



“Educomp Solutions Limited”

May 30, 2012



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*Educomp Solutions Limited
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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY'12 earnings conference call of Educomp hosted by IDFC Securities Limited. As a reminder all participants' lines are to 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 this conference call, you may signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Swati Nangalia from IDFC Securities. Thank you and over to you Madam.

Swati Nangalia: Thank you Marina. It is a pleasure to welcome you all to the Q4 FY'12 earnings conference call for Educomp Solutions. Today we have with us representing the management team Mr. Shantanu Prakash, Chairman and Managing Director along with the senior management team of Educomp. I will hand over to Shantanu for the opening remarks post which we can move on to the Q&A. Over to you Shantanu.

Shantanu Prakash: Thank you Swati and good evening everyone. Welcome to Educomp's fourth quarter earnings call of the financial year FY'12. My name is Shantanu Prakash and I am the Chairman and Managing Director of the Company. On this call I am joined by Mr. Sanjay Jain, the Group CEO of the Company, Abhinav Dhar, Executive Director of the Company, Mr. Ashish Gupta, Senior Vice President, Finance and Interim CFO and Raman Bajaj, Senior Vice President Corporate Affairs. We are very happy to share with you our numbers for the fourth quarter as well as the financial year FY'12 ending on March 31, 2012. We have had an excellent performance across all our businesses and our leadership position as you might have seen from the enclosed investor update is unquestionably strong in almost every segment that we operate in.

As we move towards taking our company to the next level I am delighted to introduce to all of you the news that Mr. Sanjay Jain has recently joined as the Group CEO of Educomp. Sanjay brings a wealth of professional experience on board and joins me and our senior leadership team to drive the overall education agenda in this company. In his new role Sanjay will work closely with me and take the company forward into an all together new orbit of growth in value creation. I would now request Sanjay to share the detailed financial highlights of the quarter and the financial year FY'12.

Sanjay Jain: Thank you Shantanu, and a very good evening to all of you friends. At the outset I share Shantanu's vision of bringing education services to 21 million young people across India & the world, and with this vision ahead of us, I am very happy to share with you the performance of the company for Q4 and financial year FY'11-12. I am sure all of you would have received the Q4 investor update that has been circulated about a while ago and I will start with the consolidated results on slide# 4 of the investor update.

On a consolidated basis the operational revenue for the financial year is Rs.14913 million, an increase of 41% over the last year. If you recall we had an exceptional one time revenue due to

business transfer agreement during the previous financial year due to the transfer of old BOOT contracts and as a result on a like-to-like comparison post exclusion of the BTA revenue from last year there is led a 41% growth in operating revenue.

The EBITDA for the year is Rs.4574 million, which represents an increase of 58% in the EBITDA of last year. As a result the operating margins for the company excluding BTA are at 31% this year versus 27% last year, indicating 4% improvement in operating margins year over year. This margin is a result of many multiple factors. On one hand, the revenue growth is driven by the record addition of SmartClass in classrooms, and at the same time it is driven by more and more K-12 schools moving into second, third or fourth year of their existence and adding more revenue to the overall revenue basket. As a result of the higher volumes, we have costs getting amortized over a larger base leading to 4% improvement in the operating margins.

Net profits after tax during FY' 2011-12 is Rs.1355, an increase of 56% over the same figure last year. As a result the operational PAT margin for the full year is about 9% as compared to 8% last year. It is important to mention here that the PAT figures that I just shared are actually after an exceptional forex loss of Rs.453 million in FY'12 compared to a forex gain of 46 million last year. ***Notwithstanding that there is a growth in operational PAT of about 56% and the PAT margin going up from 8% last year to about 9% this year.***

The quarterly results on a consolidated basis are as follows: The operational revenue for Q4 was Rs.5136 million, an increase of 53% over the corresponding quarter last year. In terms of operating profit EBITDA it was Rs.1549 million in this quarter representing a growth of 110% over the same quarter last year which is also coming in from overall EBITDA margin improving to 30% as compared to the 22% in this same period last year. For the like-to-like comparison, we have excluded the BTA impact from the last year fourth quarter...

Net profit after tax after the exceptional forex item is Rs.615 million as compared to Rs.1457 million last year.

Coming now to our standalone results on slide 6 of the investor update the operational revenue for the entire year is at Rs.10765 million an increase of 48% over last year, again this growth has been calculated after excluding the one-time BTA impact from the FY' 11 numbers. Similarly, standalone EBITDA for this year witnessed 75% growth over the corresponding of the previous year and there is healthy 38% EBITDA margin for FY'12 as compared to 32% EBITDA margin in FY'11.

