



Zee Learn Ltd Q2 FY20 Earnings Conference Call

November 22, 2019



MANAGEMENT:

AJEY KUMAR - DIRECTOR, ZLL
DEBSHANKAR MUKHOPADHYAY - CEO, ZLL
SANJEEV GARG - CEO, MTEL
DINESH BHUTRA - CFO, MTEL
HARSH UPADHYAY – SR EXEC, FIN, MTEL
KAPIL BANE – SR MNGR – F&A, ZLL
SIDHARTHA ACHARYA – SR MNGR, STRATEGY, ZLL



*Zee Learn & MT Educare
November 22, 2019*

Moderator: Ladies and gentlemen, good day and welcome to the Zee Learn & MT Educare Q2 FY20 Earnings Conference Call. 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, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sidhartha Acharya. Thank you and over to you, Sir.

Sidhartha Acharya: Thanks. Good evening, everyone. I am Sidhartha Acharya welcoming you on behalf of Zee Learn Limited and MT Educare Limited. Thank you for joining us today on this conference call to discuss our performance for the Q2 FY20. We would like to add that this call is purely for our investors and analysts. And if there are any persons representing media on this call, we would request them to disconnect and log out. Thank you.

We hope you had the chance to go through the results, which has been uploaded on the company's website that is www.zeelearn.com. To discuss the result and performance, joining me today from Zee Learn side are Mr. Kumar – Director, Mr. Mukhopadhyay – CEO and Kapil and Siddharth. From MT, we have Mr. Sanjeev Garg – the CEO and Mr. Bhutra – the Chief Financial Officer and Harsh. We will start with a brief statement from Mr. Kumar. Thereafter, Mr. Mukhopadhyay will brief you on the financial highlights and key indicators for the quarter.

I would like to remind everybody that anything we say during this call that refers to our outlook for the future is a forward-looking statement and must be taken in the context of the risks we take.



*Zee Learn & MT Educare
November 22, 2019*

I now request Mr. Kumar to address the audience. Thank you.

Ajey Kumar: Hello everyone and a warm welcome to our quarterly investor call. This is Ajey Kumar here. You must have seen the results uploaded on our website and reported to the stock exchange. This was a very decent quarter for us. On a consolidated basis, our revenue grew by around 12% and our PAT increased by about 73%. The result was even better on a standalone perspective for Zee Learn. The revenue was up by about 23.5% and PAT was up by about 59% and because of the high operating leverage that we enjoy, EBITDA as a percentage of the operating revenue grew to about 59.3% from 46.6% last year same quarter and the business has grown well. Mahesh Tutorial has also started performing nicely. I will hand over the call now to Deb to give you some key highlights and thereafter we will open the floor to questions. Thank you.

D. Mukhopadhyay: Thank you, Ajey and welcome to all of you on the call. On a consolidated basis, for the quarter compared to the same quarter of last year, our total revenue is at 148.4 crores which is up by 11.7%. EBITDA is at 51.8 crores which is up by 55.6%. PBT at 32.8 crores which is up by 61.4% and PAT at Rs. 24.4 crores, up by 73.1%.

We, at Zee Learn, believe that we are in a very unique position of being able to provide a plethora of educational offerings to fulfill the demands of our contemporary parents and students. Our student centric approach through the various brands that we have, has helped us to chart a very differentiated and disciplined path to growth. Our consistent performance over the quarters is a testimony to that.

I now would like to open this for questions and I will be more than happy to answer them along with my team.



*Zee Learn & MT Educare
November 22, 2019*

Moderator: Sure, thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Utkarsh Somaiya who is an individual investor. Please go ahead.

Utkarsh Somaiya: Sir since majority of Zee Entertainment's debt has now been repaid. Will Zee Learn's pledge share has reduced?

Ajey Kumar: This deal has happened only a day or two back. So we will wait for the promoters to report the status of pledging / de-pledging and we do not have that available with us as of now. As and when it is available and it is informed to the stock exchanges, I am sure you would know, but yes, I agree it is a positive move.

Utkarsh Somaiya: So we could expect some sort of reduction in pledge like can you give some light on it? I do not want any...

Ajey Kumar: I am not privy to the exact numbers and it will be foolhardy on my part to comment on it. Like I said, the deal has happened, I think only yesterday morning. So they get a certain time period to report to the stock exchanges. So let us wait for that. I also hope like you that there is a significant reduction in the pledge.

Utkarsh Somaiya: And sir, there has been media reports saying that the Kidzee is going to be sold to EuroKids backed by KKR, so can you please say something about that?

