



“Educomp Solutions Limited Q4-FY10 Earnings Call”

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Moderator

Ladies and gentlemen good morning, good afternoon, and good evening, this is Rochelle, the Chorus Call Conference Operator. Welcome to the Q4-FY10 Earnings Conference Call of Educomp Solutions Limited. As a reminder for the duration of this presentation, all participants' lines are in the listen-only mode and this conference is being recorded. After the presentation, there will be an opportunity to ask questions. Should anyone need any assistance during the conference call, they may signal an operator by pressing * and then 0 on their touch-tone telephones. At this time I would now like to hand the proceedings over to Mr. Shantanu Prakash, Chairman and Managing Director of the company. Thank you and over to you Mr. Prakash.

Shantanu Prakash

Thank you and good evening everyone. Welcome to Educomp's Quarter 4 and Annual FY10 Earnings Call. My name is Shantanu Prakash, CEO of the company and I am joined on this call by Sangeeta Gulati, the Chief Financial Officer of the company and Mr. Raman Bajaj, VP Investor Relations.

We are very happy to share with you our numbers of the quarter and the year ending March 31st, 2010. The financial year 2010 has been an excellent year for us in terms of business and financial performance. I will give you both the reported numbers as well as the corresponding like-to-like numbers in comparison. All of you must have received the investor update which has detailed like-to-like reconciliation of profits in the attached management notes. The like-to-like numbers have been provided to you to compare the numbers of FY09 with FY10 consequent to change in the smart class model.

On a consolidated basis the income from operations for FY10 has been 1040.5 crores, an increase of 64.1% over FY09. On a like-to-like basis this increase is 41%. The EBITDA for the year on a consolidated basis is Rs.479.8 crores, an increase of 65.2% over last year. The EBITDA margin similarly has clocked in at 46.1% up from 45.8% in the last financial year. The net profit after tax for FY10 on a consolidated basis is 271.3 crores, an increase of 104.4% over the corresponding period last year. Taken on a like-to-like basis the increase in Profit after Tax is 71.1%. The Net Profit after Tax for FY10 on a standalone basis is 218.3 crores, an increase of 70.3% over FY09.

Let me now update you on the fourth quarter numbers. On a consolidated basis the income from operations for the quarter ended 31st March 2010 is 333.1 crores, an increase of 47.1% over the corresponding quarter last year. On a like-to-like basis the Q4 revenue on a YoY basis is down by 3% mainly due to the reduction in ICT out right billing in Q4.

On a standalone basis, the income from operations for the quarter is 273.4 crores, an increase of 48.7% over the corresponding quarter last year. The EBITDA for the quarter on a consolidated basis is 158.4 crores, an increase of 75% on a YoY basis. The net Profit after Tax for the quarter on a consolidated basis is 60.4 crore, an increase of 8.7% over the corresponding quarter last year.

Compared on a like-to-like basis the Q4 Profit after Tax is up by 90% over the corresponding quarter last year. Our guidance for FY11 is a consolidated revenue of 1300 to 1350 crores and a profit guidance of 330 to 335 crores, resulting in a l growth of between 25% to 30% and a growth in profit of between 22% to 30%. On a like-to-like basis, the growth in revenues is expected to be up by 62% and growth in profits up by 66.52% over the corresponding period for FY10. The detail calculations for the same are attached in the management notes circulated to you.

Let us now come to the segmental overview. In the school learning solution segment, our annual revenue came in at 806.5 crores. This is a growth of 87.4% over FY09. On a quarterly basis the SLS segment recorded revenues of 269 crores, an increase of 61.5% over the corresponding quarter last year. In the Smart Class segment of the business the largest segment we have reached out to a total of 3077 schools and we now cover 3.1 million students a new record at Educomp. In Q4 of this financial year, we added 720 schools with over 6000 classrooms and implemented Smart Class in 503 schools the highest number of schools that we signed and implemented in a single quarter till date. Within this segment, Smart Class had revenues of 644.52 cores and ICT had annual revenues of 158.32 crores. Quarter 4 revenues for Smart Class were 240.8 crores and for ICT was 27.08 crores.

Let us now look at the performance of the Smart Class segment, which is a key growth driver for the company. Smart Class reported revenues for the year of 644.52 crores. Doing a like-to-like reconciliation by eliminating the effect of transfer of existing Smart Class contracts, the sales number would be 549.5 crores that is up by 90% over FY09. Further eliminating the impact of the new Edusmart Model the sales number would be 443.41 crores that is up by 53% over FY09. Doing a similar analysis for the PBT, the reported profit before tax for Smart Class for FY10 is 406 crores. Doing like-to-like comparisons by eliminating the effect of transfer of existing Smart Class contract, the PBT number would be 336.3 crores that is up by 106% over FY09. Further eliminating the impact of the new Edusmart Model PBT number would be 248.2 crores that is up by 52%.

