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Presentation: https://www.aptech-worldwide.com/downloads/investorPresentation/AptechLimitedQ2FY2022-23ResultsPresentation.pdf

Saurabh Gada: Good morning, everyone, and thank you very much for joining the Q3 FY23 Results Update call and presentation from Aptech. I'm very happy to share with you that we have with us today, Dr. Anil Pant, who is the Managing Director and CEO and. Dr. Anuj Kacker, President and Executive Director. We also have with us Mr. Pravir Arora who is the Chief Marketing Officer and Mr. TK Ravishankar who is the CFO. I'm Saurabh Gada. I handle Investor Relations at Aptech.

And what we will do is we will quickly take you through the presentation and share our perspective on the performance during the quarter from financial and operational perspectives, and then leave the floor open for question and answers. Our focus will be to have as much time possible for the Q&A. So, we'll just do a quick run-through of the presentation and just cover the key messages.

So if you would have gone through the presentation, you would notice that in this quarter the results have been exceptional because all business, all three of our business divisions, which is Domestic Retail, International Retail and the Enterprise business, have fired in unison making this another quarter where we have continued to break (new) ground, like we did in the past quarters after the Q1 of FY22 when second wave of COVID hit. So, there is a consistent trend that we have shown.

And if you look at — if I compare with the previous year, in the first 3 quarters, this is the first — in the 9-month period itself, we have crossed the revenue of the — in the Retail division for the full previous year on a like-to-like basis. I'm not comparing the revenue as per the new student delivery method. Even as per the old method, we are 11% above the FY22 revenue of global retail in the first 9 months itself.

On the profit side, if you look at the PBT levels for the Global Retail division, we have in fact already achieved 36% more than the PBT that the division showed in FY22. In the Retail business, by the time we end the year, our performance is going to be really exceptional, whether you consider revenue or profits.

On the EBG front, while we are yet to cross the 9-month number for EBG business, but — and that is also — as you are aware, and we've shared in the past, that the business is of a lumpy nature, but there are two key milestones which I'd like to highlight that we achieved in EBG during this quarter.

The first one is the fact that in our margins have been exceptional if you look at EBG business and have done almost 500 basis points addition to our margin on a Y-o-Y basis comparison. And if you — the other key milestone is the fact that we won an order, which we disclosed during last quarter's presentation, we won an order from an autonomous education body associated with the Central Government. And in Q3, we have delivered a good number of tests for them and that has also helped us make sure that we continue the delivery in the fourth quarter where the larger chunk of the order is going to be executed. And there also, a large part of it we have already executed and there is a significant chunk which will be executed in this month also. And overall, we are well on track to achieve the total order value that we disclosed that we will deliver in H2, of INR 135 crores. We are well on track to achieve that number.

So, if you look at the overall performance for the Company and see what the trend has been, and you will notice that our CAGR, if we look at the trend from FY17 till date, on the PBT level for the quarter — for Q3, our CAGR has been 18% and on a 9-month period basis, our CAGR has been 16%, which overall, it's impressive considering the fact that one year was lost to COVID. I mean, it was a little more than one, but nevertheless, (we can consider) one year was lost to COVID. And if you assume that we would have achieved the same performance in a 5-year period, the CAGR numbers go up that much which is, I'd say, very impressive over that long period.

Even on the operations front, we are seeing lot of positive signs in the market where the new vertical that we introduced in our Retail business in the AVGC brands, which is your MAAC and ARENA, that has started contributing handsomely starting in Q2, Q3. Already, it is almost 12% of our booking in the AVGC brands. And if you consider only the career course, that percentage would go even higher. And the gaming courses are not only getting traction, but they're also helping us improve our per-student booking, because they are at least 15% to 20% and they have higher pricing than other courses.

We are also very happy to share with you that we won an award from — or recognition from The Economic Times where we were recognized as one of the Best Brands of 2022, which is a very proud moment for all of us.

And on the operational front, the other key highlight on the EBG side is that we are continuously expanding our delivery capabilities. We have crossed the milestone of one lakh exams per shift in the last quarter. And this we will continue to improve upon and make sure that we are able to deliver higher stake, higher volume exams flawlessly across the country.

These are the key highlights that are there from a financial and operational perspective. And we'll cover the outlook and the way ahead a little later. But I'll just quickly take you through the numbers. I will not run through these points because these are self-evident, but the key message here is that in all the businesses, we have done extremely well. It has been one of the best ever third quarter for us across businesses. And the signs for the next quarter are also pretty good.

If you look at our cash flow from operations or if you consider free cash flow, we have already done a free cash flow of INR 48 crores for the YTD period, which is a significant growth over last year. And even from a return ratio perspective — I'll cover the key things that we have done.

This slide covers the operating metrics for Global Retail. And if you look at the growth that we're showing in the booking and billing, it is extremely positive and very encouraging. And one thing that we would like to catch up on as compared to the pre-COVID period is the center expansion pace, which we will do going forward. Obviously, that has affected the revenue a little bit. And if you in fact exclude that revenue, the growth numbers will look that much better. And this is what we are covering in this particular slide, in the quarterly segment financials.

