"Zee Learn Limited Q1 FY2018 Earnings Conference Call"

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ANALYST: **MR. NAVAL SETH – EMKAY GLOBAL FINANCIAL SERVICES**

MANAGEMENT: **MR. DEBSHANKAR MUKHOPADHYAY – CHIEF EXECUTIVE OFFICER – ZEE LEARN**
MR. UMESH PRADHAN – CHIEF FINANCIAL OFFICER – ZEE LEARN
MR. SUBODH KHANNA - AVP FINANCE – ZEE LEARN
MR. SIDHARTHA ACHARYA – SENIOR MANAGER CORPORATE STRATEGY – ZEE LEARN

Moderator: Good day and welcome to Zee Learn's Q1 FY2018 earnings conference call, hosted by Emkay Global Financial Services. 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 an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Naval Seth of Emkay Global. Thank you and over to you Sir!

Naval Seth: Thank you Janice. Good morning everyone. I would like to welcome the management and thank them for giving us this opportunity. We have with us today Mr. Debshankar Mukhopadhyay, Chief Executive Officer, Mr. Umesh Pradhan, Chief Financial Officer, Mr. Subodh Khanna, AVP Finance and Mr. Sidhartha Acharya, Senior Manager Corporte Strategy. I would now hand over the call to Mr. Subodh Khanna for his opening remarks. Over to you Sir!

Subodh Khanna: Thank you Naval. Good morning everyone. This is Subodh Khanna. Thank you ladies and gentlemen. Thank you for joining us today. This conference call has been organized to update our investor on the company and its performance for Q1 FY2018. We hope that you have had a chance to go through the company's results, which is uploaded on the comopany's website www.zeelearn.com. To discuss the result and its performance today, we have Mr. Debshankar Mukhopadhyay, Chief Executive Officer of Zee Learn Limited and Mr. Umesh Pradhan, CFO. We will start with a brief note from Mr. Debshankar Mukhopadhyay on the quarter. We will then open the discussion for question and answer. I would like to remind everybody that anything that we say that which relates to our future outlook should be taken in the context of the risk we take. We would like to add that this call is purely for investor and analyst. Thank you. I will hand over the phone to Mr. Debshankar Mukhopadhyay.

D. Mukhopadhyay: Thank you Subodh. Good morning everybody and thanks for being part of this call early in the morning. We are very happy to report robust all round Q1 FY2018 performance. We have taken a number of steps in this quarter predominantly towards upgrading our services around delivering better value and we are pleased to see there are discipline focus on driving profitable growth has delivered the desired results. The performance strengthens the confidence in the underlying growth potential of our brands and the ability of a business model to deliver it. We will continue to expand the reach of all our products offering to honest, efficiency and gains. Going forward, we will continue to drive the strategic pillars

of product innovation, value, customer experience, technology and cost effectiveness. There has been no adverse impact of GST on the education sector. We are totally geared up to be a part of the greatest tax reform that is GST. Our consolidated revenue for Q1 is at 669 million, which is up by 44% from 465 million. Our consolidated operating EBITDA for Q1 is at 251 million up by 57% from 160 million. Our consolidated PBT is at Rs.193 million up by 146% from 78 million. Our consolidated PAT for the same period is at Rs.128 million, which is up by 91% from 67 million of last year same period. I would like to invite now Umesh to take this call forward.

Umesh Pradhan: Good morning once again. I think all of you have got a brief about the numbers from Deb and since the results are circulated a day before I think you guys would be ready and raring to throw your questions. I open the dice for question and answer and we would like to answer all of you. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Rohit Chawla from Axis Securities. Please go ahead.

Rohit Chawla: Good morning Umesh Sir, Debshankar Sir, Subodh Sir and Siddhartha. Firstly congratulations for a great set of numbers. Certainly the business model is reaping benefits for the company, so quite happy with the performance. Firslty I wanted to ask some basic questions. The breakup from the educational services revenue of 117 growth how much is from preschool and MLZS? Other questions are on the number of **enrolments** as well and the number of operational schools., I think as of now there are 1700 preschools and 100 plus MLZS. And we heard yesterday that the target is to double the number of schools over the next three to four years, so could you please let us know about the outlook on the same?

Umesh Pradhan: Deb would speak on the outlook, while I will tell you the numbers on enrolments, centers etc..

D. Mukhopadhyay: So as far as the school matric is concerned, we currently have around 108 schools, which are operational and we have around 73 schools, which are in various stages of getting operationalized in the next three to four years. These are already signed. Just to put it in context last year we had signed off 22 new schools, which was a part of this list and target this year is to sign at least between 24 to 25 new schools. If you look at it from that perspective, we expect a network to double in the next four years. As far as our Kidzee is

concerned, every year we add more than 300 new schools to the network.. So keeping the projections in mind, we look at more than 2000 Kidzee Centres in the next two years.

Rohit Chawla: 2000 operational Kidzee Centres. In terms of revenue, other revenues from manpower recruitment and training activity, could you throw some light on that, so we did around Rs.9 Crores from there, so could you throw some light on that and also we spoke about upgrading services, so what are the things we did in this segment?