Ajey Kumar: As part of our business, we continuously evaluate both buy and sell side options. We are a large, vigorous and growing business. I would not like to comment on the media reports per se. If there is anything concrete, which comes up, we will inform the stock exchanges and thereafter you people also. So let us not go on media reports, they write many a things.



*Zee Learn & MT Educare
November 22, 2019*

So let us wait for something concrete to come up and we will happily share with you.

Moderator: Thank you. The next question is from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.

Shailesh Kumar: Mr. Kumar, I would like to know that what we understand, we had been compelled to explore the opportunity to sell some portion of our Zee Learn business because of debt consol, now that it seems to be resolved or on the verge of getting resolved. Are we still exploring the opportunity?

Ajey Kumar: Which opportunity, I did not understand.

Shailesh Kumar: Which was recently reported in media and which was informed by Mr. Punit Goenka in Zee Entertainment concall.

Ajey Kumar: If you are referring to Mr. Punit Goenka's statement, that is something which he in his capacity as the promoter group has said that they are open to discussing their stake sale in Zee Learn which is a secondary stake sale. So that is their prerogative as a promoter. From our perspective, we have been evaluating many opportunities like real estate of our schools being sold, primary fund raising etc. on which like I answered the first person, there is nothing concrete or on the table as of now. And regarding the statement from Mr. Goenka, he would be able to answer that.

Shailesh Kumar: We do not have anything concrete in terms of disposal of our real estate asset as of now?

Ajey Kumar: We have been trying for it, but like I shared with you earlier also, in sale and lease back scenario, the type of rentals people want seems unfair



*Zee Learn & MT Educare
November 22, 2019*

and very high. They tend to compare our educational real estate to commercial properties where rentals are about 10% odd. What they forget is that commercial rentals are for a period of 3 to 5 years whereas our rentals are for a period of 25 to 30 years depending on the local regulation. So obviously the rates would have to be much lower and that is a debate we are having with people and as and when something comes up concrete, we will be happy to report that to you.

Moderator: Thank you very much. The next question is from the line of Dinesh Kulkarni who is an individual investor. Please go ahead.

Dinesh Kulkarni: Two questions sir like can you just explain the difference between the debt, consolidated level like if we see on a consolidated level, the balance sheet debt, short-term debt has remained almost same, but the long-term debt has reduced by almost 100 crores whereas on the cash flows, if we see, it does not really tally like we have just repaid around 25 crores something. So can you just explain me that?

Ajey Kumar: I will explain to you conceptually and thereafter if you have any remaining query, my finance guy will answer. See, the reduction in the bank borrowing emanates from 2 parts. On a consolidated basis, Mahesh Tutorial has paid some of its debt which would have led to long-term borrowing going down and also there would be some changes because of Ind-AS adjustments when long-term borrowings shift to short term or the other way round which is a regrouping effect. And also recently, we had made for Zee Learn some scheduled repayments to our various banks. Now, if that explains the numbers conceptually, fine, or my finance person will be happy to explain to you.

Dinesh Kulkarni: No, I think we need to go in more depth on this because it is just not tallying like cash flows have gone out for, it shows repayment of somewhere around 35-36 crores whereas total long-term debt has gone



down by 100 crores. If you just look at the balance sheet and the cash flows, one can make out that. I would expect better answer, detailed answer there.

Kapil Bane: This is Kapil. Which part you are talking about, which long-term or short-term?

Dinesh Kulkarni: If we see, the long-term financial borrowing on page 5 of the earnings release of Zee Learn, we can see financial borrowings long-term has gone down from 30 March end from 335 crores to 237 crores, that is 98...

Kapil Bane: Talking about consol or standalone?

Dinesh Kulkarni: Consolidated. So that has gone down from 335 crores to 237 crores whereas short-term borrowings almost same like 43.5 crores something like that whereas cash flows if we go down and see, cash flows total repayments are worth almost 61 crores that is long term plus short-term repayments of 61 crores and fresh borrowings of 37 crores. So that shows net repayment of only 24 crores in the cash flows. So there is a difference of 100 crores total debt has gone down whereas net repayments of debt is only 24 crores.

Kapil Bane: I just wanted to highlight you one line wherein current liability, there is a line item, other financial liabilities which is an increase of 100 crores. So basically, there is a regrouping of noncurrent to current liabilities which is of approximate 95 crores of our one long-term liability which got shifted to current liabilities. So yes, we have paid some part of our loans, but that got adjusted between the current liabilities only. So we have some part of current liabilities which is included in current maturities as other financial liabilities which got repaid during the



*Zee Learn & MT Educare
November 22, 2019*

quarter but yes, there is a regrouping majorly in between the current and non-current, that is why the gap is there.

Moderator: Thank you. The next question is from the line of Ajay Chawla from Master Capital. Please go ahead.