If you look at the table at the right-hand bottom corner, if we exclude the sign-up and renewal fee income, which is not necessarily something that we get from the students directly, and basically looking only at what we get from our course enrollments and students, actually the retail revenue growth overall is 17% over pre-COVID then in the domestic market, that is 12% over pre-COVID period. And in the international market, we have done almost 40% growth as compared to the pre-COVID period when you consider only the student revenue.

The other numbers are anyways self-evident. And I will just highlight the fact that the line, global retail…

Anil Pant: No, go back — sorry, go back one slide.

Saurabh Gada: Yeah, sure Anil.

Anil Pant: I think one of the most important things to look at is the same-store sales growth. And I think you should cover that because that is a very significant indicator of how things are looking.

Saurabh Gada: Yeah, you are right Anil. That's right.

Anil Pant: On a 31 — almost on a 32% growth in FY22. In FY23, you've grown 53%. That is something worth looking at, okay. I just wanted to bring that.

Saurabh Gada: Thanks a lot for pointing it out, Anil. Yeah, you're right. It's basically showing the traction that we're getting in the market for our courses. So, yeah, I just want to highlight one part for making sure that you have all the information to do a like-to-like comparison. We have been sharing the Retail numbers after considering the fact that the numbers would be based on the erstwhile franchise delivery model instead of the current student delivery model.

The line in the first table on the left top corner, the line number five which is Global Retail with a star, and line number six which is total with a star, they basically show you the comparable numbers for the Retail business.

Similarly, if you look at the other tables, wherever we have kind of given the star, these are for you to compare on a like-to-like basis what the performance was across — throughout the third quarters in FY23, FY22 and FY20.

We have also given the 9-months segment financial as part of the presentation because that was expressed as a requirement in the last call. We have heard you and we have added the 9-month numbers as well. Again, here also we have given you for — like-to-like comparison, what the numbers would have been as per the franchise delivery model. And there also, you clearly see the excellent performance that we have delivered, not only on a Y-o-Y basis, but as compared to the pre-COVID period also we have done exceedingly well.

So, these are some of the highlights. And I would request that you please read through them. But one thing which I would just quickly mention is the fact that not only are we adding new customers in our enterprise business, but we are also making sure that we are growing our — widening and broadening our customer base to reduce dependency on our top customers only, and the fact that in gaming already we are doing pretty well in the AVGC sector.

This is the quarterly P&L for the Company, again quite healthy numbers. Then the 9-month numbers, 43% growth already as compared to 9 months FY22 in the EPS. And as compared to FY20, we are already 63% up.

And at the PBT level, in fact we have already crossed the previous year — full-year PBT, which was INR 43 crores, which we have already crossed in 9-month period itself. Whatever we do in the fourth quarter is going to be purely going towards growth.

This is the trend that we spoke about some time back, that on — at the PBT level, if you look at the numbers for Q3 and 9 months, there is a very healthy CAGR we have delivered. And if you exclude the one-year period of COVID and assume that this would have been done over 5 years, then we would have had a CAGR above 20%.

Just to highlight the fact that in both our businesses, the margins have expanded handsomely. (In) the Global Retail (business), on a like-to-like basis, the margins are almost 350 basis points up and for the EBG business, they are almost 500 basis points up. And that is despite of the fact that our advertisement and promotion expenses have gone up and still we have been able to increase the margins, especially because of the fact that we have operating leverage in our business. So, that is a key highlight. And going forward, as we grow faster and faster, the — grow the topline faster and faster, the profitability will also keep improving.

One key point to highlight, apart from the return ratios here, which I will cover, is the fact that we have delivered almost INR 22 crores of — and we have increased our cash in hand despite paying out a dividend of almost INR 22 crores. And we have also done lot of capex. In spite of that, we have been able to maintain our cash level.

Then our return ratios are continuously improving. These are not annualized. On an annualized basis, these will be much higher. Overall margins are also at operating level, at PBT level, PAT level has been doing well, obviously because of the fact that with the new student delivery method the denominator will keep going up because of the way we account revenue. So you will see a slight dip. But the core margin, if you'll do a like-to-like comparison, it will be showing a continuously improving trajectory.

These were the key highlights and points that we wanted to share about the numbers. I would request Anil and Anuj and Pravir to share any other points that they would like to highlight before we get into the Q&A. And I would also request you to have a look at all the presentation videos that we have shared. You can click on the YouTube links and view them. It will just give you a flavor of what all things we have done during the quarter in our businesses and how we're delivering that 360-degree learning experience to our students, which is not just what you study in long classroom in theory or practice on the computer in your lab but your day-to-day, real-life experiences and what they will face in the corporate world. So, we try and simulate that through many pedagogical inputs.

Anil Pant: Saurabh, just stay there. Before we get into this, I would beg an indulgence of the audience. I think you should show that Welcome Zindagi video for a few minutes.

Saurabh Gada: Okay, sure.

Anil Pant: And then we'll go to Q&A directly because I think we've covered everything in the deck. We'd be happy to answer questions.

Saurabh Gada: Yeah, I'll show the Welcome Zindagi video.

Anil Pant: Yes, please.

Anil Pant: Just sharing with our audience that this is how we change lives.

Played Video: https://www.youtube.com/watch?v=1_zHo-dSIgI

Anil Pant: This is what we mean by changing lives. And thank you for being patient and seeing this video. Open to any questions and answers that you might have.