Umesh Pradhan: First and foremost on the Liberium that was newly incorporated subsidiary, which was incorporated towards the end of March has started its business from the first quarter of this year and they have done a business of about Rs.9 Crores as a topline. As you guys have been briefed last time during the call that, this business is a high ROI, nil capital employed and low margin business. We have been successfully able to train and place about 2000 number of people servicing largely to group companies during the first quarter. This business will grow very rapidly. This is a very stable business and we are encouarged to get into this particular business. As far as your previous question is concerned, the revenue from preschool is about Rs.40 Crores and from the K-12 is about Rs.10 Crores.

Rohit Chawla: Fine great. Also the other income has almost doubled Rs.13 Crores versus Rs.7 Crores, so what constitute other income and the personnel cost and the percentage of sales has gone up from 17% to 24%, so will this trend continue for the rest of the year?

Umesh Pradhan: Can you repeat your second question?

Rohit Chawla: The personnel cost has increased from 17% to 24% it is almost doubled, so will this trend continue for the rest of the year?

Umesh pradhan: On the personal cost, you will observe that this correlates with the Liberium Global Company. So whatever topline has been generated it is generated out of the manpower training and sourcing services of that company. The manpower cost of that company comes into personnel cost. If you would compare with the standalone, you will see the increase in manpower with our core business, it is more or less at the same level.

Rohit Chawla: I got that point Sir! The other income ?

Umesh Pradhan: The other income is kind of one time income, there are lot of Ind-AS adjustments that have been considered by the company, since we converted our IndAS account for the first time.

There are certain guarantees, etc., were given to the trust. If you remember I have explained this during our last call. You would observe other income as a standalone is about Rs.3 Crores while at consolidated it is about Rs.1.3 Crores, so there is a reduction in other income when we come on consolidate from standalone. As you you would remember that we have given corporate guarantees to the subsidiary company which gets eliminated on consolidated and the entry for guarantees given to trust remains in consolidated.

Rohit Chawla: Again as you spoke that there is no adverse effect of GST in our sector, so what was the pre-GST tax rate and what is the post-GST tax rate and is there any shift being knocked or anything is happening due to GST in this education space?

Umesh Pradhan: Practically there is no change as far as the previous VAT and service tax regime related treatement for education sector is concerned. The service tax on services were 15% flat earlier, now certain services other than the IP related services will be taxed at 18% in GST. So that is the only change that we have seen, which migh affect us a little bit; however, that will be taken care since there would be some corresponding saving coming from GST on goods.

Rohit Chawla: That is it from mine and if I have more questions I add up in the queue.

D. Mukhopadhyay: As far as value is concerned practically there is no change.

Rohit Chawla: Fine.

Moderator: Thank you. We take the next question from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Thank you for the opportunity. Sir, just trying to understand a little bit better, the numbers between standalone and the consolidated. All your education related revenues whether it is school or whether it is preschool or booked in standalone if I am not wrong and then what explains the difference between the standalone and the consolidated that is the first question. Second question is there some improvement between the two, so if you could highlight the comments?

Umesh Pradhan: If you could just have a look at our Earning release, the same will explain you the operations of the company and standalone and consolidated level. Coming back to those numbers, the core education business of K-12, preschool and the youth has generated about

Rs.52 Crores of topline versus Rs.42 Crores of topline last year same period that is on standalone basis. What you see as additional numbers in consolidated is revenue from construction and leasing activities, which is done by our 100% subsidiary DVPL. So there you will see Rs.6 Crores of leasing activity. The construction, which we have completed and the area that has been given to the schools, trust to operate their schools, this is lease rental generated from the let out school premises So versus Rs.4.4 Crores last year this quarter, we have generated about Rs.6 Crores this year during Q1. So this is in line with the expansion of the school that is taking place. So as and when the school is growing, the more and more number of classrooms have made available to them and lease rentals generated out of those area. Apart from that we spoke about Liberian Rs.9.6 Crores which is part of consolidated top-line.

Pritesh Chheda: The lease income upside will only be on your five assets right?

Umesh Pradhan: Six assets.

Pritesh Chheda: Six assets and what kind of upside is possible on the six assets in terms of what space you are utilizing and what can be incrementally constructed?

Umesh Pradhan: The capacity of the five CBSE schools is about 1800 students versus what is utilized currently per school is about 600 odd students. So you can say it can get tripled. Obviously we need to see how and at what period the school enrolments progresses to maximum level., Importantly, capacity wise this particular incomes can be three fold when we reaches to the maximum capacity.

Pritesh Chheda: Coming back to your core standalone numbers, which reflect the core operations. What was the inherent student volume growth, so that is the inherent number which is there in your business and second when I look at few line items in your costs they have actually couple of them have come down and some of them are flat, so your comments on that side?

Umesh Pradhan: As far as the enrolment of our preschool is concerned, more or less we are growing by about 10%. As far as the revenue is concerned, obviously other factors like price increase etc., impacts when we finally get the revenue numbers, but core enrolment number is growing by about 10% quarter-on-quarter. We expect also to maintain this particular trend for remaining quarters and we might have the percentage going up significantly in the Q4, because that is our biggest quarter and that is the time when the maximum admissions takes place.

