



“Zee Learn Limited Q3 FY2018  
Earnings Conference Call”

January 16, 2018



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**Moderator:** Good day ladies and gentlemen and a very warm welcome to the Zee Learn Limited Q3 FY2018 earnings conference call, hosted by Edelweiss Broking Limited. As a reminder all participant lines will be in the listen only mode. 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 “\*” followed by “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Praveen Sahay from Edelweiss Broking. Thank you and over to you Sir!

**Praveen Sahay:** Thank you Ali. Good morning everyone and thank you for joining to the earning call of Zee Learn Limited. On behalf of Edelweiss Broking, I would like to welcome management team of Zee Learn Limited to discuss the result and outlook post Q3 FY2018 earnings. We have with us Mr. Debshankar Mukhopadhyay, CEO, Mr. Umesh Pradhan, CFO, Mr. Subodh Khanna, AVP Finance and Mr. Sidhartha Acharya, Senior Manager Investor Relation.

I would now request management for his opening remark post which we can open the floor for Q&A. Over to you Sir!

**Subodh Khanna:** Thank you Praveen. This is Subodh Khanna here. Good morning everyone. Wish you everyone a very happy New Year. Thank you for joining us today. This conference call has been organized to update our investors on the company and its performance for the quarter ended and nine month ended December 31, 2017. Hope you have had the chance to go through the our company’s result, which is uploaded on the company’s website [www.zeelearn.com](http://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 – Chief Financial Officer.

We will start with a brief note from Mr. Mukhopadhyay on the quarter and nine month performance. We will then open the floor for discussion for question and answer. I would like to remind everybody that anything that we say, which relates to our future outlook should be taken in the context of the risks we take. We would like to add that this call is purely for investors and analysts. Thank you. I will handover the phone to Mr. Debshankar Mukhopadhyay. Over to your Sir!

**D Mukhopadhyay:** Good morning everybody. I am taking the call from outside, so there might be some background noises; however, first of all welcome to the call and wish you a very happy New Year. We at Zee Learn are delighted to report a robust performance during the Q3 of



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the current financial year. Beyond the quarterly numbers we continue to focus on the execution of a strategy and leveraging the network strength. We acknowledge the onground efforts of our business partners for strengthening our brands and for the continuous support and confidence in us. We shall remain focus on developing and offering a differentiated digitized and speciality product basket, which will further strengthen our brands and benefit the business partners and students including parents in our network.

As a part of this call, I would also like to update all of you on some of the key developments or initiatives that we have undertaken. We have a new academic head joining us head of content and curriculum, Shyam Sundar. He has over 16 years of leadership experience and design and implementation of technology enabled content and curriculum and area of focus for us. In his last stint he was the head for training and knowledge management in Reliance Jio. As a corollary to that we will talk about some of the key digital initiatives that we are taking and followed up with what we plan to do with our own schools, the RIET option that we are looing for our own schools and the new brand that we propose to launch in the pre-school sector, I will talk about in much more detail as we go forward in this call. Thank you.

**Subodh Khanna:**

Yes we can start with question and answer please.

**Moderator:**

Sure Sir. Thank you. Ladies and gentlemen we will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. We will take the first question from the line of Dimple Kotak from SKS Capital. Please go ahead.

**Dimple Kotak:**

Congrats on the good set of numbers. I have two queries basically one is that what would be the debt at the end of December on a consolidated basis and what is the amount of figure for debtors and cash on the books?

**Umesh Pradhan:**

Dimple based on consolidated basis our balance sheet is approximately Rs.238 Crores and the debtors outstanding in the book at the consolidated level is around Rs.9 Crores.

**Dimple Kotak:**

They have reduced significantly because after the first half we had debt of Rs.248 Crores and debtors of Rs.79 Crores? As on half yearly balance sheet debt is around Rs.248 Crores right as on September?

**Umesh Pradhan:**

Right.



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- Dimple Kotak:** So it has come down to Rs.238 Crores?
- Umesh Pradhan:** Yes Rs.238 Crores is a debt on a consolidated balance sheet. Here we are now talking about the debt in the trust, which does not get consolidated. As on the six month ahead we had approximately same amount of outstanding, the debtors outstanding has not changed.
- Dimple Kotak:** Sir debtors outstanding was not it around Rs.79 Crores?
- Umesh Pradhan:** Yes that was including the DVPL lease rental outstanding. Currently we have, if you include that we have outstanding of about Rs.90 Crores.
- Dimple Kotak:** At least as spoken earlier this will take time to get converted or released right?
- Umesh Pradhan:** That is right, but if you remember our conversation last time against DVPL outstanding we have approximately around Rs.120 Crores security deposit.
- Dimple Kotak:** Yes that is true and Sir if you can just elaborate a little more on the REITs option of the schools and the new brand for the K-12 schools as Mr. Mukhopadhyay was speaking in the initial commentary?
- Umesh Pradhan:** There are various initiatives that company keep on looking at, various strategy company is keep on looking at, so REIT is one of the option in order to leverage our asset, we would probably at some point of time over the next 12 to 15 months we will look into the REIT option for our own school assets, which are approximately around 600, 700 Crores so that the return on these investments will be justified, but we will get into that as when the time comes, but this is one of the options that looks lucrative for us.
- Dimple Kotak:** That is all from my side. Thank you so much.
- Umesh Pradhan:** That sort of mindset we will at some point of time definitely we will look at it.
- Dimple Kotak:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.
- Sangeeta Purushottam:** Congratulations for a great set of numbers. Actually my question is a follow on question to what the earlier participant had asked that what we have actually seen from the numbers is