Questions and Answers:

Saurabh Gada: Participants, I would request you to raise your hands if you want to ask a question, and I will ask the person to unmute their line and then ask the question. Yeah, whosoever wants to ask a question, you may please raise your hand and — okay, one second, we have one. Yeah, Chetan.

Chetan Shah: Yeah, hi. Good morning, sir, and thank you for a wonderful presentation and also a fabulous video, how the wave changed life of common people and the way you had to — apart from being — return to shareholders, the way you went to society and how it helps so many lives, not just the person but his family and things around that. Heartiest congratulations being one of the shareholders of our listing company.

Just one quick question, sir. When we went through the presentation, we've seen lot of changes over the last few quarters in terms of margin numbers and also the way we consolidated the business. So, could you give us some sense, how do you see things in next 2 years to 3 years, what is that?

And second, do you see how sustainable this improvement in margin is going forward? And also, is there any planned of further consolidating our businesses or our verticals, what we are doing right now? That would be very, very helpful, please.

Anil Pant: So, that's about four or five questions?

Chetan Shah: Yeah, my apology for that.

Anil Pant: No problems. I'll just try and answer them in order of what you asked. COVID was a big opportunity to learn for organizations like us. Now, if you recall, when COVID came around, they said it would be the death-knell of all brick-and-mortar businesses. So, Ed-tech was the most talked about spaces in which we were obviously not present. We might be not an ed-tech company, we are a pure face-to-face company. It gave us a lot of opportunities to learn on how to combat these things and to become far more efficient.

A lot of the margin increase that you see is from the efficiencies in business that we brought in. While we are not in an ed-tech company, we say we are a tech-ed company. Almost all our processes we enabled by technology, whether it was student recruitment, whether it was the delivery model, whether it was the placement model, whether it was the industry connect with students.

Happy to share with you that earlier, industry connect used to be maybe about 15, 20 industry connects in a year. Today, we have more than 700. Because of the tech enablement of the business, students are able to get a hell of a lot more than they used to earlier. So, this is the first thing that we completely tech-enabled our business in FY20. We used that time to enable our business.

Now, if I take COVID as a year-one, FY21, we posted about INR 12 crores of profits even in that year. INR 12 crores grew to INR 43 crores. INR 43 crores has already grown to INR 46 crores plus in just 9 months. This growth lever has primarily come because of the higher utilization of technology in both student recruitment and delivery, and placement most important.

The — I think the next part of it you asked is whether it is sustainable for the next 2 years, 3 years. My guesstimate is that definitely it is sustainable for the next 3 years in terms of growth. Whether we are going to grow 100%, whether we're going to grow 80%, whether we're going to grow 40%, that doesn't matter, but we will grow.

And growth has — I mean, for example, we already have a pipeline for — we already know what our numbers are going to look like for the next 4 quarters. And they're very healthy. I'm happy to share that the numbers are looking very, very good, even going 4 quarters down the line.

You said something about society, and that's one of the things which our late promoter, Mr. Jhunjhunwala always told us. He said, "Tum kuchh bhi karo jab tak bachhe ka uddhar nahi hota uski family ka uddhar nahi hota" and I'm just breaking into the vernacular for — I mean, what it means is that until the student is satisfied and until his family is happy with the results, you really are not doing your job. While we have shown you one video, I can tell you there are tens of thousands of stories like this child that you saw who has benefited from doing our courses. Does that answer your questions?

Chetan Shah: Sir, I understood from the growth side. Just two things we missed out, one, in terms of the sustainability of the margin, and second, consolidation of our existing verticals. Do you see that — focusing only on that or we are looking at anything else, if you can just give some sense.

Anil Pant: Okay. (On) the margin sustainability, look, ours is a leverage business model. For example, in Retail, if my business goes up by 10%, my profits were up by 25%, 30%, because my profitability is not linked to my revenue, because it's a highly leveraged business model. And as we add new centers, as we continue — you saw the same-center sales growth. If I'm able to contain — sustain this same-center sales growth over a period of time, my profitability will go at totally different levels, okay, because it's completely leveraged. My costs are fixed. My profitability or revenue is not. That answers your question on sustainability of margins. In fact, margins will only go higher from here. They can't go lower. All right, that's one.

Second thing you talked about is whether we are going to add new verticals. Yes, we will add new verticals. We — adding new verticals would be through organic.

So, the new verticals could be organic, that is we start them from scratch. The new verticals could be through acquisition, because as we have cash in bank, we're obviously going to look at acquiring companies which are in a similar space. The key to us starting a new vertical, and it does take time, trust me, is because we want to get into verticals that are extremely high growth in nature, in the sense that there should be mass employment opportunities in those verticals. And as long as we find a fit where there is a mass employment opportunity, we will be more than happy to grow there. So, the team starting from Anuj downwards is always on the lookout for these opportunities. And as and when they come along, we will obviously announce them. We'll be happy to share with you more.

Presently, I think Anuj is working on two verticals, can't share their names yet, but he is actively looking at two places where either through acquisition or through organic growth we will be able to start them in some reasonable time.

Chetan Shah: Thank you so much. Wishing you all the best, sir. Thank you so much.

Anuj Kacker: Anil, if I can elaborate on Chetan's question on the sustainability part for a second, the other contributor to sustainability is really what's happening in the domains in the industry as a whole to which we are manpower suppliers. If I look at — basically if I look at AVGC, which is one of the biggest domains that we are in, I am — I was privileged to be part of the task force set up by the Government of India which was set up under the direction of the Prime Minister, that — and they have just been — they've just published the report on what is the job potential. And it's a very in-depth report and it's now in the public domain and can be accessed.

