



“Zee Learn Limited Earnings Conference Call”

July 08, 2016



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MODERATOR: **MR. VIRAAJ TECKCHANDANI – VICE PRESIDENT (INSTITUTIONAL SALES), RELIGARE CAPITAL MARKET**



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Moderator

Ladies and Gentlemen, Good Day and Welcome to Zee Learn Limited Earnings Conference Call. As a remainder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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.

I now hand the conference over to Mr. Viraaj Teckchandani from Religare Capital Markets. Thank you and over to you, sir.

Viraaj Teckchandani:

Thanks, Janis. On behalf of Religare, I welcome you all for the Q1 Earnings Call of Zee Learn. We have with us today the senior management of Zee Learn represented by Mr. Debshankar Mukhopadhyay who is the CEO, Mr. Umesh Pradhan who is the CFO and we have got Siddharth and Subodh who are part of the IR team. I will now like to hand over the call to Subodh to give the initial remarks and then we can take comments from Mr. Umesh and then we can start the Q&A. Over to you, Subodh.

Subodh Khanna:

Thank you, Viraaj. Good afternoon, this is Subodh here. Thank you ladies and gentlemen, thank you for joining us today. This conference call has been organized to update our investor on the company and its performance for Q1 FY17.

We hope that you have had chance to go through the results which is also uploaded on company website www.zeelearn.com.

To discuss the result and performance, joining me today is Mr. Debshankar Mukhopadhyay, our Chief Executive Officer; and Mr. Umesh Pradhan, the Chief Financial Officer. We will start with a brief statement from Mr. Mukhopadhyay for Q1 FY17 performance. We will then open the discussion for question-and-answers.

I would like to remind everybody that anything that we say during this call that refers to outlook of future, these are forward-looking statements and must be taken in context of the risk that we take. We would also like to add that this call is purely for our analyst and investor and if there is any media company on the call, we request them to please disconnect.

I would now request Mr. Mukhopadhyay to address the audience.

Debshankar Mukhopadhyay:

Good afternoon, everybody. This is Debshankar Mukhopadhyay. Thank you for attending the call. I joined the 1st of July, this month, and it's my privilege to be a part of this call today. I am very happy to share that the company has delivered sterling first quarter performance, giving better than expected profits, strongly improving on the operating margins



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and has steadily progressed against fiscal 2017 planned initiatives. Since I am new, I request my CFO – Mr. Umesh Pradhan to take this further.

Umesh Pradhan:

Hi, everyone. Good afternoon and I welcome you to the quarter one Earnings Release Call of Zee Learn Limited. I assume that few of you guys would know our business model, few of you might not, would be new to the company with respect to business model. So I will first quickly run through what our company is into and then I will talk a bit about how we performed in Q1 and then I will throw the dais to let them ask the questions.

We are an Essel Group company and we are into education. Our mission statement now is, 'Think Education, Think Zee Learn'. So that is the vision that we are operating now. Having said that, we have basically two broad very strong brands that we operate into – in pre-school Kidzee and in K-12 Mount Litera Zee School. We predominantly operate through franchisee model, most of our operations are through franchisee model; however, we have few pre-schools that we operate on our own. And we manage five K-12 schools.

So briefly to give you an update – currently we have about 1,600 pre-schools that are sprayed over Pan-India, almost equally sprayed throughout each of the zones. We are spread in the Andaman Nicobar also. Our presence is in Nepal also. So that gives a quick reference of our spread. Apart from that, we have about 100 MLZS K-12 schools, Mount Litera Zee School, roughly around equal number of cities. In terms of the overall cities that we cover, we are currently covering about 600 cities in India. So in terms of cities that we cover we are covering about 25% of the cities.

We are mostly spread into Tier-II, Tier-III kind of cities and we operate into the fees range of about, on an average Rs.30,000 from students perspective in pre-school and about Rs.60,000-odd from the student perspective in K-12 schools. We operate in a royalty model. We collect per child per annum royalty. In terms of pre-schools our collection is, pre-admission I mean to say, we don't have any outstanding as far as pre-schools are concerned. As far as K-12 school franchise revenue is concerned, we collect kit revenue in advance but royalty is collected not on a pre basis, on a post basis. So there you will have some debtors standing into. This is broadly about the business model that we operate into, we charge about 20% to 22% as a royalty from our franchises in pre-schools and we charge about 10% royalty into K-12 schools. Apart from the royalty in K-12 schools, we charge for the student kits that we supply, so roughly, if you include the student kit price, we roughly take about 17% of the total fees from the franchisees per student per annum.

