



“Zee Learn Limited Investors Conference Call”

October 21, 2016



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MODERATOR: **MR. VIRAAJ TECKCHANDANI – RELIGARE CAPITAL MARKETS LIMITED**



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Moderator: Ladies and Gentlemen, Good Day and Welcome to Zee Learn Limited Investors Conference Call hosted by Religare Capital Markets Limited. As a remainder, all participant lines will be in the 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 “*” then “0” on your touchtone phone. 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: Thank you, Ali and good afternoon everyone. On behalf of Religare Capital, I welcome you all for the Q2 Earnings Call of Zee Learn. We have with us today the senior management of Zee Learn represented by CEO -- Mr. Debshankar Mukhopadhyay; CFO -- Mr. Umesh Pradhan; AVP (Finance) – Subodh Khanna; and the Senior Manager (Investor Relations) -- Sidhartha Acharya.

I will now hand over the call to Subodh for a brief introduction on Q2 results and the latest developments in the quarter. Over to you, Subodh and then we can take the Q&A.

Subodh Khanna: Thank you, Viraaj. Good afternoon, this is Subodh Khanna here. Thank you ladies and gentlemen. Thank you for joining us today. This conference call has been organized to update the investors on the Company’s performance in Q2 FY 2016 - FY 2017.

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

To discuss the result and performance, joining me today is Mr. Debshankar Mukhopadhyay -- our Chief Executive Officer of Zee Learn Limited; and Mr. Umesh Pradhan -- Chief Financial Officer. We will start with a brief statement from Mr. Mukhopadhyay on the quarter two performance for fiscal 2016-2017. We will then open the discussion for question-and-answer.

I would like to remind everybody that anything that we say during this call that refers to outlook for the 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 investors.

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

Debshankar Mukhopadhyay: Hi, good afternoon, everybody. Welcome to this call. I take great privilege in announcing the first ever dividend and seven-fold growth in PAT for quarter two financial year 2017.

I am very happy to share that we have declared 5% dividend to equity shareholders.



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Our PAT stands at Rs. 759 lakhs for the quarter two of the current fiscal which is an increase of 7 folds over the same quarter of last year. The Company's PAT at Rs. 1560 lakh in H1 current financial year is a 3 time growth over the same period of last year and in fact exceeds the PAT for the full financial year 2016.

Our reported EBITDA in quarter two financial year 2017 double to around 40% from around 20% in quarter two of financial year 2016.

On the backdrop of its sterling performance, the Board of Directors declared a first ever interim dividend of 5% to the equity shareholders of the company. This clearly shows our commitment to the shareholders who believed in us and continued to remain invested in the company.

I believe our quarter two and H1 of financial year 2017 were remarkable for us and our strategy to focus on our strength has resulted in delivering the profits which are multiple times more than the profit delivered during the last financial year.

I would now like to hand it over to my colleague, my CFO -- Umesh Pradhan to take the discussion forward.

Umesh Pradhan: Hi, everybody, good afternoon. I would request you guys to start your questions and I and Deb and our team will be happy to answer the questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Praveen Sahay from Edelweiss. Please go ahead.

Praveen Sahay: First question is can you per share give some sense on the seasonality of business in both the segments like K-12 and pre-school because last quarter also this quarter the top-line is quite different. So, would you please give the seasonality how that works?

Umesh Pradhan: Okay, so Deb do you want to answer or I will take this question?

Debshankar Mukhopadhyay: So, Praveen I will just quickly make you understand seasonality of this business whether it is K-12 or pre-school it remain more or less the similar. Our Q4 of financial year is the top grosser and Q1 is the next top grosser there onwards Q2 goes down a little bit and Q3 goes down further a little bit and this is in terms of the top-line. Now the reason behind this seasonality basically the admission season starts from January onwards and so as the new franchisees who are interested to take the franchisees they are keen to start their centers somewhere around January and therefore, the Q4 is the quarter where we see a lot of sign-ups coming into and a lot of admissions into whereby, we dispatch the kits and the center kits to the new franchisees. And therefore, the top-line numbers in Q4 is largest in all among this all



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the four quarter. The April to June continues with the trend however the enrollment starts dropping because by the time the school starts operating their academic year. Q2 and Q3 respectively practically the enrollment drops completely Q3 by Q3 the enrollment drops completely you have only mid-term admissions coming in and that is the reason the comparative top-line will have differences among these four quarters.

