



“Zee Learn Limited Q2 FY2018 Earnings
Conference Call”

October 17, 2017



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Moderator: Ladies and gentlemen good day and welcome to the Zee Learn Limited Q2 FY2018 earnings conference call, hosted by Edelweiss Broking. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Praveen Sahay from Edelweiss Broking. Thank you and over to you Sir!

Praveen Sahay: Thank you operator. A very good morning to everyone. Thank you for joining the earnings call of Zee Learn Limited. On behalf of Edelweiss Broking, I would like to welcome the management team of Zee Learn Limited to discuss the result and outlook post Q2 FY2018 earnings. We have with us Mr. Debshankar Mukhopadhyay – Chief Executive Officer, Mr. Umesh Pradhan – Chief Financial Officer, Mr. Subodh Khanna - AVP Finance and Mr. Sidhartha Acharya – Senior Manager Investor Relation.

I would now request Mr. Mukhopadhyay for his opening remark and post we will open the floor for Q&A. Over to you Sir!

Subodh Khanna: Thank you Praveen. This is Subodh here. I will just run through the introduction. Good morning everyone. Wish you all a very a happy Diwali and a prosperous New Year. Thank you for joining us today. This conference call has been organized to update our our investor on the company and its performance for the quarter and half year ended September 30, 2017. We hope that you have had a chance to go through our company’s result, which is uploaded on the company’s website www.zeelearn.com. To discuss the result and its performance today we have Mr. Debshankar Mukhopadhyay – Chief Executive Officer of Zee Learn Limited and Mr. Umesh Pradhan – Chief Financial Officer.

We will start with a brief note from Mr. Mukhopadhyay on the quarter and the half year 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 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: Thank you Subodh. Good morning to you all and wish you a very happy New Year and a very prosperous and happy Diwali. It has been a very satisfying performance this quarter



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striking a good balance between revenue growth while tightening our execution delivery to greater efficiency. Our network debt and quality service is resulting in industry leading customer satisfaction levels and strong client metrics. We will continue to invest in content, service capability and brand building to secure long-term profitable growth. We will strive to build new avenues of growth while building strongholds around the core. Just to give you an highlight of our performances so far, consolidated operating revenue for H1 FY2018 stands at Rs.128.3 Cr , which is up by 52% from Rs.84.5 Cr. Consolidated operating EBITDA for H1 for the current year is at Rs.49.5 Cr up by 64% from Rs.30.3 Cr. Consolidated PBT for the same period for the current year is at Rs.36.3 Cr up by 140% from Rs.15.2 Cr and consolidated PAT for the current year is at Rs.24.1 Cr up by 72% from Rs.14 Cr. Hope on a standalone and as well as on a consolidated basis, we have reported strong set of numbers. I thank you once again for attending this call today and open this up for question and answers. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line Dimple Kotak from SKS Capital. Please go ahead.

Dimple Kotak: Hello Sir congrats on the good sets of numbers. Sir I have two questions one is pertaining to your debtors. The debtors have significantly increased by around 58 odd percentage in this quarter, so Sir what is the reason for that and secondly Sir even our debt has increased from March to September by Rs.10 Crores, so are we planning any restructuring? I just wanted a more dope on it?

Umesh Pradhan: Good morning everybody. This is Umesh and first of all Happy Diwali and prosperous New Year to you. Dimple you were comparing with which period?

Dimple Kotak: Sir I am comparing with March.

Umesh Pradhan: And is it on a consolidated basis?

Dimple Kotak: Yes Sir.

Umesh Pradhan: Let me come to your first question on debtors. As far as the consolidated debtors are concerned, the same are consistent and that comprise of three companies, ZLL standalone, DVPL and the Liberium.

Dimple Kotak: Pardon Sir.



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Umesh Pradhan:

I will explain one by one. As far as debtors in Zee Learn Limited are concerned, they are slightly increased with comparison to the same period last year. You cannot compare it with March because when we talk about our company, our nature is such that it has to be compared with the corresponding period of the last year. Unless you compare it with the corresponding period of the last year, you would not be able to understand. Therefore, it is very important to compare figures with the comparative figures of corresponding periods. As far as September period is concerned, we booked the Mount Litera royalty during the period, which will get realized by the year end. Therefore, as far as Zee Learn is concerned the debtors are majorly in terms of the receivable coming from Mount Litera Zee School franchisees on account of royalty and on account of the management fees receivable from the own managed schools. Apart from that everything is received in advance. So therefore in Zee Learn Limited, the debtors comprises of only these two elements.

Dimple Kotak:

That would be around Sir?

Umesh Pradhan:

. The Mount Litera Zee School franchisee, the royalty receivable from Mount Litera Zee School franchisees are received in two tranches subsequent to September. First tranche, we received somewhere around October end, November start and second tranche, we get around January, February. By the time we reach to March, these debtors will get realized. Right, so therefore when you compare it to March, you will have uneven debtors however when you compare with the September one, you will have not so much increase. That was one. As far as the DVPL is concerned the debtors for all the relevant period be it March or be it September, the debtors are shown as outstanding. These are debtors receivable again from the trust, wherein the schools are managed by us. Currently we are showing this as outstanding, to the extent we accrued in our books. However as explained in my last couple of calls, we have refundable security deposit payable to this trust, which is more than Rs.100 Crores. So as a matter of fact, we can adjust these debtors against those security deposits anytime. So these debtors are basically secured debtors. We do not have any risk as far as the recoverability of these debtors is concerned.. As far as Liberum is concerned the outstanding debtors are only to the extent of the September month salary, which is normally processed at the end of the month and the monies are received in October.