In terms of net profit after tax it stands at Rs.1889 million this year compared to a PAT of Rs.1390 million last year excluding the one time BTA impact. This gives us a PAT margin of 17% as compared to 18% last year. Important to mention here that the standalone PAT includes exceptional forex loss of Rs.453 million for this year compared to a Rs.48 million forex gain for last year. The PAT margin would have seen a healthy improvement in FY12 had the forex loss

not been there. For the quarterly standalone results the operational revenue was Rs.4082 million, an increase 81% on the year-over-year basis. There is a 170% improvement in the absolute EBITDA in Q4 standalone this year versus last year and the standalone operating margin stands at 36% this year as compared to 24% in the same quarter last year. Our earning per share for the entire year FY'12 is 14.12 basics and 14.06 diluted on a consolidated basis. On a standalone basis the EPS for the entire year is 19.68 basics and 19.59 diluted. The EPS for Q4 is 6.41 basics and 6.38 diluted on a consolidated basis and on a standalone these two numbers are 8.15 and 8.11.

As you can see on an operational basis our margins have significantly improved over last year notwithstanding the rising cost and notwithstanding the rising competitive pressure. This clearly points out to the resilience exhibited by our business in an otherwise seemingly tough year.

I am now going to the segmental overview on slides 8 and 9, starting with our school learning solutions segment which comprise of SmartClass and the ICT business. In the SLS segment our annual revenue including BTA one-time revenue has shown a growth of 5% at Rs.10507 million on a yoy basis. And if we actually exclude that BTA revenue then the revenue growth is in excess of 40%. The EBIT for this segment is Rs.4299 million registering a margin of 41%. The SLS segment had quarterly operating revenue of Rs.4079 million growing sequentially at 63% over the last quarter. The quarter EBIT for this segment was Rs.1529 million giving an EBIT margin of 37%.

In terms of SmartClass operational performance as you can see on slide # 10 we have added 17815 classrooms during this quarter, which is the highest number of classrooms our company has added in a single quarter in its history. The number of schools that we added during the quarter was 2622 a jump of 161% over the same period last year and in fact the number of schools added in just the last two quarters is more than the total number of schools that we added in the entire previous financial year FY'11. With the addition of 17815 classrooms in this quarter our total class room addition was 40023 in FY'12 which is robust about 50% growth in terms of number of classrooms in the corresponding period of previous year. We are happy to state that this is broadly in line with the guidance that we had stated for SmartClass additions for the entire year.

What is also heartening that the average pricing for SmartClass remain at 3.7 lakhs per classroom for Q4 and 3.6 lakhs for the whole of FY'12. Given the Q4 is our strongest quarter we have been able to maintain robust pricing amidst the competition, and amidst products that have been crowding the market. The average classrooms per school ratio also saw a jump this quarter rising from 5.3 in Q3 this year to 6.8 in Q4. We strongly believe that as more and more schools see the value provided by SmartClass there will be a natural progression towards having digital content available to students in all classrooms. SmartClass is now present in about 12652 schools and a whopping 6.1 million students use the product every single day.

SmartClass had a revenue of Rs.9392 million in FY'12 compared to revenue of Rs.5931 million last year. The total EBIT for the whole year came in at Rs.4127 million giving a very healthy EBIT margin of 44%. So the key here is that in Q4 while on one hand we added historical high volumes in a given quarter we also saw more and more penetration of SmartClass in a given school. We also saw that notwithstanding the competition the average price for classroom in Q4 was shade better than Q3. Somewhere currently it is prevailing that the industry is trying to take a corrective mode in Q4 and hopefully going forward as well.

Let me again bring your attention back to our segmental performance on slides 8 and 9. The K-12 segments that comprises of our preschool business and our K-12 business had annual revenue of Rs.1756 million, an increase of nearly 29% on a year-over-year basis. During this period our EBIT margin was approximately at 31%. For the quarter that ended March 2012, the K-12 segment had a revenue of Rs.447 million and EBIT of about Rs.90 million. The Higher Learning Solution segment that comprise our Raffles JV and Pearson JV had an annual revenue of Rs.627 million an increase of 9% on a year-over-year basis and an EBIT loss of Rs.375 million but what is key here, friends is that while there is an EBIT loss we need to be cognizant of the fact that our Raffles JV, the engineering college and MBA course that we run is actually into second year of its existence. The enrollments in the second year are actually about 10% better than the capacities that we had therefore it is heading towards a healthy trend and by the end of year four we believe that the Raffles JV should actually reach a very healthy operating margin.