Ajay Chawla: Sir I have 50,000 shares I have got what was I supposed to do with it? How long it will go on? By when will be the result will be good?

Ajey Kumar: We have had a decent result. Our profits were up by 73%, so the results are already pretty good.

Moderator: Thank you. The next question is from the line of Dipan Mehta from Elixir Capital. Please go ahead.

Dipan Mehta: If you could give us the basic data that number of centers year-on-year how much they have gone up by; number of students in Kidzee, how much has gone up by, those basic statistics, normally you have some sort of a presentation which has all these basic facts.

D. Mukhopadhyay: This is Debshankar. We have just uploaded the key business and financial indicators.

Dipan Mehta: I will then take it from there, so let not waste time. My second question is that what is the overall debt whether it is in, wherever it has been grouped, what is the total debt of the company and how much of it is repayable within one year?

Kapil Bane: You are talking about the consol level or standalone level?

Dipan Mehta: Consol level, obviously because between subsidiaries, we will net it off.



*Zee Learn & MT Educare
November 22, 2019*

Kapil Bane: On consol level, there is a 405 crores of total debt as on 30th September 2019 and we have current maturities of around 80-85 crores of which could be next one year.

Moderator: Thank you very much. The next question is from the line of Dev Modi who is an independent investor. Please go ahead.

Dev Modi: My question is regarding MT Educare. We are seeing in the current balance sheet there is a new line item in these liabilities in both current liabilities and non-current liabilities which in total adds up to around 56 crores and similarly, there is a contra-asset which I think also adds around to the same amount. So I just wanted to know what is this? Is this sale and lease back transaction that you have done and has this transaction been done with a related party? Thank you.

Ajey Kumar: Mr. Dev, I think as per the new Ind-AS regulations, the rents move from rental per se to an asset type treatment where they move below the line and depreciation is charged. So it may be because of that. I will ask the finance guy to explain it to you.

Moderator: Thank you. The next question is from the line of Ashwin Reddy from Samatva Investments. Please go ahead.

Ashwin Reddy: Sir, I have three questions. Firstly, if I look at the standalone numbers, considering the whatever debt you have and the interest payment should be making from what I can see in the cash flow statement, is there any stress at the standalone level considering the debt you have and the recourse that you have from other debt that you have in other subsidiaries and all? Wanted to kind of understand is there a compulsion to now go for a Kidzee sale in terms of your operations and the cash flows?



*Zee Learn & MT Educare
November 22, 2019*

Ajey Kumar: Compulsion is not the right word, Ashwin. As part of the initiative to make our balance sheet more amenable, to deleverage ourselves and to improve our return on capital employed etc., we keep evaluating lot of options. So those options do not necessarily mean sale of Kidzee, it could also mean real estate asset divestments, which we have talked about earlier. It could be a multitude of things, which are under consideration.

Ashwin Reddy: The point I am trying to say is because Kidzee is really like a cash cow for the company, that is the plunge that you guys have and what will be the total debt that you have including whatever is there in the trust and whatever the company is responsible for? What is the overall debt burden, if I call it, what is the total amount?

Kapil Bane: The total amount of debt is just now explained. It is 405 crores. So what next you want to know?

Ashwin Reddy: I am saying in case the schools are through a trust model, is there any debt in the trust as well and are we responsible for that or you are saying this is the total amount that you have that figure?

Kapil Bane: Right now, we do not have the trust number. We will have to get back to you on this.

Ashwin Reddy: And my second question is on right now for the debt that you have, what is the percentage of Zee Learn shares that have been pledged? How much of that has been done for the loan that you guys have? So I understand some portion may have done by the promoter for his personal capacity, but for the loan that you have taken or the debt in the company's books, what is the percentage of Zee Learn's equity that has been pledged?



*Zee Learn & MT Educare
November 22, 2019*

Ajey Kumar: The Zee Learn's pledge of shares is not, I do not know the exact number per se, but I do not think it is connected to Zee Learn debt. So Zee Learn debt is not against the pledge of Zee Learn shares. Our debt is operational debt.

Ashwin Reddy: For the debt that is there on the company's books, there has been no shares pledged is what you are saying?

Ajey Kumar: On Zee Learn standalone, there are basically working capital loans and for some loans in DVPL, which is our Propco, some school properties that the Propco DVPL owns, would be pledged. So these would be asset-backed loans and not really Zee Learn share backed loans.

Moderator: Thank you. The next question is from the line of Mukesh Kovi from Prudence Capital. Please go ahead.