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that the profitability at the consolidated level has improved much more than what it has at the standalone level indicating that our profits now in DVPL. As far as debtors are concerned this Rs.90 Crores number how much of it is the rental and how much of it is the fees and the fact that there is a fairly large rental outstanding is that because the trust right now did not have the cash flow to pay the rentals or is it because you are building up a certain receivable to adjust against the deposits that you have from the trust, just wanted to get a sense on that?

**Umesh Pradhan:** Let me first address the broad breakup of the outstanding. Around Rs.80 Crores is outstanding from the lease rentals and DVPL is supposed to issue and and rest is the outstanding from the school franchises. This largely is K-12 franchise because we do not have any debtors in Kidzee.

**Sangeeta Purushottam:** Correct.

**Umesh Pradhan:** That gives you first part of your answer. While the debtors in lease rentals are getting accumulated it is partly true that there is much sufficient cash flow generated out of the trust currently. As I have mentioned last time the trust is currently paying us against the management fees that is K-12 as well as standalone is being accruing and some portion is obviously will be start getting from this trust against the lease rentals in the coming years. We have told you this last time also that there will be a cash flow position with the new academic fees session coming into because trust would be improved and we will start getting some clearance of these lease rental outstanding from trust; however, at some point of time this will get adjusted as security.

**Sangeeta Purushottam:** Umesh would it be fair to say by FY2019-20, which is a year after the next year, in that year we will actually see the trust being able to pay you their lease rentals for the year and also slowly starts clearing the backlog, so it would take another year or so for the cash flow to improve whether trust becomes self sufficient to be able to pay all the lease rentals?

**Umesh Pradhan:** Yes we can safely say that the improvement will obviously start from the coming year and frequently it could have substantially improved.

**Sangeeta Purushottam:** Right. Fine thanks.

**Andre Purushottam:** Umesh Andre here. I just wanted to ask a question in terms of sweating a physical asset how much more scope is there to be able to generate more revenue out of using your



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premises and schools for either leasing out for the people or having add on activities there, which are revenue generating with very little incremental cost?

**Umesh Pradhan:** Are you talking about from our own schools or you talking about some of the franchise?

**Andre Purushottam:** I am talking basically the franchise.

**Umesh Pradhan:** There is a vast scope in terms of what we can offer to the franchises apart from what we are offering currently. There are many areas where our offering is still not reached out to the franchise and actively working on that as well. I am sure by around next 12 months that into a bucket of offerings and will start generating more revenues.

**Andre Purushottam:** Are you in a position to comment on what the major of these revenues would be from what kind of activities, etc., or is it too early to talk about?

**Umesh Pradhan:** So we can offer various assets to be proposed, which are being utilized for the day-to-day working of the school and there are many things during the operations, which does not currently part of our centre kid, but the school obviously they take it from the outside. There are various opportunities, offerings that we can include in our current offering basic to the franchisees, which currently we are not including. Franchisees are sourcing it through market. There are various things that we can improve and we can offer. We are very much working on it.

**Andre Purushottam:** Thank you.

**Moderator:** Thank you. We will take the next question from the line of Avinash Kumar from Moon Capital. Please go ahead.

**Avinash Kumar:** My first question would be like a followup from the previous participant. Umesh you mentioned that I mean the trust are paying the management fees so is there any outstanding on the management fees is that all or the trust started to pay in full the management fees?

**Umesh Pradhan:** There is small outcome sale to the REIT as on December end on account of management fees, but generally at the end of the year the most of the management fees would be paid off, by March year end most of the management fees will get paid off. It depends upon the cash flow generated during the quarter, Q4 is also being a little higher than cash flow.



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**Avinash Kumar:** So Umesh if you can help me with some numbers like for nine-month 2018 ending and how much was the total management fees and how much of that amount is outstanding from the trust if you can help me with the number?

**Umesh Pradhan:** We have accrued approximately around Rs.12 Crores as the management fees during nine-month and approximately Rs.7 odd Crores has been paid by us.