Praveen Sahay: And the revenue booking is also you know in the similar line as a when we get the sign-up amount of the admission fee.

Umesh Pradhan: Yeah, so in terms of the revenue approval I would just quickly explain when we dispatch the kit, the student kit or the center kit we recognize the revenue on dispatch of the goods. In terms of the new sign-up we recognize the sign-up fees once the agreement is signed and money is received. And in terms of the royalty portion of the fees that we collect from the franchisees our share of royalty we accrue monthly while we collect it for pre-school we collect it in advance for the entire year we accrue the revenue month-on-month. In terms of K-12 school the royalty is collected on twice or thrice in a year.

Debshankar Mukhopadhyay: So, in installments if I could add, typically between, it is kind of range bound between H1 and H2 typically we contribute top-line contribute ranges between 40% to 45% and the balance 55% to 60% actually is delivered in H2 and as Umesh correctly pointed out our quarter four is the biggest quarter followed by the first quarter and then gradually the second and the third quarter.

Praveen Sahay: That is great, that is really helpful. Second question is on your gross margin improvement so, what exactly on the Y-o-Y front we had actually done to achieve this improvement in the gross margin?

Umesh Pradhan: Praveen, you will need to understand the business model of Zee Learn wherein, we operate largely on the franchisee basis therefore, number one, we hardly have any CAPEX that we do in terms of growing our business right number one. Number two, since they are already catering to entire India we have around 1650 centers catering all over India as on date and about 100 odd K-12 schools catering to all over India. We have a robust team already set who is servicing pan India to all these franchisees. And therefore, as on year-on-year when we add our franchisee base, when we take the new franchisees and as and when the enrollment in the new franchisees and the existing franchisees increases there is hardly any proportionate increase in terms of the cost of the company, right. Because the team is already set, we have already incurred the cost with respect to developing the content and the curriculums and the trainings, etc. Therefore, there is hardly any cost that will come along with the increase in revenue and therefore you see while our top-line increase by 14% on H1 to H1 compared to last year there is a significant increase in the bottom-line and reason simply is whatever top-line increase we have in absolute sense that mostly will get down to the bottom-line now



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onwards. Provided there will be roughly some cost attached to the kits that we dispatch we operate about 60 gross margin basis on the kits that we sell and royalty obviously does not have any cost attached and so as the franchise fees, right. So, therefore, whatever growth Zee Learn Limited will have in future most of the growth from the existing business I am talking about most of the growth will pan out to bottom-line.

Praveen Sahay: Right, correct. Thank you, sir. And lastly, on the debt numbers, how much is the debt currently we have gross debt?

Umesh Pradhan: So, standalone we have debt of about Rs. 110 crores on standalone basis.

Praveen Sahay: Okay. So, basically if I look at the balance number standalone only that is reduced from the March to end of September.

Umesh Pradhan: Yeah. There was a repayment of one of our term loans as the repayment schedule.

Moderator: Thank you. We will take the next question from the line of Shayon Chatterjee from Moon Capital. Please go ahead.

Shayon Chatterjee: Just wanted to quickly ask you, I know that the previous question was talking about margins. But going forward, do you think 35% EBITDA margin or 40% EBITDA margin is sustainable? And also if you could just spend a little time on your refinancing of your debt given that interest rate have been cut a lot in India as well as REIT sponsorship is at least a lot of development has happened over last three months - four months because it seems like a big part of the business which is your own schools COCO Schools those have still have not started giving out enough cash flow yet, they are big part of the asset. Any sort of hope in terms of making your asset even more assets lite. Thanks.

Umesh Pradhan: As far as the EBITDA margins are concerned we are pretty confident that going forward this trend of improving in our EBITDA margins will continue as I was explaining to the previous question which Praveen asked. As and when our revenue growth from the continuing business which is pre-school and K-12 obviously whatever royalty that we will be collecting from the additional students that we get from the new franchisees that we add that is existing in the system this is purely will go down to the bottom-line obviously there will be some variable cost in terms of servicing the franchisee that is pretty negligible there is not going to be increase in proportionate to the turnover to that respect. In terms of the sale of kits, student kits and the center kits we call it as iLLUME kit to the franchisees and to the students we operate on about 60% mark-up and we will continue to operate on 60% mark-up with respect to that particular sale in fact there will be marginal improvement going forward because as and when the volume of kits increases we will be able to extract more negotiating power from our



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vendors in terms of purchases of these items. While I answer second part of your question, Deb would like to something.