As you are aware, we sell Smart Class to schools on a per classroom basis. Since the sales model is on a per classroom basis, going forward we have decided to disclose additionally the total number of classrooms every quarter as well as the average price per classroom in order to help investors, model the business easily and accurately. This additional disclosure will bring greater transparency in how we book our revenues. Further, as you are aware we have now transitioned to the new model completely and 100% of the sales going forward in FY11 will be booked under the new model. We will also release quarterly data on average selling price per classroom. Smart Class is rapidly increasing and expanding across the country, as we penetrate deeper into Tier-2 and Tier-3 cities.

We see increasing demand coming both from large and smaller schools who have an appetite and an aspiration for a product like Smart Class. Thanks to our new capital light securitization model we are able to meet this new demand and reach out to schools in all parts of the country.

Based on the rapid growth of Smart Class and the increasing adoption rate, we estimate to grow the business to over 20,000 schools over the next six years translating to over 300,000 classrooms. There are about 75,000 odd private schools in India which translates into an overall market of about 3 million classrooms of which Educomp's current penetration is about 1.5%. Further, this market is growing by 100,000 to 125,000 classrooms each year. Thus our growth projections in this market are fairly tempered and conservative.

We are happy to share with you the guidance for Smart Class for FY11. We expect to add another 30,000 classrooms in FY11 on a conservative basis, yielding an organic growth of 50% to 80% in Smart Class based on the number of classrooms added. We expect the total FY11 Smart Class revenues to be in the range of 850 to 900 crores of which 550 to 600 crores will be from organic growth and the balance due to content revenues deferment on account of the transfer of schools in FY10. If you look at the FY11 guidance for Smart class on a like-to-like basis, the revenues for Smart Class in FY11 will be 994.7 crores and the PBT it is 641.1 crores. Thus, leading to a like-to-like growth in Smart Class revenues in FY11 of 81% and a growth in PBT of 91%. In conclusion Smart Class is on a rapid growth stage with no deterioration in either growth or economics. To repeat we are looking at 994 plus crores business in Smart Class in FY11 and a profit of 641 crores showing a PBT margin of 64.5% on a like-to-like basis and a growth of 81% in revenues over FY10. This is after eliminating the impact of all transfers.

Our average selling price for each classroom in Q4 of FY10 was Rs.3,92,000 and the revenue recognition for Educomp in the first year was Rs.2,05,800. This translates into a per student fees of over Rs 145 per student per month. Thus the price lines for Smart Class at the retail level are stable, even after the increase in penetration into Tier-2 and Tier-3 cities. Our new model has enabled Smart Class to become a free cash flow positive business for Educomp in FY11, thus giving us room to grow. We have received a very good response from bankers for securitization. A sum of Rs 415 crores has already been sanctioned for FY10 and a further funding of Rs 500 crores has been tied up for FY11. Significantly, we have also initiated talks with banks to provide securitization funding without a corporate guarantee from Educomp.

You would have noticed that the average number of classrooms per school is now just over 8 classrooms per school. We view this as a positive trend of reaching out to a large number of schools across the spectrum, earlier we were mainly targeting larger schools and not reaching out to smaller schools. With the new awareness about Smart Class that has been built up due to our advertising campaign, everyone wants to try out Smart Class, hence we are picking up a large number of orders for smaller installations too, which brings the average classrooms per schools to 8. It does not mean that larger school signups are not happening; it only means that we are doing many more, smaller school signups in addition to the larger signups. In tier 1 cities our average classrooms per schools is still around 20 but in tier 2 & tier 3 it is much lower leading to an overall classroom average of around 8 classrooms per school.

Our penetration in tier 2 & tier 3 cities is much faster relative to tier 1 cities. The percentage penetration in tier 2 & tier 3 is faster as compared to tier 1 because of a reduced sales cycle due to easy availability of decision makers/ owners in those locations. We have also noticed an increased parent pressure in these lower tier towns as they view the Smart Class product as bringing a quantum jump in the learning effectiveness of their children, leading to higher adoption and making Smart Class a "must have" product. As a result of increasing awareness of Smart Class, we are now even signing orders of five classrooms per school as well, as we believe all schools will sign additional number of classrooms every subsequent year. Typically, small town schools have 30-36 classrooms and we believe in a couple of years we would increase Smart Class penetration to all classrooms in such schools. One of the large hidden upsides to our business is the same school classroom growth when schools scale up the number of classrooms each year.

In addition, continuing our tradition of innovation we are going to launch 'Smart Class live', a new brand extension that will allow us to broadcast live lectures from some of the best teachers in India and live test prep programs directly into schools via a VSAT connection, a technology we have already mastered in the ETEN part of our vocational business. We have not yet considered any upsides from this business into our guidance for the year.

