



“Aptech Limited Q4FY16 Earnings Conference Call”

May 17, 2016

APTECH LIMITED REPRESENTATIVES

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Moderator: Good day Ladies and Gentlemen, welcome to the Aptech Limited Q4 FY16 Quarterly Results Investor Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Saurabh Gada. Thank you and over to you Sir.

Saurabh Gada: Thank you very much Lizann and good afternoon everyone, welcome to Aptech's Q4 FY16 conference call. I have with me today Mr. Ninad Karpe – Managing Director and CEO of Aptech, Mr. Anuj Kacker – Executive Director of Aptech, Mr. T. K. Ravi Shankar – CFO at Aptech and Mr. Pravir Arora – Head of International and Enterprise Business at Aptech. I would now like to handover the call to Mr. Ninad Karpe for his opening remarks.

Ninad Karpe: Good afternoon everyone. This is Ninad, thank you for joining in this call this afternoon and if you are dialing in from US, good morning. We have presented our full year results for last year and quarter 4 as well. What I will try to do in next 15-20 minutes is give some color on the results.

I will tell you what are the strategic areas where Aptech sees good potential, stability in revenue and hopefully by then you will have some more knowledge about our strategy moving ahead. So overall last year in last quarter has been slightly muted from Aptech perspective on couple of various reasons, of course domestic situation has not helped us in terms of the business but the decline in the top line is on account of two big items; one is a MAAC accounting change and second is the low margin alliance product, we have various alliances, which was discontinued. So that is how the top line has declined marginally over the year. We do have projects income internationally and that does help us. In the last quarter we did a fairly large exam for AICTE, the CMAT and GPAT exams in January 2016 which further provided an indication of Aptech's ability to conduct a large stake exam in a

short period of time. These are very high stake exams and we have successfully conducted this all across India. So that also indicates the Aptech's ability to conduct those exams.

We are certainly bullish on our new brands which we have introduced and we will start seeing the impact of that in probably Q3 this year, if not earlier particularly Lakme, we have signed up in some centers. We have introduced a beauty product in alliance with Lakme and of course Banking and Finance where there is certainly a deep market place in banking and finance offerings.

We also launched in the last month or so, an E-Commerce platform, it is a market place called 'Onlinevarsity'. So the website is onlinevarsity.com, what we have done is some of our courses which are amenable to being consumed purely on a digital platform, we will split them and made them into byte size courses which a person can easily consume online on a digital format. And we have made this platform, independent of our courses and various courses from banking to test prep to English, so all kind of courses are there. This will be an independent platform which we will run and I think as it gathers momentum, we hope this will pick up. Onlinevarsity is something which we had implemented internally for our students. This was part of our big digital initiative and transformation, which we were trying to do in Aptech whereby firstly we stopped printing physical books after 1st of April 2014 and books were given to all students on online basis. There is a portal, once the student pays his or her fees, he can sign into our portal and access these books digitally. So he/she does not have to spend any money at all on buying Tabs or any of that with your existing computer, existing mobile phone you can download these books and consume them. So actually there is no incremental cost to students but from our perspective it is absolutely beneficial because we do not have the headache of distributing books to all the centers. Plus this Onlinevarsity for students is not just platform to give digital books but also platform for collaboration between students, for expert video lectures. So it has got now a character of its own, it is being now widely used by students internally. Since we have been successful with this, for our students internally, we have now expanded the scope and we did it for outside world as well by

different login IDs to make it an E-Commerce market place. So other than this part, majority of our marketing is also now spent on the digital platform. In the classroom as well, lot of lectures are supplemented along with the class teacher with some digital lectures. So overall, we are seeing a big push on this segment and we are doing all it takes to ensure that we are part of this movement which is happening.

Overall on summary basis – for FY16 our operating revenue was Rs. 1.63 billion this year compared to Rs. 1.70 billion last year. It is a 4.2% decrease almost flattish and as explained to you earlier, a large part of it is because of MAAC accrual impact and our testing impact where we did not get as many exams. Operating EBITDA was also lesser by 18% last year compared to the earlier year and PBT impact was decline of ~32% and ~35% compared to the earlier year.

