



“Zee Learn Q3 FY2017 Earnings Conference Call”

January 13, 2017



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Moderator: Good day ladies and gentlemen, and welcome to the Zee Learn Q3 FY2017 earnings Conference Call hosted by Edelweiss. As a reminder, 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 the operator by pressing “*” then “0” on your touchtone phone. I would now like to hand the conference over to Mr. Praveen Sahay. Thank you and over to you Sir!

Praveen Sahay: Thank you operator. Good morning everyone and thank you for joining to the earning call of Zee Learn. On behalf of Edelweiss Broking, I would like to welcome the management team of Zee Learn Limited to discuss the business strategy and outlook post Q3 FY2017 earnings. We have with us Mr. Debshankar Mukhopadhyay, CEO, Mr. Umesh Pradhan, CFO, and Mr. Subodh Khanna, AVP Finance, and Mr. Siddharth Acharya, Senior Manager, Investor Relations. Welcome you all. We would like Mr. Subodh to start off with the initial remark followed by Mr. Umesh’s comment on the result and then we can start Q&A. Hand over to you Sir!

Subodh Khanna: Thank you Praveen. Good morning everyone, 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 Q3 FY2016-2017. We hope that you all had a chance to go through the results, which is also uploaded on the company website www.zeelearn.com. To discuss the result and performance, joining me today is Mr. Debshankar Mukhopadhyay, 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 Q3 performance. We will then open the floor for discussion for question and answers. I would like to remind everybody that anything that we say during this call refers to our future-looking statement. 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.

D Mukhopadhyay: Thank you Subodh. First of all, let me take this opportunity to wish all of you a very happy New Year and I am extremely delighted to share the Q3 results with all of you. Q3 traditionally is a weak quarter for us; however, our performance for the current fiscal has exceeded our expectations and we anticipate that this good performance will continue for our both brands i.e. preschool brand, which is Kidzee and K12 brand, which is Mount Litera. I take this opportunity to share the good work that has been done by the team and as



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a company we are constantly working to further improve on our EBITDA margins and high operating leverage. We remain committed and confident on leveraging our resources and processes across all the business verticals to deliver the desired outcomes. Our strategy at the beginning of the year was to focus all our efforts and investments into preschools and K12 schools and that strategy has delivered very encouraging results. We as a team and a company will continue to focus on scaling up our core business operations in the days ahead. Thank you.

Umesh Pradhan:

This is Umesh Pradhan and I take this opportunity to wish you a happy New Year and a happy Lohri to all of you. In advance, I am also wishing you happy Makar Sankranti. Thank you so much for joining on the call. Guys, already you would have gone through the results, I will just take a couple of lines to describe the results as said in our earning release. We have zoomed our PAT by nearly three times now and these profits are historically high. PAT as a percentage has reached to 21.5% from 8.2% that is a healthy margin that we have started delivering and we are continuing to do that persistently over the last eight quarters now and as Deb said that we are also confident that this trend will continue in the future as well. Without wasting my time in reading the numbers which all of us have got, I would request to the moderator to start the question and answer session. I hope that is fine.

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 Mayur Gathani from Ohm Portfolio Management. Please go ahead.

Mayur Gathani:

Good morning. Great results. Sir Congratulations on that and happy New Year to everyone. Sir just wanted to check on the Tree House merger, which has now been called off, so where do we stand. I mean what is wrong with your due diligence that we went wrong twice on this company and we could not get it right in the first shot.

Umesh Pradhan:

I do not think anything has gone wrong in terms of due diligence as such it is concerned. I think you asked two questions. One question is what the status is. The status as all of us know is that the merger is called off and there cannot be any other status on that frankly and as far as due diligences you have asked is concerned, there was no issue in terms of due diligence. As and when we got to know about the company, we have taken the appropriate steps and declared to the public and to the shareholders, so we do not think that there is any process lapses as far as due diligence is concerned.



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Mayur Gathani: What is our outlook on the margin, I mean we are now at 35% on operating front and this is a good number, I mean you know the operating leverage is still due to kick in, so can we still see this improving to a great extent?

Umesh Pradhan: It will be a little bit of forward-looking statement, but I can tell you as far as the last quarter is concerned, we think that it will be in line with the persistent performance that we are delivering over quarter by quarter. Frankly, I would not be able to talk much on the Q4 performance as such because that will be forward-looking statement, but you can rest assure that we will deliver the performance that we are continuing to deliver.

Mayur Gathani: If I remember correctly, there was some debt renegotiation to happen. Has it happened because our interest rate is quite low compared to the debt that we have in our books?