Debshankar Mukhopadhyay: Yeah, so, thank you Umesh. Mr. Chatterjee, this business is asset lite business and therefore the investment that we have already done in terms of building capabilities has resulted in building this franchisee across the country and therefore, to answer the question you asked I think we will continue to operate pretty much at the same level of efficiency. Obviously, there is a balance between expansion and consolidation and therefore, I would refrain from making a comment to whether we will be able to operate at the same level or not but obviously our endeavor is to sweat our assets better and continue to deliver higher level of efficiency across all cohorts, and that is the beauty of the model I think as we continue to build up schools as we continue to and obviously especially the K-12 schools have a higher lead time to breakeven but if you look at the way our franchisee schools have actually progressed or our COCO Schools have progressed I think in my assessment in our assessment rather they are in the right direction and you will see all our partners delivering good results as we go forward.

Umesh Pradhan: Right. And Shayon coming back to your second question in terms of refinancing of the debts. Let me just give us some light of the development with respect to that our subsidiary has got certain debts to the extent of about Rs. 250 crores in subsidiary books which is DVPL and Axis Bank has lended those borrowing. We are trying to push those borrowing from the DVPL balance sheet to the individual trust those are operating the schools and therefore, you would see in certain time lag may be around this year end, you will see that the consolidated balance sheet of this company will have reduced debt at a consolidated level and therefore we will be able to leverage our balance sheet in a larger manner. In terms of the operations of our own schools or the schools which are operated by the where we do our management, the cash flows have already started coming into we have about 3,000 students in the schools five schools and nearly approximately 1,500 students or may be more than that will added. The admissions for the new session will start soon and we really expected these two schools will obviously start giving us returns on our investment whatever we have done in the schools. As far as the IB School which we have in Mumbai is concerned that is also panning out as a very prominent school in Mumbai in terms of IB School concerned. We already have about 300 students in that school in the third year and by the IB standards having a 300 students in three years is quite remarkable job and we expect the session when we open in next month for the new admission we will get more number of students in that school.

Debshankar Mukhopadhyay: Umesh, this is very good news that at least from corporate governance front that one of the biggest problems I have encountered in schools investing India is this whole debt at some other level and the trust working independently which collect all the fees then pay dividend out to DVPL. But in this case, if this went through where the debt would be aligned with the individual trust and DVPL would be free this will be very-very positive as far as shareholders are concerned.



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- Moderator:** Thank you. We have the next question from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.
- Sangeeta Purushottam:** Hi, this is Sangeeta from Cogito Advisors. I had actually two sets of questions, one is that as far as earlier schools go up the Kidzee, the K-12 franchisee, K-12 owned, etc. Could you just give us some housekeeping numbers in terms of the number of schools which were operational at the beginning of the year and now that the half year through as well as the number of students so, that is one set of questions. The second one really relates to the way the expenses has panned out in the second quarter as well as in the half year, most of your expenses are showing a decline year-on-year whether it is employee expenses, depreciation, selling and marketing, as well as other expenses, if you could just help us explain understand how this is happening. And then also in terms of the guidance you had given in terms of number of schools you hope to add, number of students you hope to add during the year, could you give us a sense of where we are now that half a year is through?
- Umesh Pradhan:** Thanks, Sangeeta for your questions, I will try and answer all of them, I have noted down. Let us first talk on the expenses side while I give you the numbers that you asked us. Yes, there is a reduction in terms of all the expense head that we can see over quarter-to-quarter and over half year to half year. See, obviously we are continuing to do optimization of lower cost across all our heads and this is continuing process, right. And in fact, we use to do it and every company does it on a regular basis. So, I do not think that is really something which is very important in terms of the operating leverage are concerned it is a part and process of the company and we are continuing to do that. As far as number of centers are concerned, we have about 1650 centers for Kidzee as on date which are operating pan India in about 575 cities and we have about 100 K-12 schools which are operating in 90 cities - 95 cities across India. We have about 1,20,000 students as on date in pre-school and about 45 students in our K-12 schools.
- Sangeeta Purushottam:** Okay, Umesh, this 1650 was this number at March also and have you added any numbers?
- Umesh Pradhan:** No, these are the schools that are as on date operating March we had about 1400 schools and we have added about 175 schools in six months.
- Sangeeta Purushottam:** You have added 175 schools, okay. And in terms of the number of students this 120,000 students in Kidzee is as of September end?
- Umesh Pradhan:** Yes.
- Sangeeta Purushottam:** And what was the number in March?



