Earnins Concall was hosted by Systematix Institutional Equities (Host: Sidharth Agrawal)

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Presentation: https://www.aptech-worldwide.com/downloads/investorPresentation/AptechLtdResultsUpdatePresentation-Q4FY2022-23.pdf

Sidharth A: Good evening, ladies and gentlemen. Thanks for joining us today on the fourth quarter of the fiscal '23 earnings call for Aptech. On behalf of Systematix, I would like to thank the management for giving us the opportunity to host this earnings call. Today, we have with us Dr. Anil Pan – Managing Director and CEO, Dr. Anuj Kacker – President and Executive Director, Head of Global Detail Business, Mr. Pravir Arora – Chief Marketing Officer and Head of Enterprise Business, Mr. T.K. Ravishankar – Executive Vice President and Chief Financial Officer and Saurabh Gada – Investor Relations Consultant.

I will now hand over the call to Saurabh Gada from the management to give the opening remarks. And after that, we will open it up for Q&A. Thanks.

Saurabh Gada: Thank you very much, Sidharth. Thank you to the Systematix group for hosting this call. On behalf of Aptech, I would like to welcome all the participants who have joined us on this call.

We will take you through the performance that we had in Q4 FY22-23 and for the full year of FY22-23. You would have seen the presentation and the results. I'm sure most of you would appreciate the fact that we have delivered great numbers. We will delve a little bit more into detail on what exactly has gone into these numbers and our performance. And hopefully, you will get a better sense of what has happened. If you have any questions, we will take questions after the opening remarks. We will try and restrict the opening remarks to a very short time so that we have more time for interaction and more time for your questions. With that I'll start with the opening remarks.

[Slide 4] If you look at the performance that we have (delivered), there are so many best-ever performances across various parameters that we have delivered in this case. What I am saying is that this has been a great year and a great quarter for the company. You can also see that we have declared a dividend of Rs. 6 per share and a bonus issue of 2:5, reflecting the performance that we've had. The company has performed so well, not only because one of the businesses has done well, but it is because all the three segments that we have, which are Domestic Retail and International Retail that form part of the Global Retail reporting segment in the results and the Enterprise Business or Institutional Business. So, all three segments have done exceptionally well. It is not only at the top-line level, even at the bottom-line level, they have delivered their best-ever performance. If we were to look at our history after listing, so this year definitely has been a great one. This is also reflected in the operational parameters. For the Retail business, the key operational parameters that we look at are typically booking and billing. In terms of booking and billing as well, the Global Retail segment, including both Domestic and International, have done exceptionally well. We have finally come out of the shadow of COVID. And if you compare our numbers with the pre-COVID period, even in comparison to the FY20 numbers which was pre-COVID, we have grown over that year as well. This is true for the Retail business as well as Institutional business, I mean that is obvious because we have delivered the best-ever performance, we'd have grown over the pre-COVID period too. The growth has been really good. One of the key highlights, in terms of our Institutional business is the fact that in this year, we have delivered a very large assessment project where we have conducted exams for more than 3.2 million students across 580 plus centers in 200 plus cities. This was done over 48 shifts, which is 24 days, so two shifts per day where in a given shift the maximum number that we handled was more than one lakh students. So, this puts us in a very different league in this space. And all these things put together, if I were to summarize, the changes that we have tried to bring in, in the last few years in the company's business have all worked for us and helped us deliver this great performance in Retail and in the Enterprise business.

Since we are present in segments which are going to benefit from the growth momentum that the country itself is witnessing. (For e.g.,) the demand for skilled workforce is going to increase exponentially, especially in the sectors where we are present in. Then the digitalization drive that the government is pushing and the people are adopting is going to help us deliver many, many more exams digitally. Because that is the key thing that we are doing in our Enterprise Business. Hence, there are very clear tailwinds and growth drivers, which are going to help us continue this performance going forward. In some of the interviews that Anil gave after the results, he has clearly mentioned that the order book that we have in the enterprise business in itself is, showing that the growth that we will do in next year over the current year performance is going to be very high. We have an order book of 250 crores in hand for Enterprise Business as against ~170 crore of revenue that we did in this year. So, Anil has already spoken about it in the interviews.