As far as the expenses are concerned, I think all the expenses are more or less in the line with the business and last about three calls we have been emphazing this matter as far as the business model of this company is concerned. The leverage is taking place. Largey our business is franchisee based model and I repeat this once again in the interest of all the participants. Therefore, while the number of franchise and enrolments is increasing resulting into increas in our topline, our expenses are not increasing and they are not required to increase in proportion to increase in volume of topline. For example, the marketing and selling expenses, we do largely a nation based branding activity, therefore while we have 1000 centers or we have 1800 centers or we have 3000 centers, the marketing exposures that we would take as a brand building exercise really does not need to be increased. So therefore our marketing expenses on a year-on-year basis would not increase substiantially. As far as personal cost is concerned, it is more or less in line. We have done a lot of rationalization in terms of the profiles are concernedwhich is purely in line with the business, you should not look at the cost reduction as a major of profit generating activity You need to understand whatever we will gain in topline in terms of absolute number, most of that will go into bottomline and you would have seen that this trend coming in from last about one-and-a-half years and I have been repeatedly trying to emphasize this matter for about one-and-a-half years while I am in call, while I meet the investors, etc. hope you will start understanding it.

D. Mukhopadhyay: I could add what Umesh said. This is purely an operational leverage that is kicking in while we continue to monetize the network better, improved capacity utilization of our schools. You will see our costs not moving in the proportion with regard to our topline and therefore beauty of this business model is while my topline continues to robustly increase year-after-year, the costs are moving at a very different level.

Pritesh Chheda: Lastly, can you just give us the tax payout expected for FY2018?

Umesh Pradhan: We are a full tax company now and that is where you will see a bit of erosion in our margins from PBT to PAT., Last year we were at a MAT tax and from current year carry forward losses have been utilized and we are on a full tax now. In terms of percentages, last yeat the MAT percentage was about 19%, current year the tax rate is about 34% now.

Pritesh Chheda: Thank you and all the best Sir.

Moderator: Thank you. We will take the next question from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam: Good morning and congrats for a great set of numbers. My question is really related to your owned school now if I look at the segment assets, one is that in construction and leasing there has been an increase over last year from Rs.647 Crores to Rs.681 Crores. So first a housekeeping that what is on account of incremental capex done for the schools or does it also include some receivables from the trust.

The second question is actually little more strategic that you have two very different businesses from cash flow and return point of view so your franchised business is low capital intensity high cash generating and a bulk of the assets are actually deployed in the owned school, which has a longer breakeven and currently is not making money at the PBT level. Now if you look at those five or six schools what is it that you are doing to actually what kind of time horizon do you look at in terms of it actually reaching breakeven and what steps are you taking to try to shorten that breakeven period because that should be the key focus is given that out of a total capital employed of Rs.759 Crores, Rs.681 Crores is in your own school?

D. Mukhopadhyay: I will take this strategic question first. Thanks for bringing this question to the table. I think it is very pertinent and important one. As far as our own schoools are concerned, the schools we have are fairly new, they are only around four to five years old. We are looking at the school in the next three years for the schoools to have full breakeven. Every year we add around 1000 to 1200 new students to the network in this five schools other than the hikes that we have in Mumbai. A school purely built on academic rigor and that takes time and therefore we will have to look at a slightly longer horizon for the schools to have a full breakeven. However, let me also reiterate that the schools have broken even at an operational level within two years and we are on right track.

Sangeeta Purushottam: Could you expand a little bit on what you are actually doing because we are school strived country, I agree that it takes a little bit of time to establish the reputation but once it is established you actually have demand and you have a situation were parents are queue up to get admission into schools. So how are we gearing up to build a brand, where you do not have a problem of filling up the schools but rather people are just queuing up for admissions. So what are the constraints to growth? Is it that every year you can add only one or two classes or if you could give a little bit on insight into that whole process?

D. Mukhopadhyay: Quickly we focus on overall development of the student with a focus on our curriculum, our delivery; quality of teachers that we deploy in the school makes us really stand out among our competitors. If you look at our schools, the five schools that I am referring to three

Punjab, one in Nagpur and Goa. All these schools have excellent all round facilities for overall development. We have very intensive programs for childrens from class seven to do well academically. Remember, the true test is when students actually appear in the class 10 exams and the results that follow. At this point of time, we have a very small number of students actually appeaing for the class 10 exams, but gradually as we progress as more and more students appear for the class 10 exams and continue to do well, that in my opinion would be the best thing to happen for the schools. We are fairly confident given the few numbers that have appeared and by the way, I am not predicating between my schools and the franchisee schools, but just to make this point, last year we had 728 children who appeared for class 10 exams. Not only from my schools, but across my franchise network and by the way my franchise network is also a very new network and 60% of those students had a CTPA of 9 and 10, which is good, and we are fairly confident that as we progress, you will see performances becoming better and better and I believe that is one of the key differentiator that we bring on the table that happens not only because we have a very strong selection process, but the entire intervention that we do right from a child who enters the school both acadamically as well as non-academic activities that we do.

Sangeeta Purushottam: Your other schools, that you own till what is the rough percentage breakup till what class are they operational, because typically when a school starts every year as the kids move into the next grade, you end up taking at the inflow level, so how many grades do you add each year?

