



## “Educomp Solutions Limited Q4 FY11 Conference Call”

May 30, 2011



**MODERATORS:**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Educomp Q4FY11 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing \* and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Nikhil Vora. Thank you and over to you sir.

**Nikhil Vora:** Thanks, Marin. I welcome you all to this conference call for Educomp for Q4 FY11. We have with us the senior management team, represented by Shantanu, Founder & CEO of Educomp and Sangeeta, CFO of the company. I will hand it over to Shantanu to make the opening remarks and a brief on the numbers, then possibly throw the floor open for Q&A. Over to Shantanu and just as a reminder, the management needs to depart from an hour from here. So would appreciate if questions are restricted to one or two to start off and then we can take it from there. Thanks. Over to you, Shantanu.

**Shantanu Prakash:** Thank you, Nikhil and good evening, everyone. I am Shantanu Prakash, the CEO of Educomp Solutions and I welcome all of you to the fourth quarter earnings call for FY 11. Joining me on this call are my colleagues, Sangeeta Gulati, CFO of the company, Abhinav Dhar, Director K12 and Operations, Sonjoy Mohanty – President Corporate Affairs and CEO, Educomp Supplemental and Raman Bajaj – Vice President, Corporate Affairs.

We are very happy to share with you our numbers for the fourth quarter as well as for the entire financial year FY11 ending on 31<sup>st</sup> March 2011. The company has achieved a stellar performance in the quarter and grown its sales and market penetration in each one of its verticals. In fact, our ambitions for the coming years based on this year's performance have got stronger and more resolute. As the Indian economy opens up, we feel uniquely positioned to take advantage of the multiple demand opportunities to serve India's growing middle-class population with high quality education products and services.

Let me now share with you our numbers for the quarter and the year ending March 31, 2011.

On a consolidated basis the income from operations for FY11 has been 1350.9 crores, an increase of 30% over FY10. This rise is just over our guidance of 1300 to 1350 crores given by the management at the beginning of the financial year. The EBITDA for the year on a consolidated basis is 538.6 crores, an increase of 12% over last year, the EBITDA margin on a consolidated basis has clocked in at a healthy 40%. The net profit after tax for FY11 on a consolidated basis is 336.7 crores, an increase of 22% over the corresponding period last year. The net profit after tax has also risen above the guidance band of 330 crores to 335 crores that was given by the management last year. The PAT margin came in at a very healthy 24% the same as last year.

On the standalone basis, the income from operations for FY11 has been Rs. 1020.7 crores, an increase of 23% over the corresponding period last year. The EBITDA for the year on a standalone basis is 485.9 crores, implying an EBITDA margin of 48%. The net profit after tax for the year on a standalone basis is 388.9 crores, an increase of 75% over FY10. PAT margin for FY11 on the standalone basis came in at 37%

Let me now update you on the fourth quarter numbers. On a consolidated basis income from operations for the quarter is 488.7 crores, an increase of 47% over the corresponding quarter last year. EBITDA for the quarter is 202.6 crores, an increase of 22% over the same period last year, resulting in an EBITDA margin of 41%. Net profit after tax for the quarter is 145.7 crores, an increase of 125% over the same quarter of FY10 yielding a PAT margin of 29%.

On a standalone basis, the income from operations for the quarter is 379.3 crores, an increase of 39% over the corresponding quarter. The EBITDA for the quarter on a standalone basis is 183.8 crores, an increase of 17% on a YoY basis. EBITDA margin for the quarter on a standalone basis came in at 48%. The net PAT for the quarter on a standalone basis is 157.4 crores, an increase of 121% over the corresponding quarter of last year.

Our earnings per share for the quarter are 16.47 basic and 15.17 diluted on a standalone basis. And on a consolidated basis the EPS for the quarter is 15.23 basic and 14.03 diluted.

Our EPS for the full year FY11 is 40.74 basic and 37.76 diluted on a standalone basis whereas on a consolidated basis the EPS for the full year is 35.27 basic and 32.66 diluted.

As you can see, we have met or exceeded both our top-line as well as our bottom-line guidance for FY11. Our guidance for FY12 is for a consolidated revenue of 1760 crores and a profit after tax of 400 crores and I will talk in more detail about this guidance later during the call.

Let me now come to the segmental overview and first and foremost to our Digital Content Solutions segment called "School Learning Solutions." In the SLS segment, our total quarterly revenue came in at 378.6 crores; this is a growth of 41% over the corresponding quarter in FY10. SmartClass, the product that we pioneered and invented has revolutionized the teaching learning process in schools in India. SmartClass continues to penetrate the market aggressively and we ended the year with 6538 schools adding 1004 schools in the fourth quarter alone. That approximates to a school added every 30 minutes of a working day during the quarter. Clearly, a new record at Educomp.

In terms of classrooms, we added 8,010 classrooms with an average of 7.98 classrooms per school during the quarter. The cumulative number of classroom additions across the year came at 27,154 classrooms which is in line with our stated guidance of adding 25,000-30,000 classrooms this year.

The pricing for SmartClass remains robust with the average selling price per classroom for the quarter coming in at 3.77 lakhs per class. SmartClass now reaches over 4.3 million students across 6,538 private schools in India and given the strong efficacy of the product in classroom teaching our vision to transform the quality of education in schools in India is rapidly bearing fruit.