Going into a little bit more detail on the performance on the operational parameters and to give you some flavor of the financials, I'll just quickly run through the slides. [Slide 5] As you see, these are the annual numbers for booking and billing, both Domestic and International have done exceptionally well. Overall, in the Retail business in booking and billing, we have delivered more than 40% growth on a YOY basis, and we have grown more than 20% as compared to the FY20 numbers. The change in the business model in Retail from Royalty to Student Delivery model has also helped us reduce the outstanding debtors. If you see the improvement in the DSO from FY20, FY22 that had a number upward of 60-70, we have got it down to 28. The most important thing, the growth is being driven by our same stores where we have delivered close to 50% same-store growth in FY23 at the booking and billing level. [Slide 6] Here, just from a Q4 perspective, one thing that I would like to highlight is the fact that (in) this transition to the Student Delivery model at the student level, so we are at around 58%. (This transition), which we are hoping to complete in the next few quarters cause then we will have more comparability on a like-to-like basis.

[Slide 7] Now the key operational highlights for Q4. One of the things that we are doing to increase our network penetration in the smaller cities is, innovate on our franchise/ business partner model, where we are opening more Phygital stores< These stores will cater to tier-3 cities and towns. Where the investment that the franchisee/ business partner has to put into the center will be much lower, hence making it lucrative for him or her. And we will also deliver hybrid courses through those centers where Aptech will deliver some of the sessions centrally on the online platform. Some sessions and the practicals will be done at the center level. So, this will help us penetrate our animation and multimedia brands further into the hinterland

and the country. So, that is the objective behind this new business partner model. We launched our Gaming and Immersive Media courses this year, and they have already started contributing more than 10%, nearly 12.5%, of the booking number. This is something which is going to continue to do well going forward because Gaming is a booming space. So next year we are hoping that it will contribute around 20%-25% of the overall booking for the new course enrollments in Arena and MAAC. In the international market, our top two markets are doing extremely well when you compare (the performance) with FY22. They have shown high double-digit growth. In the fourth quarter, we also entered Zambia with an Arena Multimedia center in partnership with a local university. So, there are many other things which are covered in the highlights you can go through.

[Slide 8] I'll just focus on one point here to highlight how you need to read this slide. So, if you look at the first table, row number five is essentially giving you Global Retail performance if it were to be accounted purely on the basis of Royalty model. Hence, giving us like-to-like comparable numbers. So, for the full year our reported revenue for Global Retail is 285 crores but that includes a mix of Student Delivery and Royalty model revenue. But if we were to account that revenue only on the basis of Royalty model, our revenue would have been 174 crores, which in itself is more than 40% YOY growth over FY22 and more than 10% growth over FY20 number. Where the 110% number (in the table) corresponds to 10% growth. If I were to consider the core revenues and business that we have generated from student enrollments, that (growth) is actually 18% because I have excluded the income from new center signups and renewals which has lagged a little bit. But if I exclude that our core business has actually grown by 18% for Global Retail. And comparable numbers if you match the colors of highlights. So for International business, the overall growth is 25% over pre-COVID. But if I were to only look at the student-related numbers, the income from student fees and all, it is actually 39% growth. Similarly for domestic, if the reported number is 6.5% growth, then this would actually be 14% growth for the income from students. At the profitability level also, you can see we have done extremely well. Overall, the PBT is higher by 89% on a Y-O-Y basis and if we were to compare on a like-to-like basis it is higher by 85%. Similarly, if you compare it with FY20 numbers, we are almost five times FY20 PBT at the overall company level. Similarly, you can read the quarterly slide as well.