Umesh Pradhan: Yes, the debt has been renegotiated. I am not very sure whether you were on the call last time. I do not seem to have heard your name during the last call, but I can brief you out on that. As far as Zee Learn standalone is concerned, the debt has been reduced. During these nine months, there are two repayments that we did, each of about 5 Crores and therefore our debt at standalone level is reduced by about 10 Crores, number one. Number two, as far as restructuring of debts are concerned, that was to do with our 100% subsidiary Digital Ventures, DVPL we call it. The first phase of the restructuring has been done. We have successfully renegotiated the rates, and also the major part of loan taken on the infrastructure of the five CBSE schools that were build by DVPL, has been taken out of the books of DVPL and they will be taken by the respective trusts.

Mayur Gathani: So what is the standalone and consolidated debt, what was at and what is it right now; I mean post the debt being out of our books and going to the trust?

Umesh Pradhan: So as on date, the debt in ZLL is concerned, it is somewhere around 105 Crores standalone and as far as DVPL is concerned, that is 150 Crores. The figure as far as standalone were concerned during the last quarter, it was up by about 5 Crores and as far as Digital Ventures is concerned, it was up by about 65 Crores. So all in all about 70 Crores of debts were either repaid or renegotiated, transferred to other entity.

Mayur Gathani: So this is 150 Crores can still be transferred to the other trust or this will remain with our subsidiary?

Umesh Pradhan: 125 Crores will remain in the books of subsidiary.



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- Mayur Gathani:** In the books of subsidiary?
- Umesh Pradhan:** I am sorry, Rs 150 Crore will remain in the books of subsidiary.
- Mayur Gathani:** 150 right; so this is again the debt that we have taken just to build up these five schools?
- Umesh Pradhan:** Yes.
- Mayur Gathani:** So why would not we be able to move this to the trust again in going forward?
- Umesh Pradhan:** What we have done as of phase one, we have transferred the loans related to the CBSE schools; loan related to the BKC school infrastructure is still sitting in DVPL. We will have a look at it during the current financial year and we will try to do that as well.
- Mayur Gathani:** So there is a clear possibility that the debt could move to the trust?
- Umesh Pradhan:** There is a possibility that we can do the same arrangement that we did for other schools.
- Mayur Gathani:** In that case only the standalone debt probably will remain in our books?
- Umesh Pradhan:** Eventually at some point of time, though I do not commit you the timelines as far as the 150 Crore loans is concerned, but definitely we are working on it, I can tell you.
- Mayur Gathani:** Does it change the terms and conditions because now the debt has been transferred to the trust so does it change any terms and conditions or have we started receiving revenue from the trust to Zee Learn?
- Umesh Pradhan:** So as far as terms and conditions is concerned, yes they have been changed. The trust has got some moratorium to start with and then there is a reduction in interest cost and the other bit you asked is has there been any inflow from the trust coming into the company, yes the trust has started paying. In fact, the trust has started paying us from the last year. There is a movement of funds coming in from the trust.
- Mayur Gathani:** So to understand in the trust, the expense that we are covering in Zee Learn today, I mean the full is being reimbursed by the trust or there is still a cash flow mismatch there?
- Umesh Pradhan:** No as far as Zee Learn is concerned or DVPL is concerned, none of these entities are bearing the cost of running the schools. The schools are not funded. They are self running



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out of the fees that they earn. So there is no question of them reimbursing their expenses. Whatever they are paying, is in terms of the management fees and the lease rentals.

Mayur Gathani: What is the number of schools, preschools that we opened till date in nine months and what is the outlook for the next year, if you can share that?

Umesh Pradhan: Again, I would not like to comment on the outlook, but I can definitely share that during the nine months we have signed up say about 200 preschools and during the last three months, that is quarter ending December, we have signed up approximately around 80 preschools. As far as the MLZS i.e. K12 schools are concerned, we have signed up about 15 to 16 schools during nine months and during the last three months, that is quarter ending December, we have signed up 8 schools.

Mayur Gathani: In the coming quarter Q4, you should have more sign ups, right, generally?

Umesh Pradhan: Q4 is always a season quarter as most of the events as far as education is concerned, of schools getting started, more sign ups happening, etc., happens in fourth quarter, so fourth quarter is going to be a healthy quarter.

Mayur Gathani: Usually in the last three years, the average that you had been is, at least signing up 400 preschools. Do you think you can maintain the momentum considering you have only done 200 and then 200 can be done in the last quarter?