SmartClass contributed revenues of 348.8 crores this quarter, an increase of 45% on a YoY basis. The EBIT for SmartClass this quarter came to 201.3 crores, an increase of 23% over the corresponding period last year. The EBIT margin came in at 58%.

SmartClass is clearly on a fast track.

I am happy to share with you that even the Central Board of Secondary Education (CBSE), the largest national education board in India has now started encouraging schools to use “Digital Content Materials” in classroom teaching. In a recent circular that CBSE has written to all its affiliated schools, the board has advised schools to set up at least one ICT-enabled classroom for each grade from I through XII. Further, schools are encouraged to progressively increase the number of classrooms with digital content and move towards enabling every single classroom with such learning infrastructure. This shows us the power of the SmartClass business, not only did we introduce a new system; this system has also been accepted by the highest regulatory body for schools in India as a mainstream teaching tool. This is a very encouraging development for our business, especially since CBSE usually takes lead in bringing about change in classrooms practices and historically we have seen all other state boards follow the CBSE. We think that eventually CBSE and others will make it mandatory for schools to use digital content solutions in each classroom thus helping fulfill our vision: Every Class - SmartClass. And just a reminder that there are over 3 million classrooms in private schools in India.

Constant reinvention and innovation is a core DNA for the company. I am delighted to share with you that for this sales season and the coming academic year we have reinvented SmartClass and have taken it to another pinnacle of value addition for our schools and teachers.

In this new sales year which we like to call the year of ‘shock and awe’, we have raised the barriers to entry for our competition to an altogether new high by launching the SmartClass “Class Transformation System” or CTS and the SmartClass “Digital Teaching System” or DTS. SmartClass CTS is a biggest initiative of its kind anywhere in the world and is poised to introduce the next generation of SmartClass in schools. A big leap forward in enabling excellence in schools, the CTS will encompass any facet of teaching-learning process and become an inseparable tool in the hands of teachers. This new avatar of SmartClass will reach out to every child’s learning style in the class and ensure that they cheerfully participate in the journey of discovering and learning new concepts. It is perhaps the biggest academic re-engineering exercise taken up anywhere in the world. The key features of CTS consist of

hundreds of thousands of multiple choice questions, real life application, topic synopsis', simulations, diagram makers and step-by-step illustrations apart from teaching ideas and strategies. It also includes assessments, mind-maps, worksheets, web links and access to a library of web resources for every concept of every chapter in every grade in the country. Not only that, CTS will also make available access to all resources within the entire SmartClass teachers fraternity. Teachers will get access to resources, recommended or created by over half a million teachers that exist in the SmartClass community today. This community is growing rapidly and will form a connected pool of members drawing from each others' ideas and efforts. Furthermore, CTS will also be available in multiple language versions in the country.

Coming now to the SmartClass DTS or the Digital Teaching System. This new innovation is the world's first fully integrated one switch digital interactive teaching system designed with real classroom challenges and Indian classroom conditions in mind. The unique features of the DTS system consist of an integrated compact design where all the different hardware components which were earlier separate units such as projectors, computers, UPS, chalk board, interactive board have now been seamlessly molded into a single compact unit to enhance efficiency, convenience and durability while also reducing the installation time required by the implementation team. One switch operation switches on all the electronic equipment with a single switch. A remote control operation allows teachers to control and manage animation materials from anywhere in the classroom. A robust design for Indian conditions to withstand high ambient temperatures in dusty conditions prevalent in Indian classrooms. It also incorporates a short arm shot-throw digital projection system which ensures disruption-free, shadow-free projection of digital content and finally, a built-in document camera that allows teachers to display enlarged images of objects such as seeds, leaves or paper working as an assignment of the students for the whole class to view.

We have taken over 12 months to design the new SmartClass DTS and I am excited to share with you that such a design system does not exist anywhere in the world. It is a total unique system and even though the user experience will go up several notches, you will be happy to know that the cost of putting it together will almost remain the same as before. This is a yet another case study on innovation at Educomp. More details on our CTS and DTS are available in the investor update that has been circulated to you.

Indeed, SmartClass CTS and DTS will ensure our complete dominance of the market and raises the barriers to entry in this business even higher.

It is clear that SmartClass as a product is evolving and getting more sophisticated. We need to evolve our marketing strategy as well to make sure we provide high value to each of the diverse consumer sets of schools from urban elite private schools to mass market private schools, mid-market private schools and also the budget private schools and affordable private schools.

I am happy to announce that we are also launching a new product that will address the need for our budget customers. This product is called Educlass. It is an out-of-the-box solution to addressing the needs of customers who are taking the first steps towards adoption of technology in their schools. You will be happy to know that while this solution is targeted at smaller, lower end and remote schools and will significantly expand the overall market opportunity for Educomp, the margins that the company will be making on this product are preserved and in line with our SmartClass product offering.

Thus armed with the new developments in product design, technology and our new product, Educlass, our targets for FY12 are robust. We expect to add another 40-45,000 classrooms in SmartClass in FY12 which is a growth of 47-66% compared to classrooms added in FY11.