D. Mukhopadhyay: So, predominantly all my admissions happens in the junior classes, which is kindergarden and level 1, we have very few lateral admissions happening in higher classes, but those numbers are very few. So, bulk of my admissions actually happens in kinder garden to level 1.

Sangeeta Purushottam: Okay, so basically, effectively you are adding one grade every year?

D. Mukhopadhyay: Yes, kind of.

Sangeeta Purushottam: Thanks very much.

Umesh Pradhan: Sangeetha, I would just like to add few points just to strengthen the argument that Deb was mentioning in terms of what we are doing in the schools. When we look at the number of enrollments, probably not all the time, only number of enrollments would reflect a true view of the quality of the schools on ground. For example, , out of our five schools, three of our

schools are at places where the military cantonment is largely concentrated, Bathinda, Patiala and Karnal. When we started, a lot of admissions came from the military cantonment that was around the place. We see lot of transfers coming into after every three years or four years. And that is where, we see while our gross admissions are at the level of about 1000 or 1200 ., during past couple of years we lost many children from the schools going out, on net basis. We are really not able to do anything because when the military contonment gets transferred, their children also goes out of the schools

Sangeeta Purushottam: Right but if the school is that to be good, the transfer in those kids will also come in, right? So, it will kind of balance off each other out?

Umesh Pradhan: When the new batch at cantonment comes, not necessary that all those parents will have younger kids. They would be already having their childrens at certain level and therefore many times we see that those transfers affect our net admission ratio. There are many such factors, which keep on effecting the net enrollment, which may not truly reflect the state of affairs of the school on ground. We know that our school has come up very well in those areas.

Sangeeta Purushottam: Umesh, why has the asset number gone up from 647 to 681?

Umesh Pradhan: Sorry, what was that?

Sangeeta Purushottam: In the segment assets, it is showing that the assets deployed in the own school business is Rs.681 Crores at the end of this quarter compared to Rs.647 Crores last year. So, is this increase because of some additional construction or does this also include, do you have any recievables from the trusts?

Umesh Pradhan: No, it is not about the construction. Most of the construction to the extend of about 80% is already completed by March2017. What has been put into use does matter. So, as I told you as on when classrooms are made available to the schools to run their schools, we keep on capitalizing. So, that is where the difference is.

Sangeeta Purushottam: Okay, but even if it was work-in-process, it would have been in these segment assets, right?

Umesh Pradhan: That is right and obviously there is some incremental construction activity done during the period but that is insignificant and as I told you when we met last time that about 20 odd Crores construction is still to be completed, and some part of that keep coming.

Sangeeta Purushottam: Okay and do you have any receivables from the trusts?

Umesh Pradhan: Yes, we explained you in the March call also and last time when we met , currently the surplus generated out of schools is not sufficient enough to pay both the management fee to ZLL and the lease rentals to DVPL. Therefore, while they are paying the management fee to ZLL, we have not seen money coming against the lease rentals, however, if you understand that we have refundable security deposit of about little more than Rs.100 Crores, payable to Trusts and therefore. our debtors are more than secured.

Sangeeta Purushottam: Okay, so I am not worried about that, I mean the money will eventually come. I just wanted to know how much that number was?

Umesh Pradhan: So, this is about 40 odd Crores.

Sangeeta Purushottam: 40 odd Crores, okay fine and just one more question that this manpower recruitment and training, I could not hear very well in the early part of the call, what exactly are you doing here, I was not very clear about that?

D. Mukhopadhyay: Outsourcing business in India is a very large business. If you look at our overall company, there are large number of entities in the group have requirement for such people for manpower. The first objective is to cater to this demand, and if I recall the numbers correctly, they are in excess of 10000 such people.

Sangeeta Purushottam: Excess of 10000?

D. Mukhopadhyay: Across the various entities in the group. Currently, we cater to only a very small number of such people, which is roughly around 2000 in the first quarter itself. The next step or objective would be to move beyond this group entity and opportunties in the market. There are a few established players already, very large listed players; however, we are fairly confident given that the value that we bring on the table, price and cost that also in terms of allied services that we intent to provide for example, managing fields for smaller entities, such value added service will help us to differentiate our offering from what is being available in the market and I am confident that this business has tremendous syngery of what we do and we will continue to provide robust for us in future.

Sangeeta Purushottam: So, is this something like what Quest does?

D. Mukhopadhyay: Yes, Quest or there are many.

Sangeeta Purushottam: Okay, understood and the assets, which are deployed here some Rs.581 lakhs, so this is what essentially office space, computers etc., or what exactly is it?

Umesh Pradhan: Sorry?

Sangeeta Purushottam: The asset deployment, there is some asset deployment you are showing there of about Rs.5.8 Crores, so is this basically the administrative expensive like your office space or computers or stuff like that?

Umesh Pradhan: If you are talking about the manpower business, this business does not really require any assets. This is in terms of the expenses and income.

Sangeeta Purushottam: Okay, but in the segment assets you have shown a figure of Rs.5.8 Crores?

Umesh Pradhan: Yes.

Sangeeta Purushottam: So, is it what, it is startup expenses, what exactly is it?

Umesh Pradhan: These are all expenses related to the business of the manpower.

Sangeeta Purushottam: Okay, so it is not fixed assets?