We are also delighted to share with you a recent study conducted by Dun & Bradstreet on the effectiveness of Smart Class program in schools. The report stands witness to our all time belief about the effectiveness and simple (yet powerful) benefits of our Smart Class program. We have shared details of the study in the management notes circulated and have uploaded the full report on our website. We urge you to download the same at your leisure.

The key salient points highlighted by them are:

I quote:

- "Directionally, Smart Class has a positive impact on students with majority of classes tested having a **statistically significant advantage**.
- The impact of the technology is almost universal i.e. **applicable across all standards**, with stronger impact on higher standards.
- The advantage of Smart Class technology **outweigh** those of traditional classrooms
- And lastly, it was almost universally agreed that the effectiveness of this technology was **clearly visible**". Unquote

The research and analysis carried out by Dun & Bradstreet validates what we have always believed to be true and reaffirms our belief that Smart Class has the potential to be adopted by every single school in the country.

Let me now turn to the other business in the SLS segment, the ICT business.

As you are well aware the ICT business, while strategically an important business for Educomp, suffers from characteristics like lower margins, longer receivables cycles, delayed payments and so on. As a result, and continuing our earlier communicated strategy, we will be allocating only a limited amount of capital to this business and hope to selectively pick contracts where we can make good margins. In Q4 of FY10, we added 600 schools in Bihar to our ICT portfolio taking our total tally to 15,426 schools reaching out to 8.2 million students.

Coming now to our K-12 segment. The K-12 segment is fast becoming an important growth engine for Educomp. This segment consist of our Roots-to-Wings business, our Euro Kids subsidiary and our very core and very strategic high school business which is under our subsidiary Educomp Infrastructure and Services Management Limited (EISML).

In the preschool space, we remained the largest preschools company in the country with 775 preschools signed up. These are divided as 220 schools under Roots-to-Wings and 555 schools under Euro Kids reaching out to over 35,000 kids all over the country.

The next big focus and an important growth engine going forward is our high school business and we are very excited to see the value that we are building in this business. The K-12 market in India has almost limitless possibilities with a total market estimated to be a whopping \$20 billion. With a shortage of over 200,000 schools in the country and a high demand for private schools, we believe we are addressing a very core unmet need for the large number of Indian parents across the spectrum of all price points. The school's business in India is a highly profitable business which typically has a customer locked in for 14 years. It's a negative working capital business with no volatility and high returns. In a short period of time, we have already got a visibility of 69 schools, 43 schools already operational serving over 24,000 students. We opened 7 new schools since January of this year and have another 26 land sites and under construction sites where our schools will open up shortly. What started as an idea couple of years back has spread to a pan-India business with schools across more than 60 cities and towns. Our portfolio of brands now covers all customer segments and different price points. In the last quarter, we have signed a joint venture with Lavasa Corporation to set up international schools in Lavasa, thus opening another new segment for Educomp schools. The K-12 school segment had annual revenues of 98.3 crores, an increase of 57.8% over last year and quarterly revenues of 30.2 crores, an increase of 27.1% over the corresponding period last year. The segment has an annual PBIT of 33.1 crores up from 30.6 crores last year.

We are seeing growth rates of around 70% in Educomp Infrastructure, our school subsidiary. On a YoY basis the PAT for EISML has grown 60% and we expect similar growth rates to continue in the future too. Over the next few years this segment will become a key contributor to our growth and profits. By FY11 we will have over 75 schools operational. Given the fact that each school only has a capacity utilization of 20% or less than 20% in the first year and that has yielded revenues of 98.3 crores in the segment in FY10, there is therefore a huge

upside potential to the revenues just from our existing schools. Growth in this business will come, both from increasing capacity utilization of existing schools as well as growth in the number of new schools as well.

The next segment is our Higher Learning Solutions segment, which comprises our joint venture with Raffles Education Corporation in the higher education space and with Pearson in the vocational training space. The key businesses in the segment are both the joint ventures and we are happy to share that both these JV businesses has started growing full steam.

Our Raffles Millennium Colleges are now spread across seven metro cities in India. The new campuses where lease agreement have been signed are Kolkata, Hyderabad, Ahmedabad, and Chennai and these colleges are ready to begin sessions in June 2010 when the batch enrollment starts. Campuses in Delhi, Bangalore and Chandigarh are already running courses and enrollments are steadily increasing. RMI Colleges have international faculty from countries like the US, UK, Italy, Spain and Singapore and our students are getting world class education in programs like Fashion Design, Interior Design, Fashion Marketing, Graphics Design, Product Design and so on. I am happy to share that we have also launched a new two year PGPM & M-Com Double-Masters program, which will have a international faculty, international degree and international exposure for Indian students.