Our expenses overall for FY16 whether it is employee cost, training education, marketing, admin; they are either flat or slightly lesser than last year. So we have tightly controlled our cost other than depreciation of course, because of different reasons, but all our other costs have been lower. Employee is total flat, marketing is lower and admin is also totally flat. So despite the inflation going around, we have managed to keep our expenses on tight leash.

In terms of segment wise results – Retail is of course a major part of our segment, so it was Rs. 1.30 billion last year as opposed to Rs. 1.33 billion a year before and non-Retail was Rs. 322 million compared to Rs. 352 million. So this is segment wise, of course the profitability of all segments were lesser than last year.

In terms of the balance sheet – we still have a healthy balance sheet, zero debts; from FY11 onwards we have been having zero debts, and cash surplus. Even now as on 31st March 2016, we have Rs. 332 million of cash or cash equivalent. So we continue to have a robust balance sheet with zero debt and cash available with us.

In terms of classifying it within Animation, Multimedia & IT Training – IT Training did see a slight growth in FY16 to Rs. 506 million compared to Rs. 473 million earlier, a large part of it has also happened because of some efforts on the international side. Multimedia, Animation overall as a segment slight de-growth from Rs. 705 million to Rs. 655 million and assessment and training also had a slight de-growth fundamentally because CMAT and GPAT exams were not to the same level as last year. So overall revenue had slight de-growth.

Domestic Retail revenue declined by 11% largely because of accrual income in MAAC and decline in IT training alliance income which I mentioned to you all earlier. International Retail grew by 8.2% last year and Aptech testing revenue had declined slightly by around 13% because the number of tests last year as opposed to the year earlier particularly from CMAT were slightly lesser. The real good news is that our efforts to continue to spread our coverage is bearing fruit. Last year we signed a record 135 centers in India, some part of this is also because of new products. We signed up 7 centers for Lakme Academy and 16 for Aptech banking, but even if you keep that aside there is a good increase which means that we are still seeing some traction of new business partners who want to associate with Aptech.

Our interest income was lower to Rs. 33 million compared to Rs. 40 million the year before, we have lower cash in hand. All our expenses were tight; training and education was flat, marketing expense has declined slightly because we have done 2 things, one is our spend is more on the digital platform ensuring that we have more control on the ROI and we are doing more event based activities. Depreciation is slightly higher by 5%.

Now coming to our quarterly numbers; Q4 of last year our operating revenue was in the region of Rs. 400 million, it is a 14% drop from Rs. 467 million for the same quarter for earlier year. Our margins everywhere have been lower than the quarter before, our operating EBITDA, EBIT, PBT and PAT. Expenses of course were lower than the same quarter last year. So employee cost also has been quite low, it is 10% lower than the same quarter earlier year.

Training expenses 5% lower, our administration costs are flat. So yes we have managed to keep our expenses in tight control.

In terms of Retail revenue compared to non-Retail; our Retail revenue was Rs. 291 million compared to Rs. 340 million the same quarter last year and non-Retail was Rs. 107 million compared to Rs. 125 million the same quarter earlier year. In terms of the segment wise, IT Training was Rs. 80 million compared to Rs. 115 million and animation and multimedia slightly less at Rs. 171 million compared to Rs. 187 million. Assessment and training was Rs. 82 million compared to Rs. 95 million last years, largely on account of lower number of tests done in this same quarter as compared to the quarter of earlier year.

In terms of network of centers – in domestic Retail big numbers still remains; IT Training around 300 and Arena is around 200, but in international also we have IT training of around 120 and Arena is around 51. We do have 18 centers of English, but we are going to try and see how we can push that in the International arena as well.

In terms of revenue for International – Asia Pacific and largely Vietnam continues to be our main driver of revenue but the interesting fact is that in last year our revenue from Africa has been much higher, almost double of that of the previous year. So FY16 revenues for Africa is Rs. 236 million compared to Rs. 112 million in FY15. That is a continent we are hoping we will be able to push harder. All of us know and realize that there is deep potential in that continent. In terms of employee count, we are now slightly lesser around 373 people as of 31st March 2016 compared to 399 people (as on 31st March 2015). We have kept a tight lid on employee numbers to ensure that our productivity now increases. So in terms of some of the things which we did, we have launched Onlinevarsity as a market place, we have done some projects in Latin America, we have successfully conducted CMAT and GPAT exams for around 90,000 students across 450 centers in a single slot. In one slot, 450 centers and 90,000+ students is quite an achievement, and that reflects Aptech's capability in this space. We have expanded in Africa as well.