**Avinash Kumar:** By year end I mean you expect all whatever is accrued for FY2018 will come in from the trust so on the management fee we expect there will be no outstanding?

**Umesh Pradhan:** That is right.

**Avinash Kumar:** Second question is I mean I can see there is a slowdown in your manpower business, it has fallen down 11% QoQ so would not you understand is there any seasonality effect in this business line as well and what would be your views on the growth of this segment going forward?

**Umesh Pradhan:** There is no seasonality in this business per se and the normal trend that you are currently looking is very insignificant compared to the business this sector is drawing. Out of the clients that we serve obviously these clients keep on restructuring their businesses and this minor effect is on account of that. We really do not see the trend falling out. We have a very good client base and this particular segment will grow quarter-by-quarter.

**Avinash Kumar:** Where can we expect this the growth rates to be may be let us say by FY2018 and for the segment because this is a new segment for us and it is a huge opportunity given the demographic features in India so I remember when we are talking in the first quarter you were very bullish on the aspects of this business and in Q2 we also saw the effect of growth in the segment, but again Q3 it was bit down, which I understand that can happen with the client negotiation, but FY2018 end where do we see reaching in for this segment manpower business?

**Umesh Pradhan:** Avinash let me give you this answer in two parts. A) We would not like to comment on future business prospects that would not be right and on the other side this being a new segment though there is a lot of potential as everyone knows in this particular sector for growth, but there is a fierce competition as well and therefore we are still only kind of 6-odd or 7-odd month old child in the sector, they are growing. We are making our place in



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this segment. So maybe allow us some more time to do predictability of this sector and then we would be able to tell you what kind of growth that we would start looking at.

**Avinash Kumar:** Got your point. Secondly, I can see there is some operational leverage benefit playing out in your educational segment, so from here on where can we see the standalone EBITDA margins growing to and can we expect more operational leverage benefit in the coming quarters in the education business per se?

**Umesh Pradhan:** In educational business, yes the model itself is in such a way that we will obviously create an operational leverage into our margins, but the growth of operational leverage or growth of increase in margins perhaps will thrown down a bit and we might not see a same growth in terms of margins over the period; however, I can assure you that there is a lot of scope to still improve the margin and obviously the modern itself will give that benefit.

**D Mukhopadhyay:** Sorry, if I could add, Avinash and Umesh thank you. Just to put it in perspective while we have large numbers coming in from a captive base and I am taking about the manpower business at this point of time but we have also signed up around four new clients that we have just signed. Let it get formulized and therefore we are fairly confident that the trajectory of growth would be maintained in the next Q2 for the manpower business and Umesh is right that it is just a new business for us. Give us some more time to build in predictability in our business, but so far the trends have been very positive.

**Avinash Kumar:** Thanks Deb. Thanks for your perspective. If I can squeeze one bookkeeping question, what would be your standalone and consolidated STF for nine months 2018?

**Umesh Pradhan:** On a standalone basis we have generated about 45 Crores of free cash flows and on a consolidated basis around 65 Crores.

**Avinash Kumar:** This is for nine months 2018, right?

**Umesh Pradhan:** Yes, this is for nine months.

**Avinash Kumar:** Thank you so much for your time. I will join the queue for followups.

**Moderator:** Thank you. We will take the next question from the line of Varshit Shah from Centrum Broking. Please go ahead.





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**Varshit Shah:**

Thanks for the opportunity. First of all congrats to the management for a great execution. My manpower question has already answered. I just wanted to understand strategically in the educational services business, what kind of capex do we envisage for on the content side. I mean do we envisage a huge capex or it will be just a maintenance capex as you have it every year. I mean in terms of upgradation or introducing new courses?

**Umesh Pradhan:**

I would like to pass on this to Mr. Deb and there is a process I think so because Deb has in his introductory address, he did introduce to you guys that we have hired a new head for curriculum, so Deb would you like to explain this?

