

Transcript

Conference Call of Navneet Publications Limited

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Presentation Session

Moderator: Good morning ladies and gentlemen. I am Shirley, moderator for this conference. Welcome to the conference call of Q1FY12 results of Navneet Publications Private Limited hosted by ARM Research Private Limited. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Aunali Rupani, Director of ARM Research Private Limited. Please go ahead, sir.

Aunali Rupani: Thank you Shirley. Good morning friends. I would like to express my gratitude to all present in today's conference call. As we all know, education sector is going through great transformation and we at ARM Research believe that Navneet has the potential to be the next big idea. I think its Q1 results has started a growth period in Navneet again. Publication and E-learning segment have shown vibrant growth and I believe that inorganic strategy embarked by Navneet will take Navneet to next big league. I would like to congratulate Mr. Sunil Gala, President-Finance for good results. I would like now to invite Mr. Sunil Gala to take us through Q1FY12 results. Mr. Sunil Gala.

Sunil Gala: Thank you Aunali and good morning to every one of you. I am sure many of you would have already seen the results, but those who would not have yet seen, I will briefly tell the performance. The revenue as a percentage, though grow in single digit, which is 8%, but most importantly in publication business we grew by 13% as against in stationery we grew very little. The publication growth would have been much better than what we have been able to perform, but because of late arrival of several text books in the state of Gujarat, we had to postpone sales and delivery of few of our publications in the second quarter. So, I believe, the second quarter this year will be much more better than the corresponding second quarter of last year. I am sure we will grow beyond 20% in the second quarter in publication business.

As far as stationery business is concerned, exports are continuing to show weaker performance on account of competition from other countries. Unfortunately that is not in our hands and therefore we are now more and more concentrating in the domestic markets. We believe domestic markets, with the EBITDA level margins that we have been able to show this year, we will be able to continue the normal growth of 10%-15% continuously, so therefore as you would read my mind is, our focus now is more and more on content and for the year as a whole also, content business, we are very, very confident that we will grow in higher double digit that is much beyond 15% also. Though we had some inflationary pressure, paper prices did increase in the last 2 quarters of last

year when we manufacture, rather we start printing our production, but somehow we have been able to pass that on to the end consumers and therefore the operating margins are little better than the last year and we hope to always pass on the additional input cost to the end consumers. Overall profit also grew by around 13%, but I believe with the rise in our content business, the profits will definitely grow even better than what we have shown in the first quarter.

As far as breakup is concerned, I already said about the publication growth of 13%, so overall we did 191.62 crores against around 170 crores last year. Margins between the businesses, that is publication and stationery, that also almost have remained, rather those have improved a bit in both the segments, so going forward both in publications and stationery, we will have similar or little better margins.

Coming back to, I am sure you all would be concerned about the overall performance for the year, as I said, in publication we will grow in the double digit beyond 15%. In stationery business we are likely to grow around 10% to 15% in domestic, but exports we might de-grow by around 20%, so net-net, in stationery we may just end up with 5 to 7% growth, though our team for exports is trying very, very hard to regain the orders, but conservatively I would say that this will be the scenario in stationery.

Now, most importantly the digital learning business, which we do through our subsidiary company, overall let me tell you, the acceptance level, which is the most critical thing for our business, has been very, very good. Now, the schools have started asking us and they are demanding for this product and most importantly again, they have started giving us suggestions. It means they have started taking interest in the product that is really satisfying to us. We have been able to install to around 650 institutions in the first quarter. Our experience last year also was that schools do install these products by September-October also. So, as we are expecting to reach around 1200 schools in the current year, we are very, very hopeful, and more or less around 1000 schools we will be completing by September end itself. Apart from that, there are some enquiries from various government and sub government departments for this product, so we are negotiating with them, probably if that also comes in, the performance will be better than what we are expecting as of now. So, overall the performance at the management level, we are satisfied and we are very, very hopeful that we will have an excellent year, not only the current year, but the subsequent years. I am saying subsequent years because curriculum change cycle has begun, next year rather there are more standards curriculum changing in both the state of Maharashtra and Gujarat. Just to brief you, in Maharashtra next year we have a revision change in 1st and 2nd standard, of few subjects in 12th standard and few subjects in 9th standard. This is as far as Maharashtra is concerned. And as far as Gujarat is concerned, we have 6th and 7th standard curriculum changing. So, overall next year also we believe we will have very good revenue growth in our publication business and as far as digital learning is concerned, we are now very, very confident that the going is great and we believe with lots and lots of innovative things that we are doing at our end, be it in product delivery, as well as adoption by the users, we will be able to perform much better.