They have talked about an addition of 2 lakh jobs in the EBG sector every year for the next 10 years. So, it's an immense growth potential. Now, there obviously — when you talk about 2 lakh jobs, just to help you relate to that number, currently, our — we are — supply about 30,000 students, 35,000 students there and we are one of the biggest players — the biggest player as far as the number of people are concerned.

So, it's potential which is there for the asking. And Anil keeps trying to draw an analogy between what is happening in the media and entertainment space today with what happened to the IT spares back in the 90s. So, there are very close analogies and parallels and we all know what happened there — to be happening. And we are very excited from a business standpoint that we're so well placed to do it.

So just the growth of the domains itself, even if you were to retain market share and that would — obviously our endeavor is to gain market share, is tremendous. So once you are talking about a growth industry, the margins improvement is very easy to do, relatively easy to do, as compared to a static market where competitive cost pressures start kicking in.

Chetan Shah: Thank you so much, sir.

Saurabh Gada: Thank you, Chetan. Deepak Poddar, you can go ahead and unmute yourself and ask your question, Deepak, your voice is not audible clearly. Hello?

Deepak Poddar: Yeah, am I audible now?

Saurabh Gada: Yes, this is better.

Deepak Poddar: Okay. So, thank you very much sir for the opportunity. Now, first off, I just wanted to understand now in terms of institutional business, we were targeting about INR 150 crores of revenue this particular fiscal, right. So, how are we placed on that front?

Anil Pant: Absolutely on track to deliver it.

Deepak Poddar: Okay. And — I mean, we have been talking about the good growth and so over next 2 years to 3 years, if I have to look what sort of growth range we might be looking at in both retail and both institutional business? A rough sort of range if you can provide would be quite helpful, yeah.

Anil Pant: So about 30% to 40% in Retail and a similar number in Enterprise.

Deepak Poddar: But ideally our Enterprise business is on a smaller note, right? So ideally, the growth isn't — that could be higher in the institutional business rather than 30%, 40% growth that you're talking about.

Anil Pant: No, anything is possible, but based on current visibility and current — because the institutional business is not a monthly business, the sales cycles are very long. I mean, at times it takes as long as 9 months of effort to land a customer. Keeping in mind that the sales cycle is long, 30% to 35% is actually an excellent growth rate for the institutional business.

Deepak Poddar: 30% to 40% is both retail and institutional is what we are looking at, right, over next 2 years to 3 years?

Anil Pant: Absolutely.

Deepak Poddar: And sir, can you just provide what is the fixed cost we have currently, I mean, on a per quarter basis?

Anil Pant: Ravi, would you want to go there? Would you want to answer this question?

T. K. Ravi: About INR 50 crores would be the fixed cost for a quarter.

Deepak Poddar: Okay. And what would be the variable cost per quarter?

T. K. Ravi: It depends upon the extent of marketing activity that we will embark on.

Deepak Poddar: Okay. And EBITDA level if I have to see, our total cost was close to about INR 94 crores, right, I mean from revenue to EBITDA? If I have to assume INR 50 crores as the fixed cost, the remaining INR 44 crores, INR 45 crores would be our variable cost per quarter, right?

T. K. Ravi: It would be lower than that. So, the extent of marketing is not that high just now. So, we are doing about INR 15 crores to INR 20 crores on a gross basis as far as marketing is concerned and therefore, other variable costs are not so high. So, it will be less than INR 35 crores.

Anil Pant: Ravi, I think what he's looking at is the student delivery model, okay, because of the sudden delivery model where you give the business partner his money upfront, that's why your fixed cost looks higher.

T. K. Ravi: Right.

Deepak Poddar: Okay, and as we grow our revenue, ideally, it's fair to assume that the fixed cost will grow at a minimum inflation kind of a level, maybe 5% to 7%?

T. K. Ravi: Yeah, that's about all. So, the fixed costs are unlikely to go up substantially as the topline progresses.

Anil Pant: No, as a percentage of revenue, Ravi.

T. K. Ravi: Percentage of revenue…

Anil Pant: The more and more centers that come on to the student delivery model, that would go up.

Deepak Poddar: Okay, but…

Anil Pant: Rather than looking at the fixed costs, Deepak, you should be looking at the PBT margin. And a relevant question is that, will the PBT margin go up at a higher level? Yes, that is the question that you probably should be asking.

Deepak Poddar: So, ideally if your revenue is growing by about maybe 30% to 40%, our PBT can grow by about 40% to 50%, right?

Anil Pant: Yeah, actually much bigger than that.

T. K. Ravi: Quite higher.

Anil Pant: Much higher.

Deepak Poddar: Fair enough. I got the hang of it. That's it from my side. Thank you.

Anil Pant: Thank you.

Deepak Poddar: All the very best.

Saurabh Gada: Thank you. Thank you very much, Deepak. Apoorva, please go ahead and unmute yourself and ask the question. Apoorva Shah?

Apoorva Shah: My question is just on the institutional business side. Last year we had around INR 12 crores, INR 13 crores cash flow on INR 97 crores revenue.