The Online Supplemental and Global segment that comprises of all our investments in the online and supplemental space as well as two global subsidiaries had annual revenue of Rs.1961 million an increase of 32% on year-over-year basis and EBIT loss of Rs.247 million. For this quarter the OSG segment had revenues of Rs.460 million and EBIT loss of Rs.126 million.

Let me now speak a little bit about the position of our balance sheet as on March 31, 2012. If you refer to slide 12, you will note that our net debt level have marginally reduced as compared to the net debt as on December 31, 2011. Consequentially the debt equity ratio has come down in terms of December over March quarter to 0.78:1 and if we take the impact of all the contingent liabilities to our books our debt equity ratio stands at 1.23.

I am happy to share that we were able to sign all required securitization contacts with the banks and especially for SmartClass addition in FY'12. We received securitization sanctions of Rs.6900 million from different banks, ALL under the reduced guarantee model. The company received cash disbursements of Rs.6330 million as on March 31, 2012 against the sanctions.

In a nutshell almost 90% of the lines that we got sanctioned are on reduce recourse basis got actually disbursed. As a result of this our debtor days on March 31, have actually come down to 252 days as compared to 277 days as on December 31. This is notwithstanding a 76% growth in the classroom additions in SmartClass in the Q4.

I would also like to clarify here that the average cost of securitization in Q4 based on the specific lines from the banks is closer to 13.5%. Also it is important that in one of the most recent securitization contract with the bank for an amount of Rs.1000 million has been signed at approximately 54% of the contract value as compared to 45% value that was signed in Q3. It is important to note that securitization deal at 45% which was signed in Q3 was during the transition phase wherein bankers wanted to keep higher margins as we were moving towards reduced recourse to Educomp Solutions. This doesn't mean that the cost of financing went up. The securitization number is restoring back to 54% of the contract value in terms of the latest contract with more and more understanding of reduced exposure with more comfort setting with the banks.

Thus we are now back to signing securitization at approximately 54% levels and believe that if at all there was any toughness in terms of getting securitization contracts at reduced exposure basis it is behind us and we should now have a smooth sailing of getting in requisite lines in place from quarter-over-quarter.

I want to stress here that we see no difficulty in raising securitization for the SmartClass business. There is an excellent track record now over the last seven years. There is a healthy trend of renewal with every bank for financing once five years cycle is over. So with this excellent track record we see no difficulties to resume securitization for the SmartClass business even on a reduced exposure basis.

I also want to bring your attention to an important slide 14, wherein you could see the changing nature of our K-12 school business and the resultant roadmap ahead. As you can see that the total consolidated CapEx for FY'12 is Rs.4798 million down almost 40% from Rs.7940 million rupees last year. This is because of our clear strategy of shifting to asset-light model in K-12 schools where we do not own the hard assets but rather own key assets which are in terms of IP, the curriculum and expertise in operating the schools. While the land and building is brought by the partner, all the key intangibles which are very essential in running a school is the value that Educomp is bringing on the table.

We are seeing a very healthy traction in signing in JVs in the asset light model and hence we believe that the company does not need to spare any more significant capital in creation of any real estate assets. It is also visible that on one hand while year over year there has been a 40% reduction in the CapEx but also, if you see on Slide 14, quarter over quarter as well we have been able to achieve a lower CapEx. For example CapEx done in in quarter 4 at 538 million is only 25% of CapEx done in Q1 which was around Rs.2440 Million, which is a clear comfort to the fact that our strategy of asset light is receiving good reception by the partners in the market. So therefore we foresee good revenue growth by adding more schools but that would not see a corresponding increase in the capital employed for the business and as a result our entire future growth in this business is going to be asset-light JV model. So friends these are some operating and key financial highlights for the quarter and for the financial year ending March 2012. I

would now like to hand it over back to Shantanu to share his thoughts on the strategic priorities of the company ahead.