We are the only pre-school operator who collects pre, as far as our share of income is concerned, none of the other operators into pre-school sector collect pre. So that is a very big advantage for us. We roughly add about 250 to 300 schools every year, operating schools, pre-schools I am talking about. And roughly 12 to 14 K-12 schools get added every year, that is the run rate that



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we have achieved over last three, four years and we are confident that the same run rate will be achieved in the next years also, year to come.

During the year ended 31st March, 2016, we have done about 400-odd new signups for the pre-schools and we have done about 15 signups per MLZS schools. That is pretty about the business model. Roughly about 75% of the top-line is shared by the pre-school revenue and roughly about 20% - 22% of the top-line is shared by the K-12 schools franchisee business, and rest is shared by the other segments. We also operate into youth, we offer certain courses related to media and we offer certain courses related to creative, etc. So rest of the revenue belongs to this sector.

Coming back to the performance of Q1, we had a great Q1 this year and the numbers are all time high numbers since the inception of this company, if you compare quarter-by-quarter, respective quarter. This year we did Rs.42 crores of the top-line compared to the same quarter last year, we had done Rs.36 crores. And as far as the EBITDA is concerned, we have done EBITDA of roughly around Rs.11.25 crores versus Rs.6.65 crores same quarter last year. We have done Rs. 8 crores of profit after tax versus Rs.3.6 crores profit after tax for the same quarter last year. We got into tax bracket this year, so we had to provide for taxation, roughly about Rs.1.11 crores taxation provision has been made. This includes the normal tax and MAT entitlement as well, so this is net provision for that.

And that's it from my side, I would now like to take questions and open the earning call.

Moderator: Thank you. We will now begin with the question-and-answer session. Our first question is from the line of Divyesh Shah from Pragya Equities. Please go ahead.

Divyesh Shah: This is the first time I am attending your conference call, so pardon me if I have missed earlier conference call. Regarding our business model which you just now mentioned about Kidzee and Mount Litera, we have franchisees as well as companies own. So regarding Kidzee, how many are the franchisees out of 1,600 and how many will be company's owned and operated? And for Mount Litera, what will be that figure for franchisees and company owned schools?

Umesh Pradhan: Yes, we don't do the conference call frequently, so I guess you have not missed many of the conference call, this kind of a call we are doing after a lot of time. Quickly to tell you, since we have started doing better in terms of the performance, we took a gap of about two years to go back to our investors, analysts in terms of educating them. Now that things have sorted out we are in line with the business, we thought that we start educating our investors and analysts about our business.

Divyesh Shah: Now let us see that you make it every quarter.



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- Umesh Pradhan:** Sure, we will do that. Thank you. And now coming back to your question, out of about 1,600 franchisees we have only five centers that we operate on our own, rest are all franchisee centers. As far as K-12 is concerned, out of about 92 K-12 schools, 92 are franchisee I mean to say and there are five schools that we operate on our own, five CBSE schools and there is one IB school that is operating out of BKC Mumbai.
- Divyesh Shah:** Yes, Mount Litera International?
- Umesh Pradhan:** That's right. So six of own managed schools and about 92 franchisee schools.
- Divyesh Shah:** And regarding, what will be our total debt as on today?
- Umesh Pradhan:** At a standalone level we have about Rs.130 crores debt and on a consolidated we have about Rs.340 crores debt.
- Divyesh Shah:** Rs.330 crores?
- Umesh Pradhan:** Rs.340 crores.
- Divyesh Shah:** And regarding, as for the last annual report, our interest will start from 2017-2018 onwards because first three, four years we have not to pay interest. So suppose from March 2018 onwards what will be our maximum interest outgo?
- Umesh Pradhan:** So let me first clarify here a little bit. Our interest outgo has already started, out of the moratorium period of our borrowings that we took for the schools. So the outgo is already there, we are approximately spending about Rs.15-odd crores from our subsidiary and about Rs.15-odd crores we are spending from a standalone, so total interest cost is about Rs.32 crores to Rs.35 crores on an annual basis. However, at our subsidiary level these schools construction is still on a project basis, the entire construction has not been completed. And therefore including the construction cost and all other cost, including the interest cost, are getting capitalized to an extent to which the schools are completed. So the extent the schools are not completed they are appearing into the CAPEX.
- Divyesh Shah:** But sir, in next two years what will be the maximum outgo from a company as a whole?
- Umesh Pradhan:** So I told you, the current interest outgoing is about Rs.30 crores to Rs.32 crores. However, we are trying to do some restructuring of our borrowings are subsidiary level, so thereby you will see our outgo per say yearly getting drastically reduced. I would not be able to tell you the numbers right now because they are forward-looking statements, but I can tell you right now that we are trying to do some restructuring of our borrowings.