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Umesh Pradhan: These are the numbers for academic year. See, there are two ways of looking at the number of students. These are the number of students that are studying in our schools, right. As far as revenue is concerned the revenue of these students a lot of revenue of these students comes in the fourth quarter of the financial year, right.

Sangeeta Purushottam: Right.

Umesh Pradhan: Because the admission is taken by the students at the respective centers in the January to March it collect money from the franchisees with respect to those admissions in fourth quarter itself, right. As well as the six months' operations are concerned we have got revenue from about 65,000 students.

Sangeeta Purushottam: 65,000 students for prorating that for the half year?

Umesh Pradhan: No, it is not pro rata, this is an absolute figure that prove it we have got revenue we have recognized revenue of kits sell and royalty.

Sangeeta Purushottam: Right, so I am sorry, I did not understand. If you have 120,000 students, why have you recognized revenue from the 65,000?

Umesh Pradhan: I will tell you 65,000 students have ordered the kits from April to September. As stand the revenue of the student's kits have been accrued in month of April to September however the royalty portion of the students that are studying in our school is with respect to the 120,000 you understand because when we collect the royalty amount for the entire year say in the month of January it gets proportionately divided by 12 and accrued into revenue in respect to months.

Sangeeta Purushottam: Right, okay. And this 120,000 will stay right through the rest of the year now because there will be very little new admissions happening till the fourth quarter.

Debshankar Mukhopadhyay: Okay, so, I would like to answer that question differently. Academic year is typically from January to December and while these results are for the financial year. First, that he mentioned about 65,000 children in Kidzee in 1650 centers pertains to the financial year. If I look at it from an academic year perspective numbers of around 120,000 is expected to increase to 128,000 by 31st of December.

Sangeeta Purushottam: Sorry, how much 1 lakh...

Debshankar Mukhopadhyay: 28.

Sangeeta Purushottam: 28, okay.



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Debshankar Mukhopadhyay: By 31st of December because I do not want to we do not want to use both the frames together because that will be confusing to many people let us say with the financial year. So, at this point of time we have 65,000 children in 1650 Kidzee and this number by 31st of March is expected to be between 140,000 to 160,000.

Sangeeta Purushottam: Okay. And what would be the similar numbers for the K-12 schools?

Debshankar Mukhopadhyay: For K-12 if I look at it for the financial year it would be so far we would be around approximately 40,000 and we expect this number to be around 60,000 by 31st of March, 2017.

Sangeeta Purushottam: Right. And as far as your owned schools is concerned the five K-12 that you own and the international schools what has been the new student's addition during this financial year and how far are you from breakeven in these schools?

Debshankar Mukhopadhyay: Well, in terms of students I think, if you look at it from financial year perspective. The enrollment season is yet to start. You know the enrollment season typically starts from November onwards till March-April therefore the enrollment students are expected yet to kick in for all these five. Last year we had around 1,000 new admission in all the schools, this number is expected to be around 1,800 to 2,000 for the current year.

Sangeeta Purushottam: So, the 3,000 students if we just look at say physically the number of students who were enrolled in the schools and here the school season is more in sync with the financial year, right, so the season would be starting in May and June so, you have 3,000 students for the year 2016-2017 and adding to this you will close the year with about 4,800 is that right?

Debshankar Mukhopadhyay: That is right.

Sangeeta Purushottam: Okay. And in the international school again the new session would start somewhere in September, right. So any enrollments, etc., which have to happen which should have happened by now.

Debshankar Mukhopadhyay: That is right.

Sangeeta Purushottam: Right. So, as of now how many students are there, is it 300?

Debshankar Mukhopadhyay: It is 300 students which are studying for the academic year 2016-2017. The enrollment for the 2017-2018 will start from November onwards. There will be some impact on the financials for ZLL coming from the school in terms of the management.

Sangeeta Purushottam: So, what do you expect the new enrollment to be like, what has been your experience? Is it 50 to 100 students getting added each year, is it more? How do we model in?



