online consumption of educational content will become a reality as it has been in other parts of the world.

As guided earlier, the Online, Supplemental and Global segment is also in investment mode and will continue to be in investment mode for about 18 months more. The segment had revenues of 33.1 Crores growing 16% for the corresponding period last year with an EBIT loss of 4.4 Crores compared to an EBIT loss of 4.7 Crores in the same quarter last year.

This quarter we announced a landmark joint venture with Zeebo Inc. Zeebo is a fully owned company of Qualcomm Ventures, one of the leading telecom companies in the world. Our joint venture with Zeebo will address the market for our SmartClass content for homes and in the upcoming age of 3G and all pervasive wireless broadband, we will have the ability to deliver our SmartClass content across the country in a secure online format. Advanced discussions are currently on with various telecom providers in India and we hope to launch the product soon. Since we already have close to 4 million users of our SmartClass content in schools, this joint venture makes eminent sense for us.

I would like end by summarizing for you, where we have reached so far:

Educomp is India's largest education company,

- We are the No. 1 player in the Educational multimedia content business reaching out to 3.9 million students across over 5500 private schools
- We are the No. 1 player in the PPP model based ICT business reaching out to 5.8 million students across 10550 government schools
- We are the No. 1 player in the teacher training space having trained 1.6 million teachers
- We are the No. 1 player in the pre-school business with close to 799 pre-schools in the country
- We are the No. 1 corporate player in the high schools business with about 50 live operational schools and a visibility of 81 schools
- We are on our way to becoming a mainstream higher education player with the upcoming launch of our engineering and MBA college campus
- With 279 points of presence in the vocational training space, we are one of the largest vocational educational players in the country and finally
- With the largest e-learning footprint and base of 2.5 million users we are the largest online education company in India

As we integrate with mainstream India we need to take into account the aspirations of different sections of our society. Therefore, in the last quarter we put in place an advisory board to advise and guide us as we create products and services for India. You will be happy to know that our advisory board consists of some of the most renowned and eminent intellectuals across the country, and we are delighted to have them join the Educomp family. The board consists of:

- Dr. Amjad Ali Khan, the Indian classical musician and Padma Vibhushan award winner.
- Mr. Gurcharan Das, author, management guru, and ex-CEO of Procter & Gamble India.
- Mrs. Indu Shahani, currently Sheriff of Mumbai and Principal of H R College of Commerce and Economics in South Mumbai.
- Mr. Les Foltos, Director of Educational Innovation at Peer-Ed and Architect of the Peer Coaching Program.
- Mr. Madhur Bhandarkar, three times National Award winning Indian film director and script writer.

- Dr. Naresh Trehan, an acclaimed Indian surgeon and Medical Administrator and the recipient of numerous awards including the Padma Shri and Padma Bhushan. He is the founder chairman of Medanta, one of the largest multi super-specialty hospitals in Delhi.
- Dr. Pradip Khandwalla, who served as an L&T Chair Professor of Organizational Behavior at IIM Ahmedabad from 1985-1991 and further as Director of IIM Ahmedabad up to 1996. He is also a member of the Government of India National Renewal Fund, MBA from Wharton and Ph.D. from Carnegie-Mellon.
- Mr. Rajan Anandan ex-Managing Director of Microsoft India till August 2010 and a well-known investor, graduate from MIT and a master's degree holder from Stanford University.
- Dr. Shayama Chona, the former principal of Delhi Public School RK-Puram and a Padma Shri and Padma Bhushan Award winner
- Ms. Rajita Kulkarni, ex-citi banker by profession for the last 18 years, a professional trainer with over 5000 workshops, 100,000 participants, and 17 awards for professional excellence, and a member of the board of the Sri Sri University.

We are delighted to have these eminent personalities join our Advisory Board.

Clearly we have done a few things right, but the most exciting years of Educomp are not the one that have gone by, but years that lie ahead. We are best positioned to take advantage of the growing and increasing education spend in India across all verticals since Educomp has built a platform present across all verticals in the education supply chain. The recent Right to Education Act and the increased emphasize on PPP favour well for our business. I am confident that with the highly motivated team of individuals growing the respective businesses, we will scale new heights in the coming quarters and years. With that, I will pause now and we will open up for questions and answers.