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- Divyesh Shah:** But it will be on reducing?
- Umesh Pradhan:** It will be reducing. We are working out two folds, one, we will be doing some restructuring of our borrowings and another, we are negotiating with the bank to reduce the bank rates, keeping the current rate of interest in mind.
- Divyesh Shah:** And sir regarding Kidzee and Mount Litera, how much students are there in total in Kidzee and Mount Litera, what is enrollment rate?
- Umesh Pradhan:** So, our year-on-year enrollment in Kidzee is increasing by about 15% to 20% year-on-year and in Mount Litera our rate of increase in enrollment is also about 20%.
- Divyesh Shah:** Sir in absolute term how much students are enrolled?
- Umesh Pradhan:** As of 31st March we had students of about 116,000 in Kidzee and about 40,000 students were into Mount Litera. I would not be able to tell you the numbers quarter-over-quarter because they will not...
- Divyesh Shah:** No, no for year-over-year it will be okay.
- Umesh Pradhan:** So I think I have answered your question, 116,000 students in Kidzee and 40,000 students into Mount Litera.
- Divyesh Shah:** And what will be the maximum capacity? So we are learning must be about 30% - 40% capacity?
- Umesh Pradhan:** That's right, so you are bang on. Our current average enrollment at Kidzee is about 80 and a normal center has a capacity of about 125 to 140. And as far as K-12 is concerned, the normal capacity of a school you can assume is about 1500 to 1800 per school, because these are CBSE schools largely paid on a **0:17:27.2** kind of campus, having a construction area of about 100,000 square feet, about 60-odd classrooms. So keeping that in mind, the average capacity per school would be about 1800, you can average it out to about 1500. And the current average students at our K-12 is about 425.
- Divyesh Shah:** And sir, I think the most important part in our business will be to retain the teachers, skilled teachers, so what will be our strategy to keep highly skilled teachers?
- Umesh Pradhan:** See understand our business mode, as I told you we are in the franchisee, so as far as teachers recruitment is concerned, though the brand belongs to us so obviously we are concerned about the teachers that work into our franchisee network. However, the responsibility directly does not mount on us for the appointment and retention of the teachers, but there is a rigorous training that



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we provide as a service provider to our franchisees and thereby we ensure that our teachers are trained well and they are retained well across our franchisee network.

Moderator: Thank you. Our next question is from the line of Navin Shah from Data Securities. Please go ahead.

Navin Shah: I had a couple of questions. The first one is that, most of your margin growth in the last quarter as well as this quarter has come by on account of reduced advertising and marketing expenses, is that the new normal for the company and will these margins sustain?

Umesh Pradhan: The increase in margin over this quarter and the last quarter, yes its on account of marketing as a part of it, but obviously it is not the entire reason for increase in margins, we have done a lot in terms of improving our efficiencies all across. You will see reduction of expenses all across, number one. But most importantly, you need to understand why our margins are increasing is, with the number of schools increasing and with the number of enrollments in the existing and new schools increasing our royalty per student is increasing. And in apposite to the additional income that we are gaining, there is no proportionate increase in the expenses. So that is the beauty of the business model that we operate into and that is adding our margins. And this phenomenon will keep on adding our margins year-on-year.

Navin Shah: So what can we expect in FY17, in FY17 what kind of margins, 31% is what we did in this quarter?

Umesh Pradhan: No, as I said in my opening statement, as we Subodh said in opening statement, we don't give any forward-looking statements. I would safely say that we will keep our margin growing as and when we progress, a lot of things depend upon that. Now coming back to your specific questions on marketing, Naveen, we have a strategy in place for marketing, especially over last one and half year, now that we have expert marketing head on our board. And we are now wisely spending on marketing, our emphasis on marketing is to see that we do branding all across and we enhance the brand value of our existing and new product. So that is the thrust of our marketing strategy, we will keep on building our marketing strategies, basis this basic role.