Now this year it's going to add about INR 135 crores revenue. So, what are the margins? Can it lead to margin expansion there?

Anil Pant: Ravi, you want to take it or I'll take it?

Saurabh Gada: Yeah, and just to clarify, Apoorva, we're talking of INR 135 crores in H2, okay. So overall it will be — for the year, we'll be higher than that.

Apoorva Shah: OK.

Anil Pant: So Apoorva, Saurabh already at the beginning of his presentation said that for 9 months, we've already increased it by 5%, the leverage that we have in the institutional business. And I don't think it will be — I don't think we'll grow significantly more than that in terms of margin expansion. But that itself is a very good number.

Apoorva Shah: Okay, got it. And second question is last year we had some INR 5 crores receivable which was written-off. So what's the status there? Does this figure — this quarter include this INR 5 crores?

Anil Pant: Ravi, you want to take that?

T. K. Ravi: In fact, last year we had the incidents of ECL, which was provided in the accounts, was a little higher owing to the fact that the metrics itself was increased by the Board. However, now if a good part of it has already been taken care of last year, obviously we do not expect a recurrence of such ECL provisioning this year. So therefore, going forward, the monies are getting collected, both from the institutions — of course, retail is very, very good in terms of its collections, but institutional — also the period of collection is getting reduced and therefore the incidence of ECL would progressively come down.

Apoorva Shah: Okay, that's it.

Saurabh Gada: Thank you, Apoorva. Sunny, go ahead and ask your question please. You can unmute yourself.

Sunny Gosar: Yeah, thanks for the opportunity and congratulations on a very good set of numbers. My question is, on some of the new initiatives that the Company has taken in terms of the online platform, then the tie-up with HCL and also some of the emerging verticals like aviation, so — aviation and maybe pre-school, so what are — what is the status there and when do we start seeing meaningful contribution from some of these segments into overall revenue and profitability?

Anil Pant: Anuj, you want to take that?

Anuj Kacker: Yeah, I think as far as the newer segments which have started yielding very good results, is firstly in the gaming front, which — sometimes it's included as part of the AVGC and sometimes it is not, but actually it is quite a distinct segment. Now, currently if I look at the contribution, which gaming is giving to the overall booking which is emerging from ARENA and MAAC, which are two brands in the AVGC segment, so around 17% to 18% of the fresh booking is coming from this segment. Therefore — and in our analysis, we think this is going to become the fastest-growing segment for us.

As — respect to the HCL tie-up, we have not got expected yield, so that we are trying to — going back to the drawing board and see what needs to be done. As — respect to other domains that will be under constant evaluation, the pre-school business you mentioned, pre-school business was impacted the highest as far as the COVID period is concerned because quite obviously the government closed all schools — pre-schools the earliest and opened them the last. So, that did get impacted in the COVID period. But after the COVID period, we have started re-establishing the schools. And today, I'm happy to say that it is — the returns in the black in the sense we opened the investment period in that business.

Like this, we go on evaluating various other businesses which have mass reach, which have — which are franchisable or to be able — if not franchisable, we should have the ability to deliver them in a distributed fashion. So distributed — the ability to distribute the education over large geographies, the ability to place students on a mass scale were two of the important criteria that we used when evaluating new domains. And we are constantly on that lookout and there are several of them.

Sunny Gosar: Sure, thanks for the elaborate answer. If you can add some comments on the ed-tech venture and how are we progressing — basically the website that we had launched, how are we progressing on that and basically what is the annual spend that we're doing in terms of the content building and the marketing for that?

Anil Pant: So, Anuj I'll take this. So Sunny, the answer to that is, very simply put, we are still losing money on that business and we are adding about one or two courses every month. As to when we expect to turn in the black in that, my own estimate is that another 18 months should see us turning into — turning that business into a profitable business, or if we are not able to turn it around into a profitable business then we have no right to be in that business if you've been there for 3 years or 4 years.

So, I've always said that I will not burn money like the ed-tech companies have done, and I stick to what I've said earlier in various interviews, in various interactions with investors. We are not going to burn money. So, that team is a self-sufficient team. They know that they have certain amount of time. And I'm reasonably sure that given 18 months, we should be able to turn that into a profitable business. If you are not able to turn that into a profitable business, then that business does not exist. Does that answer your question?

Sunny Gosar: Yeah. And if you can give some color in terms of the extent of the cash burn? And I believe most of it is going to the P&L, so there is already impact on the profitability, it's there in the P&L and none of it is capitalized.

Anil Pant: None of it is capitalized. It's all there in the P&L. We are losing money. Ravi, would you have any idea how much…

Saurabh Gada: Yeah, already it's INR 1 crore — roughly INR 1 crore per quarter.

Anil Pant: Yeah, it's a about INR 1 crore…

Sunny Gosar: That's not a very large amount.

Sunny Gosar: If there are no other people in the queue, I may want to ask a couple of more questions.

Anil Pant: Go ahead, Sunny.

Sunny Gosar: Yea. Sir, you mentioned about 30% to 40% growth potential in the Retail business. So if you can give some understanding in terms of what would be the driver in terms of new center addition? What is the scope for growth from your existing centers? Also, there would be lot of centers which have not reached a stage of maturity. So, if you can just break down this growth in terms of what would be the drivers of this growth?