So just to summarize:

Yes, last year has been slightly muted, margins have been under pressure, but I think we are positive for the current year forward because of various initiatives done last year and which will happen. One is on the new products, they will start showing revenue streams from probably Q3 onwards, Lakme Academy is a new segment for us, but it is picking up speed very fast. Banking and Finance is an area which has got lot of scope, although we are a late entrant we still believe we can certainly make a dent in that space.

Onlinevarsity is being actively used as a portal by students internally. It is a digital platform for all our existing students. They do not need then invest further in a book or a tablet or any of this tab or any of these things. They just login either at home or anywhere on this portal. Also on their phone or mobile app and they can access all the books they want, collaborate with other students, ask questions to trainers and also pose questions to other students as well.

On the testing side – we have been active in this space for many years now; we are one of the leading players in India. We have done millions of tests over last so many years and last year we have shown that we could do even (+90,000) tests in one shot, so we are confident that this market is growing rapidly and this is an area where we will be able to exploit this market.

So, overall we have got good platforms in place, in terms of our traditional business we are now looking at it not just as a product offering but a platform where just as we have plugged in Lakme, we will look at products like this which plug-in to a network and we collaborate with them, drive extra revenue without increase in any cost because we already have a platform in place and start leveraging more revenues by collaborating with newer people and offering a bouquet of offerings. We also have a virtual platform now Onlinevarsity that will help us.

So, that is it from the business side. I wanted to also mention to you on 6th of May, I had indicated to the Board that I want to step down from my position

of CEO-MD. So I will be here at Aptech for 6 months. In this period of time, the Board will appoint a new CEO-MD and obviously we will have a smooth transition because I am already committed to the Board to be here for 6 more months to help in this transition and post that also, in some shape or form I would be associated with Aptech to ensure that there is smooth transition and whichever person the board selects, the Aptech's business continues at a steady stream.

So, that is it from me. I still feel that although we had a muted year last year, we still have built platforms for future growth in the domestic business and in international business. We have to plug new products into these platforms. International we are still, we feel there is a lot of scope in many countries, especially Africa. And on the digital platform Onlinevarsity should gathering momentum and in the testing space we have been a proven player, so we hope to exploit all the opportunities which will come by in the next year or next two years.

So, thank you for joining and I am now open to any questions.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Prajwal Gote from Evaluate Research. Please go ahead.

Prajwal Gote: I was going through your results, I just got an understanding that the revenues were down basically because of MAAC accrual impact, so just wanted to understand till when will this continue, when will the company get rid of this MAAC accrual thing?

T.K. Ravi Shankar: The MAAC accrual from the franchises have got completed last year, we had it till July. The difference between the last year and the earlier year was about Rs. 4.5 crores. So going forward the accrual would be only restricted to the own centers that we have and not with reference to the franchises.

Prajwal Gote: Sir any update on the Aptech testing impact, the revenues were down because of that also so just wanted to understand what has been there the position currently?

Ninad Karpe: No, that was because last year, see these are orders which we get in Aptech testing and it depends on the enrollments which we get for a test and in this last financial year, we got around (+90,000) from CMAC, GMAC, earlier year was almost double of that so it is connected to the enrollment for that test. Yes, this year we will be chasing more targets and more orders in this business.

Prajwal Gote: Sir if I am supposed to compare your quarter-on-quarter results, revenues have been continuously down from past couple of quarters and it has been down for this particular quarter also, can we expect that revenues have bottomed out, can we expect a line of recovery to come in a couple of quarters, considering the fact that you have been making regular additions in your centers, is it fair enough for us to estimate that?

Ninad Karpe: We are optimistic, as I said there are some initiatives which we think will pan out this year. One is new products which we introduced last year and they normally take around one year or so to start showing results, so which is Lakme, Banking & Finance and some of the geographies abroad that will take some time. In terms of Testing it actually largely depends on orders which we get and the execution of these orders, so in that sense it clearly depends on that. We will be chasing whatever is there for tenders. The overall expectation is lot more people will go for online testing that is the broad direction the government has taken that from paper pencil test, we should move to as many online exams as possible. Given that broad direction, we feel that market will expand and we will chase all of these tenders.