Our vocational business called IndiaCan which is a joint venture with Pearson has been on a fast growth track since the last three quarters and already has over 200 points of presence across the country. We are excited about the future potential of this very unique business which spans across customer segments with programs and courses across a wide variety of vocations and skill sets. We are setting up VSAT enabled centers inside colleges as well as retail centers offering vocational training. Our ETEN business is growing strongly and has 100 centers operational and is expected to have 11,000 enrollments in CA coaching by May 2010. Our Purple Leap business has a network of over 80 centers in colleges now and will soon start offering university branded programs. Our retail Vocational centers business is now a network of over 40 centers with courses in English and IT, and is developing programs in Media, Sales & Retail and Tourism and Ticketing.

Coming now to a supplemental education business, we further grew our supplemental education strategy with a launch of India's first VSAT based Engineering Prep program under the brand LEAP. Educomp will open LEAP centers across Tier 2 and 3 cities in India which have sub standard coaching quality, to allow the students access to high quality coaching through VSAT. Launched in 13 cities, Educomp LEAP has started three programs including a two years program for Class 11 students, a one year program of class 12 students and a one year program for class 12 pass-out students.

In summary, as we look at the year gone by. We can see that over the past few years we have built Educomp into a growth and innovation engine paddling all major verticals of the education ecosystem. We are not only a strategically important player in the education sector

in India; we are also poised for exciting growth over the next several years. If you look at the growth in Educomp, we now cover 3.1 million students in Smart Class, over 15,000 schools and over 8 million students in the ICT part of the business, we have over 230 centers for our vocational and test prep programs, over 755 preschools, 43 high schools, 7 colleges and 2.4 million users of our various online businesses. All of our businesses have high gross margin, high growth, high component of intellectual property and high branding. We are emerging as a single trusted education brand in India with significant cross selling opportunities across the spectrum. We have a clear roadmap for growth in each vertical and low market penetration levels for all segments ranging from a mere 1.5% of all classrooms in Smart Class to 3% in ICT and virtually unlimited potential in the preschool, high school and the higher education business.

Additionally on the regulatory front, we see good news. Various education bills tabled in this session of parliament only strengthen our belief that the present government will bring in transparency, the right regulation as well as focus on emerging PPP opportunities. Passing of the Right to Education Act in a significant watershed event in the world of education in India and will unleash opportunities worth several billion dollars by public private partnerships in the years to come. We are watching the space very closely and this has not been factored into our guidance for FY11 and beyond. I will stop now and we will be open for questions and answers.

Moderator

Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Divya Nagarajan of UBS Securities, please go ahead.

Divya Nagarajan

Hi Shantanu, congrats on the numbers. Just one question on this Smart Class projections that you have for FY11. I understand we have had a change in the accounting models for this segment in the last year and I wanted to understand how much of your 81% revenue growth will come because of your older contracts getting rolled over to this new model as opposed to new school additions coming in the current fiscal?

Shantanu Prakash

Divya thanks for that question. Actually in my speech I gave both the reported numbers and the like-to-like comparisons in Smart Class for FY11. If you look at the FY11 numbers for Smart Class our reported revenue number will be between 850 to 900 crores compared to 644.5 in FY10, which is an increase of between 32% to 40% and the adjusted profit after tax, after eliminating the impact of all transfers will grow our profit from 336.31 in FY10 in Smart Class to 641.15 for FY11 yielding a growth rate of 91%. So, this 91% growth rate in Smart Class profits is after doing the elimination of the transfer.

Divya Nagarajan

Right thanks I will come up for follow up later

Shantanu Prakash

And the details of these calculations are already given in the attached management notes.