Anil Pant: Okay, Sunny, so you would have seen in the presentation that same-center sales growth has been in the range of about 50% odd, right. So, when I say a 30% to 40% growth, I'm assuming that now this is a high base this year, FY23 is a high base. So on a high base, maybe about 20%, 22% would come from, let's say, existing centers and about 8% to 18% would come from new center addition.

Anuj, would you want to elaborate on this?

Anuj Kacker: Anil, you are more or less right on those assumptions that you're talking about. What I would add to this is there are certain other areas which are open to us, mainly in terms of the international spaces. There we are looking at various other towns and countries as well. Those could start adding to the growth as we go forward.

I've already spoken on the domain growth itself in terms of, for example, gaming coming in and other factors coming in. So, the growth which Anil is talking about is a combination of all these put together.

Sunny Gosar: Got it. And in terms of regional — so you mentioned about new regions, so basically how are we – how is our reach in terms of — I believe, metros and large cities will have very good reach. But are we looking at expansion beyond some of these top cities and towns? And how are we positioned there?

Anil Pant: Anuj, you want to take this?

Anuj Kacker: Yeah, no, even as we speak, we are — perhaps that's one of our key strengths that we are not a Metro player at all, in fact we are a — I may be wrong on this figure, so I don't know what to say in a recorded meeting, but I — my guess would be we are about 150 and 160 cities in India already covered and the growth that you're seeing from Tier 2 and Tier 3 cities is extremely encouraging. In fact, as we speak, I'm taking this call from one of the Tier 3 cities — Tier 2, Tier 3 cities in India and I'm very excited to be here as a case in point.

Sorry, there was another question linked to that you asked?

Anil Pant: How do you…

Sunny Gosar: Yeah, how — in terms of our center expansion strategy, so are we looking at cities…

Anuj Kacker: Yeah, sure, correct. Yeah, so obvious answer is yes, but just to elaborate on the numbers, see, Saurabh in his presentation in passing mentioned that during the COVID period and in the immediate aftermath of that, our new center addition did get impacted. We are in the process of building that up. And If I'm right, it — this shows the numbers of the — number of new centers that we have added in the last quarter and YTD. So, those are very encouraging signs because it really shows that the partners' faith in the brands and in the business and in the domains that we operate continues to be there.

As a softer element beyond the numbers what I can say is that another measure kind of use is that — or actually I like to feel happy about is the number of second generation and third generation — second generation of people who are today managing Aptech businesses which their parents or their fathers had originally started with Aptech.

So, we are already into that space, so which is I think — we have very good vindication of not only our business model, but also the continued partnership model that we have because it — which has elements of trust, which has elements equitable returns to the partner community or their investment and the — on the mix that we have today of new phases of people who are continuing and have been 15 years, 20 years with Aptech as well as I mentioned, the third — second generation coming into the stream. So all in all, I think our network is in very good shape.

Sunny Gosar: Great, sir. Thank you for that detailed answer and all the best for the future.

Anil Pant: Thank you.

Saurabh Gada: Thank you very much, Sunny. Pawan, you may go ahead and ask your question.

Pawan Parakh: Hi, Anil. Congratulations on very good set of numbers. Sir, I just have one question. Am I audible? Hello?

T. K. Ravi: Yeah, very much.

Pawan Parakh: Yeah, thank you so much. So. I just have one question, sir. I mean last 9 months have been — we've been growing very well. And given our business, our business model obviously generates a lot of cash flow, but the kind of growth that we're seeing, in a year or so, maybe we'll be like a INR 100 crores operating cash flow generating company on a per annum basis, which is a very sizable number. So what are our plans in terms of capital allocation?

And secondly, as and when we decide to start a new vertical, what does that mean in terms of initial cost, cash burns? These are my two set of questions.

Anil Pant: So Pawan, I'll answer this in two parts. One, I think the second part of it, which you talked about having cash on books, see, we already have about INR 100 crores of — INR 100 odd crores of cash and these are likely to be much higher in April when we talk.

So, one of the things that I did talk about was being on the lookout constantly for any company that suits our model of high employability and franchisability. So, we are always on the lookout for companies like these which we can acquire. Having said that, the opportunities in India are very small. So, we have also started looking outside the country, whether we get something in — a similar kind of environment as India. So, that is part of what the — you said, we'll be about INR 100 crores plus cash-generating company. Probably, yes. I mean, it could be even more, more than INR 100 crores of cash generation a year.

Firstly, the allocation of that money is very clear. We are very clear we have a dividend distribution policy which the Board adheres to. We are now — see, till today we were in maintenance capex model where — keeping in mind the conditions in the market and the bruising that we got because of COVID, most CEOs, including me, were looking at preserving cash because having cash on hand was something that made sense to a small company like us.

Going forward, we are going to be completely on the lookout for any business that is compatible to us, which will lead to job generation, but which also has to be cash-generating. We are not going to buy a loss-making company because we are not a turnaround story expert. We will look at companies which are cash-generating. And if find a good fit, we will bite. Does that answer your question, Pawan?

Pawan Parakh: Yes, very much. Just one more thing. Whenever we decide to start a new vertical, how — so how does the cash — what is the initial outlay that we plan to do for — generally — I mean, because you may not be successful in all of your ventures — in all of your verticals, right?