Mukesh Kovi: I wanted to know about the growth rate of Kidzee which has actually slowed down quite a bit. So if you look at the numbers in March 17, there were around 1700 Kidzee and in 2-1/2 years, we are at only 1900 figure and Mr. Kumar had told that every year, we were supposed like we plan to add around 300 to 400 Kidzees, but the growth has clearly slowed down over the last 2 years. So I wanted to know the reason for that?

Ajey Kumar: Mukesh, we do add about 300 odd Kidzees every year; however, because we have to keep the health and hygiene in our network very high, we have a very stringent mechanism of auditing our centers and checking them for compliance to both safety & hygiene and academic standards. Because of which, there is a churn also. Some centers are exited. So typically if you see, let us say 300 centers get added, about 150 to 200 will exit and therefore the net addition is about 100-120-150. If we are running a network across the country in 750 to 800 cities with



150,000 students and if we do not keep the hygiene very strong and we just push numbers, then this whole thing will not work very well. And that is why you see on topline a moderate growth; however, at the bottomline level because of very high operating leverage that the business enjoys, you see very good growth.

Mukesh Kovi: There is a good growth in EBITDA?

Ajey Kumar: Yes.

Mukesh Kovi: And one more question I had. In the press release in the balance sheet, there is a figure of right to use in the non-current assets which is around 100 crores, 99 crores to be precise.

Ajey Kumar: That Kapil will answer.

Kapil Bane: That is basically our new Ind-AS law applicable on lease rental liability. So whatever the rental asset we have created on the rent given or the rent to be given, that is the asset we have to create on the asset side, which is the right to use asset.

Moderator: Thank you. The next question is from the line of Dinesh Kulkarni who is an individual investor. Please go ahead.

Dinesh Kulkarni: Sir, I wanted to know like in this quarter, we generated almost 90 crores of FCF there in the second quarter, do we expect this trend to continue like or is it would slow down from here on? Thank you.

Ajey Kumar: Our business is a highly growing business and in the last 16 to 20 quarters, you have seen highly consistent results where bottomline has grown quarterly over last years in 40%-50% range. In fact if you look at our Annual report, you will see a CAGR of almost 50% plus on EBITDA level and maybe 35%-40% on the topline level. So there is no question



*Zee Learn & MT Educare
November 22, 2019*

of slowdown. We do not have a slowdown in this business. Education is a defensive sector. Even when other industries slow down, defense, education and healthcare do not typically slow down. I do not know whether that answers your question? We obviously as the company management hope for the best and work together to grow the business.

Dinesh Kulkarni: Just one more last question if you may allow. Wanted to know like the stock price of this company is like Zee for whatever reason has not just really moved from its IPO price, it is just around Rs. 25 even in today. Do we expect some buyback since we know we are generating good amount of cash. Are you expecting to do any buyback.

Ajey Kumar: Dinesh, a clarification. This company never went through an IPO. This company was demerged out of another company in maybe 2010. We never had an IPO. Coming to the second question about the share price, you are an investor and you would be knowing better than all of us that the share prices are a factor of multiple things and not only the company performance. It depends on where we come from, what is the macro environment, what are the government regulations, what is the anticipation for the market environment you have and we are hopeful that the share market and the investors will reward our organization for our unstinted, consistent and regular growth, which would reflect hopefully in the share prices as well. And I cannot comment upon the share buyback. If there is anything like that and if we come down to that, there are many regulations and permissions to take and we will be informing the stock exchange, but as of now there is nothing like that.

Moderator: Thank you. The next question is from the line of Kedar from Xander Financial. Please go ahead.

Kedar: You mentioned the consolidated debt as 404 crores, the additional disclosure that you had made on the earnings shows the net bank



*Zee Learn & MT Educare
November 22, 2019*

borrowing of 360. So just wanted to understand whether the remaining is cash and bank balance to arrive at the net debt number?

Kapil Bane: Remaining is the promoter borrowing.

Kedar: No, in Zee Learn consolidated?

Kapil Bane: Consolidated.

Kedar: You said the bank borrowing is 404 crores, right, but the disclosures in the exchange shows 360 crores?

Kapil Bane: So the difference of 44 crores is the borrowing from the promoters.

Ajey Kumar: 404 crores, Kedar, is the total debt. The bank borrowing is 360 crores, so the difference is debt which the promoter had kindly given to us.

Kedar: And against any of the borrowing, are the Zee Learn shares pledged against any of the borrowings?

Ajey Kumar: Not to my direct knowledge. Someone else also asked that question. I do not think Zee Learn shares are pledged against any of the Zee Learn operational debts.

Kedar: And second question is on MT Educare, there was one advance which was given out of MT Educare and in the notes to accounts, it mentions as the advance was returned. So has that cash come into MT Educare again? Security deposit of 66 crores?

Harsh: Yes, so that cash has come back along with interest.