Now little bit though you all know about the standalone result of Navneet, I would like to brief you some numbers, rather I would like to give you some numbers for our subsidiary, that is eSense, the orders that we have booked for 650 schools, if we annualize the revenue, it is around 8.20 crores. Just for Q1 as our reporting is that whatever moneys are relevant for Q1, that only if we record, then the revenue is only 3.4

crores in the 1st quarter. So, overall we believe with the 8.20 crores for 650 schools, plus the new schools that we will add during the year, we will definitely cross 12 crore plus in the revenue and if we further receive orders from government or semi government, the revenue will be better than that. As far as expenditure in that business is concerned, including the depreciation, rent, and 100% writing off the content creation costs, we will be spending around 10 crores in that business, so net-net I would say that minimum breakeven that we will receive in the current year and probably if we achieve higher revenue, we will start making profits and we will recoup the earlier losses and going forward now we are very confident that in our digital learning business also, we will start showing profits.

This is overall the numbers and the views of the management on this, so now I will request, if you have any questions, I would love to answer them.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing * and 1 again. I request the participants to press * and 1 for your questions.

First question comes from Mr. Dheeraj Devata from ICICI Prudential.

Dheeraj Devata: Hello?

Sunil Gala: Yes Dheeraj.

Dheeraj Devata: Sir, could you give me the numbers for eSense subsidiary for FY11?

Sunil Gala: FY11?

Dheeraj Devata: Yeah.

Sunil Gala: I will just give that in a minute. In the meantime do you have any other questions on that?

Dheeraj Devata: Q1FY11 also if you can...

Sunil Gala: Yeah, Q1 I just said about the numbers, the policy that we have decided is, whatever is relevant for Q1 revenue, that only we will record, rather every quarter, so revenue in Q1 is 3.4 crores, but considering the schools that we have already come in, these 650 schools, the total revenue, if we take the whole year picture, it is 8.20 crores, but in Q1 we have booked only 3.4 crores.

Dheeraj Devata: Sir, and on stationery segment there is almost a flattish growth, could you give me the breakup between exports and domestic in terms of the stationery for Q1?

Sunil Gala: Sure. The exports, which were 18.6 crores in the corresponding first quarter last year, has come down to 16 crores this year. So, overall in domestic, which was around 90 crores last year, has gone to around 95 crores this year.

Dheeraj Devata: Okay, so sir, there is no seasonal trend as such in terms of stationery, so the whole year should be doing a better growth performance in stationery?

Sunil Gala: No, there is seasonality because fortunately or unfortunately the products that we have, are for school going children, and therefore the numbers will be seasonal. Only thing, what happens every year that we give various schemes in the market, so those schemes are normally given in the last quarter of every year. So, last year we had a good growth in domestic stationery because these schemes were given in the last quarter and therefore we just saw little bit of growth in the 1st quarter. But year as a whole, we believe, the domestic stationery should grow by around 12 to 15%. Yeah, now coming to your question on eSense last year, the total at the year end, we did revenue of 4.2 crores and at the net loss level we lost around 3.6 crores during the year. And meanwhile this is the policy that we have adopted since beginning, that whatever content creation that we do, we write it off in the same year.