Umesh Pradhan: It is not fixed assets. This company does not require any assets. This is receivable and payables.

Sangeeta Purushottam: Right, okay and that brings me to the last question that going forward, how are you looking at capital allocation because you already have a large amount of capital deployed in your own schools, will all incremental activities be asset light and do you have any plans to add any schools of your own?

Umesh Pradhan: Deb, would you like to take this, because this is very pertinent question and I think people want to understand your views on that.

D. Mukhopadhyay: The answer to that question is yes as and when we see an opportunity. If you look at it from a preschool, if I look at my preschool network, currently we are in the process of expanding our presence with COCO schools. We have very few schools, which is just an handful of

them, but the plan is to have bigger play dias. In a network of around 1800 franchise schools, it is quite important for us to have locations, which are kind star locations for the network. We could showcase what is possible in this domain.

Sangeeta Purushottam: Right, so you are saying you will add your own schools, but at the Kidzee level?

D. Mukhopadhyay: Yes both, I just wanted to address the Kidzee issue first before I come to MLZS. So both for Kidzee, just to answer that question both for Kidzee as well as for MLZS, we will expand our presence. For Kidzee, obviously it has a very different exposure in terms of investment and for MLZS, it is very different and therefore we will have to pick and choose as far as MLZS is concerned. My primary objective at this point of time as far as my network is concerned, is to run all my schools well.

Sangeeta Purushottam: Okay, so in terms of capital allocation, so a) what you are saying is there will be more capital going into own schools both at the Kidzee level and at the MLZS level depending on what opportunity comes your way. Now in terms of quantum, is there an amount that you are thinking about and how would you finance this given that whatever we alreay have is going to take two to three years to breakeven at the PBT level?

Umesh Pradhan: Okay Sangeetha, sorry I was little away for a while on the call. As far as capital allocation is concerned as Deb was talking to you, please understand that our model as far as the K-12 is concerned, is obviously going to be –more emphasises on franchisee and if at all we want to take a different line, it will be taking the schools on a management basis, wherein you have already running school and we will take over the management of the school. As far as going into Greenfield K-12 schools is concerned, no we are not going to do any Greenfield schools unless the opportunity is very exciting. When I am talking about the opportunity, it is largely about the location because it is capex-oriented business and the returns are on the long-term. We will definitely think twice before entering into any Greenfield K-12 schools. As far as Kidzee is concerned, yes, we would be doing some self operating Kidzee centers, I mean to say at strategic locations. The capex involved in Kidzee is not really heavy. We incurr hardly Rs.15 lakhs to Rs.20 lakhs per center and if we feel that there are certain stratergic locations where we are missing because the franchises are not able to operate properly or the entry to the franchises is difficult. So, we can enhance our services, we can enhance our outlook of our schools and go on our own into self-operating in those locations. That strategy is not going to be very aggressive, we will mix and match it, the larger emphasises would be on expansion through franchisee.

Moderator: Madam, sorry to interrupt, but requesting you to please return to the question queue for your follow up questions.

Sangeeta Purushottam: Thank you.

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

Tushar Sarda: Thank you for the opportunity and congratulations on good set of numbers. I wanted to understand, what is the rationale for getting into manpower recruitement. It is a completely unrelated business, obviously the group will have lot of opportunities and lot of businesses, but as an investor who wants to invest in the education space, it just does not make sense from investors point of view to get into this space at all.

Umesh Pradhan: I will just give few lines to Mr. Tushar and then Deb will explain the strategic state of this business. Tushar, there is no investment as far as this business is concerned. Absolutely zero investment business and this does not require any capex. This is a high ROI business on a low return business. If you see there are synergies that we can draw from the group, and we can also draw synergies within the business and Deb will explain you on that.

D. Mukhopadhyay: Thanks Umesh. What we look at is that there are synergies that exist between both these businesses in our mind. If you look at the network, which is predominantly a large franchisee network whether it is for the preschool or for the schools there are a whole lot of services that we do not provide as of date, which are required by my partner. Right from teachers, administration, services, various kind of administrative services and therefore, this business makes sense for us. If I look at it from a group perspective, I think there is tremendous opportunity that exists within the group and also the market, if we look at the market, overall market in India, there are opportunities for new players to make the mark and therefore I would slightly defer with your assessment that both the businesses are not related. In our own assessment, there is a significant impact synergies that exist between both the businesses because we can leverage and weld on in terms of the training services that we can provide to a very large network that exists both within the group and outside the group and given the expansion plan that we have for the next couple of years, some of the services could be outsourced to this entity.

Umesh Pradhan: Tushar, very importantly, we have a separate experienced team, which take cares of this business.

Tushar Sarda: No Umesh, I am not on the issue of how much investment is required or not required. I am saying from an investor point of view, I am invested in Zee Learn because it is in education space. Now you get into manpower, tomorrow you will get into some other business because the group provides the opportunity and I do not abide Deb's argument that, that is synergy. If you have to provide administrative services or other services to your franchises, you can probably start that seperately, but you do not have to get into the whole gammut of manpower. I am sorry. I completely disagree with this argument, which Deb has put forward. Anyway I leave it to your best judgement, you have already done it. It is for us investors to decide.

Umesh Pradhan: What we can do when you are in our office, we can discuss this one to one because this argument will keep going.