Prajwal Gote: Sir, last question from my end, can we expect a dividend cut in this year, considering the fact that the revenues have been but down as compared to the previous years? Can we expect the dividend to be cut or it will be flat for the year?

Ninad Karpe: That is difficult to say, see we had an interim dividend of 10% which we declared already and now it is up to the board but we still do have surplus, it is not that we do not have. But it is up to the board to decide now, whether

we want to have a final dividend or not but at this point of time I cannot respond to that except saying that we did declare 10% interim.

Moderator: Thank you. The next question is from the line of Sajendra Mookim from Sajendra Mookim & Company. Please go ahead.

Sajendra Mookim: I just want to know that why we are not investing in brand value because what I find compared to other players Aptech's brand value is too low, can you throw some light upon it that what initiatives you are taking for building the brand value because that may help in future?

Ninad Karpe: So, what we did couple of years back, 4 years back is the brought all brands under the Aptech brand name and we kept Arena separate and MAAC separate because they compete, so earlier we had Avalon and English Express and all of that. So first thing we did is that we brought focus on one brand. Now there is only Aptech and of course Arena and MAAC compete with each other. In terms of brand value, yes we have shifted a lot on the digital side in terms of the amount we are spending in branding plus marketing. Product marketing of course we keep doing but brand also whatever we are doing, we are actually doing it more and more on the digital side. Can we do more or should we do more? In today's market yes there is always need for doing more. At present we are largely focused more on the digital side and now since it is now consolidated under Aptech, we think it will start giving more and more results in that.

Sajendra Mookim: Okay and what about if we are having cash in books and can't we not utilize that for wherein we get more returns and instead of keeping cash on books, if we invest more on R&D or something of that sort?

Ninad Karpe: Yes, true, we still have Rs. 330 million or Rs. 33 crore or there about in our books. In the past I have mentioned in the calls that we always look for adjacent opportunities. We have not acquired any company in the last 4 years. The last acquisition was MAAC, which was in 2010, but yes anything which is of interest to us, certainly we will have a look.

Sajendra Mookim: Are you having any exercise done in this aspect or can you throw some light upon it, in details?

Ninad Karpe: Yes, so what we are looking at is fundamentally anything which, we have had two filters in the past many years; one is something in career education offering, so which is where we are far more comfortable in term of overall offering. And second is that offering should have a global market, particularly in the emerging markets. We did not want to do anything which was very specific to India. So these are the two filters we applied and we have not got anything which pass this filter. Yes, if we do get something in this area, we will certainly look at it.

Sajendra Mookim: Can you throw some light upon Banking & Finance, what you are exactly doing and how you are taking it forward?

Ninad Karpe: Banking & Finance courses, so these are around 6 month courses and 12 month courses, these are people who can then be employed in banks on the sales side, on the correspondence side, on the finance side and so we have just started it. Around December last year we have setup the centers so it is just about starting. Our main season is now roughly in June & July for most of our courses, so we are hoping to make some dent in people wanting to pursue the opportunities in the bank.

Sajendra Mookim: Thank you. To sum up in detail, are you planning to join some other institution or other company?

Ninad Karpe: No, I am associated with Aptech for another 6 months and after that also I will be continuing hopefully will discuss with the Board and strategic role and some involvement will be there but no, I will certainly not join a computing company or education company.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for their closing comments.

Ninad Karpe: Thank you for joining us in this call. I just wanted to sum up by saying that at Aptech we believe we have now over the last many years built platforms, in

the domestic market and international market. From our humble beginning as a Computer Training institute, we are now a company which has network all over India and 42 countries outside India. We believe that this network can be used as a platform for not just a product offering, so the whole company we are reconfiguring to make it Platform Company where we manage franchise of different products. In the international market we still see a lot of scope for our new offerings, hopefully will start bearing fruits soon in the coming quarters and as usual, as I have been saying in the past many calls, the testing business is such that it has deep potential and at Aptech we will certainly look at exploiting that potential to our advantage. So, thank you for joining in this call today.

Moderator:

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