Moderator: Thank you. The next question is from the line of Raman, who is an individual investor. Please go ahead.



*Zee Learn & MT Educare
November 22, 2019*

Raman: Sir, my question is that as we came across recent media rumours regarding KKR to acquire Kidzee, I don't think so that the media will react this without any rumours, but even if media has reacted and even if we can say as we know definitely that Zee Entertainment promoters sold out their stake. What is the purpose you still explore to sale out the Kidzee business and even if we sale out the Kidzee business, what kind of revenues and what kind of future growth we can expect from MT Educare and other avenues?

Ajey Kumar: I did not fully get your question Raman but let me try and explain to you. We don't comment as a policy on media reports, so whether KKR wants to buy Kidzee or someone else wants to buy Mount Litera, those media reports are unsubstantiated, and I would not like to comment upon that. Like I said earlier, Mr. Punit Goenka's statement was about the promoter stake sale, which is their prerogative as a promoter. Regarding the funds requirement for Zee Learn itself, we are evaluating multiple options, which include amongst other things, sale of and disposal of the real estate properties, school property assets that we have. Regarding your hypothetical question that whether Kidzee if it goes away, what will be the revenue growth etc., we don't give forward-looking statements, we do not give earning guidance. So even for the whole organization, I cannot provide that detail except for the fact that last 16 to 20 quarters, you have seen us growing at 40% plus CAGR on topline and 50% plus CAGR on EBITDA, so you can form your own judgment about our consistency and high growth opportunities. I hope I have been able to answer your question.

Moderator: Thank you. The next question is from the line of Vipul Shah from RW Equity. Please go ahead.



*Zee Learn & MT Educare
November 22, 2019*

Vipul Shah: I had two questions. First was on MT, I just wanted to get a clarification that this amount of 66 crores which we have received back post the quarter ended 30th September, have we repaid the debt in MT's books?

Kapil Bane: We have repaid partially the debt, not the full.

Vipul Shah: Because MT's balance sheet also showed high level of consol debt, so that was the question as to whether, fine fair enough. Second question was on the growth rate of the Kidzee enrolments. As of March end, we had close to 1,38,000 students; as of September as per your press release, we have 1,30,000 students?

Ajey Kumar: Ajey here, Vipul. Kidzee has 4 layers, playgroup, nursery, junior KG and senior KG and unlike K-12 schools, there is a churn at the end of the year, at least half of the students or 40% of the students pass out. So 1,38,000 number that you said that was the end of the academic year number. When the new academic year starts, the number starts from a much lower number and then it will grow...

Vipul Shah: But you would get new enrolments, right? It is not like if kids move out from senior KG to say Grade I, you also have kids who move out from junior to senior and likewise?

Ajey Kumar: Right Vipul, so allow me to complete my answer. Let us say, these are hypothetical numbers, let us say 138,000 was the number of students graduating in a particular academic year, the next academic year will start with, let us say, 80,000 students and immediately on the opening, let us say another 30,000 students will come, so 80,000 will become let us say 110,000. Then during the year, these are small children so many of them do not necessarily come at the beginning of the academic year, many of them keep coming. Secondly, the academic year is the amalgamation of three patterns. In South and West, the academic year



*Zee Learn & MT Educare
November 22, 2019*

is from June to May of next year. In North and Eastern India, it is from April to March. And in the North East that is the Seven Sisters, it is from January to December. So these numbers are all put together to write the academic year number here, so therefore there are mid season admissions also getting added up, so when you come at the end of this financial year, you should compare at that point of time.

Vipul Shah:

One other question was this really stupendous growth in the K-12 students and the K-12 schools, so the number of K-12 students which have increased vis-à-vis the number of schools is really heartening, so you think sir that this trend will continue because K-12 is much more lucrative and a longer term opportunity where we capture a larger life cycle of a student's education than Kidzee?

Ajey Kumar:

Right Vipul, you are absolutely right. Please realize that K-12 starts from Kindergarten up to 12th standard. When the school gets launched, it typically gets launched up till 5th or 6th grade, so here the growth that you are seeing is not apple to apple as many of the schools are adding one more grade. In Kidzee business, it is the same four grades of playgroup, nursery, junior KG and senior KG which keeps churning. In the high schools, assume that you open the school up till 6th grade initially, next year there will be 7th, then there will be 8th, 9th, and so on, so this growth will continue till there are number of grades to get added. And, of course, it will also come from new schools getting added and will also come from more students coming into the existing grades. But because of the new grades getting added for the schools that are relatively new, it increases the growth.

Moderator:

Thank you. The next question is from the line of Sufiyan Lakdawala from Lalkar Securities. Please go ahead.