Tushar Sarda: So, I am moving to the next question. Second my request was which I have made in the previous concalls also Umesh. Can we have little more detailed and better presentation every quarter because now you have fairly good number of investors who are serious investors, long-term investors and we are looking for simple data points like how many students have been added, how many schools have been added, what is the breakup between Kidzee and MLZS. So, those kind of data points if they can be added to the presentation, it would be very helpful for us, you know while on the call you do share the number, but when you want to refer to it later on, it is not very easily available. So, that is just a request if you can consider it, I will be very obliged.

Umesh Pradhan: Fine, we have noted that.

Tushar Sarda: Because every quarter, the same questions come, right. The calls starts with what is the breakup of this and breakup of that. My next question is in the education space, one of the big disruption, which will happen is through these e-learning or digital learning or some form of computer is getting in. So, what is that our company is doing in this regard and what is the path forward over next three to four years while I understand immediately you may not have dramatic changes in the business model, but obviously the world is going towards this and when the disruption happens, it disrupts the industry very dramatically. So, I want to know what is the preparedness of the company in this event regard?

D. Mukhopadhyay: I will take that question, Tushar and if you look at our current offerings, we are both looking at organic as well as inorganic play here and as far as existing businesses are concerned, if you look at our curriculum, and the way we deliver it, there is a significant

play as far as digitization is concerned. I will come to the e-learning question later, as I am just trying to build a context to it. Therefore some of the things that we have done as far as the curriculum is concerned both for the preschool as well as for K-12, there is a significant play of digital and the delivery that happens today, we do it through various platforms like an LMS. As we look towards the future, three or four years down the line, I see this proportion significantly improving and also we are looking are at a play from a vocational side, because if you look at a vocational business, today the presence is very limited, but if you plan to have a larger play in the vocational space, not only we need to have a bigger role in the brick and mortar industry but also given the length and breadth of this country there exist tremendous opportunity to reach out to working professionals with courses, which help them upgrade this. There is a plan for it, hopefully in the next as we progress in this year, we should be able to speak about it in much more detail, but I can tell you with reasonable degree of confidence that we are fully cognizant of the disruption that is expected to happen in the market and we believe that there is no one solution that pricks off. There would be a combination of both for the brick and mortar as well as online, which will help us to make better offers to our potential customers.

Tushar Sarda: Dev I agree with you and again your statement on getting into working professionals curriculum scares me, but we will leave that for another day. I am asking in terms of learning within the classroom in K-12 especially with things like Baiju's coming, a lot of people flocking to net to get readymade tutorials and all that. So, do we have a portal because now you have fairly large network. You have 50000 students in K-12, right? So, have you developed content, which can be excess by your students across the networth, so that methodology standardised, teaching methods are standardised, I think you are in the best place, because you have 100 plus schools. You can pick and choose the best teachers in the subject and make the content and make it available for the students. Is anything being done on that front to begin with.

D. Mukhopadhyay: The answer to that question is a resounding yes. If you look at our curriculum today, we have a very large portion of that content as an e-content, which is currently been deployed across all our schools. The question is that, how do I not only restrict it to the school, but move beyond the school. So, by that I mean how do we create a seamless integration between what the child does at home and what the child does in the school. So there is some work that is currently happening and as I shared with you, as we progress in this current year, we will be in a position to share those plans with you. Right now those plans have been designed. Those plans are in various phase of getting developed internally as well as with external help and we expect in 12 months' time that our content will be completely

delivered through e-learning. There would be very little play. The teachers will play very important role definitely there, but as you rightly said, we will have the best of the content from across the globe, make it more relevant and make it more interesting for the children and that work is currently on at our end.

Tushar Sarda: Yes, apart from across the world, I think in your network you can pick up the best of the teachers, right?

D. Mukhopadhyay: We can.

Tushar Sarda: And make those logical?

D. Mukhopadhyay: Yes.

Tushar Sarda: Thank you. That is it from my side.

Moderator: Thank you. We take the next question from the line of Avinash Kumar from Moodys Analytics. Please go ahead.

Avinash Kumar: Thanks for the opportunity. Congratulations on a good set of numbers. I have two questions. First is I can see that your employee cost has gone down both on the standalone and consolidated basis, so can you provide why has the cost gone down. Is there any rationalisation and going forward how would the trend be?

Umesh Pradhan: On a like-to-like comparision basis, obviously there are movements as far as certain positions are concerned and we keep on rationalizing the roles of the senior and the middle level people. All of that resulting into the movement into the personal cost. This is the trend over last two years. I think, as I explained earlier the exercise is more or less done now and you will see the increase in personal cost at inflationary level here on. As I told you, the business model does not really require to adding on proportinate manpower against the increase in topline.

Avinash Kumar: Yes, I get your point now. The thing is that going forward can we expect increase in this costs in absolute numbers or in a percentage of your revenues? How would the trend be going forward?

Umesh Pradhan: As a percentage of revenue, obviously this cost will keep coming down, but as far as absoulute numbers are concerned, it will keep going.

Avinash Kumar: It will keep going?

Umesh Pradhan: Yes.