Umesh Pradhan: We hope that we will reach around 400. You need to also understand Mayur one thing on sign up, as I did try to explain it last time. Sign up is a peculiar phenomenon where year-on-year you may not be able to consistently draw the similar numbers because at one time in a particular year we have done 508 sign ups as well, but however we always say that our sign up range will be typically in between 350 and 400. Whenever even I talk on the table with the analysts and the investors, I always say that our rate of sign up during the year, you can pretty well assume it as 350 to 400, which would be a constant kind of number. We do not think in the near future we will go down below those numbers, but in a particular year, we can better our performance, and in other particular year, we can catch those numbers, etc.

Mayur Gathani: Would you be able to share the number of schools that have opened this year in the last nine months?

Umesh Pradhan: 14 number of schools has started taking admissions for the next academic year.



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- Mayur Gathani:** FY2018 onwards they will start operation?
- Umesh Pradhan:** I need to check the numbers, but I think it is...
- Mayur Gathani:** Thank you. Thank you Sir.
- Moderator:** Thank you so much. We will take the next question from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.
- Sangeeta Purushottam:** Hi Umesh. Congratulations for the great set of numbers. My one question is a followup on the previous question because I could not hear your answer properly. Just repeat the number of schools that have opened both for K12 as well as Kidzee in the first nine months?
- Umesh Pradhan:** I talked about the signup numbers. I have not answered the question of how many schools got opened. I said that about 200 Kidzee's have been signed up during the nine months and about 80 Kidzee's have been signed up during the three months in last quarter ended December. As far as MLZS is concerned, about 16 MLZS have been signed up during nine months and about 8 MLZS has been signed during last quarter ended December.
- Sangeeta Purushottam:** Out of these how many have opened and are there any Kidzee and K12, which have closed during the year, so basically what is the net addition to the number of schools?
- Umesh Pradhan:** As far as new Kidzee is concerned, about 160 new Kidzee have been started during the nine months.
- Sangeeta Purushottam:** 116?
- Umesh Pradhan:** 160 and there will be many more, which will be starting in the fourth quarter because this is typically the season where the people start our schools and as far as MLZS is concerned, six schools have already been started and there are about another six or eight schools are on waiting, which will start their admissions for the next academic season. It will happen in this quarter. Roughly about every year, we start about 12 odd MLZS schools that will continue to happen even in this financial year.
- Sangeeta Purushottam:** And how many students do we expect to end the year with or students enrolled, in both the streams, Kidzee as well as K12 and you know if you could also give us a sense as to what



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has been the addition in your own schools. You know separately like how many numbers have got added in your own five schools plus Mount Litera?

Umesh Pradhan:

Sangeeta first of all I would not like to talk on the numbers as far as the financial year is concerned but as far as enrollment numbers are concerned, on a safer side I can say that we will maintain our steady growth of enrollment of about 15% to 18% in both preschools and in MLZS. We will come up with the numbers at the end of the quarter. I will not try to comment on those numbers right now, but you can clearly assume that the growth will continue, number one. Number two, as far as the continuing schools are concerned, obviously we will have some additional students coming in from the new schools that are getting added up so that is about your first part of your question. For the second part of the question again the admissions for the next academic season has been just started and therefore it will be not appropriate to talk how many number of students that will come into our own schools. As far as last academic year is concerned, we have about 3000 students in our five CBSE schools and about 300 students in our IB schools. So the admissions have opened for all these schools just about 15 to 20 days ago. The admission season will continue till May, which is a heavy admission season and there will be some admissions coming into June and July as well. We will see where we end.

Sangeeta Purushottam:

There was one more thing I wanted to understand clearly that the fourth quarter is seasonally the best quarter. If we look at last year what had happened was that in terms of profits, the contribution of the fourth quarter was more than 50%, was that peculiar to last year and is the seasonality that queued in terms of profitability or there was something you know peculiar to last year that we saw the fourth quarter deliver such high numbers?

Umesh Pradhan:

I can tell you, yes the fourth quarter is peculiar in terms of the seasonality is concerned, but as far as anything exceptional going into fourth quarter as far as last year is concerned, no there was nothing exceptional, I think rest all can keep on guessing.

Sangeeta Purushottam:

Thank you very much.

Moderator:

Thank you. The next question is from the line of Yash Somani an Individual Investor. Please go ahead.

Yash Samani:

Sir, I wanted to know before the admission season starts or commences, you all have guided that you all would be able to push around 5% to 7% price hike. Does that still look like it is going to be possible or will it be lower or higher?