*Zee Learn & MT Educare
November 22, 2019*

Sufiyan Lakdawala: Sir, as you say that you did not comment on the media report or Mr. Punit Goenka stakes thing, but can you assure that Kidzee will remain with Zee Learn?

Ajey Kumar: No sir, I cannot give any assurance like that. It depends on many permutations, combinations, etc. Rest assured, however, that we will or the company and the management will do what is best for the organization but it would be foolhardy for me or anyone to give you any assurance like that.

Sufiyan Lakdawala: And another question is, can you give us Kidzee FY19 and H1 FY20 revenue and EBITDA?

Ajey Kumar: We report segmental revenues; you can look it up from there.

Sufiyan Lakdawala: It is given for both Kidzee and Mount Litera, not specifically for Kidzee? That is the reason.

Ajey Kumar: For that Sir, you can connect with the finance team one on one or you can extrapolate it from the Pre-K numbers. I have the data in front of me, which is the data that we have reported as segmental revenue. So right now, I will not be able to give you an immediate breakup.

Sufiyan Lakdawala: And last question, in the contingent liabilities, does this include the corporate guarantee given to Taleem and it is how much sir?

Kapil Bane: Yes, there is a corporate guarantee given to Taleem which is around 310 crores.

Moderator: Thank you. The next question is from the line of Hiten Sampat from Quest Investments. Please go ahead.



*Zee Learn & MT Educare
November 22, 2019*

Hiten Sampat: Just a small update I needed with regards to, because someone else asked whether you would be doing some buyback, so I was just looking at the cash flow numbers and the amount of cash that is generated, what are the plans for repayment of the company's debt across the board, so would you be repaying them because also this quarter 66 crores has come as a refund for some project in MT Educare also, so do you look at reducing the debt completely in sometime and what are your plans for dividend payout?

Ajey Kumar: First of all, cash which is there in the business or going to be generated, is not only there for repaying debt. The cash gets utilized for changes in working capital, for CAPEX, for like you said paying dividends and of course for bank servicing. So as of now, we have a bank servicing plan for the next year which is almost to the tune of 80 to 100 crores. That is our first priority that we should be good in repaying all the banking stuff, and we also have our small CAPEX requirements. And regarding the dividend, we have just recently paid a dividend, so the next dividend is due after quite some time and I am sure that your company for the last 2 or 3 years has been a consistently dividend paying company and hopefully, we should continue our track record.

Moderator: Thank you. The next question is from the line of Utkarsh Somaiya who is an individual investor. Please go ahead.

Utkarsh Somaiya: Sir, can you tell me the percent peak capacity for Kidzee please?

D. Mukhopadhyay: This is Debshankar. So the peak capacity for centers is on an average 100. Typically, each class consists of around 25 children, so there are four; playgroup, nursery, junior KG and senior KG and average enrolment per centre is 73; however, as you progress in the academic year, this average is expected to further improve.



*Zee Learn & MT Educare
November 22, 2019*

Utkarsh Somaiya: And sir, your number of schools and students has increased, but your franchise fee Y-o-Y has reduced from FY19 over 18, so you think you can explain why this has happened?

Ajey Kumar: Where did you see the franchise fee decreasing? We did not understand? Which number are you referring to?

Utkarsh Somaiya: Sir, in the annual report, the revenue it is reduced from 13 crores last year to 11 crores this year?

Ajey Kumar: Franchise fee for Kidzee?

Utkarsh Somaiya: Sir, it is a consolidated figure, it is a part of the revenue?

Ajey Kumar: It will be very difficult for answering you like that because the franchise fee comes from Kidzee, Mount Litera High School, Teacher training programs, Kidzee Daycare Programs, Zee Institute of Creative Arts etc. Which sales number are you referring to, if you can tell, we have got the annual report copy, which page?

Utkarsh Somaiya: Sir, page number 209, revenue from operations breakup is given.

Ajey Kumar: It will be difficult for us to comment like this because this is a consolidated financial statement which is along with subsidiaries, Mahesh Tutorial etc., so I suggest you connect with our team, one on one because we will have to see a breakup of this and try and understand what it is.

Moderator: Thank you. The next question is from the line of Amit Bagaria who is an individual investor. Please go ahead.

Amit Bagaria: I just wanted to ask you, do we have any strategy for the free cash flows in terms of reducing our debt?



*Zee Learn & MT Educare
November 22, 2019*

Ajey Kumar: From the free cash flow, obviously one of the requirements would be servicing the scheduled debt and thereafter for other requirements of the company. Right now we do not foresee any out of turn debt repayment.

Amit Bagaria: So we plan to use the cash flows or something else like a dividend policy in place or something?

Ajey Kumar: Yes, we anyway give dividend every year.