- Moderator** Thank you Ms Nagarajan. Our next question is from the line of Pratish Krishnan of Merrill Lynch, please go ahead.
- Pratish Krishnan** Yeah thanks. My question is on the Smart Class number of classroom additions for next year. Shantanu you have guided for 30,000 classroom additions whereas the earlier management note spoke about 2,500 schools and average of 15 classrooms leading to 37,500 classrooms. So, I am just wondering what has led to this fall in classroom additions and what else to be change?
- Shantanu Prakash** Now, Pratish we have guided for 2,500 schools earlier. As you know the number of classrooms per school varies and as we penetrate into Tier-2 and Tier-3 cities in India it is increasingly difficult for us to look at the average per school, hence if you notice this year, we are talking about how many classrooms will actually be signed. So, coming back to your question our guidance is 30,000 classrooms, we may end up doing 2,500 schools or more depending upon the average classrooms per school, we may end up doing more number of schools as well, if you look at our guidance for quarter four for instance, we had guided for 500 schools, we have ended up signing up 720 schools, yielding about 6,000 odd classrooms. So, I think the number we focus on really is how many classrooms will the company sign up and implement and our conservative guidance for FY11 is we will do about 30,000 classrooms.
- Pratish Krishnan** Okay, so the schools that you are approaching now, they come in at lower number of classrooms, is that what you think?
- Shantanu Prakash** It is a mix, they could be lower, they could be higher. The way Educomp books its revenue, it is clearly on the basis of how many classrooms we have sold, so we have disclosed both the actual number of classrooms implemented which is 4,028. We have also disclosed what is the exact billing for Educomp for each classroom. There are two significant numbers, one is the selling price per classroom which is 3,92,000 while the revenue recognized by Educomp in the first year is 2,05,800. If you multiply these you will get the quarter revenue per Smart Class. It is on the basis of this that we are saying that 30,000 classrooms in Smart Class should yield a revenue of approximately 550-600 plus crores.. A very large number of schools are now coming to us with wanting to try out Smart Class by signing as low as 3 or 4 classrooms, we typically used to ignore such schools but now we are going ahead with signing these schools as this is a result of a huge wave of awareness that Educomp has built up. Also, because we believe all these schools will sign additional number of classrooms in subsequent years.
- Pratish Krishnan** Sure and for these 30,000 schools, I mean how many schools would have impacted I mean, sir I am not able to understand to the fall in the number of classrooms-?
- Shantanu Prakash** Let me clarify there is no fall in the number of classrooms. In fact the number of classrooms organically between FY10 and FY11 are growing approximately 80%, 80% is the actual organic growth, so we will sell 80% more classrooms in FY11 as compared to FY10, so which are fairly impressive growth numbers, so there is no fall in the number of classrooms. We have

become more precise in our guidance, so we have said, we will do 30,000 classrooms in FY11, we may end up doing 10%, 15% or 20% more than that but at the beginning of the year we want to give a conservative guidance which is 30,000 and revenues of approximately 850 to 900 crores for Smart class segment.

- Pratish Krishnan** Sure and for Q4 the average number of classrooms per school was?
- Shantanu Prakash** Yes, 503 schools implemented in Q4, 4028 classrooms implemented and we sold a total of about 6,000 classrooms in Q4.
- Pratish Krishnan** Yes, what I am referring to Shantanu is the fall in the number of classrooms per school?
- Shantanu Prakash** Yes I think that number would vary from quarter-to-quarter depending on what is the mix of schools that we have sold to. Now, it could be possible that in a certain quarter we have reached out to more number of smaller school and in some quarter we may reach out to more number of bigger schools that is very difficult to model, therefore we have said we are going to do x number of classrooms, so this year is going to be about 30,000 classrooms and you can precisely derive the revenue for Smart Class through that number by multiplying it with average price per classroom which we will disclose. What is more important is the fact that are pricing per student is fairly stable, in this quarter it seemed to over Rs.145 per student on month.
- Pratish Krishnan** Okay, now in terms of the Raffles and the Pearson JVs and if you can just run us through in terms of what is the kind of losses that you are looking in these initiatives?
- Shantanu Prakash** Approximately, our losses will be between 20 to 25 crores in FY11 and we will look at these losses more as strategic investments because the businesses are growing rapidly, I just gave a synopsis of where the Raffles' business has grown, we have 7 colleges now, Pearson JV we have over 200 points of presence, so there is impressive growth happening. The businesses are in investment mode. They are expected to remain in investment mode at least for a year or two before they start yielding cash. The good news is that there is a lot of growth that we have seen in the business.
- Pratish Krishnan** Okay and this particular number is for both of them combined or just one of them?
- Shantanu Prakash** Both of them combined. Yes, the total combined number will close to 40 crores, 20 crores each.
- Pratish Krishnan** 40 crores, yeah finally and just on the balance sheet if you can just give the cash numbers and the debt?