Dheeraj Devata: Right, okay. And sir, if you could give me any sense on the Grafalco numbers for FY11, what kind of a loss can we expect, like...

Sunil Gala: I don't know, Grafalco, if you have seen our numbers, yes, it was a big loss last year, we wrote it off, rather we almost closed the operations in Spain. Last year these losses were around the tune of 7 crores. But now there are no operating expenditure in Spain, so from the current year we are not likely to see any single loss in the company.

Dheeraj Devata: Sir, any sense on FY10 loss for Grafalco?

Sunil Gala: FY10 was around 2-1/2 crores.

Dheeraj Devata: And now the operations have completely been shut and so there should not be any hit on...

Sunil Gala: No.

Dheeraj Devata: Right. Thanks a lot sir, that's it from me.

Sunil Gala: Thanks Dheeraj.

Moderator: Next question comes from Mr. Ali Asgar Shakir from Elara Capital.

Ali Asgar Shakir: Congratulations sir, for the good set of numbers.

Sunil Gala: Thanks Ali.

Ali Asgar Shakir: Sir, first of all just wanted a breakup of the publications business, in terms of volume growth and pricing, the 13% growth that you have shown on YOY.

Sunil Gala: Yeah, the volume growth in the first quarter is 8% and plus the pricing is 5%.

Ali Asgar Shakir: Okay. So this is more or less the same that we do particularly in years when there is no syllabus change also, correct?

Sunil Gala: I agree, but as I briefly mentioned in my discussion, that few of the sales that should have happened in the first quarter, did not happen, and is being postponed to the second quarter. So, if you look at the first two quarters together, I am sure you will see a 12% to 13% growth just on account of quantitative growth.

Ali Asgar Shakir: So, basically whatever incremental revenue we ideally should have received because of the syllabus change, will actually be shown in Q2?

Sunil Gala: That's right.

Ali Asgar Shakir: Okay. Apart from this, just wanted little bit outlook on the publications business, though you already told about the syllabus change, but I believe we are also looking to venture out in other geographies, so if you could just touch up on that, what are the development that is happening on that front?

Sunil Gala: Yeah, we are targeting two areas, first of all CBSE publications for primary we have already come out with. We did around 2 crores of turnover in the current year. We are increasing number of titles to complete the series in CBSE. Again CBSE the publications that we are targeting is the extra activities, not the guides and the workbooks, this can be used beyond the subjects, which are prescribed. The reason of getting into CBSE title is to understand the style and functioning of CBSE. All along I have been saying that more or less most of the states have started following CBSE curriculum and that is the reason. So, we are marketing these products in the northern part of the country in two states, so that revenue with increase in the total series should grow year after year and secondly we have started creating content for the state of Karnataka. There we will complete for two years curriculum in the current year and then we will, because there is a huge syllabus change cycle started in Karnataka also, so in the next three years we will be able to complete the whole series there and simultaneously we will start marketing our products. So, whatever new initiative in publication that we are seeing, it will take time because of the nature of activity. We will have to start building relationship, but once we have relationship and the full series, then there will be permanent growth in it.

Ali Asgar Shakir: See, if I have to understand the percentage of curriculum that you have completed in CBSE in Karnataka, the content creation and what stage would we be at present?

Sunil Gala: As far as CBSE is concerned it is just 25% because I said we have just created for primary level publications, which is up to class IV and normally with our experience in Maharashtra, Gujarat that contributes around 25% of our total revenue. As far as Karnataka is concerned, it is just two standards, 9th and 10th and

even that is going on, it is not yet completed, so by December it should get complete. So, more or less we will have around 15% to 17% of content ready for Karnataka for next year.

Ali Asgar Shakir: Okay. So, do we have any ballpark approximation as to this is what the number we could look probably if not this year then next year in terms of revenue from Karnataka CBSE?