Shantanu Prakash:

Thank you Sanjay. I want to start by sharing some strategic priorities and the roadmap for the business ahead. Over the years 2008 to 2010 if we look, we were pursuing the strategy of the expansion and growth. We were the only Education Company providing high quality technology and content solutions to school and we ramped up our market presence rapidly. Over 2010 to 2012 we focused on diversification and created a platform for businesses across the entire education lifecycle and extended our footprint to become India's largest education company. In the process we took advantages of cross selling, we took advantages of cross business synergies and we were able to provide a seamless transition to the parent right from pre-schools up to higher education. While we continue to focus on profitable growth and maximization of value for our stakeholders as our key agenda it is imperative for us to consolidate what all we have created so far. We have very successfully created businesses across the large value chain of Education. Educomp also needs to drive the benefits of possible synergies which will emanate from all these businesses functioning together. At the same time resources are always finite. Well it is important to prioritize our portfolio of businesses and look for opportunities of monetization of assets wherever possible. Thus we believe that the theme for the year 2013 for us will be a "theme of consolidation". If you consider slide 17 of the presentation, it will show you a split of capital employed across the various businesses as well as the revenue contribution from various businesses. It is clear that the bulk of revenue currently is coming from SmartClass and our ICT businesses while the bulk of the capital is employed in our subsidiaries, notably the K-12 subsidiary. Next if I bring your attention to slide 20 which is the EBITDA margin profile of our existing green-field schools, you can clearly see that schools that have been operational for the few years have already started yielding high EBITDA margin. That is why the company has chosen to be in this business that will create very high value for our investors but as we all realize there is a gestation period around it. All we now need to do is focus on quality, our processes, keeping our cost, budget in control, and over a period of time our entire school portfolio is going to move up the value chain moving from a margin of 9% to 13% to 49%. It is important to note that while our school business is profitable today but only 8% of our green-field schools are in the fourth year of operation and generate a median EBITDA margin of 49%. As much as 28% of our schools are in the first year of operation which have a negative EBITDA margin. So over the period of time the margins profile of all these schools will dramatically increase. Our second important strategy is to explore monetization of assets across all our business in order to unlock the value in the business while at the same time prioritizing our portfolio so that management time and attention is clearly provided to those businesses that create a greater value. There is significant progress that is being made on this front and we will get back to you, our shareholders, whenever we have significant news to share in that area. As far as the balance sheet is concerned as Sanjay also emphasized we are working to enhance the asset liability match as well as be on track to raise funds to meet our FCCB commitments in July end. Our discussions with banks are at the final stage and we are confident of being able to raise the required amount of financing to address the upcoming FCCB.

In SmartClass our strategy is to work on multiple fronts. Firstly we continue to take advantage of the growth momentum and we are very confident that our vision of “every class in India being a SmartClass” is going to come true very shortly. But while we do that, we are also readying through our research and development a series of new products to tap the huge base of 12,652 school customers and thereby leveraging on existing sales and distribution network. We want to bring newer products, higher margin products in the hands of our existing customers who already know and trust us. Thirdly we are doing significant work on improving the working capital management cycle of this business by exploring vendor financing and much better securitization deals. Finally across the organization we are looking to optimize our cost structures by leveraging technology in our on-the-ground operations as well as working with our suppliers on volume based discounts. We believe that all our businesses are now ready to move in to an all together different orbit of growth and value creation, so millions of customers will start using our products on a retail consumer basis.

Before I end I would like to spend just a minute highlighting what I think has been the key achievement of this quarter. On a like-to-like basis revenue is up 41%, EBITDA is up 58%, net debt is down by 200 Crores, average pricing on SmartClass is up to 3.67 lakhs, the average number of class room sold per school is up to 6.8 from 5.3, debtors days are down by 25 days that is almost a month despite a 70% surge in classrooms on a sequential quarter basis in Q4. CapEx again is sequentially down each quarter of this year and 40% down on a YOY basis and SmartClass business on an overall basis in terms of volume of units shipments grew over 50% in FY’12 compared to FY’11 and while all of these things are going on, the cash balance in the company went up by about Rs.100 Crores. So as we end the year as is customary we ended with guidance. Our business profile while being robust, is also changing. Our product mix is changing. We are getting into newer and exciting areas. Last quarter we shared in that we have plans for Tablet PCs and language class products. On the back of this, our guidance for the year FY’13 is that our revenues will be up mainly 25% to 30% compared to FY’12. We know the guidance is conservative, but we believe we can do well. We want to stick our neck out to 25% to 30% growth in revenue and 150 to 250 BPS increase in EBITDA margins.

On this final note I would like to end our presentation and we are open for questions and answers.

Moderator: Thank you very much. The first question is from Divya Nagarajan from UBS. Please go ahead.

Divya Nagarajan: Just two questions. Shantanu, we have seen that the average selling price seems to have kind of come back a bit this quarter. I understand lot of the dip that we saw last quarter is a function of the product mix with some bit of renewals. Where do you think this is going to be headed in fiscal 2013? What are you building in terms of average selling price flowing into your guidance?