Let me now turn my attention to the other business under SLS, the ICT business. As you are aware, we have been pursuing a strategy of cautious growth and selective bidding in the ICT business. In this quarter, we have added 540 government schools to our ICT kitty after winning a contract with the Government of Maharashtra. The value of the order is 67.93 crores.

We also bagged two prestigious multimedia content development projects from the Government of Gujarat and Assam for installation and development of 2D, 3D-based multimedia content across schools of these two states and development of a web portal for learning management.

The contract period of approximately 518 schools in Uttar Pradesh and Chattisgarh came to an end and we transferred those schools back to the government. The ICT program currently reaches out to 10,572 schools and 5.8 million students.

In the SLS segment, our total quarterly revenue came in at 378.6 crores, a growth of 41% over the corresponding quarter in FY10. The SLS segment had an EBIT margin of 52% and an EBIT of 197.5 crores. The full year FY11 revenue for the segment was 1009.5 crores, an increase of 25% over FY10 and the full year EBIT was 523.2 crores, an EBIT margin of 52%.

I will now come to the K12 Schools segment which comprises of preschools as well as the high schools. In the preschools space, we continue to remain the No. 1 player in the country with 799 preschools operational serving over 50,000 students across our two brands Roots-to-Wings and Euro Kids. In the high schools space, we continue to expand our footprint across the country. We now have a total of 56 schools operational and an additional 27 in the pipeline taking our total hard visibility to 83 schools which includes land sites, under construction sites and **Dry** Management as well as joint ventures.

As you are aware, we have a portfolio of multiple brands ranging from a premier tier school brand called "Millennium School" a mid-tier brand called "Takshila Schools" to a semi-urban budget school brand called "Universal Academy." Today, we run multiple schools across the

country under these brands. We also run co-branded schools and we take a lot of pride in the fact that we have been able to forge exclusive tie-ups with the country leading iconic school brands to set up co-branded schools. In the past, as you are aware, we have had such partnerships with The Shriram School and the PSBB School. I am delighted to share with you that we have recently tied up with another leading school brand in the country, the Vasant Valley School facilitated by Universal Learn Today, an India Today group company. The Vasant Valley School is a cherished brand of school in North India and ranks among the top few schools in the country. As a part of this partnership we will be setting up a total of 30 Vasant Valley Schools over the next several years and the first school under this partnership is expected to come up in 2012.

Finally, we have an international curriculum school in our portfolio as well called the “Le Mont High” School, the first of which has just been launched in Lavasa.

Clearly, we are building a lot of value in our K12 Schools segment. What is unique about our way of building these schools is that we have different management models of operation. Of the 56 schools currently operational, there are 33 Greenfield schools which are operational under Educomp, 11 schools are operational under Educomp’s asset light model called Dry Management/ Joint Ventures, 10 schools are operational under EuroKids, our partner company and finally two schools have been acquired by Educomp.

The EISML business specifically had revenues of 22.9 crores this quarter, an EBIT of 15.3 crores, EBITDA margin of 67%, PAT of 3.7 crores and a PAT margin of 15%.

In the K12 Schools segment, including both our Preschools and High schools businesses, our total quarterly revenue came in at 42.7 crores, an increase of 35% over the corresponding quarter in FY10. The quarterly EBIT was 12.4 crores, an EBIT margin of 29%.

The full year FY11 revenue for the K12 segment was 135.7 crores, an increase of 36% over FY10. The full year FY11 EBIT was 47.7 crores, an EBIT margin of 35%.

Coming now to our third segment -- “Higher Learning Solutions” or HLS segment. It comprises of two joint ventures with world-leading organization, Raffles and Pearson in the area of higher education and vocational education respectively. In the Raffles joint venture, we have seven Raffles Millennium colleges operational and we have now launched our first state-of-the-art engineering and PGDM program campus in Greater Noida by facilitating the brand of JRE Group of Institutions. The admissions for both engineering and PGDM programs have started and we are expecting the first batch of students to kick off from August of this year.

In our joint venture with Pearson in the space of vocational education, we now have 339 points of presence all over the country, reaching 63,000 students through one of our three different models. The first model is called ETEN, the Educomp Tele Education Network model which

uses VSAT technology to broadcast live teacher lectures. ETEN has 130 operational centers and is the largest No. 1 trainer of students in the CA exam in the country. I am happy to share that our ETEN students have bagged 52 All-India Rankings including 4 All-India No. 1 Rankings in different CA exams till date.

The next model is the Purple Leap model which sets up training centers inside colleges and works with final year students to make them job ready. Purple Leap currently operates 110 colleges and has an active pipeline of 140 more colleges.

And thirdly, our consumer vocational model which is based on a franchise network of centers. There are currently 79 such centers operational.

The HLS segment had revenues of 28.1 crores in the quarter growing 3.9 times over the corresponding period last year and had an EBIT loss of 12.3 crores compared to an EBIT loss of 4.3 crores in the same quarter last year. As you know, this business is currently in the investment mode. For the full year FY11 the HLS segment had revenues of 65.4 crores, an increase of 147% over FY10 and an EBIT loss of 29.2 crores.

Coming finally to our last segment now – the “Online Supplemental and Global” segment which comprises of all our investments in the online and supplemental education space as well as our two global subsidiaries. I am happy to share the various exciting developments in this part of the business.