**D Mukhopadhyay:**

Sure, Umesh. Thank you so much. I think our offering basically and I will first start with K-12 and then come to Kidzee. In K-12 we have a digital play or content, which is then we have books, and then we have alas. This is typically has been accrued offering so far. So across what we are trying to do is to create a seamless integration between the digital content, the offline contents that is the books and the alas. While all these are schools are affiliated to CBSE and there have been some discussions in India at this point of time that CBSE could recommend students using NCERT books. We are fully aligned with that thought process; however, we believe that if you have to bring a subject to life, if you have to create curiosity in the minds of the child, it is very important to support or supplement that with additional tools or aides and purely from that approach I think, we are working on upgrading our digital content. We are relooking at the kind of supplementary or complimentary books that we offer and the kind of alas that we have created so far. So in terms of investment that assessment is still on; however, I can tell you what we have created so far has really stood the test of time; however, if you ask me honestly, is there a scope for improvement, absolutely yes. We want to create a curriculum, which is far ahead from what is being offered by my competitors. That is point number one and it makes a real difference. Not only perceptual difference but real difference and by that real difference I mean, I measure it in terms of learning outcomes. So this is on the K-12 part. On the Kidzee part, we have taken the leap increasing a standardized curriculum across all our Kidzee Centres which was a K-1 curriculum. We significantly upgraded it with the aid of technology, which was called K-2 introduced in 2003. As we go into 2018 and beyond, I think there is a scope for improvement and I see a significant digital play here. By what do I mean by digital. So let me give you a specific example. In 2015, when we introduced a concept called talking pin to teach the next. It is no longer considered to be a great differentiator than what I offer and what is being offered by my competitors, so therefore what we need to do is to take the game a significant notch up with the aid of technology because there is rapid progress that is being made especially on the digital side AR, VR and I said in the last



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call I think we are working with somebody to create a game based learning tool on codification because we believe that understanding coding is absolutely critical. It is a new age skill that we need to imbibe in all our children, so the answer to your question is that yes it will require investment, but those investments are not going to be significantly large. They are going to be moderate and we have built in as a part of our business plan.

**Umesh Pradhan:** This will be very important investment, which will augur well for our business on a long-term basis.

**Varshit Shah:** Exactly that is what I was trying to understand, so is this expenditure what you incur is significant in your P&L or is it capital or is it really immaterial on an overall basis?

**Umesh Pradhan:** It is going to be not significant at all.

**Varshit Shah:** It is not going to be that significant because you have already got here and now you have a lot of operational leverage kicking in. Now Mr. Mukhopadhyay mentioned that he has a new brand in the preschool, so can you elaborate something on it or is it still in the planning stage? What kind of segment it will cater to because you already have Kidzee brand, which is catering to let us call it a middle class segment or may be slightly on the higher side, so will this brand be premium or cater to the segment, which is probably lower than this and how the structure will work out there?

**D Mukhopadhyay:** So it is still preliminary. We are still working out the details, but I can tell you we have a brand called Mount Litera World Preschool. At this point of time, we have only one such school in Mumbai, but in this academic year we are expected to come out with three to four more. These are all company owned and company operated, but they offer the very best in preschool and it is completely seamlessly integrated with the IB philosophy and thoughts. So our expecting because we operate at a very high price points. Below it is the Kidzee that you currently know; however, in Kidzee we have offerings from say Rs.70000 to around Rs.35000 to Rs.30000, but there is a very large market. Below the Rs.30000 or Rs.35000 across the country, which are predominantly operated by the unorganized players the standard players and I am not talking of the premium part of it. I am talking of a particular TG outlet, so we see a play there. We already have a curriculum available with us. So let me give you a typical example. For a place like Pithoragarh in Uttaranchal we had a Kidzee there and unfortunately it continued for two to three years, but it did not resonate very well because there was very stiff competition coming in from localized players who were offering something at a very different price point. Yes there is an element or an angle to it



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that we need to communicate this effectively to the parents because I think there is a very long road ahead of us in terms of explaining it to the parents that what can a different set of curriculum can actually, how can it actually help a child and why should we send the child to a preschool and not to a formal school and therefore how does that impact the child for the rest of his or her life. I think beyond that communication of the education part, I think what we already have is the curriculum that we can offer at a significantly low price point; however, I must tell you that we would like to ensure that the learning outcome are almost similar and the kind of entrepreneurs that we are looking at, the kind of infrastructure that we are looking at, the kind of services that we are looking at is also going to be of a different nature. However from a learning outcome perspective, I think if I keep the child in the center of everything that we do is going to be fairly consistent.

**Varshit Shah:** Sir if I were to just sum it up would it be okay to say that this new brand probably you are looking at the places somewhere below Kidzee and probably where the operation cost will also be low mainly at Tier 3 city or so that is the kind of market you are looking at would it be fair to say?

**D Mukhopadhyay:** Yes, so we are looking at a different brand a completely different brand and offering, which we will cater to the deeper catchment areas, which basically capture or to break the huge market dominated by unorganized players and this brand will be below Kidzee.

**Varshit Shah:** Fair enough. I will come back in the queue if I have further questions. Thank you.

**Moderator:** Thank you. We will take the next question from the line of Rohit Chawla from Axis Securities. Please go ahead.

**Rohit Chawla:** Good morning everyone. Thank you for the opportunity. Firstly congratulations for a great set of numbers, so first question would be at our core business and our revenue from education has grown by 20%, so I just wanted to understand what is the increase in the number of enrollments, so how much is volume and how much is value growth?