Shantanu Prakash: Well as you know our guidance has been pretty conservative and we are looking at a pretty healthy increase in the total classrooms sold. If you remember in Q3 we said that while there is

new competition, we also believe that over a period of time the competition will be surprised as the price cutting is going to reverse itself. In fact we are happy that, that happened in Q4 itself. I think going forward the conservative pricing should be between the pricing in Q3 and in Q4, but the important thing is that the pricing environment is stabilizing. Maybe Abhinav would you like to add few comments with this as well.

Abhinav Dhar:

Divya, in fact the major contributors to our ability to sustain our existing price points and may be going forward better, is also attributed to the radical change in the value proposition that we brought about early this year. If you recall we introduce Class Transformation Systems which will be generations ahead for our SmartClass product. In terms of hardware we moved to DTS. Now over the last couple of quarters we have picked up that the schools that really appreciate that value enhancement and are willing to pay an increment. So to that extent, the competitive environment out there is not “SmartClass versus SmartClass” but it is like “SmartClass equivalent products versus our Class Transformation System” which is perceived as generation ahead of everybody else.

Divya Nagarajan:

You added over 40000 classrooms this year what you are planning to do next year?

Shantanu Prakash:

Well Divya we have not given a specific classroom number because going into this year we have many more products in the product mix. SmartClass itself has three variants right now; EduClass, SmartClass and SmartClass 3D. In addition we are launching Language Labs and Tablet PCs as well. So we have five different products SKUs that our sales team is going to carry. We are thus moving out from a per class room guidance because it becomes very difficult to do like-to-like comparison. We have given an overall revenue guidance of 25% to 30% increase. As you know our revenue is still primarily driven in large part by growth in the overall SmartClass bucket, but that comprises now of 3+2 additional products.

Divya Nagarajan:

Pardon me if I missed this earlier. The profitability in K-12 seems to have dipped quite sharply, I know this is seasonality, but this 20% is probably the lowest that we have seen in a while is there any specific reason to that? Can we expect 30% plus numbers to come back next year?

Sanjay Jain:

I think the profitability in the K-12 segment is lower because it takes time for schools to generate operational revenues but the entire expense goes into P&L. More and more schools are actually becoming operational. But only 9% of schools are actually in the 4th year which are generating operational revenue. It takes a while for classes to get filled up but the entire expense goes to P&L. That is probably largely the reason for lower profitability.

Shantanu Prakash:

Divya, I pointed earlier, 28% of the schools are in year one. So as we add more schools; in the 1st year of operation in the schools, the profits are going dip and then they will sharply increase after that.

- Divya Nagarajan:** Just a couple of more question and then probably I will come back later. There has been some change in the number of schools that you have reported. Even historically in the K-12, there is a small change, but why is that during the quarter? Because I think we have reported 69 and 67 schools are operational in Q2 and Q3. But we seem to have one of those numbers and reported 69 for this quarter. Is there any particular reason for this?
- Shantanu Prakash:** No my team informs me that that was only a typo.
- Divya Nagarajan:** Last few quarters were typo?
- Raman Bajaj:** Divya are you referring to the fact sheet?
- Divya Nagarajan:** The fact sheet that is right.
- Raman Bajaj:** The schools number in the fact sheet?
- Divya Nagarajan:** I think quite a few numbers seem to have changed?
- Raman Bajaj:** Probably there was a last minute correction on that, so it is just a typo, I will just have a look and confirm.
- Divya Nagarajan:** Lastly, Shantanu, you seem to have done away with the profit guidance. Any particular reason for that?
- Shantanu Prakash:** No particular reason. I think there are multiple drivers of our profits this year and the forex environment is also little bit unstable so it is difficult to pen down on a number. But we have actually given you guidance on the EBIT margins since we are in the process of balance sheet restructuring. Sanjay do you want to add more color to that?
- Sanjay Jain:** Divya, there are three to four key drivers to PAT. The first driver would be revenue; where we have clearly stated that we are aiming at 25% to 30% growth. Though a conservative figure and we expect it to do better, but I think given the present environment we would rather stick to a conservative number at this stage. The second driver would be EBITDA where we expect the margins to be at least 200 -300 basis point better in the coming years. If I go below EBITDA and when I reach PAT, then I have interest and depreciation and tax. Keeping in mind our balance sheet of about 1.2 debt equity including contingent liabilities, we have adopted strategies of asset-like model, squeezing working capital which makes sure that our debt levels are not increased from here on. Therefore if the debt levels are expected to be the same then pretty much, barring the interest rate changes, you can clearly predict what our interest charges are going to be given that we are almost done with our CapEx. We do not anticipate depreciation to actually go up from here. Going forward and our effective tax rate of about 24% or so is also expected to be the same. So I think therefore rather than giving a PAT guidance for us as management, the key is a) to work towards revenue growth b) work towards margin growth and c) have clear cut

roadmaps on the balance sheet which Shantanu has earlier shared. So I think rather than a specific number we are talking more of the action items that we would be pursuing this year which should results into robust PAT number going forward.