Avinash Kumar: Second question is related to your other income, I mean in the other income line items basically bookkeeping question; what all income is included apart from the interest income that you own because on a standalone number, this number is bit higher and on consolidated this number has gone down. So, I am just curious, what is the breakup of this?

Umesh Pradhan: This is on a standalone basis Rs.3.2 Crores is a Ind-AS entry, which has been valued with respect to the corporate guarantees that we have given to our subsidiaries and some of the trusts with whom we are giving the management service. So, under the earlier GAAP, we were not required to value the corporate guarantees that we have given. It is mandatory under the Ind-AS to value those services, and therefore this entry comes. When we do the consolidation, the value of corporate guarantees given to our 100% subsidiary gets knocked off and what remains is only the value of services in terms of the corporate guarantee given to the trust.

Avinash Kumar: I mean this Rs.3.2 Crores is complete corporate guarantee, there is no other?

Umesh Pradhan: Yes largely

Avinash Kumar: Okay, this is what I wanted to confirm. One last question going forward is as you mentioned earlier that the new segment manpower, you have lot of synergies with the existing busniess, so if you can just take a few minutes and explain what is the synergies you are looking at as you ramp up in this business and how do you see the trend going up I mean let us say by the end of this annual year?

Umesh Pradhan: Synergies were explained by Dev in the earlier question when he was answering Tushar. There are outside synergies. I mean to say when we are talking about outside, outside Zee Learn per but within the group largely and also outside the group and there are synergies within our own education business. So, there are various synergies that we can draw e.g catering to various training and business specific needs of the group and obviously this

business will keep on expanding. I know there are investors like Tushar who does not like this business, but nevertheless that is what we think is good for our business.

Moderator: Thank you. Next question is from the line of Vetri Raju from Equity Analyst Private Limited. Please go ahead.

Vetri Raju: My question is on, as on March 31, 2016 the debt on the books of standalone is that something like Rs.137 Crores whereas the net block is just Rs.4.4 Crores and on the consolidated balance sheet, the debt is like Rs.380 Crores or so and the net block seems to be like Rs.113 Crores or Rs.114 Crores. So, what is going to be the trend, so far the trend has been the debt is increasing and net blocks have been reducing. How do you explain the debt scenario going forward and how do you explain the dichotomy between the net block and the debt?

Umesh Pradhan: As far as the debt profile is concerned going forward and we explained this during a couple of calls earlier also that the overall debt profile of the company and of the group, when I am saying group, consolidated group of Zee Learn, is going to be more or less at the same level about Rs.25 Crores here and there, but it will more or less remain the same. There will be obviously some debts, which we might take on a very short-term basis in our business to bridge the new initiatives that we might take, but apart from that, on an overall basis, our debt profile will not increase. Per se we do not require any debt for current operations, What we are doing during last one year or so or may be one and a half year is we are trying to reduce our rate of interest on all our various loans that we have taken on standalone and consolidated. We have been successfully doing that and while we do that, we keep on redefining our limits and there you can see little bit of adjustment in terms of overall limits or repayment timelines, but as I told you, debt profile is going to remain at same level for us while we reduce our interest burden.

Vetri Raju: As we see that in terms of the standalone, it is very assets light, if you see the net block, which is Rs.4 Crores and the business is like Rs.173 Crores in the trailing 12 months, but the picture becomes very different if you see the debt, which is like Rs.140 Crores or so. So, like one of the earlier investors who said that there are two businesses, which are totally different in terms of capital requirement the subsidiaries like **DVPL** whereas the standalone company is very asset-light. So, this is something I think investors may be concerned. Just leave it to your thoughts.

Umesh Pradhan: Mr. Raju, I may not be able to give answer to your questionon the conference call because I cannot make it short. I would love to meet you in person. I have interacted with Tushar. I have interacted with Sangeetha and I have interacted with many other investors on one-to-one basis and there have been multiple rounds to understand our business model of DVPL, wherein we have invested lots of money into self-operating K12 school. So, one need to sit with us and understand the busines Unfortunately, I would not be able to take this question and answer you on this call, because it will take a lot of time.

Moderator: Thank you. We take the next question from the line of Manish Poddar from Renissance Investment. Please go ahead.

Manish Poddar: Could you just share with us let us say about two to three years down the line, how would be the revenue contribution by this three businesses for us, any ballpark or indicator?

D. Mukhopadhyay: Three years is a long time actually.

Manish Poddar: Let us say two years line Sir?

D. Mukhopadhyay: You are talking about Zee Learn business OR Liberium?

Umesh Pradhan: You are talking about standalone?

Manish Poddar: I am about the consolidated let us say the three businesses, which you have, let us say education, construction and manpower?

D. Mukhopadhyay: The education business is expected to grow between 15% and 20% in the next two years year-on-year growth that we are looking at and obviously, this can definitely improve in case we can implement the plans that we have specially on the vocational side. As far as the manpower business is concerned, I think that offers a tremendous opportunity for growth both for captive entities as well as for outside, I understand the market outside, is fairly competitive and therefore it will require real effort from our side to make a difference there, but nonetheless we expect doubling of revenues in two years time as far as the Liberium business is concerned.

Manish Poddar: I am sorry, did you mention a number to the manpower?