Dimple Kotak:

Sir if you could help me with the quantum I mean as in the amount in Mount Litera, the amount outstanding in DVPL and Liberum?



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Umesh Pradhan: So approximately around Rs.8 Crores to Rs.9 Crores is receivable from the MLZS franchisees. Around Rs.5 Crores is receivable from Mount Litera owned managed School towards the management fees.

Dimple Kotak: Rs. 5 Crores from Mount Litera.

Umesh Pradhan: The own managed schools. Yes on account of management fees and around Rs.4.5 Crores is the debtors standing in the books of Liberum.

Umesh Pradhan:

Dimple Kotak: Sir around Rs.78 Crores of the debtors are shown in the books if I am correct?

Umesh Pradhan: Rest are all DVPL.

Dimple Kotak:: Sir I will just repeat once. Mount Litera is Rs.5 Crores, Liberum is Rs.4.5 Crores, and rest is DVPL?

Umesh Pradhan: .I said the rest is all debtors standing in the books of DVPL, lease rentals and which I explained to you; there is about 100 cr odd security deposit against these outstanding

Dimple Kotak: Exactly Sir, but since you are not adjusting it by when do we see the own schools chipping in and actually paying us the management fees?

Umesh Pradhan: Please understand own schools have already starting paying up the management At the start of this financial year as of April 1, 2017 we had about Rs.6 Crores management fees outstanding from these six schools. We recognized about Rs.9 Crores of revenue during these six months as a management fees from these schools and we have received about Rs.9.5 Crores on account of management fees during these six months. So to tell you the schools have already paying off larger sum of management fees compared to the last year. Obviously going forward the schools in a year or couple of years or so, will start paying off against the lease rentals.

Dimple Kotak: Sir what is the amount of lease rental and the management fees annually?



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- Umesh Pradhan:** Lease rentals, you will have to understand that it is depending upon the area that is used by the schools. Approximately for the financial year 2018, the lease rentals will be in the range of about Rs.22 Crores to Rs.24 Crores.
- Dimple Kotak:** And did we get the lease rentals in the previous year FY2017 or that one also in the debtors?
- Umesh Pradhan:** Lease rentals are not realized yet.
- Dimple Kotak:** And Sir for the management fees what is that annually?
- Umesh Pradhan:** That would be approximately Rs.12 Crores to Rs.14 Crores.
- Dimple Kotak:** Of which Rs.9 Crores has been received in the first half?
- Umesh Pradhan:** Yes.
- Dimple Kothari:** And Sir what about the debt, like that has also increased on a constant basis by around Rs.10 odd Crores?
- Umesh Pradhan:** Again you are comparing with March?
- Dimple Kotak:** Yes. Sir even if you do not compare, I just want to understand are we restructuring the debt or are we going to repay?
- Umesh Pradhan:** No, in fact as far as I understand there is no increase in our debts. Could you just send me the figures that you are comparing?
- Dimple Kotak:** Sir debt?
- Umesh Pradhan:** Compared to March figures our borrowings have not increased.
- Dimple Kotak:** Sir it was Rs.238 Crores and it became Rs.248 Crores your total long term and short term both?
- Umesh Pradhan:** I will come back to you.



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- Dimple Kotak:** Sure Sir, but are we doing any restructuring, refinancing or any increase in borrowings in future in the coming quarters?
- Umesh Pradhan:** Not really.
- Dimple Kotak:** Sir any guidance for the coming quarters and next year?
- Umesh Pradhan:** No we do not give guidance Dimple.
- Dimple Kothari:** No issues. Thank you so much and Sir best of luck. Happy Diwali to you too.
- Umesh Pradhan:** Thank you and same to you.
- Moderator:** Thank you. We take the next question from the line of Rohit Chawla from Axis Securities. Please go ahead.
- Rohit Chawla:** Good morning Deb Sir and Umesh Sir. A happy Diwali and happy New Year. First of all many congratulations for a great set of numbers both in the Q2 as well as the H1 performance. It has been quite impressive. Sir firstly my question was what has been in the number of enrolments year-on-year basis both in Kidzee and K-12 MLZS is and secondly I understand that in the numbers there is other income of Rs.3.7 Crores, which has been increased by 90%, so what does that other income constitute and thirdly, I wanted to understand the revenue breakup of Kidzee, MLZS, ZICA, ZIMA, ZITA on the revenue front as well and on the EBITDA front as well?
- Umesh Pradhan:** Rohit first of all thank you very much for encouraging words and Happy Diwali to you too. I would just like to ask you to repeat some of your questions. One by one I will answer you. Your first question was on enrolment right?
- Rohit Chawla:** Yes.
- Umesh Pradhan:** So we have overall enrolment Revenue growth of about 10% on corresponding period of last year. Kidzee enrolment growth is around 12%. Mount Litera will be around 16% to 17%. What was your second question
- Rohit Chawla:** The other income is around Rs.3.7 Crores, which is 90% up, so what does the other income constitute?



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Umesh Pradhan: Please understand when you are talking about standalone numbers, we have started converting our numbers into Ind-AS from April 1, 2017 onwards. So therefore there are certain Ind-AS adjustments, which are done as far as other income is concerned. We have given certain corporate guarantees to the trust and to the subsidiary companies. On that, we have to recognize the service incomes, under Ind-AS. So that is one element that is coming into and there are certain other adjustments that are done. Rather than looking at the standalone numbers for other income and interest income, I will advise you to look at the consolidated numbers because if there is any intercompany that gets knocked off you will have a better picture in terms of understanding that real other income on consolidated basis.