Divya Nagarajan: Sorry just one more last question. Any target for your debtors for next year?

Sanjay Jain: We have reported sequential reduction, and those efforts to bring down sequentially debtors would continue. At this stage we have no target specific outlook, but what is clearly a target is to bring these debtors levels down from here onwards. Kindly give us one or two quarters more to really see how much we are achieving. But clearly conviction is to work towards bringing them down.

Divya Nagarajan: Thanks and all the best for the year.

Moderator: Thank you. The next question is from Hardik Shah from KR Choksey. Please go ahead.

Hardik Shah: Thank you for taking my question. This is with relation to balance sheet. In Q3 net fixed asset and capital work-in-progress was 2120 Crores and in Q4 it is shown as Rs.1696 Crores that has a dip of almost 400 Crores. What is the reason for the same?

Sanjay Jain: Our CFO Ashish will just clarify it. The prime reason is the new requirements of reclassification and what has been a reclassification he will just explain you.

Ashish Gupta: Hardik, basically during the year there is a change in the classifications as prescribed by the Companies Act where the Schedule VI has been revised and now the classification of capital advances has not been shown as a part of fixed assets or capital work-in-progress. It has to be shown separately as the loans and advances. So that reclassification has basically brought down this number.

Hardik Shah: So that is shown to the extent of Rs.400 Crores excluding the fixed impact of this quarter.

Ashish Gupta: Yes.

Hardik Shah: Sir my next question is realization has increased like almost on 3.3 Lakhs to 3.7 Lakhs in a SmartClass, despite that our EBIT margin for School Learning Solutions has increased only by 1%. What is the reason for the same?

Sanjay Jain: I think one reason is the forex loss which has been quite significant this year. Had it not been there, there would have been an overall much healthier improvement. If I take you to slide No.6 on a standalone basis, our operation revenue growth is 48% and our operating EBITDA growth is 75%. So there is a more than corresponding increase in the operating profit margins of the business.

- Hardik Shah:** Actually I was referring to slide No.9 and Q3 FY'12 versus Q4 FY'12, basically in a school learning solution, like you know specially realization has incurred from 3.3 lakhs to 3.7 lakhs, like the margin should have increased drastically considering the same improvement in realization?
- Sanjay Jain:** I think your point is valid. What we have done is that slide by slide we have been giving a picture of excluding and including BTA for the sake of keeping the slide brief. What you see as EBIT in the last year is actually including an impact of BTA and what you see as revenue is including impact of BTA, That is why you see the growth to be much more subdued.
- Hardik Shah:** Sir I was referring to Q3 FY'12 it is like 36% in Q3 FY'12 now 37% in Q4 FY'12 for school learning solution, so can you throw more light on that?
- Sanjay Jain:** While the SmartClass margins have shown a healthy improvement we have been very selective on the ICT business. So we have been really careful on whatever orders we are picking and whatever orders we are executing in ICT. That is why probably you see a much more flatter EBIT margin than actually what SmartClass on the whole is projecting.
- Hardik Shah:** Thank you.
- Moderator:** Thank you. The next question is from Ravi Gupta from UTI AMC. Please go ahead.
- Ravi Gupta:** First on the balance sheet and the reclassification as I note on your slide No.12 you have given the gross debt figure of 1940 odd Crores. Now on the balance sheet on Slide 11, I can see that non current liabilities are a 1000 Crores which means a part of the current liabilities of 1400 Crores is also classified as debt. So can you give me the figures of current liability which are going to gross debt?
- Sanjay Jain:** Ravi that is a very good observation. In fact the difference between the gross debt on slide 12 and what you see as non-current liability is exactly the difference which is going into current liability. Which means the debt that is maturing in the coming one year has been classified in the current liabilities and the large part of that, as all of you know, is the FCCB liability of about \$80 Million in terms of principle, which is about 440 Crores.
- Ravi Gupta:** In terms of your guidance this year, FY'13 guidance is purely operational or does it also include some stake sales revenues?
- Sanjay Jain:** What we have said in terms of 25% to 30% revenue growth and sequential improvement in operating margin is not including any stake sales. It is purely from optimizing the current operations.
- Ravi Gupta:** Finally can you give me guidance on your CapEx for FY'13?