Sunil Gala: Karnataka is not CBSE, it is Karnataka state level curriculum, so from there even the first three years it is going to be very, very challenging as I said not only completing the series, but start building relationship in the school also will become very, very important. So, going forward, I do not think so there would be any sales in the current year. This is seasonal business, so whatever that we will create will start marketing in the current year, but the revenues will start coming in from next year, so probably next year we may see 2 to 3 crores to start with from Karnataka and going forward, yes, once we have more and more series in place, the revenues will increase further.

Ali Asgar Shakir: Okay. Now, just a little bit on the non-curriculum side, we have received certain government orders also, so can you just throw some light about what is the quantum of business and the period in which we would see some revenue flow?

Sunil Gala: See, we have been trying for government order since last few months. The first orders that we did receive for hardly 2 crores or so for non-curriculum, but now we are seeing more and more orders coming in for curriculum-based publication. We already have in place around 12 to 13 crores order with , which will be executed in the current quarter and we are still trying for more, so we will not be able to give any numbers as of now till the government orders are crystallized or finalized, but we are now very hopeful that if government orders also come in, in the current, the growth will be better than what I said.

Ali Asgar Shakir: No, just to understand the quantum of that business, you mentioned 12 to 15 crores orders we have received from the government, right?

Sunil Gala: To be supplied in the second quarter.

Ali Asgar Shakir: Yeah, which is Q2, correct?

Sunil Gala: Yeah.

Ali Asgar Shakir: So, just generally about 190 crores, out of that 12, 13 crores, so I mean easily about 5% additional sales could come from the non-curriculum business.

Sunil Gala: No, again let me say from non-curriculum the orders were very limited, the new orders that I said 10 to 12 crores is for curriculum-based publications. In first quarter frankly we had only 2 crores non-curriculum sales in the first quarter from government business.

Ali Asgar Shakir: Okay. Just one more thing on this machinery side, I just wanted to understand the cycle of the business since I think large part of our printing happens in Q4 and Q3, so I do not know if maybe Q2 and a little later than Q2, machinery would probably remain idle, so I was just wondering what is the strategy to use our machinery after reuse of other core business in publication and stationery?

Sunil Gala: Every year up to 15th July or 31st of July the machines are required for our requirements only, lots of reprint happens during this period. From August onwards till October more or less the machines are kept in maintenance or if we receive some large orders, for example printing of telephone directories and all, then we do take the print jobs, but we do not purposely go in for permanent jobs because after the Q2, rather after November till July we have never been able to support the printing jobs if we take it from outside, so on a regular basis we do not do that, but if we get say any orders in this period, between August till October, then we do take.

Ali Asgar Shakir: So, we are not seeing anything coming from that aspect?

Sunil Gala: No.

Ali Asgar Shakir: Okay. On the acquisition front, we have been eyeing lot of different opportunities, so I was just wondering if you could touch upon that, if there is any development happening.

Sunil Gala: No, definitely there are good developments happening in there. Let me tell you that we are not only looking at acquisitions, we are looking at investments also. You all will appreciate that for last 52 years we are a product company, but we simultaneously realized the growth in direct education services also is growing very, very fast, so what we are eyeing, is that if we get good opportunities in direct education service companies we would like to invest in those companies and ride with them and directly-indirectly have benefit to Navneet for its products. As far as acquisition is concerned, yes, if we get any publications business, then we would not mind taking the order. So, as far as acquisition of publication business is concerned, if we get good opportunity, yes, we will acquire such business, but in direct educational service business, we may end up investing only at present.

Ali Asgar Shakir: So, are we seeing any traction over there, I mean are we hopeful to see something closing in...

Sunil Gala: Yes, say in the last 8 months my M&A team, they have evaluated more than 60 odd companies and there are discussions at quite advanced stage with few of them.

Ali Asgar Shakir: Alright, so what is the tick size, if you can just tell me, that you are looking at when you look at these positions, I mean, typically?

Sunil Gala: First we will try and understand the business and if we really appreciate the business, if it has some benefit to Navneet directly-indirectly, then we will look at the investment number, but Navneet is now open to invest around 100 crores even if it is required into 2-3 such activities.