- Shantanu Prakash** Thanks to our cash flow positive model if you look at page number 35 in the investor update, our net worth on a consolidated basis is 1,649 crores, we have cash of 782 crores, so almost 800 crores of cash and our debt is approximately 1,047 crores, and debtor days of 150 days.
- Pratish Krishnan** Sure yeah thanks, I will come back later with other questions.
- Shantanu Prakash** Yeah thank you.
- Moderator** Thank you Mr. Krishnan. Our next question is from the line of Sunil Tirumalai of Credit Suisse, please go ahead.
- Sunil Tirumalai** Thank you very much. Sir, I am just following upon the question that Pratish was asking you a short while ago. Can you give the exact number of classrooms you added as in FY10?
- Shantanu Prakash** That you will have to take offline because that is a number we have not yet disclosed, so going forward we are starting to disclose the actual number of classrooms.
- Sunil Tirumalai** You just mentioned that it would come to around 80% YoY?
- Shantanu Prakash** Yes approximately, if you look at 30,000 it will come to approximately 80% but for the accurate number of classrooms, you will have to take that offline. I have not got a disclosed number in FY10.
- Sunil Tirumalai** Yeah and 80% YoY increase, I am getting something like 12 classrooms per school that was added last year?
- Shantanu Prakash** Yes that's right , so it will help if you start thinking in terms of number of classrooms per school and how many total classrooms we sold Smart Class revenues will depend on how many classrooms we sell and at what price we sell at.
- Sunil Tirumalai** Yes I understand where you are coming from but the point I want to make is that in terms of selling process I would still look at it as a per school model in terms of how your sales force or sales team would look at it. You would have to go to the same principal in respect of the number of classrooms you would get, in terms of the selling process, in terms of the difficulties in selling I would still look at it as a per school model and in that aspect, I mean the number of classrooms seem to be much lower than the 15 classrooms, the number that you had initially indicated, so I mean I just wanted to get that?
- Shantanu Prakash** So, let me give you a little more clarity on that to help you understand. So, what has happened is that as a result of Smart Class becoming more of a must-have product, everybody wants to implement Smart Class now, so the number of schools that will sign up will be extremely high, beyond what we have expected. A lot of schools will start trying out Smart Class for the first time, so we have start experimenting with five classrooms, six classrooms in some cases even

three or four classrooms per school because now it has become almost impossible for a school not to have a Smart Class strategy. So, that is a very significant point. Earlier schools that were signing up were schools that were essentially evaluating the whole program taking months to decide and so on. If you look at Quarter 4, we have sold to more than 720 schools just in that one quarter, which is a very-very significant number in fact when we were in Quarter 3 we guided 500 schools for Quarter 4, we ended up selling to 720 schools. So, the really good news about Smart Class is that everybody wants to adopt Smart Class now and in fact we might even launch another variant that is for school that is with much smaller classrooms. So, therefore we do not want to focus on what is the average number of classroom we want to sell to a school. Earlier we were not selling to schools less than 10 classrooms, now we are ready to sell to every school, because we do not want to leave any part of the market unaddressed. Therefore, the average number of classrooms per school varies; it is not a concern for us, what really matters to us is how many classrooms our sales people have sold in total. So, therefore to be very significant that in FY11 we will end up selling to far more number of schools than have been estimated earlier. Further our sales cycles have come down drastically as well as conversion rates have gone up, so this is not really a concern but rather a positive trend.

Sangeeta Gulati

Sunil just to add on, if you look at what you are deriving by calculating the classrooms or by looking at the earlier school numbers, at the end of the day, our investors or analysts will calculate growth in terms of the revenue and the profit numbers derived out of that. We have given you the reconciliation because ultimately our growth is coming out of the number of classrooms, not the number of the schools which have been signed. So, from that perspective whatever numbers we have signed will convert into x number of revenue, x number of profit, and we have also given you what is going to be future FY11 growth, so from that perspective you should really see that okay how much profit you are actually going to add by adding x number of classrooms .

Shantanu Prakash

Now sort of coming back to the recap for FY11 guidance, we are guiding for an increase in sales of about 80% in Smart Class between FY10 and FY11 and increase in profits over 91%.

Sunil Tirumalai

Okay that is useful. The other question I have is, earlier we used to have the number of schools signed and number of school implemented, sometime ago you said that there will not be much difference between the two because the gap would be less but this time again there is a gap, any reason for that?

Shantanu Prakash

Basically, Quarter 4 last quarter we signed 720 schools, which are a lot of schools signed up in one quarter and therefore the entire logistics, machinery has to start delivering on that but I think that this is just a Quarter 4 issue, where our logistics and warehousing and supply teams are getting use to far greater number of schools than we have estimated.

Sangeeta Gulati

And I think that the greater number of schools we signed may be because of our advertisement and the awareness has actually grown in a very big way. Now, we have started getting queries even from the parents not only to talk about the program but also about schools that have

adopted Smart Class. So this is really a very positive sign that we are signing more number of schools than what we have actually projected.

Sunil Tirumalai Okay sir and one last question in the last quarter's investor update and the management note, there you just mentioned of investment going into Edusmart, just wanted to understand what is the amount and what is the reason

Sangeeta Gulati The investment is actually in preference share capital not in the equity capital and that too was one of the conditions when we had initially started a securitization proposal with the banks. We have already given you the numbers that we have already got 915 crores of securitization worth in Edusmart and against that we had to give only 45 crores worth equity that too in the form of non-convertible preference shares that means the money will be returned back by Edusmart within a period of 3 to 4 years. This amount of 45 crores compared to 915 crores, becomes practically insignificant and 915 figure is actually going to grow in a very big way, may be just add 500 crores additional for the next year,

Sunil Tirumalai Okay got it and then just one last question, I will come back for follow up later. You said you had tied up for around 500 crores for the Edusmart entity for FY11?