We acquired a strategic stake in the country’s leading GATE Test prep business called “GATE Forum”. GATE is an exam that is taken by over 400,000 students in the country. Along with Vidya Mandir classes and our LEAP programs we now have a solid test prep presence and are gearing to scale this part of our business rapidly. GATE Forum has trained more than 15,500 students in more than 40 cities through a mix of own and franchisee centers. I am very proud to share with you that in the last GATE exam, 21 GATE Forum students got the Top 10 ranks and 141 students came in the top 100 ranks across seven streams of engineering.

Our Vidya Mandir Classes business is not far behind. In the recently announced IIT-JEE results, there are 6 students from the Delhi Zone in the Top 50 All-India Rank list of IIT-JEE and 5 out of those 6 are our Vidya Mandir Classes students. Of course, there are 13 other VMC students who have also secured top ranks in this prestigious exam.

Next, I am happy to make another significant announcement. And this is the launch of a new product called “Educomp Live” which is a VSAT-based education delivery model for schools to offer the various remedial/ skill development and teaching programs to schools located across the country in a live mode. Educomp Live offers digital and live streaming of audio-video, and integrated educational content to classrooms and to enrolled students. Delivered through VSAT

and other equipment supplied and installed at the school by Educomp this product is going to be based on a five-year annuity based model.

We have also announced that we have formed a Joint Venture with Zeebo, a San Diego based Qualcomm funded company to introduce a version of Zeebo's 3G-connected education system specifically for the Indian market. This joint venture will launch India's first wireless education platform for kids in India. Every home in India might not have a computer but every home surely has a TV. Connected to any TV, Zeebo's console will provide access to a wide variety of digital educational content including Educomp's rich multimedia educational content library straight into homes.

Finally, a note on our Online properties. This part of a business has been growing very rapidly. WiZIQ, which is a teacher-student marketplace and platform for online courses now has 1.2 million students and over 100,000 teachers registered on the platform. Over 115,000 online classes were conducted on WiZIQ in the fourth quarter alone, that is in 90 days alone. The number of registered users on WiZIQ has been growing at approximately 20% on a Q-o-Q basis for the last eight quarters in a row. Clearly, WiZIQ is on a roll. Hopefully, it will become one of the great online businesses in the world. LearnHub and StudyPlaces, our admissions advisory portals added over 170,000 registered users just in this quarter itself taking the total number of registered users to over 1.5 million.

The Online Supplemental and Global segment had revenues of 39.2 crores in the quarter, growing 53% over the corresponding period last year with an EBIT loss of 3.2 crores compared to an EBIT loss of 3 crores in the same quarter last year. This again is one of the businesses that is in the investment mode.

I am happy to share that we have set up the India Education Fund as an anchor investor. The India Education Fund made an investment in Beacon Learning sometime back, a management and services provider for higher education.

I am happy to announce that the fund through Beacon has recently made a strategic investment to expand the presence of the Great Lakes Institute of Management based in Chennai across India with an estimated investment of about 150 crores over the next five years. Great Lakes is one of the premier business schools in the country and was ranked among the "Top 10" business schools of the country by "Business Standard" recently. In a short span of 7 years of its existence, Great Lakes has reached the "Top 10" list in India, no mean feat. The visionary and founder of Great Lakes, Dr. Bala Balachandran is currently the esteemed Prof. of Accounting in MIS at the Kellogg School of Management in the US. He was also ranked 4<sup>th</sup> in the "Economic Times Top 10 Global Indian Thought Leaders" list. We are delighted to have this exciting partnership with Great Lakes.

That completes a summary of the financials for FY11. I now come to our guidance for FY12. As mentioned earlier, the revenue guidance for FY12 is 1,760 crores on a consolidated basis. The PAT guidance for FY12 is 400 crores on a consolidated basis. This guidance has been given after considering the following.

1 - An estimated 60-75 crores profit from proposed stake sale of some of our strategic investments. We are expecting additional value creation for our shareholders.

2 - The Revenue and PAT guidance for FY12, does not include any one-off amount towards revenue from transfer of old BOOT model SmartClass contracts as was in FY11. Thus it is purely profit from operations.

3 - This guidance has to be seen in light of an additional investment of 35 crores that the company is making towards content innovation, new development and R&D specially in our SmartClass segment.

4 - The guidance assumes full tax rate for FY12 which will be 32.45% as compared to an ETR of 10.9% in FY11 on a standalone basis. It also assumes additional hiring of over 200 sales people for SmartClass and Educlass expansion.

5 - And finally, it factors in net losses of around 20 crores for our subsidiaries which are in an investment mode like our supplemental business, our vocational business, and our higher education business. For SmartClass, the FY12 guidance is to add another 40,000-45,000 classrooms, a growth of 47-66% over FY11.

In the end, I would like to summarize by giving you a quick snapshot of where Educomp has reached so far. We are India's largest education company reaching out to 4.3 million students across ~6,500 private schools, 5.8 million students across ~10,500 government schools. We run 800 preschools, 56 K12 high schools, 7 Design colleges, 1 Engineering and PGDM campus, 339 vocational training centers, and have approximately 3 million users of our online education services. We are the only education company in the world working across the entire education lifecycle and our vision is to address the quality of education and access to education problems in India. With continued innovation across our products and use of meaningful technology solutions we are better placed than ever to take advantage of the rise of the education revolution in India in the years to come.