Ali Asgar Shakir: And will that be internally sourced or we would look at...

- Sunil Gala:** Yeah, we will use our reserves and the future profits.
- Ali Asgar Shakir:** Okay. Alright, thanks a lot, sir. I appreciate your time.
- Sunil Gala:** Thanks, Ali.
- Moderator:** Next question comes from Mr. Manav Choksey from Equirus Securities.
- Manav Choksey:** Hi, my questions have been answered, thank you very much and congratulations on a great set of numbers.
- Sunil Gala:** Thanks, Manav.
- Moderator:** Next question comes from Mr. Chetan Vadia from JHP Securities.
- Chetan Vadia:** Hello?
- Sunil Gala:** Yes, Vadia.
- Chetan Vadia:** Sir, I wish to understand your digital learning, what is the product in that segment and how much potential do you see that contributing to your top line and bottom line from here on?
- Sunil Gala:** The product that we are offering right now is the digital classroom product. What we do is the textbooks are animated in such a way that it helps students to learn and it helps teachers to teach. So, we expect this product to be used in the classroom. For that, from class 1st till class 10th, we have products ready for Maharashtra and Gujarat in English and in the 1st regional language. As far as revenues are concerned, this year we should minimum do 12 crores of revenue in that and bottom line I will not be able to rather throw much light on. This business we do through our subsidiary called eSense. Now that company is on a growth mode. We are experimenting many things on product delivery, adoption, etc, but we are very confident of breaking even in the current year and going forward, we are very confident of start making profits in it.
- Chetan Vadia:** Okay. Sir, and my second question is on the publications and the stationery side, like apart from the change in syllabus at the Maharashtra and Gujarat level, what are the other factors do you think are likely to drive the growth for both of the regions for the rest of the three quarters?
- Sunil Gala:** First, is the government orders, because government has been spending huge on education that we all know. Off late we have seen that in the first couple of years they spent mainly on infrastructure and nutrition of the children, but now to improve the quality of education we are seeing, they are also demanding supplementary products in education. So, because of our try in the last couple of months we are seeing traction in this, so likelihood of getting growth from that orders also is quite there. Added to that, our new initiatives of CBSE publications as well as for the state of Karnataka, both these put together will give us growth in, of course not in the current year, but going forward in the content business.

Chetan Vadia: And for the stationery division?

Sunil Gala: Stationery division we do not have really clarity on the exports of stationery because every year the scenario changes for some or the other reason, but in domestic we are very confident of growing between 10% to 15%.

Chetan Vadia: Okay and my last question is on the margins, how much margin do you think are sustainable in the publications and the stationery division for medium to long term?

Sunil Gala: Publication division we have been able to show beyond 30% operating margin for last so many years and we are very confident of maintaining them. In stationery, the margins which were between 11% and 12% in last few years, has been improved to 13% last year. We hope to maintain that, between 13%-14% we should be able to maintain that margin.

Chetan Vadia: Okay, I take that and finally the margins on the net level on a consolidated basis?

Sunil Gala: It should be around 22%, but that will go fluctuating with the change in ratio of say our revenue between content business rather publication business and stationery. You would have heard me that our focus is more on content business, so if content business revenue increases, the margins at the company level also will further increase.

Chetan Vadia: Okay, sir. That's it from my side.

Sunil Gala: Thank you.

Moderator: Next question comes from Ms. Shivani Mehra from Techno Shares and Stocks Ltd.

Shivani Mehra: Good morning, sir.

Sunil Gala: Yeah, Shivani.

Shivani Mehra: Sir, I had some questions. Sir, can you just explain me if FY11 my home publication sale was around 300 crores, how much of it was from Maharashtra and how would it be divided between Maharashtra and Gujarat, sir?

Sunil Gala: Just a minute, please. Last year the total revenue from Maharashtra was around 125 crores and Gujarat was around 97 crores. Yeah that gives the number and you will be able to calculate.