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Debshankar Mukhopadhyay: No, so 50 to 100 is a very small figure at the schools the way we expect it. We wish that there will be at least 300 students to 400 students that we will be having IB schools. Last year we had about 190 students and year before that we had some 200 students.

Sangeeta Purushottam: No, I meant the incremental students so, this 300 number after the next session of enrollment you expect it to go up to what?

Debshankar Mukhopadhyay: We expect to go up to around 500 to 600.

Sangeeta Purushottam: 500 to 600, okay, all right. Okay, great. And just coming back Umesh, the question that you answered earlier where you said that you are basically optimizing a lot of your cost which is why we have seen a reduction across most of the heads. How far we are into this optimization exercise so, is it that by the end of this year we should have done that and then the cost space becomes more normalized or could you just comment on that?

Umesh Pradhan: No, this is not a specific exercise Sangeeta just understand, this is not a specific staff reduction or cost reduction that we are undergoing. This is just an optimization of all these costs. So wherever it is possible we are trying to better leverage all the heads of expenses.

Sangeeta Purushottam: Right. So where I am coming from Umesh there will be a certain minimum cost that the business need and you have a sense of what that is so, are we at that level because the operation is growing and at some level I understand the model that the franchisee revenue flows mostly to the bottom-line but your training expenses, some level of people expenses something is bound to grow so, is that growth in the expenses likely to happen from next year or I am just trying to come to grips with these numbers.

Umesh Pradhan: I understand. Deb would like to take this question and explain it to you.

Debshankar Mukhopadhyay: Thanks for the question. Actually we have a dual-strategy. While we focus on the top-line we also look at our cost very critically. If you look at our operations over the last 12 months, if you look at the over the last one year this has been a great deal of work that has happened to optimize cost, okay. And therefore, I would not be in a position to tell with absolute certainty that we have reached a stage from where the cost are going to now move north by that I mean that we will continue to explore our opportunities but every single penny needs to deliver better outcomes. By that I mean that we will continue to focus on cost but keeping our expansion in mind wherever investments are required we will continue to do those investments also.

Moderator: Thank you. We have the next question from the line of Divyash Shah from Pragya Equities. Please go ahead.



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Divyash Shah: You have mentioned to the previous question about the rising in top-line has directly gone into the bottom-line. My question is regarding to the debt restructuring what Mr. Pradhan has just told about transferring debt of subsidiary to trust. So, can you throw some light how it will be transferred? In how many years it will be completely transferred from Rs. 250 crores? Any ballpark figure, one year how will be transferred so, that we can have reduction of interest.

Umesh Pradhan: So, Divyash there are two answers to it, we are also renegotiating with the bank in terms of reducing the rate of interest because all these loans that are standing in the balance sheet have been taken about two years - three years back so, there is obviously natural reduction in the rates of interest the repo rate has decreased has been there still we wish to leverage our performance now and renegotiating with the bank to decrease rate of interest, number one. Number two, the way we are trying to structure is the trust will be taking the loans from the bank and against the securities deposit which they would be required to pay in order to operate their schools from the infra developed by DVPL.

Divyash Shah: So, in a year much money will go?

Umesh Pradhan: Currently out of 250 they are trying to move about Rs. 125 crores of BKC we will do it on a second stage. Right now I would not be able to comment when we will do our BKC School but for other five schools there is Rs. 125 crores standing in DVPL balance sheet that will certainly get moved by this year.

Moderator: Thank you. We have the next question from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: Sir, why do not you provide consol numbers so, we have a fair idea as to what is happening on the six schools?

Debshankar Mukhopadhyay: So, Mayur our practice is not to declare the consolidated results on quarterly basis. We declare it only on yearly basis. The subsidiary company basically operates on lease rental and that is the only income that they get from the schools from that perspective it is pretty simple. We have currently at least decided that till the time the construction gets completed, there is no point in declaring the quarterly consolidated results.

Mayur Gathani: There must be some higher interest cost also hitting the consol numbers?

Debshankar Mukhopadhyay: That is right, that is reflected in our March 2016 consolidated balance sheet as well.

Mayur Gathani: I am saying, your trade receivables have increased from Rs. 7 crores to Rs. 13 crores from March to September, so, anything specific as to...