Navin Shah: So the other question that I had was, and this is something the street wants to know, what is the update on the Treehouse deal? Earlier there was a ratio which was said and then the company went back on that, now there are reports that SEBI is looking into the matter. What exactly is your comment on it, what is the update and when can we expect, is this deal happening?

Umesh Pradhan: So Naveen, this call is for Q1 performance result, I would not like to take this question simply because these are price sensitive information, we have already come out with public press notice with respect to whatever is happening with Treehouse and it has been explained there. Rest of all, as and when we decide will come in the market.



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- Navin Shah:** So you guys are not looking at renegotiating that deal?
- Umesh Pradhan:** I said I have already given a press note a month ago, I would request you to refer to the press note, everything is explained in that press note.
- Moderator:** Thank you. Our next question is from the line of Shayan Chatterjee from Moon Capital. Please go ahead.
- Shayan Chatterjee:** I just wanted to get your opinion on how the signups going? I mean, you don't have to give the exact numbers, but more the trend and in terms of signups for both Kidzee and K-12. And also, in terms of ancillary revenue, how is the company planning and progressing whether it be tablets, etc, how are you looking at that initiative, will that be extremely margin accretive? Thanks.
- Umesh Pradhan:** Sure. To answer your questions, the signups are shaping up well even during this year, while I will talk about the signup numbers, the intermediate signup numbers we did about four signups this quarter and about 50-odd signups for Kidzee. We are on target with respect to the signup number that we think that we will achieve in the year. Now, one has to also understand in terms of the signup that every year our signup meter starts from zero, number one. Number two, signup is a kind of seasonal phenomenon, why say the seasonal phenomenon? The number of signups that we will do quarterly is relatively unpredictable, while we keep on trying our best to do the signup numbers every quarter as what we did in the previous year, however they are a little unpredictable, it depends upon lot of market conditions. As far as our ancillary activities are concerned, during the quarter we have launched a tablet wherein we are offering to the age group from about 2 to 6, children in the age group of 2 to 6, we have offered a educational tablet. Now this is not entirely educational tablet but this tablet offers contents which have small educational kind of apps along with some entertaining and informative apps that children can hook on to. This particular tablet is sold at about Rs.9,999 in retail, this currently is distributed through our franchisee base, we are soon thinking of launching this tablet into retail. As and when we do that, we will announce. We also took a new initiative of certified teacher training program during the quarter and we launched the program, we are offering franchisee to the public to take the franchisee of teacher training and we are offering course of about three to four months' course, the course will be run in the franchisee center and also through online, this is the new initiative that we have taken during the quarter.
- Shayan Chatterjee:** And these will all be, especially the latter, will all be revenue accretive and not just cost?
- Umesh Pradhan:** In fact, both these businesses have got a high margin, these are all high margin business, the cost relatively is very little. And as far as the setup cost is concerned, there is hardly any setup cost of these two businesses.