**Umesh Pradhan:** So the upfront in terms of Kidzee, we are growing by about 7% to 8% in terms of the enrollment during this period and in K-12 schools, the enrollment growth is about 18%.

**Rohit Chawla:** So K-12 The core is 18% and Kidzee 7% to 8%.

**Umesh Pradhan:** Yes this should look more from R2. What is that we are getting per student.



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- Rohit Chawla:** So how has that increased Sir?
- Umesh Pradhan:** That has increased by about 11% in Kidzee and around 10% in K-12, so we are getting around Rs.8500 approximately on an average from Kidzee per student per year, which is good and we are getting approximately Rs.6700 per student from the K-12 School.
- Rohit Chawla:** Fine Sir. So we also saw our direct expenses jump by 83% obviously with operational revenues kicking in, but our direct expenses have grown by 83% versus our core business growing by 20%, so what does that include Sir? Are we offering more to our students?
- Umesh Pradhan:** No you are comparing with the previous quarters on a standalone basis, so you need to understand the composition of the kids that we scaled. The basket of kid cell will keep on changing from quarter-to-quarter. So for example to tell you during this previous year same quarter while we would have dispatched majorly only student kits and student kit costs being low, the operating cost direct expenses was on a lower side and during this quarter we have sold the center kits more than what we have sold during the last year center kit cost is obviously much more than the student kit cost and that expenses seems to be higher compared to the same quarter of last year, but on an overall basis at the end of the year, it would more or less match.
- Rohit Chawla:** So Sir we are already close to Rs.32Crores of PAT and Q4 being your best quarter would we able to maintain that sustainable 20% to 25% growth rate going forward because we have seen a tremendous growth in the last six to eight quarters, so what will be the sustainable growth rate going forward for our company?
- Umesh Pradhan:** Well we have been showing this growth for the last about eight quarters now and I am hopeful that we will continue this growth. We do not see any reason that flows into our agenda.
- D Mukhopadhyay:** Thank you Umesh. Just to add to this is that historically Q3 is the weakest quarter for us. Q4 is the best quarter and therefore we are fairly confident in terms of our performance so far over the last two years has been fairly consistent with our projections and given the way it has shaped up in the current year, we are fairly confident we will meet the expectations.
- Rohit Chawla:** So the increase in the number of preschools would be around 300 and for MLZS it will be close to 15 to 16 right that would be our guide in going forward?



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- D Mukhopadhyay:** That is right.
- Rohit Chawla:** Thank you so much.
- Moderator:** Thank you. We will take the next question from the line of Shayon Chatterjee from Moon Capital, Singapore. Please go ahead.
- Shayon Chatterjee:** Hi Umesh and Dev. Good results. I am very impressed with the fact that you actually the senior management of Zee Learn's thinking about freeing up reserves either through REIT or slightly more asset light business to invest in the co-curriculum. If you could tell me that is the REIT argument or the plan based on the fact that more transparent rules have come in India as far as REIT are concerned or is it because you actually pretty comfortable with getting a Rs.600 Crores to Rs. 700 Crores valuation for the COCO schools the sale and leaseback that you would do with the REIT because I have been looking a lot at the Chinese education companies and what they have done over the last few years what sort of international curriculum you think, I know India is a very different market, but you think you could be looking at to pick and choose to cater to our core Indian market especially given that such a fragmented market and you are the big boys now in the organized sector, thanks?
- Umesh Pradhan:** To answer your question, I would like to answer on your first part and the second part with respect to the curriculum and constraint; I would request Dev to answer it. Let me just tell you some prospects in REIT. Definitely there is a simplicity that has been emerging out in terms of the REIT in India and yes we want to take advantage of that and therefore we would like to start looking at these options, number one and number two, yes definitely we are confident given the strength of our assets we would be able to fetch around Rs.600 Crores to Rs.700 Crores valuation, though this is just an estimate and guess work, but we are fairly confident that if we get into REIT group this is the valuation that we would be looking out and number three, very importantly this auction will also give us a way to dare our debt to a larger extent and some cash flow will be available for growth of our business.
- Shayon Chatterjee:** So we retire all the debt effectively.
- Umesh Pradhan:** Yes I am sure we would be able to retire entire debt and this is the reason these are the three, four reasons that we will start looking at these auctions from now on, though we would not be able to comment on the timelines for that but I can assure that management will start looking on these options.



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**Shayon Chatterjee:** Great.