Rohit Chawla: And the other question was of what was the number of preschools and K-12 schools opened in this quarter and what is the total number as of now?

Umesh Pradhan: As far as Kidzee schools are concerned, we have opened around a little more than 100 Kidzee Centre.

Rohit Chawla: More than 100?

Umesh Pradhan: Yes more than 100, about 110 and as far as K-12 is concerned we are geared up to open about 14 to 15 schools. That would open in the last quarter of this financial year. Please understand K-12 schools does not get opened during this time, the same are typically opened during the last quarter, so that they start taking the admissions and ready for academic session starting from April/ May. So as far as financial year is concerned, the K-12 schools, new additions will be seen only in fourth quarter.

Rohit Chawla: So the total number of this new school for K-12 will be 14 to 15, which will open in the last quarter?

Umesh Pradhan: Yes, estimated

Rohit Chawla: In Kidzee, so this is a net number of the number of number of schools opened minus closed, 110 is a net number this quarter?

Rohit Chawla: No, it is a gross number. Net number we would come to know only at the end of the year.

Umesh Pradhan: And out of this 110 how much are our own schools, which we have started on our own and how much were through franchisee?



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- Rohit Chawla:** We have opened about six own schools. Rests are all franchisee.
- D. Mukhopadhyay:** Just to add, Debshankar here. Every year we remove around 50 to 60 schools from our network on various grounds predominantly on account of compliance and we are keeping in mind the safety, security guidelines that one needs to endeavour.
- Umesh Pradhan:** So that was the run rate during our last two to three years however if you remember our last call or may be of March call where we explained that during the FY2017 we have closed down a little more than 100 schools, so we are taking a much more aggressive stand as far as child safety is concerned because there are certain incidences happening in the outside world, We have made our policies more stringent, so you may see some number of schools getting closed, which are more than the standard rate of 50 to 60. You will see schools in the range of about 100, 120 will get closed even this year. That we will come to know only at the end of the year.
- Rohit Chawla:** So I think we were 1700 at the start of this year, so we may touch 1900 by the end of this year?
- Umesh Pradhan:** Yes may be a little more than 1900.
- Rohit Chawla:** More than 1900 and MLZS say 140, 130?
- Umesh Pradhan:** Around 130.
- D. Mukhopadhyay:** 108 plus 14.
- Rohit Chawla:** 108 plus 14, okay 122.
- Umesh Pradhan:** In 108 we are not counting our own managed 6 schools.
- Rohit Chawla:** And in terms of our manpower activity, so the last quarter we had placed around 2000 people of our own group companies, so how is that panning out and do we see opportunities outside our group companies as well?



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D. Mukhopadhyay: We already have signed of around three outside clients in this quarter and if you see the comparative of Libirum, our manpower training segment, the first quarter we did around Rs.9 Crores topline. The second quarter we did about Rs.15 Crores to Rs.16 Crores

Rohit Chawla: Rs.15 Crores to Rs.16 Crores.

Umesh Pradhan: Right, so total during the six months we have done Rs.25 Crores. These activities obviously have taken a lead from compared to first quarter for the second quarter. Obviously this company is in building phase. It was just started in the first quarter. There is a huge scope in terms of outside clients coming into, rather I would say going forward on a long term basis the outside clients coming is the biggest scope that we look at it. Our aim to look at this company from the angle of providing training and then to provide the employment. It coincides with our education business.

Rohit Chawla: So what is your margin profile on a sustainable basis may be 5% EBITDA margin from the segment?

Umesh Pradhan: As far as Libirum is concerned if you see first quarter, we did have about 4.5% to 5% margin, but that was just a start of the business. The business was under buildup phase. If you see the second quarter the margins have decreased to about 3% to 3.5%. However since we are recruiting people to manage this business, the people who are from this core segment are being recruited and our operations are pan India now, so the team is building up. Also if you look at the industry margins in this particular kind of business, the margins are about 1% to 1.5%. If you see Teamlease or any other company, the margins are 1% to 1.5%. We will be recording about 1.5% to 2% of margin once stabilized. But more importantly you should look at this business from the prospective that this is a zero asset business, and a negative capital business. i.e. you do not need to invest anything and therefore it's a very high ROC business. For example our share capital is hardly Rs.1 lakh that is the investment we have done in this business. It is a high ROC business. It is a welcome business. And most importantly, it coincides with our main object of education business as well.

Rohit Chawla: Sir from Rs.37 Crores, which we did this quarter what is the breakup for Kidzee, MZLS, and ZICA, ZITA, and ZIMA?

Umesh Pradhan: So currently the ratio remains the same about 70% - 72% comes out of Kidzee. About 22% comes out of Mount Litera Zee School and about 5% comes out of the other business.