Sangeeta Gulati Yes, I have already got the sanctioned letters.

Sunil Tirumalai Okay in the guidance of 850 to 900 crores what is the proportion of fresh sales, I mean for which you would need this money?

Shantanu Prakash No, securitization is basically the part of the model itself, right so when every single school that we now do is on the Edusmart model.

Sunil Tirumalai No, I get that so 850 to 900 crores would have some revenues coming in from the schools that you have added last year?

Shantanu Prakash No, now in this model in the Edusmart model, we do revenue recognition of 52.5%. So as I explained in my talk just now the average selling price per classroom is 392,000, Educomp will book 75% of this total amount over a period of five years of which 2,05,800 is booked in the first year itself.

Sangeeta Gulati So just to add on if you look at the revenue calculations for this year 2010-2011 it will have three components, one component will be, since the model is changed from boot to the outright buyer. So first component will be the outright sales, which is on account of Edusmart model for example we have signed let us say 2,000 schools, or (say) 20,000 classrooms multiplied with Rs 2,05,000 that will translated into into x amount of revenues. Then we will have a deferment revenue component which will account from the financial year 2009-2010 when we transferred existing school contracts to the Edusmart model and recognized 50% content revenue last year, so corresponding 50% content revenue will be recognized in this year. So

that will also come in. Similarly the Smart Class Schools which have been signed in the FY09-10 the content revenue will also come in this financial year, so there will be three legs to revenue in this year. And going forward from the next year 2011-2012 we will have only Edusmart model nothing else.

Sunil Tirumalai Yes, I was actually referring to the content revenue. So to put it in another way you have 850 to 900 crore of guidance of which 500 crores has been you have got the sanctions in terms of from your banks, you would need some more to fill the gap?

Shantanu Prakash Yeah that is not an issue, as you see banks have been extremely supportive on this model

Sunil Tirumalai Okay thank you sir. I will come back later.

Moderator Thank you. Our next question is from the line of Nishit Jasani of JP Morgan, please go ahead.

Nishit Jasani Yeah hi Shantanu, just one question I will follow up on what has been asked before. Is 850 to 900 crores Smart Class revenues you are saying 550 to 600 will be through the organic growth so the balance is content deferment from previous year right?

Shantanu Prakash That is correct.

Nishit Jasani So, that is close to 300 crores.

Shantanu Prakash 293 crores to be precise.

Nishit Jasani And there will be no cost associated with all those revenues, right?

Shantanu Prakash No, there are some costs of course.

Sangeeta Gulati There will be cost for content because we have a liability to provide the updates to all the schools which have been transferred, so there is a cost associated. We are also looking for an updation of our content in a very big way that is the reasons of our deferment of our revenue was actually linked with the content cost which we planned to spend over the period of two years and that was the basis of our revenue deferent for over a period of two years, so what we are going to do is that we are going to convert our 2D content into 3D content and also make the non-interactive content to an interactive one, so that will also require some expenditure.

Nishit Jasani So, what would be the amount this year and probably in FY12?

Sangeeta Gulati We are still evaluating, so we will inform you accordingly, but as of now we are planning a way forward how to work for that, we will update you.

Nishit Jasani Okay and secondly you talked about a low cost Smart Class model, so I was just wondering what that was, if you could tell us?

- Shantanu Prakash** We are just giving you a teaser right now, essentially like I mentioned every school in India now wants Smart Class, so we have to figure out different ways of reaching out to these customers, currently we have a standard way of doing the Smart Class business, which I said is more suited for larger schools, so we are actively looking at what can we do for schools which are little bit at the bottom of the pyramid also. In any case all that will translate into increasing Smart Class penetration and therefore more Smart Class sale in FY11. Just to say that we have not included any of the variants of new products in the guidance for this year.
- Nishit Jasani** Okay that was basically my question. So, nothing from the low cost models comes into the 25,000 to 30,000?
- Shantanu Prakash** No. Essentially, we are just informing you that there are new opportunities also opening up for us in Smart Class because of the widespread awareness about how school can transform their classrooms.
- Nishit Jasani** Okay yeah that is it from my side, thanks.
- Moderator** Thank you Mr. Jasani. Our next question is from the line of Grishma Shah of Envision Capital please go ahead.
- Grishma Shah** Yeah hi, I just want to understand your revenue guidance a little better. You said that Smart Class revenue would be around 850 to 900. Overall revenues of 1300 crores that you are talking about and if you look at this year's revenue of around 1000 crores that you have clocked, around 644 crores comes from the Smart Class. So, I just dissect it, does that mean the other sections or the other portion do not grow at all on a year-on-year basis is that understanding correct?
- Shantanu Prakash** No, Grishma you will have to study the reconciliations that we have given, 1040 crores revenue for this year also includes the revenue on account of the transfer and it includes revenue on account of the new Edusmart model. Once you look at the reconciliation, it would be much more clearer to you because to do a like-to-like comparisons you have to do various kinds of revenue eliminations but to give you a summary of these revenue reconciliations, if you look at the projected revenue impact for FY11, we are looking at a like-to-like revenue growth, on the last sheet of the management note, given a projected revenue in FY11 of 1300 crores which is a lower side of the guidance of 1300 to 1350 crores. Our revenue increase on a like-to-like basis is about 45%, if you take 1350, it will be approximately 51%. And our profit growth on a like-to-like basis between FY10 and FY11 is from 199.85 to 332.8 crores, which is approximately an increase of around 66%.
- Grishma Shah** Okay, also highlight your CapEx plan as you move into FY11?
- Shantanu Prakash** Well, that is very interesting question and I am glad you asked the question. One of the key reasons for us to go for the securitization model was essentially free cash flow. Smart Class is