Amit Bagaria: That is just 5p or something 10p, I believe, 10% I think it is.

Ajey Kumar: As of now, I can only say that we have been giving dividends and hopefully we will continue giving dividends. I will not be able to comment upon the exact quantum.

Amit Bagaria: Just wanted to add on one more thing. As and when the promoters do get free, it will be great to see the promoter family getting on the Board of Directors and attending the concall to just give a lot of confidence to the company and the shareholders also a lot of confidence, do you have a suggestion?

Ajey Kumar: The promoters / shareholders are a different legal entity. Your company is a different legal entity. While our promoters are very esteemed and senior people, rest assured that the management team that you have put in place here is also a good professional team and that has worked for couple of years.

Amit Bagaria: I totally agree on that point.

Ajey Kumar: And hopefully we will continue serving you.

Moderator: Thank you. The next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead.



*Zee Learn & MT Educare
November 22, 2019*

Dipan Mehta: Sir, this is Dipan Mehta, Elixir Equities again. I just wanted to ask this question, it was asked earlier also, but actually the number of students has gone up on year-on-year as far as Kidzee is concerned, also we have consistent growth rate as far as K-12 is concerned, sir any specific reason for that? Is it that you are out weeding unprofitable centers, for which it has remained because turnover has gone up?

Ajey Kumar: Please understand, like I explained earlier, you cannot compare K-12 growth rates with the Pre-K growth rates. In Pre-K, there are four grades of playgroup, nursery, junior KG and senior KG in which the students keep churning. There I can't add grade 1 over and above that, but in the high schools, every year a new grade gets added compared to when the school was first launched. Let us say, it is launched till 5th standard, for the next 7 years one-one grade will be coming additionally. So in K12, the growth rates that you are seeing, some 7-8% of that growth rate will be because of the new grades getting added and that is why the difference is there.

Dipan Mehta: Yes, but my question is that why is the Pre-K, why is that number not growing, Pre-K is 130,064, it went to 130,166 year-on-year, so why is that not increasing?

Ajey Kumar: Like I had explained, the number that you are seeing here is the academic year number, which is spread across the territories in India, which operate on three timelines and what you are seeing here is the consolidated number. Admissions go on through out the year, so you should compare at the end of all the three academic years, then only you will get an apple-to-apple comparison.

Dipan Mehta: And can you just highlight this contingent liability of 300 crores, what exactly is this particular liability, and will it fructify or what is the position over there?



*Zee Learn & MT Educare
November 22, 2019*

- Ajey Kumar:** You said contingent liability?
- Dipan Mehta:** Yes, there are some reference of contingent liability?
- Ajey Kumar:** Contingent liability is the corporate guarantee provided for the loans taken by the school trust etc. The contingent liability and the corporate guarantee will disappear on repayment of loan.
- Dipan Mehta:** One last question sir, the K-12 the schools which we have, are they broken even, or they still loss to us as we were looking at earlier at breakeven level, is it a long gestation business?
- Ajey Kumar:** You are referring to our 136 schools or which one of those 130 schools?
- Dipan Mehta:** The K-12.
- Ajey Kumar:** Sir, we have 135 K-12 schools.
- Dipan Mehta:** Yes, that the 135 numbers, K12.
- Ajey Kumar:** That 135 schools, some of them would be highly profitable, some of them would be mid profitable, some of them which were recently launched would be in the negative, so the profitability or the operational breakeven is connected to the age. As a thumb rule, these schools start doing operational breakeven in year 3 or 4 depending on how good they are.
- Dipan Mehta:** Sir, my question is at an aggregate level, whether K-12 schools breakeven or they are making loss in total?
- Ajey Kumar:** Sir, what gets booked into our financials is the franchise fee that we received from those K-12 schools. These 135 schools are run by 135 different trusts and like I pointed out to you, someone who had launched



*Zee Learn & MT Educare
November 22, 2019*

this school let us say this year or last year, obviously he would be in a loss, but someone who had launched, let us say 6 years back or 7 years back, he would be making a lot of profit. So I cannot give you an average number, number one because I would have to go to 135 different franchises, take their P&Ls and balance sheets and consolidate artificially which is not our concern directly because what gets booked in my balance sheet and P&L is not those entire 135 schools, but only our franchise fees that we receive and also that consolidated number will make no sense because it is like saying that you take 135 schools of different people and take out an average number which does not show really anything.

Moderator: Thank you. The next question is from the line of Dinesh Kulkarni who is an individual investor. Please go ahead.

Dinesh Kulkarni: Sir, I wanted to know has the growth in Liberium business, that is training and manpower business has slowed down because the change in revenue 6 months, it is not even at 10%, can you please explain that?