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- Rohit Chawla:** On the EBITDA front also the contribution remains the same; maybe it will be more from Kidzee and MLZS?
- D. Mukhopadhyay:** It is more from Kidzee than from Mount Litera Zee School.
- Umesh Pradhan:** We are almost kind of breaking even and we are making little EBITDA contributions on youth business.
- Rohit Chawla:** It is EBITDA positive. That is from my end Sir. If any questions I will join in the queue. Congratulations again Sir.
- Moderator:** Thank you. The next question is from Shayon Chatterjee from Moon Capital. Please go ahead.
- Shayon Chatterjee:** Hi Umesh. Hi Deb. I hope all is well. Just very quickly I am sorry I missed it or maybe the line was not too clear. The lady before Rohit was asking about net debt and I am just looking through numbers. Can you please tell me exactly what your net debt numbers are according to your calculation for standalone and consolidated and what sort of free cash flow are we generating on a standalone and again consolidated basis for the first half?
- Umesh Pradhan:** Sure.. Wish you a Happy Diwali first of all and thank you very much for continued support. I will take your second question first, Shayon. As far as free cash flow is concerned, we have about Rs.40 Crores free cash flow that we have generated during six months on a consolidated basis. Rs.40 Crores on EBITDA level before tax. With tax, we have generated about Rs.32 Crores. That is on a consolidated basis. On a standalone basis, we have generated approximately about Rs.29 Crores to Rs.30 Crores.
- Shayon Chatterjee:** How much capex have we spent?
- Umesh Pradhan:** We have spent about, on a standalone basis hardly any capex because we do not require any capex as far as standalone is concerned being largely franchisee model. As far as the consolidated is concerned, compared to March we have added about Rs.5 Crores to Rs.6 Crores.
- Shayon Chatterjee:** This includes your DVPL right?
- Umesh Pradhan:** This is largely DVPL. I would say only at the DVPL level.



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Shayon Chatterjee: Sir Rs.50 Crores, Rs.32 Crores after tax. Capex of Rs.5 Crores to Rs.6 Crores on a consolidated, nothing on a standalone and just if you could go through the net debt numbers please?

Umesh Pradhan: As far as your question and question asked by Dimple, if Dimple is around, let me also tell you about the borrowings. As I told you, our borrowings remains same as in March level however there is a regrouping of NCD interest / interest on NCD. We have about Rs.65 Crores NCD standing on standalone balance sheet and this interest is regrouped under Ind-AS. This is now shown as borrowings. Earlier it was shown as a long-term liability. Now it is shown as borrowings. So you will have about Rs.16 Crores to Rs.17 Crores getting added in to overall borrowings. However on the overall basis the borrowing remains the same.

Shayon Chatterjee: So basically this is NCD, which you will eventually. pay. when it will mature?

Umesh Pradhan: It will mature in 2020. So it is a bullet payment along with the interest. So what we do is yearly we keep on accruing the interest. Under earlier accounting gaps, we used to show this interest, which are accumulated liability as a long-term liability. Now this is regrouped under Ind-AS as a borrowing.

Shayon Chatterjee: And the Rs.16 Crores interest is over how many years of accrued?

Umesh Pradhan: Since the beginning, which was around 2015 till date.

Shayon Chatterjee: So it is basically effective principle interest is around Rs.81 Crores right Rs.65 Crores plus Rs.16 Crores is it that?

Umesh Pradhan: That is right.

Shayon Chatterjee: What interest are we paying on this effectively so that we...?

Umesh Pradhan: It is about 10.40%.

Shayon Chatterjee: Do you think if you were to refinance it today, it would be at a lower interest assuming in 2020 we have the same interest rate pretty much?



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Umesh Pradhan: Quite possible. I think we can definitely bargain, but what happens Shayon is when we restructure, we also get into paying the processing charges, etc.

Shayon Chatterjee: There is no free money right.

Umesh Pradhan: That is right. It is worked out on a long-term basis on a discounted cash flow it works out to more or less same. If we would have been paying around 12% to 12.5% obviously then it would have made sense, but at 10.4% for us it might not make sense and given that it is only about two years are left.

Shayon Chatterjee: This NCD who are the creditors, are these the FMPs who are the banks? Who are the creditors who bought these NCD?

Umesh Pradhan: They are mutual funds.

Shayon Chatterjee: Mutual funds. Thank you.

Umesh Pradhan: Wish you Happy Diwali once again.

Shayon Chatterjee: Same to you.

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

Avinash Kumar: Hi all good morning. Wish you Happy Diwali. A few set of questions I will ask at one go and then you can answer it one by one. First is related to your I mean if I look at your books the DVPL earned around Rs.17 odd Crores lease rental in FY2017 and I am talking about from your analyst report and they repaid around Rs.14 Crores loans to ZLL and they again took a fresh loan of Rs.62 odd Crores during FY2017, so I want to understand how this whole setup works. DVPL will be repaying you Rs.14 Crores and then taking a fresh loan of higher amount? Second question is, Rs.22 Crores I can see that was regrouped from short-term to long-term loan, but still on a net basis, there is increase of around Rs.47 odd Crores in loans given to DVPL, so why this high jump in loans given to DVPL. Third part of the question is, there is Rs.1.2 Crores intercorporate deposit given to TALEEM research related party and again Rs.160 Crores is mentioned separately as guarantee given to other related parties, so if you can focus on those two and last part of the question is basically if I understand DVPL needs new funds to carry out construction work in the self-fixed,



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self-owned schools and I remember you mentioning on the last concall that 80% of construction is almost done, so what I want to understand I how much additional funds will DVPL need going forward to complete this in less than 10 to 15 odd percent of construction, which is left, so if you can provide some colour on it?