Moderator:

Thank you very much sir. The first question comes from the line of Mohit Jain from Alchemy, please go ahead.

Mohit Jain: I have a couple of questions, first is on K12 business model. Can you please help me to understand how this works in terms of Capex, cash, loan and balance sheet, what sits where? Second is on the average number of classrooms. I think since we expected for a better average number of classes as we moved forward in terms of years, but the trend has been that the average number of classrooms is constantly declining so if you could guide on that front?

Shantanu Prakash: Yes, so your question is average number of classrooms is 7.5 versus 8 in the last quarter. I think this is understandable as the numbers of schools are dramatically increasing. As you have seen we have signed 949 schools in just Q3 and just two years back we probably signed 900 for the entire year. So given the huge momentum in sales, the number of classrooms per school on an average is expected to be somewhere in the range of 7 and 8, so this is not such a major concern for us. What was the other question, could you repeat that, I could not understand it?

Mohit Jain: The K12 business model, when we invest in school, where does that cash flow go and do we own it in our balance sheet or it is in the balance sheet of the trust, and how do you account for it?

Shantanu Prakash: It is on our balance sheet, on the balance sheet of Educomp Infrastructure and School Management that owns all the assets. We capture a part of the cash flow, which corresponds to the services which we provide to these schools. These services are of two categories, one is services on account of the infrastructure that we have provided and secondly services on account of intellectual property. As you know we have the Millennium Learning System, which is our curriculum, which consists of over 800 text books about 11,000 lessons planned over 40,000 assessments and so on. We provide this, we provide teacher training, we provide all the services that are required to run the school at a certain quality level, and so we get paid for both of these things.

Mohit Jain: Can you please quantify these fees; in the sense what percent do we get paid?

Shantanu Prakash: Actually, if you look at our last quarter update we have given a very detailed chart and this is available on our website. We have broken down each brand of school and we have said what is the EBIT margin for the school, what is the Capex of each school, and what is the kind of ROCE that we would expect for each brand of school during the first 1 to 3 years, and beyond 3 years, so I would like to draw your attention to our previous quarter update and if you have any further questions beyond that, we are happy to address your question offline.

Mohit Jain: Okay sure Sir and one more on the addition of the vendor. This is supposed to come onboard in the next quarter and is it a third party or do we need to infuse some capital in that vendor?

Shantanu Prakash: Our first vendor is also a third party; second vendor is also third party. As I explained in my speech just now, our objective is to create an ecosystem of vendors and as our business expands we will add vendors, so that our schools can be well serviced.

Mohit Jain: And last on the tax rate, what could be the effective tax rate for FY'11 and FY'12?

Shantanu Prakash: I will ask Sangeeta to answer the question.

Sangeeta Gulati: It could be nearly 35% including all the institutions and everything unless and until DTC comes into the picture wherein the tax rate is going to be around 25% for FY'12.

Mohit Jain: So FY'12 is going to be the regular corporate tax rate; I did not get the numbers for FY'11?

Sangeeta Gulati: For FY'11 the effective tax rate is around 10% and going forward it will be the normal corporate tax rate.

Mohit Jain: Thank you very much.

Moderator: Thank you very much Mr. Jain. The next question comes from the line of Nikhil Vora from IDFC. Please go ahead.

Nikhil Vora: Couple of things, firstly I understand that the new entity will start to be operational from next quarter, but does it throw us back to the same issue that we had with EduSmart earlier, where the recourse was to Educomp's balance sheet?

Shantanu Prakash: As you are aware that we have, as promised, reduced the exposure from the earlier 100% now down to 20% and we hope to continue with 20%. Eventually of course we plan to bring it down to zero, but in the first phase it has come down from 100 to 20%.

Nikhil Vora: So the incoming vendor will also be at around 20% is it?

Shantanu Prakash: That is correct.