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- Umesh Pradhan:** No, the fees hike is quite possible.
- Yash Samani:** Also you also said in the last conference call that you all were aiming to finish the year with around 1, 40,000 in Kidzee and 60,000 in K12 students, so do you all look like you all will reach that?
- Umesh Pradhan:** Sitting as of now, we definitely look forward to all those targeted numbers.
- Yash Samani:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Shayon Chatterjee from Moon Capital, Singapore. Please go ahead.
- Shayon Chatterjee:** Umesh and Deb very good results. Thank you. Just wanted to say that it is good that you backed out of Tree House, given all the negative news flow and taking into all the current shareholders and stakeholders. Just quickly on some of the questions I wanted to ask, I mean you answered but I just could not hear clearly regarding the new Kidzee School that was started this year; did you say 116 or 160?
- Umesh Pradhan:** 160.
- Shayon Chatterjee:** Other thing is as far as I remember, DVPL debt, i.e. the 100% subsidiary debt you had was about Rs.150 Crores even three months ago. So how much of that actually been transferred to the individual trust and if I remember a big part was of BKC; so can you just go through the numbers again?
- Umesh Pradhan:** BKC debt is about Rs.125 Crores and there was another Rs.125 Crores sitting for the other schools earlier, and this Rs.125 debt is now completely taken out of DVPL and there will be an additional about approximately Rs.25 odd Crores we will be drawing in DVPL in order to complete the part of the construction of those schools, so end of the year, DVPL debt will be approximately Rs.150 Crores and Zee Learn Standalone would have about Rs.36 Crores of term loan and about Rs.65 Crores of NCD.
- Shayon Chatterjee:** What is the interest rate approximately because given what has happened after demonetization, interest cost are falling a lot and my talks with some of the banks saying that they are desperate to pass off even the lower rate, do you see further refinancing of this current debt?



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Umesh Pradhan: Absolutely possible. We have been continuously trying to even further negotiate in terms of interest. The current interest cost is in the range of about little below 11%. NCD obviously is much lower but the NCD has a term of bullet payment, which will happen in 2020, but as far as the term loans are concerned, we are about 11% and there is a further scope to reduce it.

Shayon Chatterjee: This Rs.150 Crore on DVPL, can we assume it is about 11%?

Umesh Pradhan: Yes.

Shayon Chatterjee: Thanks very much.

Moderator: Thank you. The next question is from the line of Abhimanyu Kasliwal from Asian Market Securities. Please go ahead.

Abhimanyu Kasliwal: Good morning Sir and congratulation on the great set of numbers. Clearly the investments of Zee Learn now finally materializing and pure profits are starting to flow in. I wanted to actually ask regarding Q4 and the subsequent upcoming quarters, the effects of demonetization. I mean demonetization has clearly had some effect on the liquidity of parents, I mean and they are paying the fees for K12 and for play groups, so have there been late payments in terms of fees, have there been delayed payments, have there been students that have been actually pulled out of play groups because parents are saying that okay we have ran out of cash, so we need to cut down expenses, what is the scenario?

Umesh Pradhan: Deb is eager to talk on these questions and I can see his eagerness to have his comment. I would want Deb to comment first and then I will, even I am eager to speak on this.

D Mukhopadhyay: Thank you Umesh. We have not seen any impact of demonetization on our business so far; however, we are watching the situation very, very, carefully, and critically and as we progress, maybe, we will be in a position to talk about it in a more convincing fashion. However, education as a spend if you look at it in terms of quality, it comes at the very top, therefore, people usually cut down other expenses to continue funding for education for their children and this is not only typical in India, but most Southeast Asian countries, so from that perspective we are yet to see the impact of demonetization on our business, while answering a previous question that was raised by Shayon that the interest rates have definitely moved southwards and therefore that helps us lowering the interest component on our business, but just to answer the question we have not seen any slowdown in our



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business so far and we expect we will be watching the situation very carefully, we will be in a position to answer this question may be after three more months and have a discussion around it, but so far there has been no impact.

Abhimanyu Kasliwal: But Sir have you seen any delays in fees from parents and is the Kidzee showing some flexibility, that okay you cannot the pay fees now, you can pay it may be in March, has something been happening?

Umesh Pradhan: Abhimanyu, I would like to take this question. I think whether it is demonetization or whether it is monsoon or drought or whatever, I am not sure whether you are a parent or not but many of us would be parent, I am a parent, and therefore education always comes on a top priority list no matter what happens in our personal life. Nobody would like to sacrifice on the education of our children. Particularly as far as demonetization is concerned as the ability of earning has not reduced, people are still earning the same salaries, which they were earning earlier before demonetization, therefore no question of delayed payment or no question of people cutting down on education is concerned, what will happen is instead of people depositing their fees by cash they will starting paying by plastic currency; therefore, if someone is saying that demonetization has affected the preschool industry and in particular K12 industry probably I will not agree, to an extent the higher education can have some effect of demonetization or slowdown of economy, but as we are not into higher education segment- not into medical or engineering and therefore I personally do not think there will be any impact, lets watch and see.