Umesh Pradhan:

Thank you Avinash. I have noted your questions. Let me know if I am not able to answer you all of your questions. One by one I will try and answer your questions. Firstly let me talk about the funding done from Zee Learn Limited to DVPL. Without getting into the figures, without getting into what was there earlier in the short term, what happened, how did we regroup to long term, etc., etc. Let me first given you some sense of what DVPL is and what ZLL does with DVPL. DVPL is an investment company or the propco company, , which is 100% subsidiary. We have built up around 6 school assets of approximately about more than Rs.600 Crores of six schools including BKC in this schools. All those funding had come from the promoter of DVPL, which is Zee Learn Limited, obviously someone was required to fund DVPL in order to build those assets. So Zee being the promoter company for DVPL has funded it and along with some borrowings into DVPL have constructed the assets for 6 schools. That is how the assets have been built. Now these assets have been leased out to the trust, which owns these schools. These schools are about four years old and therefore currently these schools are paying only the management fees and not the lease rentals. Therefore Zee Learn Limited needs to continue to support DVPL operations, which is basically completing the minor construction that is still remaining to be completed. I will take your last question in between wherein you had asked that how much funds DVPL will require to close the construction. About Rs.15 odd Crores will be required to close the construction, but it is not only the construction, which is required to be paid by DVPL. There are many other cash flow items that sit on DVPL P&L balance sheet.

Avinash Kumar:

Sorry to interrupt you, did you mention Rs.50 odd Crores will be needed for the construction?

Umesh Pradhan:

15, Rs 15 Crores.

Avinash Kumar:

Rs.15 Crores. Please go on.

Umesh Pradhan:

Rs.15 Crores that we will require. Now as I was saying that on DVPL balance sheet P&L, there are other cash flow items which are also required to be funded like interest on the borrowing that is sitting even now in the DVPL balance sheet, , the lease rentals that DVPL pays to the landlords from which the land has been taken. These are individual landlords,



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other than Goa, all these lands are taken on long-term lease from individual landlords. So this yearly payments have to be made. Obviously the staff salaries and then there are taxes that needs to be paid in DVPL . The services tax, GST, the PAF, etc., etc., all need to be paid. So therefore DVPL will continue to be supported by Zee Learn Limited till the time it becomes self sufficient... The entire income, which is accrued from year on year is shown into outstanding, but as I explained to the earlier question Dimple against this receivables we have already refundable security deposit, which is refundable to the trust, so we can very well knock off these debtors and the debtors can be zeroed. So the debtor sitting into DVPL are well secured. Did I miss any question Avinash?

Avinash Kumar: Yes there were some intercorporate loans given to your related party?

Umesh Pradhan: So we have given about Rs.1 Crore at the end of the March to TALEEM. TALEEM is a trust, which runs the BKC School, so in BKC School at the end of the month basically there were some short-term cash flow requirements. We fulfilled that and the money has been received subsequently in the first quarter.

Avinash Kumar: It has been received?

Umesh Pradhan: These are short-term supports that sometimes the trust needs and we fulfill that. The money is received.

Avinash Kumar: Right and there was another Rs.160 odd Crores, which you had mentioned in the annual report as given to other related party and there was not much disclosure?

Umesh Pradhan: Those are corporate guarantees. Yes I missed to answer your question. Those are the corporate guarantees, which are given to Yes Bank when the trust borrowed their funds. As I explained the last time, the borrowings which were sitting in the books of DVPL, related to 5 CBSE schools, the same has been now taken over by the trust. Against those borrowings, we have given the corporate guarantees to Yes Bank. Earlier these corporate guarantees were given for DVPL. Now it is given for the trust.

Avinash Kumar: So this other related parties is the trust who manage your sales, right?

Umesh Pradhan: Yes.



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Avinash Kumar: So just to summarize. I mean you said you need another Rs.15 odd Crores of funding DVPL requires to complete the construction....?

Umesh Pradhan: Avinash I told you that, Rs.15 Crores to Rs.20 Crores will be required only to complete the construction. As I told you I repeat again there are other cash flow requirements at DVPL, which will be continued to be supported by Zee Learn Limited, so the funding from Zee Learn Limited to DVPL will be much more than what is required for construction. It is not only construction that is funded, but the other cash flow items of DVPL will keep on funded by Zee Learn Limited being the parent company.

Avinash Kumar: Yes I agree. I understand that Sir. Can you tell us what that figure would be to meet other cash flow needs? What that figure would be to meet the other DVPL cash flow needs?

Umesh Pradhan: Approximately the salaries and admin cost will be in the range of about Rs.2 Crores to Rs.2.5 Crores per annum. Whatever income that we booked we need to pay 18% GST on that. I think approximately and Subodh correct me if I am wrong approximately Rs.1 Crore we pay as lease rentals per annum right? So Rs.1 Crore we pay as lease rentals to the landlord per annum and interest. There will be interest of about Rs.15 Crores to Rs.16 Crores that we will require to fund to DVPL.

Avinash Kumar: Can I safely assume around Rs.25 Crores to Rs.30 odd Crores of cash flow needs per year?

Umesh Pradhan: No it will be more than that because let us assume that about Rs.15 odd Crores will be given to construction. About 16...

Avinash Kumar: No excluding the construction amount, I am saying of other cash flow needs around Rs.25 Crores to Rs.30 odd Crores excluding the construction funds need for DVPL and by when can we expect DVPL to be self sufficient, I am they will not need any further support from the debtors?

Umesh Pradhan: Fully self sufficient will take another two to three years at least, but as far as partly self sufficient that if the trust starts paying the lease rentals, I think another year or two, it will start paying. By maybe next year also, I think schools will start paying lease rentals as well.

Avinash Kumar: Last part of my question if I can squeeze in one more. Do you feel there will be increasing capex need at DVPL for FY2018 and did you just throw in the number that you expect for the capex full year FY2018?