I am thankful to my entire leadership team for breaking new ground in the area of education technology and for working with passion to serve the needs of a wide variety of customers in India and I salute them for the fantastic work that they have done especially over the last financial year. With that I will now pause and we will open for questions and answers.

**Moderator:** Thank you very much sir. The first question is from the line of Soumitra Chatterjee from Execution Noble. Please go ahead.

**Soumitra Chatterjee:** My question is with regards to the target given to your sales team. If I look at the numbers you added around 27,150 classrooms for the whole year and 3,461 schools. If I am not wrong, your average sales team for the entire year was around 400 people which gives me that every sales head is converting around 9 schools per year. If I take the same number that you have done, I assume that you will do 42,500 classrooms for the whole year and your average sales team will be around 600 people for FY12, I am getting a target of 9 schools again for same sales people. But I am just wondering why you are not increasing the target for sales team who are already working with you for almost say, two to three years, so in a way the business model is becoming linear so that as you are adding more sales people, you are getting more classrooms? And my second question is, Shantanu, you had around 331 schools in FY07 and at an average of around 15 classes per school. Now those schools will be coming up for renewal this year. So does your guidance of 40,000-45,000 classrooms include all the 5,000 classrooms that are up for renewal this year?

**Abhinav Dhar:** I would like to answer the first question. This is Abhinav, I head the SmartClass business. The 200 additional people that we are adding to our sales force would be coming on board in Quarter 1 this year and typically if you look at historical patterns it takes at least about a couple of months to become productive on the field. So all sales people, they kind of evolve over a period of time and have different productivity levels that they exhibit in Year 1 and Year 2 and Year 3. So given that about 200 of those 590-odd people that would come on board now, we will have to give them slightly lower targets than the ones which the other sales people will carry who have been in the system for the last couple of years. So, there will be differential targeting to different segments of our sales people depending on their age in the company.

**Soumitra Chatterjee:** What is the average target that you give to sales person who is working with Educomp for around three years or so per year?

**Shantanu Prakash:** We do not specifically disclose that particular number. Coming now to your second question about renewal, we have had a renewal rate of almost 100%. The target that you see this year includes the renewal that will happen during the course of the year.

**Soumitra Chatterjee:** Okay. So, if I say you had around 331 schools during that time you were having on an average around 15 classrooms per school which works out to around 5,000 classrooms. So that 5,000 is included in that 40,000-45,000 guidance?

**Shantanu Prakash:** In fact that is also the strength of this business as you rightly pointed out, this is a perpetual annuity business. So all the schools that we are working with, they will keep renewing with us literally for ever.

- Sangeeta Gulati:** I just wanted to make one more point. Whatever number of renewals happen, they will be actually at the current pricing and we will be providing an entirely changed product, with replacement of the entire hardware. So this is actually equivalent to a new signup. So from that perspective whether our target consists of the renewals or the new additions, from our perspective they are exactly the same. The difference will only arise if the schools decide to renew only content which I think in the era of rapid technological evolution, the schools are actually not opting for that option.
- Soumitra Chatterjee:** Okay. And just one thing on the new third-party vendor you have added. Is it on the same terms and conditions as Edusmart is working that is 75% revenue share?
- Shantanu Prakash:** The terms and conditions will be identical for all vendors who will join us.
- Soumitra Chatterjee:** Okay. And just one small thing about what is the average salary that you pay to your sales person having a one or two years of experience?
- Shantanu Prakash:** That is not a number that we have shared. We can come back to you again for any further questions. Lets give a chance to some other people who are in the queue.
- Soumitra Chatterjee:** Okay, sure, thanks a lot.
- Moderator:** Thank you. The next question is from the line of GV Giri from IIFL Capital. Please go ahead.
- GV Giri:** I just wanted to know that if I look at your Slide 2 of your presentation you have grown your total revenues for the year by about 20% and even if we strip out one-time items relating to old contracts from billed to securitization conversion, the number for the fourth quarter or for the full year does not materially change from this 20% YoY revenue growth. Now, you are projecting 17.6 billion revenues and you said that this does not have any old revenues, so it seems to be an extreme acceleration compared to what you have managed for FY11. How do you explain that? And secondly, my apologies, but I could not quite catch on to what Abhinav said about renewals also being included in the revenue projection. My question is, are the 300-odd renewals included in the 45,000 classrooms addition or should we assume 45,000 plus the renewal classrooms?
- Sangeeta Gulati:** I had answered that question so what we said was that the renewals are included in this 45000 guidance. From our perspective, since the technology has completely changed and since the schools will be renewing at current pricing, from our perspective really it is immaterial for us whether it is a renewal or it is a new school. Answering to your first question, there are two types of deferrals. One deferral was due to the transfer of old contracts which we did in FY10 and the second was due to the addition of new contracts signed in which there was a deferral of the 22.5% content component. The deferral one-time revenue which was accruing on account of the transfer of old BOOT contracts was exceptional for this year and will not be there in FY12.