become free cash flow positive. If you look at our cash balance we have almost 800 crores of cash on our books. Therefore that gives us more legroom to expand in terms of CapEx. I have also highlighted in this earnings call that we see our K-12 business is a huge contributor to our growth. This business has already reached about 100 crores of revenues in FY10 and if you look at the kind of growth rate we are experiencing in the K-12 business, growth rate of over 65-75% this will soon become a very significant contributor and this business is actually even higher profit margin on a PAT basis than our Smart Class business. This business is a mix of, a capital light model and also a CapEx heavy model, so the cash that we bring up is a) being used for additional Smart Class expansions, we will also be investing this money to grow our K-12 business, which is a perpetual annuity business and I have already explained the characteristics of that business. So as we go forward CapEx really does not bother us too much especially after the model change in Smart Class.

Grishma Shah

Yeah but to put a number is that possible?

Shantanu Prakash

Well, we have not released that number yet, so I cannot give you that number right now but broadly speaking the number is going to be in three areas, one of the areas is K-12 and second is our higher education business joint venture with Raffles and our vocational business with Pearson, I just said that we are expecting investment between around 40 crores for these two businesses. The CapEx number for our K-12 business, we will get back to you. We do not have that number to share with you right now.

Grishma Shah

Sure, and one more question pertaining to K-12 is how many schools did contribute to revenues in FY10 and how many do you expect to contribute in FY11?

Shantanu Prakash

Well, in FY11 all the 43 schools will contribute, which are currently live and in FY10 about 7-8 schools opened only from January this year, so their contribution is negligible to zero. So, therefore you can essentially take 43 less 7-8 schools for FY10. I am just giving you an approximate number right now at the top of my head and this number will be 43 plus schools in FY11. The other significant thing is that average capacity utilization in any new school that we open is 20% or less than 20% in the first year. So using the same asset we will grow the revenue over 5 times. So to put it in a certain manner of speaking the current schools that we have, which have yielded a revenue of around 98 crores in FY10 have the potential of giving us revenue of 500 crores as these schools scale up. So we are increasing both the capacity utilization as well as increasing the number of schools as well, which is why I said that the K-12 segment we all need to look at that as a significant growth engine for the company going forward.

Grishma Shah

Correct and one more question on the pre-school side, how has been the growth on the Euro Kids Schools that you last mentioned?

Shantanu Prakash

The numbers are with you, there are approximately 355 odd franchises plus approximately 30 company-own centers so that business is doing well and will continue to do well in terms of

growth. It is not a highly profitable business for us right now but the business model is such that once the business scale increases, it will automatically start generating a lot of free cash flow.

Grishma Shah Okay fine. You also ventured in to creating new subsidiaries for your content, so those figures are also awaited right? Those plans are still on papers?

Shantanu Prakash Yeah like, my colleague shared with you the entire content development strategy, content is a very important part of what we do in Educomp. We build a lot of content in-house. We are one of the largest producers of education content in the world. We have licensed and acquired many different content libraries, I think that trend is going to continue, since content is such a source of competitive advantage for us, we are looking at various things to do with our content, including as we shared in the last quarter update creating a global content IP holding company in Singapore and so on, as we plan to develop, we will keep sharing with you.

Grishma Shah Okay fine, thank you and good luck.

Moderator Thank you Ms Shah. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to Mr. Shantanu Prakash for closing comments.

Shantanu Prakash I would like to thank all of you for attending today's earnings call and if there are any further questions, you can get back to either me or our CFO for further clarifications. Thank you very much.

Moderator Thank you Mr. Prakash. Ladies and gentlemen on behalf of Educomp Solutions Limited that concludes this evening's conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.