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- Umesh Pradhan:** See as far as when we talk about capex at DVPL please understand couple of things, which are very important to understand that apart from what we paid to the construction, there are other capex items that get added in DVPL balance sheet. This question has come last time also, which I think I explained. When we talk about DVPL capex, it comprises of the construction cost, it comprises of the furniture and fixtures that we put into the school. So what we do is we give not only infrastructure, but infrastructure with furniture to the school to operate their schools. Asset belong to us, so there will be lab, there will be no other furniture, there will be soft boards, there will be projectors, etc., etc., As and when schools keep on adding their classrooms, as and when the enrolments increases, we need to incur the soft capex items within the schools. So you have construction cost, you have furniture cost, and then there is interest portion, which we capitalize to the extent, which is not charged to P&L. To the extent of the classrooms being utilized, the assets have been capitalized and the classrooms which are not being utilized by the trust are not yet capitalized. **Avinash Kumar:** I got it, so what are the classrooms unutilized for the interest component. Just a last question from my side including all that you said what would be the capex outflow for FY2018, can you just throw in that number for us?
- Umesh Pradhan:** I think another six months we will be spending about Rs. 5 to 6 Crores on capex.
- Avinash Kumar:** And what was that for 1H FY2018?
- Umesh Pradhan:** No, I told you for FY2018 only.
- Avinash Kumar:** What was that?
- Umesh Pradhan:** I told you FY2018 only. Sorry, your voice is breaking Avinash. I am not able to hear.
- Moderator:** Sir we have lost the line. We will move on to the next question. It is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.
- S Purushottam:** Congratulations for the great set of numbers and happy Diwali to you.
- Umesh Pradhan:** Thank you Sangeeta, happy Diwali to you too.
- S Purushottam:** Thanks. My question basically is relating to what the previous speaker was asking, so effectively what is happening is that whatever free cash we are generating in the Zee



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Standalone business actually gets absorbed by the requirements in DVPL and that will continue to be so for the next year or two that at a diminishing rate till DVPL becomes rate self sufficient is that a fair understanding?

Umesh Pradhan:

Absolutely right, you got it perfect.

S Purushottam:

The loan, which got transferred to the trust against which you have received a deposit that is something, which going forward at some point you will adjust against all the previous dues, which are currently sitting as receivables.

Umesh Pradhan:

That is right.

S Purushottam:

Fine, alright.

Umesh Pradhan:

At that time DVPL starts getting their lease rentals as well

S Purushottam:

And DVPL when it is not getting, so in a couple of years time they should actually have a fair improvement in the overall cash flows.

Umesh Pradhan:

Yes. Actually if you look at it very carefully the way for the current year at least the management fees we are in a position to collect the management fees, it is only a matter of time before the lease rentals are also get collected.

S Purushottam:

Right, so the first move will be to recover all the overdue or management fee, which is sitting in receivables right?

Umesh Pradhan:

That is right. We have reduced rate to a very large extent this year. I think we had about 6 Crores of rupees as opening outstanding on account of management fee and we have booked about 9 Crores in six months.

S Purushottam:

Is it possible to get on a point to point basis say September 30, 2017 or something the number of students enrolled in our own six schools versus last year, how is background, because that is clearly linked to the cash flows you will start getting into DVPL, right?

Umesh Pradhan:

Yes, so currently we have around 3000 students in CBSE schools.

S Purushottam:

And what was this number a year ago?



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- Umesh Pradhan:** It was less by 800. It would be roughly around 2200, which has gone to 3000
- S Purushottam:** So we have seen a very decent growth there?
- Umesh Pradhan:** Yes. These only pertains to the five CBSE schools that we have. The IB school obviously is a very different school altogether and therefore the numbers are very different too; however, as we go forward we expect this to further improve.
- S Purushottam:** What are the IB numbers looking because even half of a capital is actually in the IB schools, right?
- Umesh Pradhan:** We are currently at around 370 to 375 as of now, some more mid-term admissions to happen as we go forward.
- S Purushottam:** And what was this a year ago?
- Umesh Pradhan:** This was around 275 as on September 2016.
- S Purushottam:** That has also grown substantially?
- Umesh Pradhan:** Yes.
- S Purushottam:** Great. Thank you very much.
- Umesh Pradhan:** You look at an IB school, typically around three years or four years old, the IB school has performed remarkably well compared to the contemporaries and we expect this to further improve as we go forward.
- S Purushottam:** Great. Alright. Thank you.
- Moderator:** Thank you. We take the next question from the line of Pritesh Chheda from Lucky Investment. Please go ahead.
- Pritesh Chheda:** Sir, I joined the call a bit late, just wanted to checkup on the student enrolment growths in preschool and K12 and what are the numbers that we are running at?
- Umesh Pradhan:** As I explained to the earlier participant that in preschool we are growing by about 11 to 12% in terms of enrolment and in K12 we are growing by about 16 to 18%.