D Mukhopadhyay: As we shared in the past, we have not revised our numbers whether it is for Kidzee or whether it is for MLZS; that is in terms of enrollments our numbers continue to hold good and that should be a good affirmative.

Umesh Pradhan: Out of those last 90 days of December quarter those 50 odd days belong to our Prime Minister, Mr. Modi, of demonetization, we have not seen any affect on those days.

Abhimanyu Kasliwal: But Sir what about Mount Litera, I mean other schools, they tend to charge fees of Rs.40000 to Rs.80000 so that is affordable relatively, Mount Litera charges Rs.3 to Rs.6 lakhs, so has not there be now any fall in the number of enquiries or fall in the number of students or people are removing them from Mount Litera, they are like let us put our kids in ICSE school or CBSE school is something like that happening?



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- Umesh Pradhan:** You are talking about IB school, one thing you need to understand that there are two aspects that you need to understand, parents who puts their children into IB school is a different category parent, they do not get affected by demonetization and slowdown of economy and stuff like that because they are the parents who can afford fees point of about Rs.5 to Rs.6 lakh per child and probably they would have couple of child, at least two child for some of them and therefore as far as affordability is concerned of the IB children that never happens, second point once you put your child into IB school it is very difficult for them to take out and put into any other curriculum so at least I have not seen any such trend.
- Abhimanyu Kasliwal:** Sir One last question, Sir Do you plan to open any more IB schools?
- Umesh Pradhan:** As of now there are no plans, but as and when we will have some plan, we will come back to you.
- Abhimanyu Kasliwal:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Tushar Sarda from Athena Investment. Please go ahead.
- Tushar Sarda:** Thank you for the opportunity and congratulations on great set of numbers. I wanted to know about the tax rate that the company will pay because for nine months you provided around 10%, so would this be the tax rate or would this increase going forward?
- Umesh Pradhan:** Currently, we are falling into MAT, we had some brought forward losses and therefore the effective tax rate is about 20 odd percentage, but it looks like that sooner we are exhausting our brought forward losses and will be start paying the regular taxes.
- Tushar Sarda:** So one can expect this to go up to 33%?
- Umesh Pradhan:** Yes, next year.
- Tushar Sarda:** My second question was on quarterly results. You have given revenue from operations, so can we break it up into what is the actual fees that you got from students as royalty and what is the sign up fees that you get when you sign up the Kidzee or the K12 School?
- Umesh Pradhan:** Tushar, we do not give those breakups quarterly and I am sorry about that. We can have one to one offline discussion on that; we declare the breakup in our annual report.



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Tushar Sarda: You give it annually right?

Umesh Pradhan: Yes.

Tushar Sarda: Thank you very much Umesh.

Moderator: Thank you. The next question is from the line of Sunil Shah from Axis Securities. Please go ahead.

Sunil Shah: Good morning Sir. Very nice to connect with you one more time. Deb Sir I have one question here. Sir whenever I have interacted with you, you have always mentioned that as we grow in scale, technology will play a big role in our future growth path. Sir where are we in our journey of using technology in our organization growth as such?

D Mukhopadhyay: Thanks for the question. I think I continue to hold this belief that technology will continue to play very important role as we go forward. India as a country, is very diverse and in my limited experience, I have not seen any other country, which offers this kind of a complexity or challenge and therefore if we have to operate as we move from 500 cities to 600 cities and beyond. The only way we can expand is by leveraging technology. Some of the things that we are currently doing, if you look at the way we deliver our curriculum, the way we conduct our teacher training programs, the way we collect fees, technology plays a very, very important role and I see that playing a significant important role as we go forward. There are new initiatives that we have launched both on AR and VR. AR and VR is augmented and virtual reality I am referring to and there are new things that are being, the curriculum is being improved upon, there are new things that we are augmenting the curriculum with, so this is the constant journey and we see that the digital footprint becoming larger and larger in terms of play, so it is a very interesting space to be in and I have no doubt in my mind along with my team the digital feature of interventions will continue to play very important role as we go forward. This will only bring in scalability and operational efficiencies as we go forward.

Sunil Shah: Umesh, I have one question that we will end this year, from what data I understand is on the debt front, that standalone will be at about Rs.105 Crores of debt and maybe about Rs.150 Crores in our subsidiary. Sir is it safe to assume that that is going to be the peak level of debt for our company end of FY2017?



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Umesh Pradhan: At the given scale of operation yes, it would be a peak, but as and when we will do something as far as growth is concerned or new initiatives are concerned, obviously we will need some more money.