**D Mukhopadhyay:** Thanks Umesh and Shayon thanks for your question. I will give two perspectives here then which I think is very interesting while building curriculum is one part of the problem the second important part and the more important in my assessment is the delivery part of it. While you build fairly elaborate and cutting edge curriculum, if you do not have the right kind of teachers to deliver them in the school, the entire purpose at last and as we expand across the length and breadth of this country, I think that is coming up as one of the key challenge that how much do you need to train because if your input is of not of good quality irrespective of the intervention that you do, the quality of output that you are expecting may or may not be to your expectations. However precisely for that reason we have created an elaborate teachers training programme and while we have seen initial success our option or expansion is something that we are working on currently. The second part of it and which is I will try to use an analogy to explain it. In India the mindset is that if a child is beyond a certain age is not in a position to multiply or count numbers or speak English, parents maybe do not look at schools with great amount of regard. Unfortunately if you look at all international guidelines or some of I have personally along with my team examined some of the models, there is very little focus or stress on ensuring mathematical ability or improving the vocabulary or the ability to construct a word in sentence. In India, it is slightly different so therefore the focus is more on academics, so when we talk about some of the things of the approaches that are done in other countries and you are right to point out that India is a different market all together. Therefore we need to have a blend between the two and I must share with you that when we took a curriculum, we always believe that we have build a very fine curriculum internally and I am talking of Kidzee at this point of time. So I challenge my team and I said let us do one thing, let us understand how do the experts see our curriculum. We believe that we have built a fine curriculum, so let us go to an outside entity, a well known entity and let us give our curriculum to them and let them go through our curriculum and come back to us with recommendations, suggestions, or let us look at the validation. So we did that. We went to SNDT University in Mumbai and they have a department which does this work, seminal work actually. They went through our curriculum and they say you are focusing too much on academics, you need to make it much lighter, so that it is not a burden for the child while we understand that approach, we appreciate that approach. It is very, very difficult for us to explain that to the parents and therefore it is a tight rope walk I must admit Shayon.

**Shayon Chatterjee:** The parents only care about typical grade inflation that is happening in our country.



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**D Mukhopadhyay:** That is one and secondly if my child it is in a position to not multiply numbers or learn the tables I consider my client to be intellectually inferior compared to another child which may absolutely be untrue.

**Shayon Chatterjee:** Great. So how are you going to do this, parents to fall in line with the education right?

**D Mukhopadhyay:** Yes both way so I think our outreach program we have a very elaborate outreach program to our parents and in all the schools that we operate through the franchise, it is a mandate that at least I think thrice or four times in a year, we do parent outreach program where we speak to the parents and explaining to them that what was the philosophy of thinking behind when we created a curriculum like this and how does it actually help a child in his later years. If you look at some of the critical thinking skills that were required for the new age, I think our curriculum has been designed keeping that in mind and I keep on saying this to my parents not because we run a fantastic preschool chain in the country but I keep on saying that through all the parents that I personally meet I say do not send your child to a formal school while I understand it takes away your headache but remember in a formal school the focus is more on examination score. The focus is more on the secondary and not on the primary and pre-primary is completely out of scope. They want to do it because they want to get a ready influx of students into the system but there has been no development, there has been no focus and therefore it is wrong to put your child especially between two to six years which is a critical time to the child into a formal school and not put in a pre-school. So therefore my recommendation not because I run Kidzee, I would still recommend that we should all put our child into pre-schools which are designed keeping those needs in mind.

**Shayon Chatterjee:** Great. Okay, thank you.

**Moderator:** Thank you. We will take the next question from the line of Sudhir Bheda from Right Time Consultancy Services.

**Sudhir Bheda:** Good morning sir and congratulation on good set of numbers. My question is your lease rental income and gross profit has gone up substantially. So can we believe that your school is doing well on that front, so we are getting higher lease rental as we have I think as revenue of that school goes up, our rental also will go up, that is a kind of arrangement I think you have with the trust. So can we safely say that your revenue and the school is going up that is my first question. And the second question on the training front that also margin has gone up, so any significant improvement will continue like this going forward?



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**Umesh Pradhan:** Sudhir yes you are right in terms of the CPL business, lease rental business, it is a growing business and as our schools are growing year-by-year, the income on lease rentals would keep on increasing. There is no direct correlation as far as student numbers and the lease rental income is concerned, however, with more number of students the schools get expanded and therefore more space is utilized and we get more rentals and this trend will continue obviously because schools every years being influx with more number of students, number one. Number two, as far as the training and manpower segment is concerned, the overall margin will remain around 3% to 3.5% as per the industry. This business does not give you a higher margin but this is a good business because it does not require any capex and it is very high on return on investment.

**Sudhir Bheda:** Sir one more question it is a kind of like same store growth. What is the same school growth for this nine month and particular this quarter and what is the growth in that has come in from the new schools or new preschool or new..which are the schools?

**Umesh Pradhan:** As I told you - as I told someone who asked how many centers did you open. So we opened more than 100 centers for preschools during the year and 12 schools has been opened during this nine month, so this is what is in terms of the growth coming from the new centers as well.