Nikhil Vora: Is there any need to infuse capital into the new vendor?

Shantanu Prakash: Currently we do not see that need.

Sangeeta Gulati: The only exception could be if the banks say that we need to, for example in the EduSmart vendor we have pumped in about 45 Crores of preference capital, which is again redeemable preference capital and non-convertible, so we will actually try that. No such condition is there, but if the bank wants a comfortable debt account, that could be one of our conditions, however, the amount will be very insignificant. Even today if you look at EduSmart against 995 Crores raised from banks, we have just pumped in 45 Crores, which is practically insignificant, so the same situation will carry there also.

Nikhil Vora: Okay. Second was on the K12 part of the business, is there any concern with regard to the incremental financing facilities that we require for growing the business for the next couple of years?

Shantanu Prakash: No, not at all. The banks are very enthusiastic to fund this business and in fact the business itself is so robust and the economics of the business are so good

that we do not actually anticipate any problems of financing in growing the business and as you know that we have also been growing the business through joint ventures and partnership, which is a capital light model, so we do not have any concerns on that account.

Nikhil Vora: What is the line of credit that is available right now for K12?

Sangeeta Gulati: For K12 we presently have Rs. 6.25 billion and now we are trying to enhance the proposal and may be within a month or so, we would have additional about Rs. 6-7 billion of the additional credit facility, which we will be utilizing for the business in two to three years depending upon the requirements, but that proposal is yet to be submitted to the bank, we are having discussions. Having said so, we have already got informal communication from the banks wherein the banks have already sanctioned informally about 700 odd Crores, so it is just a formal proposal that we need to submit and have the term sheet signed.

Nikhil Vora: Okay, for the K12 part of the business over the last year or two we have been increasing stake in the subsidiary, any thoughts on that and what is the rationale?

Shantanu Prakash: The business is done through the subsidiary, so as and when additional equity is required, Educomp's stake will keep moving up in the subsidiary.

Nikhil Vora: Is there any first right of refusal with the co-investor on that?

Shantanu Prakash: There are no such rights; in fact Educomp is currently the sole investor.

Nikhil Vora: In the subsidiary?

Shantanu Prakash: All incremental financial equity infusion is being done by Educomp.

Nikhil Vora: Ownership is 70-80% right.

Sangeeta Gulati: 80.47%.

Shantanu Prakash: Over 80%.

Nikhil Vora: Lastly, on the K12 part again, in the EuroKids School business, we have reduced the number of K12 schools, from 14 to 11, it is not relevant, but have we shut down schools?

Shantanu Prakash: No, as you know Euro schools are purely on franchise, three contracts have been terminated by EuroKids management for various reasons, so the number of schools under the EuroKids franchise now stands at 11.

Nikhil Vora: Lastly, Shantanu you talked about the evolution on PPP and how that could work, has there been any further preparation and whether the model is really up and running or is it something which one really cannot build up for the next couple of years?

Shantanu Prakash: Actually I would not say next couple of years. The fact is that we are still waiting for the government to launch the scheme and we keep hearing from the government that it is going to do so shortly. It has not happened as yet, it may happen over the next one month, it can happen over the next six months, it is really anybody's guess at this stage.

Nikhil Vora: Lastly on the Raffles JV we have not really grown significantly in the last three to four quarters, is there a sense we are starting to consolidate this business before we start to make the next move or are there certain learnings from this part of the JV.

Shantanu Prakash: You mean we have not grown the number of colleges?

Nikhil Vora: Yes.

Shantanu Prakash: With 7 colleges, we are now in all the major metro cities. As you know, this is a super premium model, this is a not model that will go to tier-2 or tier-3 cities, so we do not have any plans to increase the number of colleges. The current 7 colleges cover every part of India, so we will only grow the number of students in these colleges. As you know that each student in our Raffles College pays about 5,00,000 rupees per annum as fee, so over \$10,000 is the fee, so the revenue growth is going to come not from increasing the number of colleges, but by increasing the students in the colleges.