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- Pritesh Chheda:** Can you give the total student count and debt vis-à-vis March 2017?
- Umesh Pradhan:** If you compare Debts vis-à-vis March 2017 those numbers will be same. For student count please understand that by the time March 2017 most of the admissions are already taken place, so you need to compare with the corresponding period, so if you compare with the September period then it would make sense
- Pritesh Chheda:** So if you could tell what are the total student?
- Umesh Pradhan:** Last year we had about 48000 to 49000 students in Mount Litera School, which currently we have about 55000.
- Pritesh Chheda:** And in preschool?
- Umesh Pradhan:** In preschool, currently we have about 122000 students and last year we had about 105000 in the same period, so the period for us we usually look at the calendar year starts from January till December and that is the period of reference for us.
- Pritesh Chheda:** So which will now let us say towards the end of the year this number will stay at where it is, which is let us say preschool will be 122, right?
- Umesh Pradhan:** No, there will be one Q4 where in large admissions will come for the subsequent academic term admissions and obviously during the next three months there will be some mid-term admissions will be coming, so these numbers will stack up, both these numbers will stack up, the Mount Litera number will overall remain same because these are the admissions for the academic year. Our Kidzee numbers will change.
- D Mukhopadhyay:** In Kidzee, generally January to December, but their academic year will be June or even their academic year is January to December.
- Umesh Pradhan:** In Preschool there is no strict academic year in the sense and you have certain schools, which start in the month of April, you have certain schools, which start around June, you have certain schools, which start around Dusshera, various formats in which schools keep on starting their operations.
- D Mukhopadhyay:** That is right if you look typically in India schools in eastern part of the India starts right earlier followed by North, West and then South and this is how you see our period of



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operations is most in the fourth quarter and the first quarter whereon the second quarter and third quarter in terms of enrolment gets neutralized.

Pritesh Chheda: Lastly I just want to check on this standalone numbers on administrative and selling and marketing cost, which are visible in H1, is there any skewness between H1 and H2 costs that your H2 costs are higher than H1?

Umesh Pradhan: No. As far as cost is concerned, I will tell you, except the one cost all the other cost remains more or less on a flattish nature throughout the year. One cost, which is directly in proportion to the turnover, is the cost of trading goods.

Pritesh Chheda: Direct expenses.

Umesh Pradhan: Yes.

Pritesh Chheda: But is there a case where your H2 cost absolute number is higher than H1, is there any such case?

Umesh Pradhan: In terms of absolute numbers it can happen because there could be certain marketing spends, which we might flap around during the quarters.

D Mukhopadhyay: Because if I am giving last year it seems so that last year H2 was higher than H1.

Umesh Pradhan: It happens because most of our activities in terms of marketing kick start typically from the second half of year because this is the time when we focus on the admission for the next academic year.

D Mukhopadhyay: You understand that we keep on targeting our marketing expenditure depending upon the response that we get from the market, we look at how the market responds, we don't just do for the heck of doing the marketing, it has to come back also.

Pritesh Chheda: Understood Sir and last year tax rate?

Umesh Pradhan: We are full tax company now. Last year we had a MAT benefit because of carry forward losses, which got extinguished in March, we are full tax company now. You will see decrease in margins, but that is still not a comparable picture.

Pritesh Chheda: Thank you very much Sir!



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- Moderator:** Thank you. We take the next question from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.
- Dhruv Bhatia:** My first question was could you just give us a breakup of the revenue for Kidzee and K12 for the quarter? Breakups for Kidzee and K12 for the quarter?
- Umesh Pradhan:** Yes, I answered, our composition of topline remains the same about 70-70 odd percent on the standalone basis, 70-72% contributed by Kidzee, about 22% contributed by Mount Litera School and rest by youth.
- Dhruv Bhatia:** Sir the second thing was that the manpower business where you done almost 16 Crores of revenue for the group company currently or is this also for outside clients you have?
- Umesh Pradhan:** We have three outside clients earlier.
- Dhruv Bhatia:** What proportion of that currently?
- Umesh Pradhan:** Currently the proportion is obviously tilting towards the group companies, but going forward obviously we will keep on adding more clients
- D Mukhopadhyay:** This company has just started the journey 6 months ago.
- Umesh Pradhan:** .
- D Mukhopadhyay:** As they progress, we will see more and more clients coming in from outside and that will eventually happen, we are fairly confident of that.
- Dhruv Bhatia:** When you mentioned earlier about the debtors you are answering this question on the debtors, is it right to say that Rs. 4 Crores was debtors on the subsidiary for manpower business?
- Umesh Pradhan:** That is right, so what happens in every month when the manpower company bill to its client, it receives the money in advance and only then they will bill towards the services that has been rendered; however, when we are closing the quarter these revenue has been accrued as on September end for the month and therefore you will see the debtors to the extent of the billing that has been done and also corresponding creditors, which is salary



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payable, so salary is not yet paid by September 30, 2017. You will have debtors and you will have creditors.

Dhruv Bhatia: Lastly can we assume a 15% growth in both Kidzee and K12 going forward?

Umesh Pradhan: Company is consistently delivering on that rate for last year, , so you should definitely expect for the best.

Dhruv Bhatia: Thank you.

Moderator: Thank you. We will take the next question from the line of Naveen Jain from Torrent Advisors. Please go ahead.

Naveen Jain: I had a couple of questions, so when I look at the revenue for your education business for the first half, it works out to about Rs. 89 odd Crores and I take 22% of that so that is about Rs. 19.5 Crores, which is coming from your K12 business, so you mentioned that from your own school you got about Rs. 9 Crores of management fees during the first half, so that effectively means that from the rest of the schools your are getting about Rs. 10-10.5 odd Crores of management fees in the first half. Is that the right understanding?

Umesh Pradhan: Can you once again tell me the analogy that you are trying; you said 89 Crores is consolidated revenue from education sector?

Naveen Jain: That is right, so out of that around 22% is from K-12 busines.

Moderator: Excuse me Sir, this is conference update I am sorry to interrupt, but requesting you to please speak a bit louder your voice is not audible.

Naveen Jain: So I am saying 90 Crores is your let us say revenue from education business overall, 22% is the contribution from K12 is what you mentioned, so that works out to about 20 Crores?