**Sudhir Bheda:** And what is the growth in percentage of same school growth.

**Umesh Pradhan:** That is frankly we do not look from that perspective because each center when it gets matures, there is a particular way through which the each of the center grow.

**Sudhir Bheda:** No why I am asking this question because if we have a good growth in the same school our profitability is much higher because the expenses and everything remains and that is why if there is a good growth in the same school segment then we will have a good profit.

**Umesh Pradhan:** No that is where exactly I was coming if you allow me to complete. We have a franchise model and therefore neither we get into capex nor we get into opex of running the centers. So therefore whether this is a new center or an old center in terms of our margin it hardly makes any difference. What is important is that the new centers typically grow as per the plan. So if you see the typical way through which the preschools grows, in the second year they start recovering their operating cost that I am talking from the franchise perspective. So for us very important aspect is to look at each of the center not only the new centers but also the existing centers and see that the growth trajectory in these centers are as per a typical





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plan that we want each of the centers to have it. However it does not make any difference for us in terms of margin. It is very important to see that each of the franchises also make margin.

**Moderator:** Thank you. We will take the next question from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

**Kashyap Jhaveri:** I just want to check on the rate card if I look at our balance sheet roughly half of our gross block lies in CWIP now if you want to float a rate, rate has to invest about 80% of the fund in completed and renting properties would our properties qualify for those regulations?

**Umesh Pradhan:** They will qualify because you will have to understand that the CWIP that currently lying in our book is mostly I would say it is a 90% completed construction and just the finishing work needs to be done because we keep on handing over the classrooms as and when the school increases. So we do not see challenge in terms of getting our assets qualify for rate.

**Kashyap Zaveri:** So let us say if there is a school where we have multiple blocks where we have completed construction but they have not been occupied because the classes are still not sort of running would that still classify for or qualify for this rate.

**Umesh Pradhan:** Yes it is.

**Kashyap Zaveri:** And second question is just a clarification in earlier one of the questions along with the enrollment growth for Kidzee and K-12, there was a second number mention about 11% growth and probably 5%, 6% growth what was that number for?

**Umesh Pradhan:** That was enrollment 11% I did not say 11% I said 18% to 19% in Mount Litera Zee School and around 7% in Kidzee that was in terms of the enrollment growth.

**Kashyap Zaveri:** Right so that number I got after that there was I think some number of 11% increase in....

**Umesh Pradhan:** That was a price increase the fees increase.

**Kashyap Zaveri:** So Kidzee have seen about 11% price increase and K-12 has been about 5%, 6% fees?

**Umesh Pradhan:** Yes.



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**Kashyap Zaveri:** And given that one player in the organized sector has sort of reduced, does it help us in terms of pricing this year or from here on?

**D Mukhopadhyay:** I do not know which player you are talking about however Kidzee is predominantly the leader in preschool, so therefore while we definitely look at the competitor if suppose hypothetically imagine that one player is not there that does not mean the competition is not there, number one. And number two, it is not only about the competition that we look out, we also look out various factors that is affecting that particular catchment areas or that particular tier when we decide how much fees there we can increase. This is the very dynamic approach and we have to consider lot of factors before deciding annual fee rise. At times you may not be able to increase any fees in a particular city and also when you talk about the fee increase, one thing you need to keep in mind that in preschool especially parents in their mind would have certain level or certain borderline beyond which they probably might not want to spend on the preschool. A lot of factors are being consider before we decide on yearly prior hike. The same will range from about 4% to 5% to about 10% year-on-year depending upon the opportunity that we get in different tier cities. It is it is not uniform I can tell you.

**Kashyap Jhaveri:** Sure. That is it from me.

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

**Sangeeta Purushottam:** Umesh actually my question is also related to this ARPU increase that you talked about you said it was 11% for Kidzee and 10% for K-12 that is the increase you are experiencing this year right?

**Umesh Pradhan:** Yes.

**Sangeeta Purushottam:** And earlier you had mentioned that sometimes what happens is because you are so strict about closing schools which do not comply with your standards sometime and the new schools maybe opening in geographies where the fees are lower, the blended price increase that you experience at the company level ends up being lower because the higher paying schools or higher fee schools maybe closing down, so this 11% and 10% is the blended one?