Anil Pant: We set aside about INR 5 crores of cash when we sort of start a new this thing. That's what we did with Lakme Academy powered by Aptech, LAPA. We set aside about INR 5 crores of cash as the initial amount of money that we need to start our business. That INR 5 crores is typically meant for the resources that we need to run this business.

Before you enter into a new business, you actually have to do the resource planning. Now, this resource planning is what? It could be setting up a model center. It definitely needs people to drive this business. That is an inordinate amount of money that you have to spend in advertising.

So, a certain amount of cash which typically has been in the range of about INR 5 crores to INR 6 crores is set aside. And then we go ahead with that business, resource it adequately and — I mean one of the most successful businesses that we have turned around is — not turned around, we are proud of is the LAPA business, Nobody ever equated Aptech with beauty. But today, we are the largest player in that — correct me if I'm wrong, Pravir and Anuj.

Pravir Arora: You're right, Anil.

Anil Pant: We're the largest one.

Anuj Kacker: We're the largest one.

Anil Pant: Bigger than VLCC and all.

Pawan Parakh: Right. And just one more thing. Any of the things that we plan to do will leverage on the existing, strong franchisee network that we already have, right?

Anil Pant: Absolutely.

Pawan Parakh: Right.

Anuj Kacker: Like Anuj shared, I'm happy to share with you that a large number of our erstwhile partners who were there in the gaming and — AVGC segment, what we call the media and entertainment vertical, a lot of them have taken LAPA centers and they are doing extremely well.

Pawan Parakh: Right.

Anil Pant: Because…

Pawan Parakh: The reason I ask is because we are anyways seeing a decent — I mean not only decent, very strong growth in our base business. It just didn't happen that we started something new and that becomes a cash drag on our other growing business.

Anil Pant: Like I told you, Pawan, I am a Brahmin with the soul of a Marwadi. I always… every rupee that I — that we spend, very, very strong bias on ensuring that we don't burn cash.

Anuj Kacker: Pawan, if I might add one different perspective to the network, is that if I look at what do we have as a strength beside the content, the brand, the pedigree and all of that is that 600 relationships, 700 relationships that we have, which is a very strong competitive advantage in the real sense, now if you imagine another company trying to come in and to duplicate what — where we are, and let's assume it's a foreign company or a foreign university or any other player in the market, it's easy to burn money and set it up. But this is not — the business is not about that at all. It's about building those 600 relationships. It takes time. It takes years and decades.

So, it's — today it's a very strong competitive advantage which we sometimes — which is not adequately understood or talked about in the market. It's absolutely — I can go to the external thing, it's absolutely impossible for any company, no matter how deep their pockets may be to come to a country like India and build that 600 relationships overnight. They can't do it. And that is why they go to the ed-tech spaces which do not require these things, but that has a severe limitation in terms of outcome of its pedagogy. It has severe limitations on completion rates. It has severe implications on the ticket size, and which is why they do what they do.

So, it is not an outcome of a technology which is driving their choice. It's also the outcome of lack of their ability to go to the ground. I mean if you think through that and do a more in-depth thinking on Aptech what we have built up, it's really that.

Pawan Parakh: No, sir, fair point.

Anuj Kacker: Digitization in the education space is not necessarily because it is driven — I have a technology by which I can reach through millions of people and which is what, the Internet basically. And therefore…

Anil Pant: Anuj, I want to come in here.

Anil Pant: Okay, right. One of the things, Pawan, what's also important is to understand what is the value that we bring to the franchisee. And a significant portion of their revenue comes from activities that we do. And that's why they're so stuck to us. And I want Pravir to just take a minute to take us through what we do to sort of bind them to us even more close, what percentage of their business is generated through marketing activities which are centrally deployed. Pravir, if you would actually just take a minute to elaborate that.

Pravir Arora: Sure, thanks. Fundamentally, from a marketing angle, there are three broad perspectives that we — help the business partners to grow. One is called brand marketing when we do all ATL activities. The second, which is the most important part, is the LMS, which is the leads that we provide to our centers. Currently, it is safe to assume that about 30% to 40% of the center's business is depending on which brand it is, actually comes from the leads that are generated and given to these centers on a periodic basis. It's actually on a monthly basis. The new centers that come in and sign with us get free leads for a particular period of time because it's in our interest to be able to set them up for — as they start generating revenue.

And lastly, there is something that we do, which is engaging the existing students and also making sure there is a whole lot of prospects which look at the events that we do within brands and therefore get the feeling of being able to come in and enjoy being a part of the brand and being the still — and be a part of that event. Most of these events are something — which our competitions, which have significant brand equity along with them.

And fundamentally, there is a whole lot of promotion, both digitally and physically that the student gets if he or she goes and wins the competition. For example, the last one that we did in Lakme Academy, the winners get to work with Farrah Khan in her next project. Now, it's a dream come true for anybody. When somebody would have joined the Lakme Academy Powered by Aptech, they wouldn't have thought of being a part of such a troupe or they would possibly be going and doing hair and makeup of celebrities and artists in Bollywood at such a young age. Fundamentally, these are significant points that pull a franchisee to us to be able to go and give that relationship from their side as well on us.

Anil Pant: And Pravir, some of you have attended the 24FPS. That's an example of something that we do in the media and entertainment industry. And it's a MAAC event – yeah, go ahead, Pravir.