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- Shayan Chatterjee:** So just in summary, in terms of signups do you see the pace that we saw last year for the full year?
- Umesh Pradhan:** Yes, we expect to maintain the pace.
- Moderator:** Thank you. Our next question is from the line of Sunny Agarwal from Emkay Global. Please go ahead.
- Sunny Agarwal:** Sir, I would like to know progress on our company operated schools. So if my understanding is right, if I deduct the consol and standalone debt so the debt pertaining to Rs.210 crores that is related to company owned and company operated schools, so what is the status of those and how the school will open over the period of next two, three years?
- Umesh Pradhan:** As far as the company managed schools are concerned, we have five schools as I said earlier and there are about 3,000-odd students considering the new batch that got enrolled for the academic year. So currently we have about 3,000 students on board in these five schools. And the IB school has about 300 students on board. So that is as far as these schools are concerned. Except for one school all other schools are in the year of operating third year and one school is operating in the fourth year. So if you consider the peculiar phenomenon of the school progression, we are there on target. As far as debts are concerned, more or less your figure is right as far as the debt on the construction of these schools is concerned. We have invested about Rs.600 crores on all the school constructions through our subsidiary.
- Sunny Agarwal:** And sir, any plan to further add company owned or company operated schools?
- Umesh Pradhan:** Currently, sitting on today, we don't have any plan. However, as and when the opportunity comes we may take a call as far as own schools are concerned, it is largely dependent upon the location, the competition, etc, etc. One thing has to be kept in mind that K-12 requires some huge investment, so we keep that in mind. And relatively the return on investment is little ahead. So we will keep all these things in mind and will decide our strategy.
- Sunny Agarwal:** So sir just to get a broader perspective on these, now we have already invested Rs.600 crores for our schools and when it reach probably up to a maturity stage where in 10th or 12th standard we envisage, so what is the total CAPEX that has been planned to invest in all these schools?
- Umesh Pradhan:** So almost we have been, as far as the CAPEX is concerned another about Rs.50 crores odd will go into CAPEX to complete these schools, on the Phase-I. So remember, we have FSI available, whatever FSI is available in these schools we have hardly constructed or we are constructing half of that FSI. So if we pull our capacity for Phase-I, we may decide to take on the construction of Phase-II. But currently, that is a little too far, as and when we will fulfill our capacity or as and when we are near to fulfill our capacity in these schools we will think about that.



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- Sunny Agarwal:** So when we say Phase-I that means our complete academic from K-12, right?
- Umesh Pradhan:** No, when I say Phase-I, Phase-I is with relation to the completion of the schools as far as the construction is undertaken. For example, if I have 2 lakh square feet available for construction, currently I am just constructing about say 1 lakh or 1.25 lakh, so that is where I am talking about Phase-I.
- Sunny Agarwal:** And just to get a hang on seasonality of our top-line, since we collect advance, as far as strategy is concerned we collect advance on admission, so 1Q will be very high for contribution from Kidzee for full year will come in first quarter every year, right?
- Umesh Pradhan:** No, just to educate, while we collect... See there are two parts I would answer your question in, as far as seasonality is concerned, you are right our Q4 is the highest grosser in terms of the top-line is concerned and Q1 is little lesser than Q4. Q2 and Q3 goes down simply because of the seasonality. Now while I say that, you are slightly incorrect as far as the revenue accounting is concerned about the royalty that we collect. While I collect in advance for the entire year, my royalty portion, I account for only to the period that I am operating into. For example, when I accounted my quarter one royalty, the quarter one royalty accounted only for three months, remaining collection for nine months is lying into advance. If you refer my March balance sheet, in the liabilities you will see huge amount outstanding in the advance.
- Sunny Agarwal:** And it will be amortized as and when the year progresses?
- Umesh Pradhan:** Yes, that is right.
- Sunny Agarwal:** Sir, just to get a broad breakup, what is the current contribution to our top-line from the K-12 and our pre-school?
- Umesh Pradhan:** Going into last year we have done about 30% to 33% on Kidzee and roughly about 18% on Mount Litera.
- Sunny Agarwal:** No sir, I am not asking growth, I am asking a contribution to the top-line. If total collection is Rs.100, how much is from Kidzee and how much is from K-12?
- Umesh Pradhan:** So that is about, I told in my initial, we are having about 70% from Kidzee and about 22% from Mount Litera.
- Sunny Agarwal:** And rest is ancillary revenue?
- Umesh Pradhan:** That's right.



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Sunny Agarwal: And sir, just want to understand our perspective on price hike, fee hike, so what is the strategy? I mean we take a certain percentage hike every year, every six months, so what is the strategy on that?

Umesh Pradhan: We try and hike fees every year, so far we have been succeeding into hiking the fees every year and that's in the range of about 6% to 7% every year.

Sunny Agarwal: And what is the usual inflation on cost side which you witness every year?

Umesh Pradhan: As far as goods are concerned, as far as the kit revenue and **illuminated 33.51** revenue is concerned, we have a benefit of economy of scale, therefore while there is inflation that is countered by the benefit that we get from our negotiations. So even considering that, I think around 1% or 2% of the cost of goods year-on-year I can see that getting added into our cost. When I say 1% or 2%, that is not 1% or 2% on the entire cost of goods, I mean to say, if I am spending Rs.1 to purchase the item I will have to pay about 1% or 2% on that particular item, this is considering the benefit that I get out of the economies of scale and inflationary rise in the cost.