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- Umesh Pradhan:** Yes this is the blended one. I will tell you the reason why this looks higher compared to what we talked about during last call. Here things last two years especially when we introduced our digitalized part of our content in preschools, we started converting our existing centers into new curriculum and the fees point of this new centers are a bit higher than the older ones
- Sangeeta Purushottam:** Right. So there is a certain premiumization in a sense which is happening in the product mix. Okay, thanks Umesh.
- Moderator:** Thank you. We will take the next question from the line of Dimple Kotak from SKS Capital. Please go ahead.
- Dimple Kotak:** Sorry I missed on the part that how is the operating leverage going to keep going ahead?
- Umesh Pradhan:** Dimple we have been talking about this operating norm now, the operating leverage of Kidzee and MLZS will keep on the same trend that we are currently looking out; however, with the growth in network, you remember that our conversation last time with the growth in number of centers or the network will need to uplift our offering in terms of the servicing as well and there will be some marketing initiatives to be undertaken and some differentiating content investment had to be done etc., etc. Therefore while our operating margin will keep on improving, the percentage of operating margin improvement you may not see the same trend in terms of the growth in percentage margin.
- Dimple Kotak:** Okay Sir and Sir what is the capex in your own school till date?
- Umesh Pradhan:** It is approximately around Rs.650 Crores.
- Dimple Kotak:** And Sir for FY2018 and what kind of debt and debtors including the DVPL, we expect to close the year with?
- Umesh Pradhan:** So, in terms of if I may add DVPL, I think a little above 100 and it will be around Rs.100, 110 Crores.
- Dimple Kotak:** And in terms of debt.
- Umesh Pradhan:** Debt will remain the same.



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- Dimple Kotak:** Okay, around 238 Crores?
- Umesh Pradhan:** Yes. The existing operation I have told you many times we do not require any...
- Dimple Kotak:** Yes absolutely. Okay Sir thank you.
- Moderator:** Thank you. We will take the next question from the line of Avinash Kumar from Moon Capital. Please go ahead.
- Avinash Kumar:** Hi Umesh and you have answered almost all the questions. Just one follow up, what would be your console capex till now and where do you see to end the year. Basically I understand that your capex would be at a DVPL level so if you can give me the number and also break up, it would be helpful.
- Umesh Pradhan:** As I just answered Dimple, the total capex and largely it is in DVPL because the training manpower business does not require any capex and Zee Learn per se does not have any capex other than what we would invest into contain so in Zee Learn it is hardly about Rs. 6 Crores and in DVPL it is about Rs. 650 Crores.
- Avinash Kumar:** Basically meant for FY2018 for this fiscal year till now like nine months 2018?
- Umesh Pradhan:** It would not increase much Avinash. We would require around Rs. 5 Crores more maybe in next quarter, Rs 5 Crores max.
- Avinash Kumar:** Another 5 Crores?
- Umesh Pradhan:** Yes.
- Avinash Kumar:** And this will all be at DVPL level I guess?
- Umesh Pradhan:** Yes.
- Avinash Kumar:** Okay Umesh, thank you so much.
- Moderator:** Thank you. We will take the next question from the line of Naveen Jain from Florintree Advisors. Please go ahead.



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- Naveen Jain:** I am looking at your press release and it says that the number of operational K-12 school is 115 as at December end. I believe it was the same at the beginning of this year, so does that in nine months no new K-12 school has become operational.
- Umesh Pradhan:** You are absolutely right yes in during nine months we have not opened any K-12 schools but perhaps you need to understand that K-12 schools get operationalized only in the fourth quarter while the preschool get operationalized during the year though there is also seasonality, most of the preschool get operationalized in Q4 and Q1 of the financial year and there are very little preschool that get operationalized during Q2 and Q3, very less number in Q3, there could be some schools getting operationalized preschools into Q3 as well to catch up the mid-term session. However as far as K-12 schools are concerned the K-12 schools only get operationalized during the Q4 by say around January because that is the time when the admissions will start. They just cannot start the school in between the year because they would not get any admission.
- Naveen Jain:** So how many you have lined up in the Q4?
- Umesh Pradhan:** Around 9 I guess.
- Naveen Jain:** Sir the second question was can you share the breakup of revenue in this nine months, so education revenues if I see in the nine month is about Rs.120 Crores, can you break that up between Kidzee, K-12 and your vocational business?
- Umesh Pradhan:** So the ratio is around 70% of Kidzee, around 24% for Mount Litera and the rest for youth and the management side.
- Naveen Jain:** How much, 70...?
- Umesh Pradhan:** 70% to 72% yes.
- Naveen Jain:** Kidzee is 70% and K-12 is how much you said?
- Umesh Pradhan:** It is around 24%.
- Naveen Jain:** So the balance 6% will be for the others and this 6% includes your fees from the own school right?



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- Umesh Pradhan:** Yes.
- Naveen Jain:** Got it and Sir just final question in the manpower business you mentioned that you added about four clients in the last quarter, so how many clients in total we have now?
- Umesh Pradhan:** We have around 22 clients.
- Naveen Jain:** Got it thank you.
- Moderator:** Thank you very much. Due to time constraint that was the last question. I now hand the conference over to the management for their closing comments.
- Umesh Pradhan:** Thank you very much all the participants on behalf of Zee Learn management I once again wish you very Happy New Year. This is the first time we made during 2018 and I wish success to all of you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Edelweiss Broking Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.