Nikhil Vora: Just one more question, any verticals of our current line of business, which you think over a period of time, might be better off as stand-alone entity, which may not require the overall Educomp support?

Shantanu Prakash: You mean financial support?

Nikhil Vora: Even otherwise, are there any ventures the verticals in the current line of businesses, which you think can be better off if it was spun off or really disassociated from Educomp current balance sheet?

Shantanu Prakash: The decision to spin off is a decision that will be focused on what it does for shareholder value, so that decision will be taken at the right point of time when we see what is the potential for it to benefit Educomp's shareholders. However, in terms of financing these businesses from our balance sheet, as these businesses become profitable, they will start contributing to Educomp's balance sheet rather than taking the funds from the balance sheet.

Nikhil Vora: Okay. Thanks a lot Sir.

Moderator: Thank you very much Mr. Vora. The next question comes from the line of Mr. Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: I had a few questions, going back to the second partner in addition to EduSmart, the key question that we want to understand that is it going to be something like mentored by ex-employees or is it going to be a completely independent entity?

Shantanu Prakash: Completely independent entity.

Sunil Tirumalai: Okay, so somebody who is already experienced?

Shantanu Prakash: Absolutely. Sunil the whole idea is to get experienced people to serve our business, which is mere common sense, so as we choose our partner or choose the vendor, we want to work with people who understand the business, who are able to provide good quality service to our customers, that is the sole driving factor for us.

Sunil Tirumalai: Okay, if I look at one slide on your presentation, which gives a split of the DSO's, on that the K12 business has around 22 days, so let me see if my calculation is right, given that K12 is roughly 10% of your sales, so K12 by itself should have around 220 days on its revenue base?

Shantanu Prakash: If you go back to our disclosure last quarter on how the K12 business runs, the schools, which are in their 1st and 2nd year of operation start with a 10-20% capacity utilization and Educomp bills on an accrual basis. Therefore in the first one or two years of the schools functioning, the debtor days from those schools are going to be high and as the schools scales up, those are going to come down. In fact this point has been addressed in detail in our last investor update, where we have given a detailed disclosure on what is the debtor days expectation from our different brands of school at different price points, so this is completely in line with our K12 school model.

Sunil Tirumalai: If we look at the K12 schools for the next academic year, is my understanding right, we are starting with around 50 schools?

Shantanu Prakash: Yes 50 schools are live currently that is correct

Sunil Tirumalai: The Engineering business that you spoke about, you mentioned that it is expected to start in July, August. Where are we in terms of infrastructure, in terms of building and admission?

Shantanu Prakash: In Greater Noida. We have already given, if you look at the slide on higher education, there is a photograph of our campus, it is already ready.

Sunil Tirumalai: What about the admission procedure?

Shantanu Prakash: Already launched, but the campus will open in July as per the norms.

Sunil Tirumalai: Sir, just a quick comment on your guidance, the fourth quarter should be 130% YOY growth in profits to meet your guidance. Just trying to understand what do you think would be the drivers for that?

Shantanu Prakash: Yes the drivers are essentially going to be SmartClass, as you know that about 40% of the revenue in Smart Class comes in the last quarter. So we should watch the performance in the last quarter so when we have reiterated our guidance clearly that reiteration has come from the confidence that the fourth quarter numbers will be in line with what is expected.

Sunil Tirumalai: Sir last question, both EuroKids and ASKnLearn, the margins seemed to have come off; I just want details on that?

Shantanu Prakash: There are basically operational and logistical reasons for that. In the case of ASKnLearn, it is because the renewals for the schools in Singapore happen in Q4. In the case of EuroKids, it is because of the revenue collection from franchisees and so on, so these are not any systemic issues, these are normal operational issues and are going to come back again. These businesses are minor contributors to our overall consolidated revenues in any case.

Sunil Tirumalai: Thank you very much. I will come back later.

Moderator: Thank you very much Mr. Tirumalai. The next question comes from the line of Mr. G V Giri from IIFL. Please go ahead.

G V Giri: This 20% recourse is for the entire portfolio or is it for incremental parts to the portfolio and securitization?