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- Umesh Pradhan:** I think I was addressing the first question of Praveen wherein I said that the royalty from the K-12 schools that we collect, we collect on two installments or three installments from various schools, right. So, therefore the royalty that has been accrued for this financial year half of the royalty almost 40% to 45% of the royalty is already collect by September and rest of the royalty will be collected by the yearend. And therefore, till year end we will see the spike in debtors' figures and by the yearend most of this outstanding will get collected. All other debtors are basically pre-collected.
- Mayur Gathani:** And sir, what is the CAPEX that is due from our end for the six COCO Schools?
- Umesh Pradhan:** About Rs. 50 odd crores.
- Mayur Gathani:** Okay. Do we intend to finish this year?
- Umesh Pradhan:** Yeah, we intend to finish this year.
- Mayur Gathani:** Will our debt also increase accordingly sir, from Rs. 250 crores?
- Umesh Pradhan:** No, it will be more or less same on a consolidated basis.
- Moderator:** Thank you. We have the next question from Priyakant Dawe from Axis Securities. Please go ahead.
- Priyakant Dawe:** I just wanted to ask sir, we collect enrollment fees from the franchisee owner at the time of opening a new center. So what could be that rough number sir that which we collect as a one-time?
- Umesh Pradhan:** Our franchisee fee is approximately Rs. 2.5 lakh on an average, we have a Tier-based structure depending upon the cities and also we have different kind of pre-schools that we operate into. And therefore, the fees varies from city-to-city and type of the center kit the franchisee select but on an average on a yearly basis the fees is about Rs. 2.5 lakhs.
- Priyakant Dawe:** And we also supply from material to franchisee owner, right. So, after deducting cost for that what could be our margin or retain money to Zee Learn from this Rs. 2.5 lakh on an average what you said?
- Umesh Pradhan:** This Rs. 2.5 lakhs does not have any cost because this is a one-time franchisee fee that we charge for using our brand name, etc. In terms of the center kit that we sell, sell center kit approximately around Rs. 5 lakhs and we operate on about 50% to 60% margin.
- Priyakant Dawe:** In terms of the new operational center what is our target? How many new centers are we planning to open up?



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Umesh Pradhan: See typically you have to see the trend through which we operate and we have been adding approximately 250 to 275 school and we look forward to continuing to have those kinds of trends in terms of.....

Priyakant Dawe: Correct. Because I was also checking the historical data, couple of years back we were in the range 100 - 150 new centers. So, if we are moving from that range to let us say close to 300 new centers then what is the additional cost involved in terms of the marketing team additional spends or in terms of the higher advertising spends?

Debshankar Mukhopadhyay: I think the only distinction that I want to bring to this debate is that one is the sign up and second is operationalization of the center so, therefore while we might sign-up 250 or 300 odd centers in a year there will be a different number that we would see the light of the day in terms of the required infrastructure in place and getting the center operationalized. From that perspective, I think we are well-capacitized at this point of time to take in to account the expansion plans that we have for the current year.

Umesh Pradhan: Coming back to your question on marketing, the marketing expenses that we are doing is more or less would remain same unless we do any new branding exercise or we introduce new products because the marketing we are doing at a brand level. You will have to understand that we do marketing to enhance our branch while the franchisees do local level branding. Therefore, with the increase in number of franchisees we do not need to spend anything more in terms of local spends are concerned. We keep on doing pan India brand exercise and that as on date also covers almost entire India. It does not have any connection with the increase in number of centers.

Priyakant Dawe: I raised this point be so far maybe we have covered the metros and the Tier-I city but now going ahead as we want to expand further we need to type Tier-II and Tier-III cities so, there may be the penetration could be a challenging task?

Umesh Pradhan: Sir, in fact we are already penetrated into Tier-II, Tier-III, Tier-IV cities. In totality, we have covered about 560 cities to 600 cities that amount to 25% of the cities in India, right. I do not know from where you got data about metro cities in fact we are catering a little lesser inventory of metro cities. Our penetration level is higher on a Tier-II, Tier-III Tier-IV city.

Moderator: Thank you. We have the next question from Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: I am just a little confused by your answer to the previous question on the number of students that you have in pre-school. Do you have 120,000 students or 65,000 students?



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Debshankar Mukhopadhyay: Okay, I repeat once again, in our schools currently about 120 lakh students are studying, okay. Out of that about 65,000 odd students have given revenue during these six months in terms of the kit revenue is concerned, right or taken the admission and rest of the students have already taken the admission in January, February, March.

Tushar Sarda: So, you have revenue this year only for 65,000 students in these numbers that you are reporting.