Sunil Shah: Sir in our current structure of things, where we have the K12 and the Kidzee and there we are expanding through largely the franchisee route, so in that sense, it will be operating leverage, which will help us get more mileage or growth in the debt part, right, meaning is it a complete different activity?

Umesh Pradhan: Yes.

Sunil Shah: Then it is a different situation, but in this current juncture, this could be the peak debt?

Umesh Pradhan: Yes.

Sunil Shah: Sir I just want to share one more, this is last question. Are we engaging anything on the opportunity of helping those SSC schools convert into CBSE curriculum because we have roped in some 16 odd schools, so any of those have been in this category of existing SSC schools getting converted to CBSE opportunity?

Umesh Pradhan: Frankly, we have engaged our team with some of the schools, but as of now there is no success.

Sunil Shah: Thank you very much and wish you a great success and great journey.

Moderator: Thank you. The next question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Arnold Purushottam: There was one question on demonetization I wanted to ask you with respect to the K12 school now. When we spoke to you last time, you had explained to us that people who put up the preschool with an investment, you had said that, the investment required by the promoter is about Rs.5 Crores per school and typically the profile is of a person who might be a local politician, etc., who is looking to do favors to the community and is not necessarily looking for immediate rate of return. Now with demonetization having happened, is it possible that his sources of fund may have dried up and that your increase in the number of enrolment of K12 school maybe a little slower than in the past; can you throw some light on this?



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Umesh Pradhan:

Let me answer first part of it. Mr. Purushottam, Deb would answer you the later part of it. Though I would like to have some clarification on the first part of your question, I am not very sure when did we or I or our team talked about 5 Crores investment in K12. I do not remember so because someone who wants to have K12 School would require at least about Rs.25 to Rs.30 Crores. So 5 Crores was not our figure, while Deb answers other part, I can quickly tell you that during this monetization period we have signed up eight MLZS schools, so I think that pretty much answers, yes we had a bit of I would say doubt, we were waiting to see the effect of demonetization on the MLZS signup particularly, but does not seem to have any effect on that because we have got eight signups during last quarter.

D Mukhopadhyay:

So to add to what Umesh has just said I think historically if you look at our performance we have signed typically around 12 to 14 schools in a year. This is the first time that we by third quarter itself have signed of 16 schools, so that in itself speak volumes, point number one. Point number two is that if you look as I said to you before, we are still confident of meeting the numbers in terms of signups both for Kidzee as well as for MLZS and also the enrolment numbers both for Kidzee, the 1,40,000 numbers that Umesh had shared last time and the 60000 numbers for MLZS continues to hold good; however, as I said to you before to one of the questions that was asked for, I think we can have a discussion around it may be after the fourth quarter is over. So far we have not seen any adverse impact of demonetization on our business.

Umesh Pradhan:

One last line I would like to add Mr. Purushottam and to all my friends out there that I am pretty confident that demonetization per se would not have any impact on the enrolments are concerned. The common people are not going to get affected by this and they are not going to sacrifice in paying the fees and taking the admissions as far as I understand. If there is any effect on enrolment, we are not achieving our targets and so on and so forth let me tell you in advance that that would not have any relation with demonetization. Because in most of our schools, parents pay by cheque in K12. I am talking about and obviously in preschools we do not know how franchisee gets money, but as far as we know that even in preschools at least in big cities people pay in by cheque, postdated cheques because typically where the preschool runs is, they collect some fees in advance and they collect PDCs, so I really do not think that demonetization will have any effect on enrolment and fee paying abilities of our parents.

Arnold Purushottam:

Just one more question on your expenses. Your expenses in the nine months has actually reduced marginally from 72.7 Crores to 71 Crores, now I think part of the business model that your expenses do not go anywhere near as fast as your revenues, but when you look



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forward to that, you will actually have marginal reduction in expenses on a sustainable basis or should we budget some increase in expenses if they are modeling this business?

Umesh Pradhan: Partly yes, partly no, one will have to see from various heads of expenses, typically there would always be a scope to marginalize some of the expenses. For example, you might be paying higher rent at some place and you will try to negotiate with the landlord or you may shift your location etc. Thereby you will reduce your fixed cost or operating cost, there will be logistic expenses that you can again either renegotiate with the logistics partners or you find out a new logistic partner or a new logistic solution and again thereby reduce the expenses. So there will be continuing effort as far as some of the line of expenses is concerned, obviously we will try and marginalize those; however, the bigger part of the way we are moving forward attributes to our model. While our topline would keep on increasing, our expenses would not increase in the same proportion.

Arnold Purushottam: Specifically with respect to content and selling and marketing expenses, do you see any trend going forward?

Umesh Pradhan: Sorry, did you said content?

Arnold Purushottam: Content cost and selling and marketing expenses, which are the two biggest chunks right?