Shantanu Prakash: Our incremental portfolio starting from the last quarter.

G V Giri: Secondly, what is your total classrooms cumulatively that you have under service?

Shantanu Prakash: As you are aware that earlier we were disclosing schools and not classrooms, we started classroom disclosure only from Q4 of last year, so now we have got almost four quarters of detailed classroom disclosure, so I will not be able to answer that question. We have already crossed 19,000 classrooms this year and our guidance is 25,000-30,000 classrooms for the entire financial year. Which itself is a very healthy growth over last year.

G V Giri: And your classrooms per school historically were in the older schools well clear of 10%, so one might get an idea of the total number of classrooms, I suppose. The third question I had was you had the dry management strategy of getting other financial partners and using your brand to power the business including various services which are given under your brand, now when you mentioned about the partnership which Shriram, where has this fallen because they are also a pretty big brand, so is PSBB. So who is bringing the brand and who is bringing the capital, and where does that fit into the previously stated dry management strategy?

Shantanu Prakash: PSBB schools are not dry management models and that is a very interesting question. The fact is that these are already very iconic brands, and yet they are partners with Educomp. For Educomp to own these co-branded schools, I think it speaks a lot of Educomp's brand equity in the educational community, so I will leave the answer at that. The dry management and partnerships are with Educomp's own brand such as Millennium Schools.

G V Giri: Just to understand correctly, while dry management is your brand and outside capital in these cases it is the outside brand and your capital?

Shantanu Prakash: And also our intellectual property is there. The expertise to run the school with a certain skill. And also to scale the business and grow the number of schools.

G V Giri: Understood, thank you very much.

Moderator: Thank you very much Mr. Giri. The next question comes from the line of Mr. Pratish Krishnan from Bank of America-Merrill Lynch. Please go ahead.

Pratish Krishnan: What is on this 3D content that you mentioned, when do you plan to roll out this 3D content?

Shantanu Prakash: We will roll this content out from the 1st of April and as you are aware we have been constantly pushing the envelope in terms of what is the technology that should be used in the classroom and this is in fact a new product that we will be launching. As I said we will be giving a preview in our upcoming analyst and management meet on the 16th of February, but I can tell the people who are on

the call that this represents a very significant advancement in terms of user experience that we will be bringing to Indian classrooms.

Pratish Krishnan: Secondly, does this require a different kind of infrastructure, does it mean that you can probably up your pricing and is there a demand for this kind of content at this point of time?

Shantanu Prakash: Yes, it does require different infrastructure which is a good thing. In fact Educomp's existing SmartClass schools that have already got our system will again become customers for this product. We plan to launch it from the 1st of April, so currently we will not be able to share with you what is the guidance, how many additional classrooms, what is the pricing and so on, essentially we want to convey the message to our investors that we now have a new product that is ready for launch and we will leave it at that at this stage.

Pratish Krishnan: The second is in terms of the 3 schools which got terminated. Is this showing that typical JV is not a long term venture? EuroSchool would have provided brand for that school, if you can just share in terms of what are the key reasons and what happened to those 3 schools?

Shantanu Prakash: EuroSchool model as you know that is not under Educomp Infrastructure. It is an asset light model and a number of their preschool franchises have signed up. The termination has happened from the side of EuroKids, not from the side of the franchisees, and it has been done with a view that we wanted to select the right partner. Probably they came to a reasoning that they were not the right partners for the business, so some proactive action was taken.

Pratish Krishnan: Okay fine. Thanks a lot.

Moderator: Thank you very much Mr. Krishnan. At this moment, I would now like to hand the floor back to Mr. Shantanu for any final remarks and closing comments.

Shantanu Prakash: I would like to thank everyone for being on the call today. As always our investors relations team is standing-by, we will be more than happy to address any further queries that you might have. Thank you and good night to everyone.



Educomp Solutions Limited
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Moderator: Thank you very much Sir. On behalf of Educomp Solutions that concludes this evening's conference. Thank you for joining us. You may now disconnect your lines.