Pravir Arora: Similarly to what I said on the beauty side, the example that Anil gave, which is 24FPS, which is a 19-year-old property now, it's just — the next edition will be the 20th edition of 24FPS, which is equivalent to the Oscars in the animation and 3D and gaming space that we have in India. The entire student work is judged by the industry. So the — who's who of the industry who's going to hire these students are the — is the jury and very often they — they're at loggerheads in terms of being able to figure out who should win in a particular category because the work is so good and so close to each other.

Now, this is again an experience that students don't get outside or from any other brand. It is to compete with each other, it is to make sure that their work is showcased to the people who're going to hire from these centers.

Anil Pant: And more importantly, I mean, Pravir, you had entries from how many countries? More than a 1,000 I think.

Pravir Arora: Yeah, we had about 1,000-plus entries from about 120 countries.

Pawan Parakh: Great sir, thank you so much for such a detailed answer. And looking forward to those INR 100 crores cash flow days. Thank you so much.

Anil Pant: Thanks.

Saurabh Gada: Yeah, thanks Pawan. Sushant, you can unmute and ask your question. Sushant Verma?

Sushant Verma: Hey, good morning, everyone. I'm a retail investor and two things, one is, I am really happy with your numbers and congratulations and it's really a very steady progress. So, kudos to the team. I think this really calls out for celebrations. And I'm looking forward to more growth in future.

The niggling factor for me, and I'm not sure if this call is the right forum, but yet I am raising it, is on social media there is a lot of hue and cry about, well, something like JKSSB and things like that, which I feel is probably evident as a noise factor. But somehow, I have a feeling that maybe we could probably try and address them or at least if not addressed, at least try to take care of the noise because that is unnecessarily weighing in on the organization itself. So, I just start something could be done in that regard because that actually eclipses all the good work that the team has been doing. So, that's just my thoughts.

Anil Pant: Sushant, I'll answer that question. See, that typically — predominantly happens in the enterprise business, which conducts examinations. Now, if we assume that there are 6 lakhs people taking an exam. A paper-pencil exam is the easiest to cheat in. So, people don't want online examinations to succeed. Now, what happens is that a lot of — and for want of a better term, we call them the coaching mafia. So, this is done by these people.

So, when you talked about JKSSB, you should also have heard the comments made by the JKSSB Chairman. He was categorical in saying that the Company to whom the work has been given has done an excellent job in terms of delivery. Unfortunately, whatever is there pending in the High Court is pending in the High Court, and that is being fought and it will be very quickly cleared, because the people don't — they'll file a case and then they won't even come for the follow-up dates that are given by the court. And invariably, the court throws them out. So, that is something that we have learned to live with.

And look at the media in this country, they like sensationalism. Now, we are doing another exam for an autonomous body. There also there is a lot of social media stuff that is happening where people are saying, this has happened, that has happened. That is — I mean it's like miya biwi razi, kya karega kazi.

Sushant Verma: I am with you, and I have no doubts about the way you are handling it. The only reason I wanted to highlight this is because the segment that we are targeting or usually we target, as in that gets influenced a lot by the social media, fortunately or unfortunately, and that's one reason why this thought that maybe it is well… I know, you cannot just spend time taking care of the noise level, and yet unfortunately there is a lot. And that was my… as I said, the niggle that I have has nothing to do with the numbers, I am delighted with the numbers.

Anil Pant: Thanks, Sushant. And, honestly if I had an answer to that I would have given it.

Anuj Kacker: Yeah, if I might add one small comment to that, yeah, we understand this — as a process we have — Pravir's team monitors something called sentiment meter, I forget what is the term which is used. Of course the — sorry, it's called sentiment meter, right?

Pravir Arora: Yeah, it's called sentiment meter.

Anuj Kacker: Yeah, it gives us actually data-wise recording on what the Internet is saying about us, which is a score. Well, like in any brand, there'll always be plus and minus. But that's a good indicator which we do as a whole. If it goes — if it beeps too much and immediately Pravir's team kicks into motion to be able to handle or alert the current — the people concerned as to what's happening, and this happens in Real-time. That's one.

Second is, as a process, particularly on the retail front, moment there is even a normal adverse comment, it may not be a complaint, it could be some adverse comment somewhere in some corner of the country, it's immediately flagged off in real-time and individually addressed with this student concerned. So, there is a very strong process behind what we are doing to handle any adverse elements of the social media.

Having said this, I think for the social media, the positive aspects of social media are really what we concentrate on and that also are immense. And it's as you said yourself, it's the mainstay of our business and also of our customer outreach, consumer engagement, marketing, whatever you call it.

Sushant Verma: Right. No, I understand. And that's why I said it's just the noise level that I wanted to…

Anuj Kacker: We are very conscious of it. We are very conscious of that problem, yes.

Sushant Verma: I completely understand. But anyway, I want to reiterate that the team has really done extremely well in terms of the numbers. So congratulations and thank you very much. I really appreciate that.

Anil Pant: Thank you.

Saurabh Gada: Thank you very much, Sushant. If anyone has questions, then please raise your hands. Okay, I think we are all done with the questions. So, thank you very much and thank you on behalf of the entire team for joining us today for this call. It was lovely having you. And I hope you took away a lot of the messages that we wanted to share with you. And look forward to having you again next quarter. Thank you very much. Bye-bye.

Anil Pant: Thank you.