Shivani Mehra: Yes sir. Sir just wanted to understand, this year the change in syllabus that we are seeing, how much percentage of Maharashtra and Gujarat sales are we going to see a traction in for growth? What percentage of your...?

Sunil Gala: First of all curriculum change happened in two subjects in 10th standard in the current year and two subjects in the 11th standard in the current year

only in Maharashtra. Because of that between 6% to 7% additional growth we should see in the current year itself.

Shivani Mehra: Okay 6% to 7% growth in Maharashtra?

Sunil Gala: Normally our sales breakup between Maharashtra Gujarat is 65:35, so of 65%, 6% to 7% we should see growth because of curriculum change in Maharashtra.

Shivani Mehra: Okay and sir Gujarat any news of whether the curriculum changes? It was announced but it has been delayed right sir?

Sunil Gala: Yeah. But of course there are several difficulties at their end also but just two days ago we have got a clarity that next year in Gujarat they are changing curriculum of 6th and 7th standard.

Shivani Mehra: Okay. Sir won't it be correct to say that the curriculum change is parallel to that of CBSE and hence it will help you move you into CBSE State?

Sunil Gala: We saw in the current year that subjects like science and mathematics more than 90% is on the same as on line with CBSE. So self studies around 70% is same on lines with CBSE and language is no relevance at all. So practically for science and maths yes, we will definitely get help for the other states as well.

Shivani Mehra: So for next year sir, any management thought on whether you would like to move into CBSE States without complication?

Sunil Gala: No, we will be instead focusing on individual state and for that we are preparing ourselves for the state of Karnataka.

Shivani Mehra: Okay. Sir the publication sales, primarily 60% of your sales happen in Q1 correct sir?

Sunil Gala: Yes.

Shivani Mehra: And the next 20% are now going to happen in Q2. On that sir, you are guiding for a 20% volume growth, would it be right sir? So the second quarter last year was around 58 crores sir and on that you are expecting a 20% volumes growth plus you have already priced it 8% higher so my margins are set to improve in Q2 substantially by at least...

Sunil Gala: Pricing we have increased only because of the higher input cost. Because of pricing we are not increasing our margins.

Shivani Mehra: Okay this is all because of input costs actually because you work on a cost plus model right?

Sunil Gala: That's right.

Shivani Mehra: And sir in stationary we were going through some business structuring last year right?

Sunil Gala: That's right.

Shivani Mehra: So sir, Q1 was there....is it right to compare Q1, Q1 or was the re-structuring started in Q1 FY11 or it started after that right?

Sunil Gala: Re-structuring started from last quarter of '09. So last year also we had impact but because we had a little bit of set back because of change of policies, we had little bit of problem. But the impact or the effect of the re-structuring started from the last quarter of FY10.

Shivani Mehra: Sir one question on eSense business. You said you have acquired business for 650 schools and around 8 crores annualized sales of which you have accounted only for around 3.4 crores.

Sunil Gala: That's right.

Shivani Mehra: I just wanted to understand sir how is it that the business accounting is done for eSense? Is it that every quarter the school revises its contract with you?

Sunil Gala: No, as a policy we decided it is the contract for 5 years so for five years the revenues are already freezed with the school. But as a policy we internally decided that whatever revenue that which...rather whatever services has been utilized by the school in the quarter that only we should recognize. I would say that it is a very, very conservative policy that we are adopting for even recognizing the revenue. For any reason...the reason being we are now dealing with state level schools. For any reason schools decide not to continue using that in the four quarters, we said let us not get into that, book only whatever that they have used.

Shivani Mehra: Okay that would be it. Thank you sir and all the best for your future endeavor.

Sunil Gala: Thank you Shivani.

Moderator: Next question comes from Mr. Manav Choksey from Equirus Securities.

Manav Choksey: Yeah hello sir. I had one question that for the content creation how many authors would be on board?