[Slide 10] Here are the overall financials. Also, we have shown like-to-like comparison (in this slide). You need to look at this column, the second last column which will give you an idea about what the performance would have been if we were to account only on the basis of the Royalty model. But let us just look at the reported numbers and understand the kind of excellent performance that we have delivered. So, at the revenue level it is, we have more than doubled our revenue. The PBT has also grown by almost 90%. So last year we had tax write-back of around 15 crores in the last quarter, which is why you see that negative 6 crore of tax in FY22. So, that is the reason that the PAT has grown by 37%. Yes. again, this is also much higher than what we delivered in FY20. So, EPS is now 16.32 which is the best ever in our reported history.

Anil Pant: So Saurabh, what is important to highlight is that look at the PBT level not at a PAT level.

Saurabh Gada: Right. These are again the quarterly numbers. [Slide 12] We have given analysis of the movement in our profitability. If you see the reported numbers, you will see that the Global Retail PBT margin has come down. But that's largely because of this movement to Student Delivery model. If you were to compare on a like-to-like basis, our PBT margin actually is almost same in Q4 FY23 versus Q4 FY22, despite doubling of advertising expenses in this quarter. Yes. So overall, because we did really well in Enterprise Business, where the margin has gone up significantly by almost 9%, overall margin has gone up by 6%. But this is, like I said, on a like-to-like basis. [Slide 13] These are the key ratios, and you will see that the kind of return ratios that we are showing is exceptionally high. We have 237 crores of cash on the book as on March 31, but we can discuss about this number if you have any questions, but this is, you can say roughly around 150 crores, is what the operational number will be. [Slide 15] This slide is basically just to highlight, we have delivered exceptionally well even through the COVID period where the profitability has been really good, the operating revenue growth has been really good.

Anil Pant: Open it up to people now.

Saurabh Gada: Anil, do you want to summarize something?

Anil Pant: I mean It's not for us to blow our trumpet. The numbers are there.

Saurabh Gada: We will open for questions.

Anil Pant: Yes

Sidharth A: It's fine. Yes, Saurabh. Thank you very much for the wonderful opening remarks. So now we open the floor for questions. It's an open investor call anybody who would like to ask a question may raise his hand and ask directly he may kindly unmute himself first. So, over to the participants for asking the question. Yes, participant may kindly raise their hands. Yes, we've got a first question from Sunny Gosar. Sunny?

Sunny Gosar: Thanks for taking my question, and congratulations on a fantastic performance. So, this year has been really good in terms of the Institutional Business. And you also mentioned that there's an order book of almost 250 crores at the start of the year versus your revenue of 172 crores in the last year. So, just wanted to understand what is driving this kind of strong growth. And beyond this, what, what are the growth drivers? Who are the new customers or what, how do we see this business, overall, in the next two to three years?

Anil Pant: So Sunny, is this about the Institutional business?

Sunny Gosar: Yes.

Anil Pant: So like I said, I've said it on my interview calls also, 250 crores is the order book that is already in hand. And most of it is billable. Apart from that we should be able to get another 20-30 crores worth of orders, which should get delivered in this year. Now, as far as the customers go, we can't reveal the names of the customers because we are bound by confidentiality clauses with them in terms of not revealing their names. But suffice it to say that whatever growth you've seen the numbers will not get diluted. If anything, the fact that we are growing in this business is also helping us to grow our margins significantly, because our fixed costs remains the same. And as long as the fixed cost remains the same. Anything that we get over the break-even translates into almost 30%-35% of that translates into the bottom line. Does that answer your question, Sunny?

Sunny Gosar: If you can just give like a three-year outlook to this business in terms of say after you do maybe 250 to 270 crores of top line around that number in FY24. How should we look at say a growth trajectory going forward? I believe you won some large customers that you had made a press release sometime in the last year. Are there similar other customers that are there in the pipeline or potentially you can win such large orders going forward?