- Sanjay Jain:** In terms of the specific guidance, we have seen a 40% reduction in our CapEx. Our effort would be to keep further squeezing in to bring it down by at least 20% to 30%. While we would continue to incur CapEx is because many of our schools are into the 1st year of existence, wherein the basic land building and infrastructure is ready but one may have to keep adding in more and more classrooms. As a result there would be CapEx but on an average 20% to 30% further lower from what we have actually incurred in FY'12.
- Ravi Gupta:** If I can squeeze one final question, when you report your contingent liabilities with your debt, and debt equity is 1.26. Is the difference primarily because of the amount of securitization in SmartClass and your portion of recourse to it or does it include the whole amount of securitization?
- Sanjay Jain:** It includes the portion of recourse to us.
- Ravi Gupta:** So out of your total securitization of 600-odd Crores in this year, can you tell me how much is happened at 20% and how is happened at higher recourse?
- Sanjay Jain:** I think the last 3 credit lines which actually are closer to about 600 Crores are with 20% recourse. If you go back in the history, this is the only reason why our quarter 3 debtors went up as we were ourselves going slow in building the securitization lines. At the end, the entire securitization amount of Rs.630 Crores has been availed entirely at 20% recourse.
- Ravi Gupta:** Okay and the securitization that happened prior to that were at full recourse right?
- Sanjay Jain:** That is right.
- Ravi Gupta:** That is all from my end. Thank you.
- Moderator:** Thank you. The next question is from Ashish Tater from Fort Share Broking. Please go ahead.
- Ashish Tater:** Hi, Shantanu! Congratulations for the stellar performance on Q4, first of all, to the entire Educomp team. We have certain queries regarding your CapEx. You are all planning to reduce the CapEx by almost 30% that would definitely help in terms of net cash flow. By what time can we expect that the Educomp as a whole would be cash flow positive on equity level?
- Sanjay Jain:** For this year, as I said, we are aiming at bringing down the CapEx further by 30% and ideally in about two to three years. I will make four points. Number 1; the company would aim at hedging the Capex equal to or less than depreciation. Number 2; the other diver to our cash flow is that we would rather focus inward this year to make the most of the capital employed in the existing businesses and therefore we do not envisage any other significant cash getting used for any new businesses. Number 3; we would focus on working capital as we believe that there is more headroom to further squeeze in the debtors, there is headroom to develop and deepen relationship with our vendors to try and get some vendor financing as a result our net working capital should

actually go down. Number 4; as Shantanu mentioned earlier, we would be dispassionate about our portfolio of assets and there could be potential one or two monetization candidates. Hence to answer your question, with all these steps that we are taking, if everything goes well with 100% success rate then in about four to six quarters from now we should actually see a significant cash generation., But even if there is a partial success, in about maximum eight quarters we will see significant cash generation. I think we are again a little bit cautious here in terms of the roadmap ahead. We see a potential of doing better. So in a worst case scenario in about six to eight, but in an optimistic scenario if everything goes well, in about four to six quarters we should see at least significant free cash generation coming in.

Ashish Tater: That is great. I would just like to extend one more question to you. You have got four schools in the 4th year in K-12 and few more in the pipeline that will get added in the 4th year by FY'15. There is expectation of new schools getting added through your asset-like model as well. So by FY'14 and FY'15 we are trying to work out numbers regarding how many of that would be actually SmartClass 3D specific, because that would mean a higher EBIT margin for you and that particular business front compared to existing business?

Sanjay Jain: Could you again please raise your question so that all of us get it clearly?

Ashish Tater: The issue is right now only four schools of yours are into the 4th year. By FY'15 we expect another 12 schools to be added to the 4th year and these 4 will be in the 6th year. So we want to work on the numbers that how many of these schools will actually have SmartClass 3D which will result in higher EBIT margins from SmartClass 3D?

Abhinav Dhar: All schools run and managed by Educomp are equipped with the SmartClass from Day 1 with the latest value proposition including 3D Labs.

Sanjay Jain: If you recall what Shantanu has mentioned in terms of strategic business priorities, he has clearly mentioned that one of the key focus areas for the company is to derive synergies from existing operations. So I think one of the very low hanging fruits is really that our SmartClass is functional in all our schools.

Ashish Tater: Thanks.

Moderator: Thank you. The next question is from Rashmi Motiramani from KR Choksey. Please go ahead.

Rashmi Motiramani: Could you help me with the cash flow from operations triggered in FY'12?