Umesh Pradhan: As far as content cost is concerned, the content is our own made content, just to give you some insight, our preschool and our K12 schools for servicing to franchisee we provide our own developed content, we have our own research and content team who keeps on updating our curriculum and keep on researching on the new content that can be provided, so we only print those contents, so there is no acquisition as far as content is concerned, yes obviously there are certain books that we purchase from the open markets, but we do not see any trend on those expenses increasing because, in fact we will have some benefits coming in future as and when the volumes of our purchase increases. For example, last year we saw 30000 students in MLZS and therefore we would have bought books from outside market to the extent of and as required by the 30000 students. Going forward as and when number of student increases, obviously we will be able to negotiate better with the book vendors and in fact we might be able to reduce the price.

Arnold Purushottam: So what you are saying is content cost will go up in absolute terms, but will come down per student?



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Umesh Pradhan: Exactly.

Arnold Purushottam: And selling and marketing expenses?

Umesh Pradhan: I would say a similar trend you can assume because again I will repeat, which we explained last time. Majorly we do marketing on branding, as we are already spread in pan-India, whatever branding exercise that we keep on doing for the year, that is good enough in order to spread our brand and in order to help our franchisees to get enrolments. However, there could be some marginal increase, but I do not think there would be big impact on selling and marketing is concerned going forward.

Arnold Purushottam: Thank you very much.

Moderator: Thank you. The next question is from the line of Mayur Gathani from Ohm Portfolio. Please go ahead.

Mayur Gathani: Thank you for the opportunity again. I just wanted to check what was the number of closures of preschool for this nine month, if any?

Umesh Pradhan: Mayur off-hand I do not have that data unfortunately with me for the nine months, but typically I can tell you during the year of 12 months, we close about 50 to 60 schools and that is our trend and in 90% of those cases the schools are shut down by us and not by the franchisees.

Mayur Gathani: Okay, the shut down by your end?

Umesh Pradhan: Yes, from our end on account of the noncompliance's, so there are partial closures, there are permanent closures and so on so forth, the franchisees who are relatively less noncompliant, we do partial closure, we do not allow them to raise an indents and so on so forth and once they fall in line and start complying, we again allow them to take the enrolment etc, so there are various measures that we take to ensure compliances, but I can tell you on and off about 50 to 60 preschools get closed during the year.

Mayur Gathani: As a marketing expense, what is the percentage that you spend for the branding?

Umesh Pradhan: The entire marketing is largely I would say in terms of branding only. We do not do anything with respect to drawing the enrolment because that is the responsibility of our



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franchisees. We helped them by creating the brand and in local areas they do their own marketing bit.

Mayur Gathani: So this selling and marketing expenses shown in the P&L is basically your branding cost?

Umesh Pradhan: Yes.

Mayur Gathani: Just wanted to know why do not you share consolidate number Sir?

Umesh Pradhan: Selling in that particular line also includes the distribution cost.

Mayur Gathani: And what would you refer to by distribution cost Sir?

Umesh Pradhan: Sorry, I couldn't hear you.

Mayur Gathani: What would you mean by distribution cost?

Umesh Pradhan: Distribution cost means the cost of delivering the goods.

Mayur Gathani: Why do not we declare consolidate numbers in the quarters?

Umesh Pradhan: Sorry once again, can you pl repeat your question.

Mayur Gathani: Why do not we declare the consolidated numbers in the quarter results?

Umesh Pradhan: The subsidiary that functions does not have quarterly movement as such as far as the operations are concerned, it is pretty straight operations, they have rented the premises to the trusts and societies that run the schools and they get lease rentals on a yearly basis, we do not think that is important P&L that we should declare on a quarterly basis, but we can think about it.

Mayur Gathani: Overall the interest cost on 255 Crores let us say March 2017 ending on that figures, so we will take around 10%, 11% as overall interest cost?

Umesh Pradhan: Yes.

Mayur Gathani: Thank you very much Sir!



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Moderator: Thank you. The next question is from the line of Abhimanyu Kasliwal from Asian Market Securities. Please go ahead.

Abhimanyu Kasliwal: Thank you Sir for taking the followup. I had one more question. I believe Zee Learn depends to a large extent on royalty income I mean 50% to 60% of the net profit is royalties on the fees, which is paid by students to the schools. Now what happens when these franchisee schools if they choose to stop paying royalties, I mean they think that okay we have reached a certain stature, now we do not need Zee Learn, we will run the school by ourselves, we will change the name of the school or we will change the name of the playgroup and we would not have to pay 15% profits as royalty, so what is the safeguard for Zee Learn in regarding to that?