Sunny Agarwal: Sir, just want to understand on competitive scenario as far as pre-schools are concerned, because now a days we see lot of brands getting open, mushrooming everywhere, so just want to get your perspective on that.

Umesh Pradhan: See, as far as competition is concerned, we feel that the branded pre-school segment has got lot of scope, or space available in Indian market and outside India as well, wherever there is Indian audience situated, there is ample space. So if you see, in terms of number if I want to give you idea, currently if you consider all the pre-schools, hardly 3% to 4% of the pre-schools are branded pre-schools, rest of all are mom and pop run pre-schools or local branded pre-schools. There is a huge space available, everybody can survive. We being a leader, we being Asia's largest pre-school chain we have age over all others.

Sunny Agarwal: So when we say branded pre-schools, so the fees for everyone is almost in the range of Rs.30,000, right?

Umesh Pradhan: Sorry, can you come again?

Sunny Agarwal: When we say branded pre-school, so since our positioning is mid-premium to premium category and I believe everyone will be in the same category as far as fees is concerned, or is there still further differentiation that few are very premium and few are end of mid and then there is a low end also?

Umesh Pradhan: Yes, so our average fee is about Rs.25,000 to Rs.30,000 in pre-schools.



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- Moderator:** Thank you. Mr. Viraj, please go ahead with your question.
- Viraj:** I had a few questions. One was, you have about Rs.340 crore of consol debt and you are pretty aggressive in terms of your expansion for the K-12 franchise as well as the pre-school franchise, so what is the plan for CAPEX for next couple of years and how do we intend to reduce this debt?
- Umesh Pradhan:** As far as CAPEX plan is concerned, we largely do not plan any major CAPEX in K-12, as far as our own schools are concerned, we will complete the remaining school construction and therein we will require about Rs.50-odd crores to complete the schools. In terms of pre-schools, we hardly require any CAPEX believe our model is franchisee model. So unless we think of doing own pre-schools we would not be spending on CAPEX. As far as dates are concerned, the restructuring that we are trying to do is we would try and take the borrowings to the operating level, that is into trust and that is how the structuring will happen.
- Viraj:** And on your margins, Umesh, we have seen substantial expansion over the last two quarters, where is it that you see sustainable margins once you achieve decent scale both on the pre-school and the K-12? And if you can give us the individual margins, that will be great.
- Umesh Pradhan:** See, again Viraj that would be a forward-looking statement, so if I say some margin figure, people will start counting on those numbers. So I just would refrain from talking on where the margins will go in future. However, at least for next three to four years I can say that these margins will keep on increasing. To what extent? We can observe.
- Moderator:** Thank you. Our next question is from the line of Divyesh Shah from Pragma Equities. Please go ahead.
- Divyesh Shah:** Mr. Pradhan, once again, I want to know about our strategy to scale the business. Since we are in, I think as far as market share is concerned for branded pre-schools, we are hardly 2% - 3%. So what will be from 1,600 schools, we may go to 5,000 or 10,000, so what is our strategy for next three to five years, how we will scale up the business?
- Umesh Pradhan:** Very good question, Mr. Divyesh. As far as expansion is concerned, if you see the trend, year-on-year we are adding about, as I told you, about 300 pre-schools every year and these are the net schools that we are adding into. So there are obviously, as we operate and as everyone operates, there are certain schools that go out of our fold. So on a net basis we are adding about 300 schools. So if we take that rate as a safe rate, even if I don't increase that run rate and considering that huge market potential is available, I think 4,000 - 4,500 is the safe bet as far as the expansion of pre-schools are concerned for Kidzee in a span of about five, six years.
- Divyesh Shah:** I think that figure looks too small, looking at the Indian demographic importance.