Sunil Gala: At present around 185 we have on our Board for our publication business. And for our Digital business we have around 32 of them creating content. Both are not the same.

Manav Choksey: Sure, they get paid on a royalty basis right? That's my understanding.

Sunil Gala: As far as publication is concerned yes it is on royalty basis but digital we just pay them lumpsome.

Manav Choksey: How is that shaping up? Do we expect significant salary increase on the Digital front?

Sunil Gala: Yes, considering salary increase only I said for the current year we may end up spending around 10 crores including the operational cost which includes salaries and depreciation everything put together, we should end up at around 10 crores. We have already accounted while mentioning this.

Manav Choksey: Okay thank you very much sir and good luck to you.

Sunil Gala: Thanks Manav.

Moderator: Next question comes from Mr. Shirish Bangveera from ARM Research.

Shirish Bangveera: Good morning sir, I have got a couple of questions sir. What do you mean by direct education sir, is it schools or tutorial companies?

Sunil Gala: When I say direct education, it is everything, right from play school, caterer schools to coaching classes, in coaching classes, basic caterers coaching classes to vocational coaching classes. There are several areas in direct education and we see growth of potential and opportunities in direct education very, very aggressively we are looking at it.

Shirish Bangveera: Okay. Sir my second question is to your presentation. Last year you had made investment of 23 crores and this time it is around 33 crores, so what is the difference of 10 crores and where have you invested the same?

Sunil Gala: Investments actually does not represent that we have invested somewhere. It could be investments in the liquid mutual funds also. More or less the 10-crore difference that you are seeing right now is mainly the cash surplus that we already have. What happens is though we have some borrowing, which we cannot repay because of fixed due dates, so we end up investing in mutual funds.

Shirish Bangveera: And sir, one more question is there, that as you said that you are looking for acquisitions and you were looking for some 100-crore investment in the same, so can I have the breakup or the tutorial sales or the e-learning or the contract...

Sunil Gala: No at Navneet....

Shirish Bangveera: When can I have the announcement for the same?

Sunil Gala: I will answer this in two parts. First of all we have not really broken up the numbers for specific areas. It all depends what type of opportunity we get. If we get great opportunity we may end up investing in a single company. So as far as investments are concerned, the total investment that we said would be around to that extent. In a year or so we should end up investing. What was your second question?

Shirish Bangveera: When we can have this announcement? In this year can we expect some business on the...?

Sunil Gala: Possibly yes because so many discussions are on quite an advanced stage and therefore, if we finally end up understanding that activity and if we finally understanding that the company is good, then likelihood of investment in the current year is quite high.

Shirish Bangveera: That's all from me sir, thank you.

Sunil Gala: Thanks.

Moderator: Thank you sir. Next question comes from Mr. Vinit Sambri from DSP Blackrock.

Vinit Sambri: Good morning sir.

Sunil Gala: Good morning Vinit.

Vinit Sambri: Sir since you have been evaluating the education business in the K12 and other play school areas, as we understand some of these school business as they function today, they generally have the Trust structure where the costs are getting created. Trusts generally are not allowed to make profit whereas the cost gets created, that is the benefit one is able to derive. So do you feel the regulatory...so what is your view, you must be in talks with so many education companies, so what is your view on regulation, do you feel there can be a clamp down on this practice eventually which may bring to halt the practice which is going on as of now?

Sunil Gala: My answer to that is, no doubt the education not for profit I doubt it will ever get changed in the interest of the government is quite clear right from the beginning. Now the most important question that comes in our mind is, with these regulations, does quality of education improve? The answer at present is not on a positive side; therefore we need good service providers to overall improve the education. So be it any trust, if they feel that they need improvement in quality of education, they will have to outsource service from various companies. When I am saying we are focusing on direct education, what I am saying is that we will have, if at all we find a good company, we will end up investing in good service company which helps improvement in quality education in each and every trust. So our investments would be in a company not in a Trust.