- GV Giri:** So therefore the organic revenue growth will be much higher than the 20% that...
- Sangeeta Gulati:** Yes, exactly, that is the reason you see 27,154 going up to 40,000-45,000, depicting a growth of 40-60%.
- GV Giri:** Right. So that is what my question was that where is the acceleration coming from? From what you say it seems to be from SmartClass
- Sangeeta Gulati:** The main driver is SmartClass and also if you look at the other slides our consolidated revenue will also grow significantly especially from vocational & higher education. While they will be in investment phase, the revenues will increase significantly and if you look at Learning.com they had done about 100-odd crores in this year. For EISML also, this year is going to be the take-off year and this will also contribute to our top-line in a very big way. As of now 23% is the total contribution of the subsidiaries. So that will actually gradually increase as and when the businesses are coming into an expansion mode or the exponential growth they undertake.
- GV Giri:** Okay. Understood. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Mohit Jain from Alchemy Capital. Please go ahead.
- Mohit Jain:** Couple of numbers required. Can you share the total number of students in K12 business enrolled currently in FY11 and FY12 expected?
- Shantanu Prakash:** We do not have a guidance for the total number of students in FY12. I can give you a little ballpark number in the K12 schools. We have approximately between 25,000-30,000 students enrolled in K12 schools and we have said we have about 50,000 students enrolled in our preschools.
- Mohit Jain:** Okay. And I believe the 56 schools that you are talking about the operational schools, all of them have taken their batch or they are about to add some students in FY12?
- Shantanu Prakash:** No, each school will continue to add students in FY12 and FY13. If you look at one of our slides we have clearly shown you where in the life cycles the schools are. If you see the chart given on Page #26, it says that 4 schools are operational in the third year or above, 12 are in the 2<sup>nd</sup> year, 8 are in the 1<sup>st</sup> year and 9 are in 0<sup>th</sup> year. So these schools are all going to keep adding students in each of the years going forward. It takes approximately 4-5 years for a school to reach full capacity utilization. I hope that answers your question.
- Mohit Jain:** Sure. Can you share the total number of employees at the end of FY11?
- Shantanu Prakash:** Approximately 15,000.

- Sangeeta Gulati:** On a consolidated basis.
- Mohit Jain:** Okay. Why there is a 43% jump in employee cost? Are we still bearing cost of some of the SmartClass employees?
- Sangeeta Gulati:** There are some costs on account of execution of the contracts that are in ICT. Then some employees for quality assurance have been appointed in SmartClass and then some normal growth at the corporate level. All put together, there is a cost and in this year there were incentive, increments and all that.
- Mohit Jain:** So this is the base which we should look at for FY12 and beyond?
- Sangeeta Gulati:** Yes.
- Mohit Jain:** There is no one-off included in this?
- Sangeeta Gulati:** No, there are no one-offs. If you look at the base and may be put in increment whatever you think is the precedent of the company.
- Mohit Jain:** And what happens to the ICT employees? Because a number of schools have been declining and so are these employees shifted to some other business or they...
- Shantanu Prakash:** No, these are contractual employees. So when the schools taper off, the employees were also let go off.
- Mohit Jain:** That means the employee cost would keep on declining from ICT segment as we progress if the schools don't get added?
- Shantanu Prakash:** Of course.
- Sangeeta Gulati:** The only exception is if we add new orders then we have to hire more new people and the cost will be on account of that.
- Mohit Jain:** Okay. One last thing, can you share the pricing factored in for SmartClass in FY12 guidance?
- Shantanu Prakash:** The guidance that we have given is number of classrooms, overall top-line as well as the bottom-line but every quarter, we update on the average pricing per class. So you will have to really rely on our each quarter guidance and each quarter disclosure to assess what is the average pricing going to be.
- Mohit Jain:** And qualitatively is it stable or...?

**Shantanu Prakash:** You can look at the past four quarters and you will get a very good sense of how the pricing is going on and as I said in my presentation the pricing is quite stable in SmartClass.

**Mohit Jain:** Thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Sailesh Shenoy from Aditya Birla. Please go ahead.

**Sailesh Shenoy:** My query is more on K12 segment considering that you have clocked revenues of 135 crores, do you see any issues with regulation and there is a lot of profit that is accruing to you from this and do you see any issues with either state government or parent-teacher associations or stuff like that affecting the business going forward?

**Shantanu Prakash:** Thank you for the question. Currently, our business is in compliance with all current regulations. But to give you a broader answer to your question, we do not foresee any regulatory risk in the business at all and that is because we essentially act as vendors to the schools providing either infrastructure or curriculum or teacher training and a lot of the Educomp Intellectual Property that we are well-known for. And if you look at the larger education ecosystem in India, there has been multiple investments over the past six to eight months in companies that follow exactly the same model as Educomp and from the top of my head I will point out to an investment made by HDFC in a company called Career Launcher which is an investment into the same model and I will point out to an investment by Sequoia Capital in one of the schools companies based out of Andhra Pradesh as well. And clearly the government has given very strong signals that it encourages private participation in education. The government has launched public-private partnership programs as well. So we do not really see any kind of regulatory risk. In fact, we see regulatory opportunity. Because the only way to really build education capacity for the new emerging India is by putting private capital and by putting private expertise to work, and that is what we are doing.

**Sailesh Shenoy:** Okay. Related question is if you can share the number, what kind of utilization level in terms of occupancy in the state run schools are you seeing at this instance for 56 schools that are operational?