Sanjay Jain: Rashmi, we would be sharing these details in a while but what is very important is that the company's net debt has gone up to Rs 1,600 cr from Rs 1,000 cr as seen in slide no.12 in the last financial year. This is largely due to investment into CapEx and working capital towards the SmartClass business. But if you see the cash flow trend in the last quarter which is the Q4, you will notice Rs.200 crores reduction in the net debt. Sso while on an yearly basis we had seen an

increase in net debt by nearly Rs 600 crore, it has come down by nearly Rs 200 crore in Q4FY12 in line with our reduced CapEx and lower number of debtors. So to answer your question specifically, what you see is the overall increase in net debt due to the overall deficit in the cash flow that we funded from increase in the credit lines.

Rashmi Motiramani: One more question could you help me with the performance of the new variants that we have launched in the Q3 in Smart class segment that is the 3D Labs and EduClass?

Abhinav Dhar: We have not given a separate guidance for the product mix that we launched during the year. We did give a guidance at the beginning of the year for SmartClass numbers, but going forward this year we have multiple variants like Tablet PC, Language Labs and Assessment products and a couple of other initiatives that we are launching during Q2. These will have a reasonable contribution to our revenues next year.

Shantanu Prakash: I just want to add that some of our products are unique, for instance SmartClass 3D solution is not available with any of the other companies. It is a new innovation from Educomp and while we do not give a breakup of total classroom sales by the different variants, broadly speaking each of these SmartClass variants has a very good market attraction, which has contributed to us doing 17800 classrooms just in Q4 itself.

Rashmi Motiramani: Thank you.

Moderator: Thank you. Swati you may go ahead with your question.

Swati Nangalia: I just had a follow up question to one of the previous questions relating to the EBIT margins in SmartClass business for the quarter. If we look at slide No.10 where you have an EBIT margin profile for the SmartClass business, and there if you notice on a quarter-on-quarter basis our EBIT margins have not improved in spite of our realizations going up, so could you give us a sense of what kind of cost escalations we have seen in the current quarter?

Sanjay Jain: See one reason for flattish EBIT margin is the fact that we almost lost nearly 40 Crores on account of forex for this period and if you take this exceptional item out, which is really out of our control, one would actually see the operational margins to go up. While predicting the foreign exchange movement is really not in our hands but what we clearly see, given our existing positioning of SmartClass, we expect the growth momentum to continue and expect further 200 to 250 basis point improvement in margins. But very importantly one of the significant forex exposures that we have on the balance sheet is the \$80 Million FCCB liability. As we pay it off in the month of July, our balance sheet would get insulated relatively to that extent and as a result any foreign exchange fluctuation going to P&L should therefore not have any such adverse impact going forward.

Swati Nangalia: In the SmartClass segment alone we had a forex impact is it? Because I was mentioning only for the SmartClass segment especially?

Shantanu Prakash: But see the forex impact is because a lot our equipment is actually imported. So you know that we have a proprietary product which is actually manufactured outside of India, it is an imported product. So 20% forex fluctuation had a direct impact on our cost of purchase which directly leads to the margins being flattish.

Swati Nangalia: But the forex impact would have been there in the last quarter as well, so on a sequential basis, how should one read it?

Shantanu Prakash: Yes basically it is in the last two quarters, if you see in Q3 also the margins were depressed because of that, so it is mainly in Q3 and Q4.

Swati Nangalia: Thank you.

Moderator: Thank you. Ladies and gentlemen if you wish to ask a question at this time you may press “*” and “1”.

Raman Bajaj: We will just address one of the questions that was raised earlier about the school numbers in our fact sheet. We just want to clarify for the interest of our investors that there was a reclassification in two schools in Chennai where for business reasons we merged two separate campuses into a single campus and therefore the number of schools, actually two schools, are now being reclassified as a single school. There was another case in which a school was being operated out of rented premises and was subsequently moved into own premises. However in our factsheet somehow there was a typo from our end, where we calculated these schools as two campuses instead of one. So in this factsheet we have corrected these errors and we apologize to our investors, but the factsheet that is there in front of you is an accurate one to the present date.

Moderator: Thank you Sir. Ladies and gentlemen as there are no further questions from the participants I now hand the conference back to Ms. Swati Nangalia for closing comments.

Swati Nangalia: Thanks Marina. I would like to thank the Senior Management team of Educomp for taking time for this call. Also thanks to all the participants for joining us today. Shantanu would you like to make any closing comments?

Shantanu Prakash: On behalf of Educomp team I thank everybody who attended the call today. Thank you very much and good night to everybody.

Moderator: Thank you very much. On behalf of IDFC Securities Ltd., that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.