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- Umesh Pradhan:** So that is what I say, I am trying to be very conservative here, I can make aggressive statements here but I don't want to, that is not what Zee Learn has been doing.
- Divyesh Shah:** But it is a possibility that we may scale up from 10x to 20x?
- Umesh Pradhan:** Absolutely, as I told you the margin size is already there, so I don't think there will be any issue in terms of expansion is concerned.
- Divyesh Shah:** And Mr. Pradhan, if you slightly elaborate about the franchise model, what will be our share and what will be our cost in franchisees, what we provide and what you are expecting from the franchisee? If you can explain the franchisees model.
- Umesh Pradhan:** So the franchisee, when we take the franchisee, franchisee has to be ready to invest about Rs.18 lakhs to Rs.20 lakhs when he takes our franchisees.
- Divyesh Shah:** Rs.18 lakhs to Rs.20 lakhs?
- Umesh Pradhan:** Yes, Rs.18 lakhs to Rs.20 lakhs. This includes one-time franchisee fee, it includes the setup kit that we offer which is required to deck up the center and it also includes some renovation that is required to do in the premises as per our standard. Once the school starts, he has to give us about 20% to 22% of the fees that he collects as royalty to us and he has to recruit the teachers, he has to take care of the expenses for running the schools. Now as far as our contribution of expenses is concerned, we per say do not involve into participating into any of the expenses of the center. However, we have a team and we need to pay to those teams. So we have various teams on ground, for example, we have academic team which keep on interacting with the franchisees in terms of academic delivery, so that is a cost to us; we have a training team that keeps on visiting the franchises and give training to their teachers, we have a content team which keep on developing and doing research and keep on adding new elements to the content, we have a sales team who are feet on ground and who search for probable franchises. So these are typical organizational costs that we incur to feed the franchisee business, but we don't get into operating level cost picking up. Apart from this, we also do national level branding, marketing exercise which helps franchisees to get the admissions.
- Divyesh Shah:** And regarding our Kidzee, what are the advantage we have over other mom and pop type of pre-schools, how we are different from others?
- Umesh Pradhan:** So the main difference is, very importantly, the mom and pops run centers are largely day care centers, they are not pre-schools per say. In our centers, we make the child, we incubate certain ideas, certain philosophical values with the children and there are also learning that children go through in our center which normally mom and pop run schools doesn't take care. We have



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very well researched content that is offered through our centers to the children wherein we look at all type of children, we call it as inclusive education.

Divyesh Shah: And one more question regarding our Mount Litera International School at BKC, so if you can throw some light about how much we have invested in that? I think it is a very biggest investment in our Zee Learn, so how much we plan to invest in Mount Litera and what will be full capacity, how it will grow and what will the profitability?

Umesh Pradhan: See, the Mount Litera School International has a capacity of about 1,500 students and we have invested about Rs.325 crores to Rs.350 crores into building the school. This includes the premium and onetime royalty that we paid to MMRDA to take the land on lease for 80 years. And as far as fees are concerned, we charge about Rs.6 lakhs to Rs.7 lakhs rupees on an average fees per annum.

Divyesh Shah: Per annum?

Umesh Pradhan: Per annum. So you can do economics when this will recover.

Divyesh Shah: So at now what is the stage of Mount Litera International?

Umesh Pradhan: The school construction is completed.

Divyesh Shah: No, up to what standard we are now starting?

Umesh Pradhan: So we are taking admissions into 8th this year.

Divyesh Shah: So how many students today?

Umesh Pradhan: We have about little more than 300 students.

Divyesh Shah: So 300 students can go up to 1,500 maximum?

Umesh Pradhan: That is right.

Moderator: Thank you. Our next question is from the line of Bhavya Gandhi from Iwealth Management. Please go ahead.

Bhavya Gandhi: Sir just one clarification on last year number, so last year our other costs have increased drastically, so is there was any one off into it?

Umesh Pradhan: No, there was nothing significant that contributed into increase of the other expenses during last year, you are talking about that Rs.31 crores?