D. Mukhopadhyay: Yes, so doubling of the business whereever we end at this year we have an expectation to have a topline of roughly around Rs.40 Crores to Rs.50 Crores in the year and we expect to double it in the next two years time. That is what we are looking at.

Manish Poddar: How about our leasing business?

Umesh Pradhan The leasing business will grow by about 15% to 20% year-on-year.

Manish Poddar: If you could just share, let us say the margin profile for the three businesses, that will be helpful?

Umesh Pradhan: The margin profile as far as Zee Learn is concerned, you have margins in front of you and you have also trend of past two to three years, we will continue to emerge on the same trend. We will keep improving our margin on a standalone basis. I explained you the model earlier also because of which our margins will keep growing. As per man power business is concerned, that is a low margin business, typically in these states of business, you will see about 1.5% to 2% of margin on the topline that is about the net margin. At EBITDA level, the margin is about 4% to 5% for this business,. As far as leasing business is concerned, again it will have a net margin of about 5% or so because it is not a business wherein you will have healthy margins. You have lot of capex so, depreciation comes into it. You have lot of borrowings to build those assets, the interest comes into, but till the time we have those borrowings in our balance sheet we will keep paying the interest and therefore the margin on that business will not be very significant. However, as and when going forward in another eight to 10 years when we pay off all the loans, the margin on this business will also keep growing.

Manish Poddar: Just to understand two businesses the leasing and the manpower business would remain under the same entity and we do not plan to take it into another entity or seperate these subsidiaries?

Umesh Pradhan: Can you repeat that?

Manish Poddar: Our thought process remains that these three businesses will be housed into the same entity, Zee Learn as a listed entity and we do not want to hive it off into another company all together?

Umesh Pradhan: So, the other two businesses are not into Zee Learn per se, we have subsidiary who are into these businesses.

Manish Poddar: Sir, I am trying to understand do you have internal thought process that you want to hive off the subsidiaries let us say two years or three years down the line when they become sizable or something like that?

Umesh Pradhan: Not in our mind right now. Liberium is just incorporated three months back in the month of March, so no question of hiving them off at this time definitely. We got into this business because we feel that it is the right business to do and it has got lots of synergies and potential so obviously we are not at all thinking of divesting this business.

Manish Poddar: One just small one, just wanted to know that you mentioned that in the schools you are going to move up completely to the digital front, do you think it is possible to like impart education completely digitally or will books be there and you know digital will just be aided?

Umesh Pradhan: Let me take this question in the context of the earlier question raised by someone wherein Deb has tried explaining elaborately. I would request all of you to please understand that we are into education for more than 15 years. We do understand the trend that is taking place in education sector. It is not that we do not understand the disruption that is going to come through the digitalization or anything else. So we are very much aware of things that are taking shape in the industy and what competitors are doing, what is right for the child etc. So, in spite of that if your Company is growing by about 10%, 12%, 20% every year, year-on-year and improving its margins, obviously there are certain right things that we are taking into consideration and parents and people and our franchises are liking it. Otherwise, this growth would not have been possible because the change in the industry is not happening today. It is for past few years, every year you see some change in every industry and in spite of that we are standing solid, we are consolidating our position in the industry. So, please appreciate this factand have some confidence on us.

D. Mukhopadhyay: Thank you Umesh. I will just add in two small lines. I will just explain what I wanted to say. Future learning will not only be restricted in the classroom and if you look at our content what I intended to say was that in the entire content would be digital with the digital in nature and would be available at any given point of time if somebody wants to accept it 24/7. It will not replace books, okay. Books will continue to have their own play; however, if you look at the kind of content enrichment, the kind of content that is available today, it is

absolutely important to keep on it, basing the content as we go forward. So, what we are trying to put at this part of time is that the books will have their own play. However, they would be supplemented, complimented with the digital content and that content would be available to the teachers, to the students 24/7.

Umesh Pradhan: If parents are also aware of the technological changes that is taking place in education and they are also thriving their children to pass through those technological changes and therefore it is very important to understand that while our business is largely a franchise business, the same is continuously growing. Please understand that the business is growing by about 15% to 20%. That means there is something right that we are offering to our children at the franchisees and our own schools.

Manish Poddar: I get the point that you know delivering world class education, I am not denying that. My point is let us say a lot of book operators, which are providing to CBSE schools are also giving digital content. You as a school also will provide digital content, so I am just trying to understand from a student perspective, will digital completely overall or books will stay in the place?

D. Mukhopadhyay: If you look at the play today, we have the typical brick and mortar. We have blended learning, we have books, we also have e-learning opportunity and we have a clearly online, which is an e-learning place. So, the three models coexists today, okay and today in the network that we have, we have a blended learning approach. So there is something that is we use a typical brick and mortar structure, which is supplemented or complemented with e-content. What we intent to do as we move forward is to make this entire content available 24/7 both from a teacher perspective and from the children perspective. As I said to you that in the future, learning would not be restricted only to the classroom, it would be available on demand and that is the direction that we are taking now.

Moderator: Thank you. That was the last question. I now hand the floor over to Mr. Naval Seth of Emkay Global for his closing comments.

Naval Seth: I would like to thank the management once again. Thank you all for the participation. Thank you so much from this side.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, we conclude today's conference. Thank you for joining us. You may now disconnect your lines.