Debshankar Mukhopadhyay: No, let me repeat the answer that I gave to the earlier investor. The royalty revenue that we are accruing in our P&L is for about 120,000 students month-on-month whereas the kit revenue that we have accrued in six months is for 65,000 students.

Tushar Sarda: Okay. So why is the kit revenue less?

Debshankar Mukhopadhyay: Kit revenue for the remaining students have been already accrued in Jan, Feb, March, because we dispatch the kits in Jan, Feb, and March.

Tushar Sarda: Okay. So, you are saying they bought kit in the first quarter of the calendar year and the rest bought in the second quarter.

Debshankar Mukhopadhyay: That is right, that is how typically in the admission in the pre-schools happens. We are franchisee so we have to service the franchisee, you understand?

Tushar Sarda: Yeah. I have another request, if you can update your presentation because we are still getting confused in the numbers and all at least half yearly if you can have a presentation along with the results which gives all this statistics.

Debshankar Mukhopadhyay: We just finished our board meeting at around 12:30; we will update the presentation and upload on to website.

Moderator: Thank you. We have the next question from the line of Praveen Sahay from Edelweiss. Please go ahead.

Praveen Sahay: Yeah, sir, just a follow-up question, as you have mentioned to one of the query like you had a 175 new Kidzee schools. So, is that a sign-up you did or you had actually added 175?

Debshankar Mukhopadhyay: These are the numbers of centers we started.

Praveen Sahay: Okay. So, basically I just comparing end of 2016 where you had around 1550 pre-schools operating and now you added 175. So, is there some discontinuation also happened in that or what?



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Debshankar Mukhopadhyay: See, if you remember during our last call I have said that we have attrition of about 50 centers - 60 centers every year, considering that those numbers will pan out.

Umesh Pradhan: And for various reasons from compliance to for various reasons.

Debshankar Mukhopadhyay: And on a larger side attrition is done by us on account of compliance.

Praveen Sahay: Yeah, fine sir. The next follow-up question is like you had mentioned about 45,000 students in the K-12 school is that including your owned school 3,000 and IB School 300 students in that or not?

Debshankar Mukhopadhyay: This is franchisee number.

Moderator: Thank you. We have the next question from Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam: Yeah, so for your owned school all the property which is the building, as well as the furnishing, etc., these are owned by your subsidiary and then lease to the trust.

Umesh Pradhan: That is right.

Sangeeta Purushottam: So the trust do not own or have any property on their book?

Umesh Pradhan: That is right.

Sangeeta Purushottam: Okay. And currently all the debt that has been taken for the owned school is also on your book and you are proposing to shift out of that to the trust so that from their cash flows they can service that, is that right?

Umesh Pradhan: That is absolutely, right.

Debshankar Mukhopadhyay: Now that all these schools, trust have started generating their own cash flows it will be very right in terms of let them service their own funds because at the end of the day the funds to build those infrastructures which is used by the schools.

Moderator: Thank you very much. We have the next question from Divyash Shah from Pragma Equities. Please go ahead.

Divyash Shah: Sir, we are proposing a merger with Treehouse, right?

Umesh Pradhan: Yes.



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Divyash Shah: And as far as I know the business model of Tree house it is a Tree house business model is on a rental basis, their own school they have rental basis and their own teachers in their roll and we have absolute franchisees model so, how are we going to plan the merger. If suppose merger goes through and we acquire properties of Tree houses, Tree house centers and we merger with Kidzee what will be our future plan, it will be as a rental model or it will be on a franchisees model.

Umesh Pradhan: No, as far as their centers which are operating as on date, they will keep on operating on the basis on which they are currently being operated if merger happens, right? The strategy in terms of going forward definitely we would like to do it asset like. However, there could be certain centers wherever we feel that there is a scope to add new centers we will add that.

Debshankar Mukhopadhyay: I think let me put it in this way that each model have their own strength and therefore if you look at our model and if you look at the model of Treehouse I think they beautifully complement each other. So, once the merger happens and if the merger happens we will look at it critically and then probably on one comprehensive strategy.

Divyash Shah: And sir, regarding my one question about our last quarter result is the bumper quarter as per previously you have answered the question, if you look at our last quarter of March 2016, we had a turnaround of about Rs. 50 crores against the third quarter of Rs. 22 crores. So, we had a jump of about almost 100% jump third quarter versus fourth quarter so, can we expect same type of jump in this year?