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- Bhavya Gandhi:** Right.
- Umesh Pradhan:** No, there is nothing significant increase. You would see that other expenses also include freight, if you have annual report in front of you, other expenses include. See there are largely three set of heads appearing into...
- Bhavya Gandhi:** So repair, freight and legal charges.
- Umesh Pradhan:** That's right. So freight is directly connected with the trading turnover and there is travelling expenses of our employees. So as and when we expand our business, obviously we will be incurring travelling expenses because people travel throughout the industry. So the growth is in line with the operational growth of the company I mean to say, there is nothing that has gone exceptionally in that year.
- Bhavya Gandhi:** And just to understand on a realization part of it, I am seeing that the numbers which you are giving, Kidzee enrollment was that much and Mount Litera that much, so is there any price reduction to the Mount Litera because realization has come down for last year.
- Umesh Pradhan:** No, you are talking, how did you arrive at?
- Bhavya Gandhi:** I just arrived with revenue which you have given, the 20% of revenue for Mount Litera divided by number of student.
- Umesh Pradhan:** So you are comparing which period?
- Bhavya Gandhi:** For FY15 to FY16.
- Umesh Pradhan:** FY15 to FY16, no there is no reduction as far as revenue is concerned, but I may add one thing that during the last year, last financial year, we had a description of operations due to our warehousing issue, we had a major fire broke in our warehouse and also in the same year we had dispute over third party logistics. So there was a overlapping as far as the dispatches are concerned, and hence if you compare the like-to-like comparison there will be little bit of more revenue happening in Mount Litera last year due to the delay in dispatches.
- Bhavya Gandhi:** And is the strategy changed of increasing the signups or something like that? Believe I remember, if I am not mistaken that we were thinking of adding 500 to 600 signups in Kidzee every year, so now you are bit of conservatively saying that. So is there something changed in terms of that strategy or...?
- Umesh Pradhan:** No there is a difference. See, I think Bhavya we met couple of years ago or one and half year ago.



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- Bhavya Gandhi:** Right.
- Umesh Pradhan:** So to come back on our discussion, when we met last time, in that particular financial year we did 500 signups. However, even at that time I maintained that this 500 number may not be able to be sustained year-on-year. So as I told earlier, when I took the earlier question, my meter starts from zero every year. So every year to get 500 or more number of franchises who are ready to invest say about Rs.20 lakhs is not a easy tact. However, saying that, strategy remains to increase those number year-on-year, however in a certain year we may do 500 and in certain year we may do 400 and in certain year we may be able to do 600. And from that perspective I am saying that on a conservative basis we think that 400 - 450 is a good number to have it.
- Bhavya Gandhi:** And what about the signup for the schools, Mount Litera?
- Umesh Pradhan:** We are doing about 15 to 20 signups every year, on an average if you take the average of last four years. However, again on a safer side, because here we are talking about investment about Rs.30 crores to Rs.40 crores, but again meter starts from zero per year. So scouting for people who are ready to invest Rs.30 crores to Rs.40 crores, it's a huge task considering the current economic situation. So we safely assume that 15 to 20 schools if we add in terms of the signup, it is a good number.
- Bhavya Gandhi:** So if you add roughly around 15 to 20 schools every year, so probably the 20% student enrollment growth is fair to assume?
- Umesh Pradhan:** Yes, it would be fair to assume. See, remember one thing, while we keep on adding whatever number of schools that we will add year-on-year, the earlier schools get older and older. So even if you consider every school adding about 200 number of student every year, you can imagine the margins that will be picked up as far as Mount Litera Zee schools are concerned.
- Bhavya Gandhi:** And in terms of debt repayment, if you can just, I beg your pardon, what is the debt repayment schedule?
- Umesh Pradhan:** The debt repayment of certain loans has already started, debt repayment of remaining loans will start in about a year or so and we have to pay this debt in about 10 years.
- Bhavya Gandhi:** 10 years is the tenure?
- Umesh Pradhan:** Yes. As I told you, we are trying to restructure this, so we can get further period to repay.
- Moderator:** Thank you. Our next question is from the line of Divyesh Shah from Pragya Equities. Please go ahead.



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- Divyesh Shah:** Mr. Pradhan, I have some simple suggestions. Two years back you had an analyst meet, so why don't you do after three months at Mount Litera International School, so we can have a privilege to see the school as well as call all analysts at Mount Litera.
- Umesh Pradhan:** We will certainly keep your request in mind and do it at some point of time.
- Divyesh Shah:** Let us have one analyst meet so we can get a personal touch with you.
- Umesh Pradhan:** Absolutely. Thanks for your suggestion.
- Moderator:** Thank you. As there are no further questions, I would like to hand over the conference to Mr. Viraj Teckchandani for his closing comments.
- Viraj Teckchandani:** Thank you so much. Thanks Umesh, thanks Deb and team. Thanks for all the insights. And once again, congratulations for great set of numbers. Thanks all for logging in.
- Umesh Pradhan:** Thank you, Viraj. Thanks for arranging this call. I thank Religare so much for being there with us. Thank you.
- Moderator:** Thank you. On behalf of Religare Capital Markets, that concludes this conference. Thank you for joining us and you may now disconnect your lines.