Ajey Kumar: When the business had got launched in the first years, the business was growing up and setting up, so, obviously you would see phenomenal growth rates but that is not really permanent growth. That is the phase of business setting up and when the business matures that is the time the business stabilizes and that is when we need to see the growth, so you will have to wait for a year or so to see the real growth rates fructifying.

Dinesh Kulkarni: And how do you see the margins or like the improvements at MT Educare, will they continue, and would we see further improvements in operating efficiency at MT Educare?

Ajey Kumar: Our subsidiary, Mahesh MT Educare is one of the leading test prep and tutorial companies in India. It is a very high vintage and pedigree set up



*Zee Learn & MT Educare
November 22, 2019*

by Shri Mahesh Shetty Ji and they have always been at the helm of and at the fore front of this industry and post our takeover, the business has stabilized and has started showing the profit and we remain hopeful that the business will grow to great heights and give us great profits.

Dinesh Kulkarni: But the operating level would be improving numbers from here on is my question?

Ajey Kumar: Of course sir, we hope for improved numbers for all our businesses, why only MT?

Dinesh Kulkarni: So what is the normalized rate of EBIT margins or operating margins that you would expect? On a stable business I am saying.

Ajey Kumar: My sense is that MT EBITDA margin should right now be about 15%. So last year if you see, Mahesh Tutorial margins were about 15% and if I am not wrong, this year they have already started hitting the 20 to 25% band and I believe that the companies who make over 35% margin are good and healthy companies and I am sure Mahesh Tutorial will very soon reach there in the coming quarters.

Moderator: Thank you. We will be able to take one last question. We take the last question from the line of Ashwin Reddy from Samatva Investments. Please go ahead.

Ashwin Reddy: So, firstly on the Kidzee, for the next year what would be the growth rate in the schools that you can expect, I understand looking a churn in the past, but what kind of a normalized rate we expect from here?

Ajey Kumar: We would expect Kidzee which, is a good and consistent business, should grow at a volume of at least 8 to 10% topline and like I said operating leverage is very high. So out of the incremental revenue that



we receive, almost 70% odd goes to bottomline directly which is the operating leverage that I refer to, so Kidzee business should grow the topline by 8 to 10% and the bottomline should grow easily by 30 to 40%. This is not an earning guidance, this is basis conceptual understanding of the business.

Ashwin Reddy: Of course, I understand and secondly, if you say for the schools that you run yourself for the K-12 schools, which I understand around 5 or 6 type, so for these schools what is the consol EBITDA or are you making money cumulatively in these schools?

Ajey Kumar: At the EBITDA level meaning at the operational cash flow level, they are at breakeven, they make small profit; however, the schools are not full as of now and there is a balance journey still for them and at full capacity, these schools will be making very decent amount of profit, but yes they are above breakeven right now.

Ashwin Reddy: And sir finally, what I am trying to understand is this, because Kidzee is still the fungible which you have and after doing all the hard work, if we are forced to sell for whatever reason, I mean whatever price we get in this environment will not justify the value which can be created in this, so I am just trying to understand is there a way wherein can we sustain the bank payments which we have for this year and next year without any asset sale or would there be any asset sale, I mean to say asset or property or whatever you call it, Kidzee or whichever it or is it needed for the servicing of bank debt which we have?

Ajey Kumar: To answer your question, the segments that we operate in, we would never have entered them unless they were lucrative and unless we have a capacity to become one of the leaders in that segment. In Kidzee, we are Asia's number one; in Mount Litera, we are among the top 3 in India; Liberium which has recently been set up already is shaping up very well;



*Zee Learn & MT Educare
November 22, 2019*

Mahesh Tutorial is India's leading company in test prep and tutorials. So what you need to understand is that all businesses have certain logic and they are at a different level of evolution that they have reached. Our earliest and most matured business obviously is Kidzee but the other 3-4 businesses that we are in, which are more to do with K-12 and the supplementary services that go into K-12, there is a lot more room to grow like you have seen in the numbers. The K-12 business, the K-12 students, you see growing at a must faster rate, as the head room for topline growth is significantly higher in the K-12, test prep, tutorials, supplemental, vocational, compared to Pre-K. While saying that I would just like to add that there is no angle of anyone forcing anyone to do anything here, but rest assured that like Kidzee is an attractive business, our other businesses are also equally or more attractive and in fact with a higher head room available.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for any closing comments.

Ajey Kumar: Thank you everyone for attending this call. Please feel free to connect to company's individual management and investor relations team for any further queries and we hope we have been able to live up your expectations in this quarter and hope to talk to you again after we declare the next quarterly results. Thank you very much.

Moderator: Thank you very much. With that, we conclude today's conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.