Umesh Pradhan: I would like to give you answer to this question and would need to give it by sighting some examples of numbers. Let us talk about preschool first. The Kidzee brand has started somewhere around 2004 and it has been about 12 years, 13 years from then now. Our schools every year are increasing, obviously during those 12 to 13 years, there are many franchisees who have renewed our agreements, understand that our initial agreements with the franchisees is for six years. So many of the franchisees or I would say one cycle at least has been gone wherein all the franchisees have completed the cycle. While I complet, let me inform yoo that, Deb needs to exit from the call, he has to attend some other meeting and I and the other team members are still there, so please excuse Deb for going out.

D Mukhopadhyay: I am really sorry. There is one more media interaction that is pending. So they have come and I will have to excuse myself from the call, but thank you each one of you for attending this call. It is a pleasure to talking to all of you and I wish you a very happy new year once again. Thank you so much.

Umesh Pradhan: Coming back, therefore not a single I would say in my four years with this company, I have seen franchisee coming and telling what you have said us, obviously “there is some value that Kidzee offers to the franchisees and to the parents and there is a stickiness, you cannot have stickiness going for 12, 13 years and suddenly see that trend changing, so therefore we do not see that anything of that sort will happen in preschool.” Let us talk about K12 obviously again I can tell you with the same numbers that we have reached about 100 schools and Mount Litera is the fastest growing branded K12 name in India, obviously there is “some value addition that we are offering to the franchisees and to the parents and on the other side changing the name of the school from Mount Litera to any other school is not that easy, because CBSC gives affiliations by name, so therefore someone wants to say that



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look I have got what you could have given to me and I am not going to pay you royalty that is not going to happen because that is not so easy, there is a legal binding agreement and obviously to take out the names is need not that easy.

Abhimanyu Kasliwal: Again with regard to the small towns, the schools which are 150 students and they are like not even up to K12 they are up to the eighth grade, would not this be a problem that the school is now saying that okay we do not want to pay royalty anymore, are there any problems regarding royalty nonpayment?

Umesh Pradhan: Not at all.

Abhimanyu Kasliwal: Not at all.

Umesh Pradhan: There could be bit of a delay from the business partners depending upon their cash flow, but at the end of the year we get all the royalty that is due to us.

Abhimanyu Kasliwal: Thank you so much Sir.

Moderator: Thank you. We will take the next question from the line of Sunil Shah from Axis Securities. Please go ahead.

Sunil Shah: Umesh Ji, just one question, which I have and this from my practical experience. Sir how do we keep a check of the headcount in our preschools, meaning I will just tell you that the other day I was at Patna and I could get time to visit one of your branches there in Patna and Patliputra. The headcount there is something at 350 students in our preschool. Sir how do we keep it check off this number of headcounts across the country across 1600 odd preschools just wanted to?

Umesh Pradhan: I understand your question. You are talking about how do we ensure that our franchises have ex number of students in the school?

Sunil Shah: There is no underreporting from the franchise.

Umesh Pradhan: I got your question. So let me try and answer you. There are various systems that have been put in to ensure that anything of that sort does not happen. Number one, each student studying in that school gets a kit from Zee Learn. Each student that is taking admission in any centre across India, the franchisee has to raise the indent pay us first and only then the



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kit will be delivered to the student. Some of the people can say that what is the big deal that kit can be replicated and given to the students and students numbers can be surplus, yes that can be possible, but not many does that, I would not say that none of the franchises do that, there are certain franchises who try to do all this kind of thing, but whenever get caught and how they get caught, we have audit team academic cum compliance audit team inhouse and we take help from the local audit firms as well. They keep on visiting during the year to the centers and they do all sort of audits with respect to the compliances, with respect to the number of students, all visits are surprise visit. There is a clause built in our agreement, so every center in a loop has been put onto audit and we give grades to the franchises depending upon those grades, we will give reward, recognition, etc., etc., for being compliant, for successfully running and so on and so forth. So, there is a strong system build in order to not allow those kinds of frauds happening into the system; however, there will always be element of chance that some of the school might not declare all the environments. If they get caught at some point of time and then we either discontinue them or penalize them, there is enough clauses put into the agreement for that.

Sunil Shah: Thank you very much Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Praveen Sahay for his closing comments.

Praveen Sahay: We would like to thank entire team of the Zee Learn for taking time out for this conference call and also we will thank all the participants for logging in this conference call.

Umesh Pradhan: Thank you so much Praveen.

Moderator: Thank you members of the management team. Ladies and gentlemen, on behalf of Edelweiss that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

Disclaimer: This transcript has been edited for readability, typos and grammatical and to that extent does not purport to be a verbatim record of the proceedings.