**Shantanu Prakash:** Currently, as you can see from the chart on Page No. 26, many of the schools are at a very young phase of the development right now. I would reckon again from the top of my head that the average capacity utilization for all the schools put together currently does not exceed 20-25%.

**Sailesh Shenoy:** Okay. Thank you.

**Moderator:** Thank you. The next question is from the line of Sunil Thirumalai from Credit Suisse. Please go ahead.

- Sunil Thirumalai:** I have a few questions. Firstly, can you just explain about the FCCB restructuring that you mentioned briefly in the presentation?
- Shantanu Prakash:** We have moved a resolution today saying that it is an enabling resolution, enabling the company to explore towards different kind of alternatives for FCCB restructuring. I do not have any further details at this stage. We have an FCCB that is coming up for redemption in July of 2012 and essentially we are being proactive about it and seeking approval from the shareholders for us to look at various ways of looking at the FCCB and that is about it right now at this stage.
- Sangeeta Gulati:** In fact, there are only two routes for this restructuring, either we issue a fresh issuance of FCCB to repay this or we restructure the terms and conditions so we are in the process of evaluating which is going to work after we get shareholders approval.
- Sunil Thirumalai:** What is the timeline on this?
- Sangeeta Gulati:** Before redemption date which is going to be July 2012 so we just want to comply with all regulatory requirements. We are also seeing whether an RBI approval is require or not so that whatever regulatory requirements are there, we can adhere to that.
- Shantanu Prakash:** And we do not have to restructure as you know it can also get converted before the due date.
- Sunil Thirumalai:** Okay. And secondly, what is the reason for the margin decline quarter-on-quarter both standalone and consolidated?
- Shantanu Prakash:** I do not think there are any specific really big bullet point reasons for margin decline. As you know that the company operates actually at very healthy margins if you look at the margins that we have done this year, on a standalone basis our EBITDA margin is close to 48% and on a consolidated basis, almost about 40% and given the company's accelerated investments in IP creation, adding new capacity, newer businesses, etc. For instance, our businesses in higher education and vocational education are still very much in an investment mode and while revenues on these businesses as you will see from our presentation has increased from 200% to 300% in some of these, the losses have also increased, so I think there is no real one big reason for margin decline. Generally speaking, our policy is to have so much of intellectual property in our products and services that they all enjoy a very healthy margin in the market.
- Sunil Thirumalai:** Okay. And looking into FY12, should we look at the same rate of the 4<sup>th</sup> quarter as the benchmark?
- Shantanu Prakash:** Sunil, we have already guided for profits for FY12. So you can derive the margins from the profits that we have guided.
- Sunil Thirumalai:** Okay. That was useful. Thank you.

- Moderator:** Thank you. The next question is from the line of Rennie Patel. Please go ahead.
- Rennie Patel:** Sir you are saying that you can get them converted before the due date. Why the step of restructuring and is it because June 30 was the last date for getting RBI approval for restructuring convertible, so making changes on the terms and conditions?
- Shantanu Prakash:** No, we just want to be proactive and we want to have all the options that are available in our hand. So I think the company is taking a proactive step much before the date of redemption so that we do not do anything last minute, we do not run out of time and that is about it.
- Rennie Patel:** Do you have to do this step before 30<sup>th</sup> of June for the approval?
- Shantanu Prakash:** I am not really aware of the regulations. So I really will not be able to answer that question.
- Rennie Patel:** And you have already appointed a banker for the same?
- Shantanu Prakash:** No, we have not done that. We are still in discussions. We have taken the resolution today.
- Rennie Patel:** And when will you take the shareholders approval?
- Shantanu Prakash:** It is going to happen. Now that the board resolution is there, there will be a postal ballot for shareholders approval shortly.
- Rennie Patel:** I see. Would that be within the month of June?
- Sangeeta Gulati:** It depends we are going to have our AGM or through postal ballot. We still have to take a call. Before that we will first find out if RBI approval is required. We believe that it will be through an automatic route but still as good corporate governance we would like to abide by every single regulation so it will be good for us to approach RBI and take a call after we have a meeting. Today only we have taken an approval so give us sometime maybe in the Q1 call we will have some information for you.
- Rennie Patel:** I see. And have the bond holders also been contacted? What is the feedback from bond holders?
- Shantanu Prakash:** No, there is no feedback. We have not contacted anybody so far.
- Moderator:** Thank you. The next question is from the line of Pratish Krishnan from Bank of America. Please go ahead.
- Pratish Krishnan:** What is the quantum of the securitization loan which is outstanding today and the level of corporate guarantee on that?