Vinit Sambri: No but these companies, indirectly they have control on the Trust because otherwise how do you really create the service charges to the Trust? So basically unless and until you have a bearing on the Trust, generally we have seen there is a linkage between the two.

Sunil Gala: I understand fully. I appreciate that question. If you see...

Vinit Sambri: No the question was...all this is fine. My question is do you see on regulation or on the government part any change which can have an...today we can make an investment assuming this is how the scenario works, but tomorrow how sure are you about the regulatory aspect of this?

Sunil Gala: I frankly not clear on the surety part. We are clear only on one thing that the need of quality education is important and subsequently if you see our Navneet present model, be it publications or digital learning. In a way we are providing product from Publications and Services from our Digital Learning and that we are providing to the schools and schools are paying to us. So same way in the school whatever activity that are expected to be done by a school or students, if we can provide quality service and help them improve the quality of education, that's what we are looking at and when I am saying this company, I am sure there will be many Trusts as our customers in the service company.

Vinit Sambri: Okay, I think that's it from my side and all the best to you.

Moderator: Next is a follow up question from Mr. Ali Asgar Shakir from Elara Capital.

Ali Asgar Shakir: Sir just wanted to know, this year Gujarat is not a part of the syllabus change revenue less we are getting correct?

Sunil Gala: No.

Ali Asgar Shakir: Gujarat will completely be in next year?

Sunil Gala: It will start from next year.

Ali Asgar Shakir: Alright sir thanks.

Moderator: Next question comes from Ms. Shivani Mehra from Techno Shares and Stocks.

Shivani Mehra: Sir just one follow-up question on the export front. What exactly happened this quarter for the exports? Why were the volumes hit sir?

Sunil Gala: It was not only in this quarter, even the last quarter of the last year also. Basically, our major supplies were in US markets. That time we were competing with China and for strategic reasons the buyers were buying it from India also and therefore we were getting orders. Since last year we saw the South American countries, where their currencies de-valued dramatically. They became more competitive than India and China. Therefore most of the buyers opted products from South American markets and therefore we could not get through.

Shivani Mehra: Okay thank you so much sir.

Moderator: Next question comes from Mr. Vinit Sambri from DSP Blackrock.

Vinit Sambri: Sorry sir, one more question. So we are looking at roughly investing up to let's say 100 odd crores in this new avenues. In the past you observed that our return ratios are quite decent upwards of 22%, 23%. So what is the thought process while we make this investment as far as this return on capital is concerned? Do we have any thoughts over that?

Sunil Gala: Of course that is an issue and if we end up investing this sum, there would be little bit of higher interest cost on the company because for then working capital we will have to start borrowing more than what we are borrowing till date. So at the...but what I am trying to say at the operational level, 20% to 23% that we have been showing operating margins that will continue but at net profit level there could be little bit of additional interest cost but with higher and higher income that we are expecting from our present business that too particularly the content business, I believe that the margins that we have been performing till date we will continue to do so. As far as return on capital is concerned, yes it could see a little bit of reduction in the return of capital if we end up investing from our internal reserves.

Vinit Sambri: Okay, so will that return-ratio overall remain low in that business or it will keep scaling up as we go ahead?

Sunil Gala: It could be a temporary phase of a year or two years till the time the companies where we would have invested does not show good performance. I believe at the company level, at standalone company level just to clarify at operating levels we are not really worried, but from return on capital point of view, there could be for a year or so reduction on the return of capital.

Vinit Sambri: Okay that's it thank you.

Moderator: There are nor further questions. Now I hand over the floor to Mr. Aunali Rupani for closing comments.

Aunali Rupani: Thank you Shirley. I would like to express my gratitude to Mr. Sunil Gala for the insight and the detailed understanding about the company. I would like to thank everyone present in the call for their participation and patient listening. The transcript of the call will be mailed to everyone in the next 48 hours. Thank you so much.

Sunil Gala: Thank you everyone of you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

Note:

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.