Debshankar Mukhopadhyay: Divyash, we do not do any forward-looking statement so, I am sorry I would not be able to give you any indications as far as numbers are concerned.

Moderator: Thank you. We have the next question from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: Yeah, a bunch of clarification, I heard you said that you also have center kit revenue of Rs. 5 lakhs per center. So, is that one-time or is that recurring?

Umesh Pradhan: That is one time, that is the kit that is required by the centers in order to equip the center and take the admission. This kit is good enough for about 150 students. So, if number of students increases in that particular center, you will have to order for additional items and it will cost you extra.

Tushar Sarda: The second was on the asset ownership so, when you say that the trust has to service the asset and the loan will be transferred to them the asset ownership still remains with the company not with the trust?



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Umesh Pradhan: Yes, because the trust are not going to take the loan on the assets. The trust is going to take the loan against a security.

Tushar Sarda: They had just taken a loan to pay you deposit?

Management: Yes.

Moderator: Thank you. We will take the last question from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: Sir, in regarding to Treehouse there will be certain write-offs which we have seen in the results so, the management do you see all write offs happening in this year itself or there could be some carry forward when the merger actually happens let us say from FY 2018 things fall in place?

Umesh Pradhan: Mayur, I think we are on a quarter two results, I am unable to answer you any question of Treehouse because frankly these are the questions you need to direct to Treehouse management and not to us because the merger is not yet done and we have just given our intention to acquire this company. So frankly these are too detailed question that you will need to ask to Treehouse.

Mayur Gathani: Okay. And sir, couple more, I mean what are the vision, three years - five years down the line today we have around 1600 pre-schools with us through which we see ourselves?

Debshankar Mukhopadhyay: Okay, I will take that question. I think it is undisputed that we are the number one pre-school chain in the country and also perhaps number one in Asia. We intent to become the number one player definitely in Asia and across the globe. As far as our schools are concerned, I think we have just started our journey and however, in a very short span of time we have more than 100 schools which are operational as on date. We also have a fairly good number of schools which are in various stages of being operationalized. Given the sign-up that has happened over the last couple of years and the way the sign-ups are actually being projected for the next six months to a year we have a fairly robust plan. I would not be able to articulate exactly in terms of numbers but I can tell you that our growth will continue to be in the same trajectory and we will continue to meet the expectations of all our stakeholders.

Mayur Gathani: Okay. And would you be in the acquisition for some time more?

Debshankar Mukhopadhyay: I would not be in a position to comment but I can tell you that we will explore such opportunities as and when they arise neither are we saying that we are open to it and neither are we saying we are open to it. As and when such opportunities arise, we will examine and we will take a call accordingly.



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- Mayur Gathani:** And to go back to one of your answers, you said Rs. 125 crores from balance five COCO Schools would be move to trust, so, this could happen by March 2017?
- Umesh Pradhan:** Yeah, we intend to do it by March 2017 obviously but we will keep you updated on the development with respect to that.
- Mayur Gathani:** Okay. And numbers what we see standalone and consol for FY 2016 there is not much difference in the profitability, it is at similar levels so, should we assume that we are not losing any money in the COCO Schools now?
- Umesh Pradhan:** You will have to also understand in the sense that whatever DVPL reflects does not necessarily speak about the operational performance of the schools. These are two different things, right the operational level of schools may have started breaking even but it will be important that they start generating sufficient cash flows in order to pay the Zee Learn management fees and lease rentals to DVPL and the results of DVPL will depend upon those numbers.
- Mayur Gathani:** Okay. So, in that case there will be some receivable that is due from the trust because their cash flows are not strong enough as on date I mean some past receivables?
- Umesh Pradhan:** Yes.
- Mayur Gathani:** Will that understanding be right?
- Umesh Pradhan:** That is right. So, if you see our consolidated balance sheet which we recently declare for March, you will have that receivable appearing in our debtors.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to Viraaj Teckchandani for closing comments.
- Viraaj Teckchandani:** Yeah, thank you so much. Thanks all for logging in. Thanks Deb, Umesh and team that was fantastic and once again congratulations on great set of results.
- Debshankar Mukhopadhyay:** Thank you, so much Viraaj and thank you very much the entire Religare team for organizing this call. We look forward to work with you.
- Umesh Pradhan:** Thank you. We can close the call.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Religare Capital Markets Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.