- Sangeeta Gulati:** Pratish, if you look at our balance sheet every single information is there. 995 crores is what the exact amount is.
- Pratish Krishnan:** This is the securitized loan amount and the corporate guarantee levels?
- Sangeeta Gulati:** The corporate guarantee will be for the 300 crores we have only 20% and the remainder on 100% so you can do this calculation.
- Pratish Krishnan:** Okay. Would it be fair to assume that the 20% will continue for you have been able to get the new deals release in?
- Sangeeta Gulati:** Yeah, we are talking to many banks and financial institutions and we are very sure that we will get it and as we have progressed that we are also looking for non-recourse structure, it might take a little more time, but definitely we have to shift to non-recourse structure.
- Pratish Krishnan:** Okay. And lastly what is the CapEx plan for next year?
- Shantanu Prakash:** Pratish, we have not really guided currently on the CapEx plan for next year.
- Pratish Krishnan:** Okay. And just on the SmartClass, Shantanu you spoke about the budget classrooms. Does the guidance factor in any kind of wins in the budget classroom segment?
- Shantanu Prakash:** The guidance like we said is 40,000-45,000 for SmartClass and it includes all the different variance and so on and so forth.
- Pratish Krishnan:** Should one assume a good differential pricing for them?
- Shantanu Prakash:** Like I mentioned in my presentation, that the margins for the Educlass products are similar and same as the margins for the SmartClass product.
- Pratish Krishnan:** Okay. Fine.
- Sangeeta Gulati:** The only differentiator will be that there might be some school renewals who do not want the upgraded hardware. Schools who say that we are happy with the existing hardware here just give us the content, that would only be the variant. We really do not know what would be that percentage. For the rest the pricing is going to be the same.
- Pratish Krishnan:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Ravi Gupta from UTI Asset Management. Please go ahead.

**Ravi Gupta:** Hi, could you just indicate that what are the plans of using this \$250 million that you wish to raise?

**Shantanu Prakash:** Well, as you know, this is merely at this stage an enabling resolution and we do not really have an immediate plan for sharing with you right now. Perhaps as our plans get more firmed up, we will be able to shed more light on this. At the moment, we have taken an enabling resolution. Broadly speaking, the Indian education market offers multiple areas for investment and growth. As you know that most of our products today at a very early stage of growth with very little market penetration even our SmartClass products is less than 9% penetrated by schools less than 3% penetrated as far as by classrooms is concerned. Not to speak of any of the other areas like K12, vocational, and higher education. So clearly, multiple opportunities do exist in India for investing for the capital but at this stage we do not have more details.

**Ravi Gupta:** Okay. And do you also have any kind of acquisition plans for the near future?

**Shantanu Prakash:** Well, acquisition in Educomp in the past also has been more strategic and we look at opportunities from a perspective of convergence of management vision, whether it is filling up any gap in our portfolio and so on. We do not go out looking for acquisitions specifically. Unfortunately, I will not be able to give any more color on our acquisition plans and acquisition strategy. If we do find something that is strategic for us we might look at it in the future.

**Ravi Gupta:** Okay. That is all from my side. Thank you.

**Nikhil Vora:** Hi, Shantanu, Nikhil here. Just one question, what are the plans for the K12 in terms of CapEx deployment over the next couple of years? You have obviously talked about visibility of number of schools incrementally, but what should one really look at in terms of balance sheet which will get allocated to the K12?

**Shantanu Prakash:** Well, Nikhil, I think going forward, in our next call we might be able to give you some more in-depth analysis on this. Today, we do not really have more details to share on what is the specific amount that we will be investing in K12 and so on. But broadly I can say that as you know we have been moving more into joint ventures and partnerships which is the capital light model and we believe that trend will continue where we can leverage our branding and our intellectual property rather than leveraging the capital but having said that our investment in the K12 space is continuing and at an appropriate time we will share more specific details with everyone about our specific CapEx plans.

**Nikhil Vora:** Okay, cool. Shantanu, are we going for taking one more last question

**Shantanu Prakash:** Okay, we will take one last question.

- Moderator:** Thank you. We will take one last one from the line of Rohan Ghada from Shubkam Capital. Please go ahead.
- Rohan Ghada:** Sir, I just wanted to understand like your margins from your schools learning business have been coming down. What steady state margins can we assume take over there?
- Shantanu Prakash:** Schools learning solutions business consist of SmartClass as well as it consist of our ICT business. The ICT business is a low margin business and as you know, we have been saying that. If you decouple the ICT business and you just look at the SmartClass business which comprises of the bulk of the school learning segment, our margins are in fact not coming down. For the whole segment, our margins are about 52% in that segment.
- Sangeeta Gulati:** I just wanted to add, 52% is the total segment profit and if you really bifurcate into the SmartClass the ICT, SmartClass is at a 58% margin, and if you compare the year to year, the margins are typically maintained. So do not get confused with the FY10-11 numbers which has got one-off revenue. So on the operating level the margins are being maintained and if you also look at our earlier quarterly updates, Q1, Q2 and Q3, where we have also given the model wherein we have certified categorically that our margins in SmartClass are going to be within the range of 51% to 59% and obviously they are still on the higher side of that range. So from that perspective, I think there is no margin decline. In fact, the margins are going to go up significantly, as and when we sign more & more schools due to economies of scale.
- Rohan Ghada:** Also one last question. Sir, as you said in your K12 you have 25,000-30,000 students but that is total for the 56 schools or just the 33 Greenfield schools which are under Educomp?
- Shantanu Prakash:** For all the schools.
- Rohan Ghada:** Okay, thank you.
- Moderator:** Thank you. I would now like to hand the floor over to Mr. Nikhil Vora for closing comments.
- Nikhil Vora:** Thanks to all the participants for being there and appreciate the management time for taking this up. In case, Shantanu, do you want to make any closing remarks?
- Shantanu Prakash:** I would like to thank all the investors who have been on the call today and good evening to everyone.
- Moderator:** Thank you very much sir. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.