Umesh Pradhan: How did you brought this Rs.20 Crores figure?

Naveen Jain: From Rs. 90 Crores of education business I took 22%. So out of that about Rs.9 Crores is coming from your own six schools and balance is from other schools, is that right understanding?



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Umesh Pradhan: No, let me do few corrections, out of the total composition, this management fee would fall into the bracket of the remaining 6 or 7%, so when I am saying 22% coming from the Mount Litera franchises, which will include the sign up fees as well. It is not only the royalty that we received and the kit sale that we do to the schools, it also accounts for the new signups that we keep on doing. Is that answered your question?

Naveen Jain: Not very clear, but maybe I will take it offline. The other question was on your again standalone balance sheet, so when I look at your March balance sheet your cash and current investments where about Rs.21 odd Crores and when I look at the current balance sheet it is about Rs.2.5 odd Crores, about Rs.3 Crores, so is there any reclassification that has happened in that head also under Ind-AS.

Umesh Pradhan: No, you are comparing with the March credit right?

Naveen Jain: That is right, yes.

Umesh Pradhan: So once again for the information everybody, the March comparison with the current period is not really realistic because ours is a seasonal kind of business. During the year end, we get lot of cash, which is appears at the year end on the balance sheet because most of our revenue gets collected in advance. As and when the financial year progresses we keep on accounting the advances into income as a royalty on accrued basis and therefore as and when the year progresses this cash advance gets deplicated. So as far as cash is concerned, there is no adjustment of Ind-AS is concerned this is a genuine cash reduction from period March till September, which was again will start collecting from around December onwards till March.

Naveen Jain: Sure Sir. Thanks a lot.

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

Avinash Kumar: Am I audible now?

Moderator: Excuse me Sir I am sorry, but your voice is still breaking up. Thank you. Next question is from Dimple Kotak from SKS Capital. Please go ahead.



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- Dimple Kotak:** Sir just a couple of questions, one is that you said about the bullet debt payment, so when was that begin from and what would be the amount will be starting?
- Subodh Khanna:** It is due in July 2020 and the amount approximately would be Rs.100 Crores.
- Dimple Kotak:** One more thing by that time will the DVPL schools be positive self sufficient because you said three years from now.
- Subodh Khanna:** Dimple the schools are already self sufficient as far as their routine operations are concerned they are well sufficient, they have started paying interest on the loan, which has been taken by them on their balance sheet number, they are also paying the management fees.
- Dimple Kotak:** Yes Sir that you said that there were other interest on borrowing lease rentals and all that, that is going from Zeelearn because we are supporting them right, just a while ago when I think Avinash was there on the call his line got disconnected?
- Subodh Khanna:** Are you asking from the six schools perspective, you are asking from DVPL perspective?
- Dimple Kotak:** Sir DVPL perspective.
- Subodh Khanna:** I answered earlier also, DVPL will start getting its lease rentals from schools from about a year or so.
- Dimple Kotak:** Sir just to correct myself, DVPL has six own schools right?
- Subodh Khanna:** No. DVPL has assets of those 6 schools, which has been leased out to the trust, which run the schools. So please understand that in India no profit marking entity can run a school, DVPL does not own any schools. DVPL only owns the infrastructure assets of the schools, which has been leased out to the trusts.
- Moderator:** Thank you. We take the next question from the Shayon Chatterjee from Moon Capital, please go ahead.
- Shayon Chatterjee:** I apologize for harping on this. I saw the rerating of these Chinese education companies because they were dogs for like five years and then they rerated big time. I cannot stress enough that I know India is a bit strange in the way the schooling system works and this



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whole trust and non-profit part, but I cannot stress on the fact that at some point I think Umesh especially because you know this industry so well, you have to explain to investors on the cash flow journey versus the income statement. On income statement, story looks really good. On the cash flow side, the time gap versus the realisation, this whole DVPL. At some point, I guess a slide or something that explains it. This conference call is actually pretty good, but just at what point do you think that we can actually start looking at actual free cash flow to Zee Learn shareholders from upstreaming from full subsidiaries. So, would it be like 2020-21 just give me a base case if things go well, so that we can actually look at this on a free cash flow metrics versus just income statement metrics that everyone looks at, i.e., non EV with non-PE, but more like free cash flow.

Umesh Pradhan: Understand. So, do you need answer on this call or you need to?

Shayon Chatterjee: No, as long as you understand this part.

Umesh Pradhan: So, you are saying that the investors need to be educated on this part?

Shayon Chatterjee: I think that because this sector is so virgin in India, investors like us and Celfare are having a trouble. So I do not think there is as much time as you can spend on free cash flow versus income statement that much better, and if you can display it on your presentations power points that would be even better.

Umesh Pradhan: Let me think whether we can do it on the presentation on open forum or we would like to do it one to one, but I take your point; investor needs to be educated more on the cash flow. I have noted your suggestions.

Shayon Chatterjee: Thank you.

Moderator: Thank you. That was the last question. I now hand the floor over to the management for their closing comments.

Umesh Pradhan: Thank you very much all the participants. It was a pleasure to interact to you and I request all of you to keep supporting, keep believing on Zee Learn Limited. We are the only listed and transparent company in education sector and we need your support and participation in this growth journey. I wish you happy Diwali and happy prosperous New Year to all of you. Thank you very much.



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Moderator:

Thank you. Ladies and gentlemen, on behalf of Edelweiss that concludes this conference.
Thank you all for joining us. You may now disconnect your lines.