Anil Pant: Absolutely. I'm reasonably confident that in a three-year timeframe anywhere between 70 to 100% growth on these numbers is likely. So, which means anywhere between 430 to 500 crores is a doable number.

Sunny Gosar: Fantastic, sir. So, I'll get back in the queue. Thanks for the answer.

Sidharth A: Thank you, Sunny. Chetan Shah, you may kindly unmute yourself and ask your question.

Chetan Shah: Hi. Thanks for the for a detailed explanation, just a follow up to what he was trying to understand in terms of if I -- if I look at our operational data and operational parameters.

We have a reasonably sharp up moving us in store. In terms of the domestic booking and also the domestic billing, but partly that was true because of the last year's base effect. If one wants to expand this number and see the normalized growth number for next couple of years or three years. Can you just help us explain how these numbers can look like going forward?

Anil Pant: The same store sales growth would look almost the same. Future growth would also come from expansion. So, in one of my interviews, I'd also stated that we're looking at opening more than 100 plus stores this year, which is one store almost every 3 – 3.5 days. And a lot of the growth is going to come from new store addition and the hybrid model that we are introducing.

Chetan Shah: Got it. So, when you say 100 stores opening. The mix will be similar what we saw last year in terms of domestic and international or, or we are now looking at international little more aggressively.

Anil Pant: It would be pretty similar but international would also be part of this. Anuj, would you want to take this question more relevantly?

Anuj Kacker: Yes, yes, sure. Anil, let me just paint the picture and domestic for you and just to let you know where we are currently. The way we classify cities, if you look at class one and class two cities, there are 26 cities in India. Of these 26 cities, we already presented 90% to 95% of the cities. So, pretty much well covered there. Of course, there are small pockets within these cities where there is scope for expansion. Then the next class is what we class three towns which are about 100 numbers. Out of these 100 about Arena is present in, let's say about 51% -- 50% of them in terms of Arena spread. But if you look at MAAC and LAPA, they are more like in the, out of the class three town presented only about 15% to 25% of these cities. So even if I restrict myself to class three levels and not even go to class three or class four, you can immediately picture the sheer depth which is available to us to be put in place. With only a marginal increase in cost from our side. However, as Saurabh Gada mentioned in his presentation, we are putting in new models of business in place specifically for class three towns downwards. So, which will accelerate our penetration depth-wise into class 3 and class 3A cities. Just for example, there are 471 class 3A cities. We are presented in about maybe 25, 20 to 25 of them only currently. So, there is a huge, huge scope of depth penetration within India which is as yet exploited by us through our various businesses. They have their own set of challenges and that's why the new models are being put in place.

Now coming to international, as some of you would know that we basically divide, we have two main geographies as it were. One is Vietnam where we are very big, we have about 30 odd centers. Other is the continent of Africa. Now continent of Africa, we are currently there in about 13 countries. We have identified for ourselves another 10 more countries within Africa where there is a tremendous scope for our penetration. And largely we are present in the anglophone world in Africa. There is a huge anglophone world in Africa where our presence is relatively lower. So, that's another axis of growth which is available to us. So, there is, just from an expansion point of view based on just the same products, the same businesses that we are doing, using broadly the same model and same courses. There is so much potential available to us to grow and set up new centers. When I say new centers, they could be centers in different shapes and sizes in terms of the digital model. But that's the direction which we are likely to take. There is tremendous scope on both sides.

Chetan Shah: Sir, last question from my side. In terms of understanding the margin in our business, we have done a lot of work in the last two and a half, three years in terms of controlling the cost. You've alluded in a previous call also about the digital, so does you spoke about in this quarter numbers presentation also? So, if one wants to look at from a sustainable margin point of view at a gross level and at a company level, do you think that most of the low hanging fruit are more or less been captured by us and from here on the expansion. That means delta between the gross margin and EBITDA will be a little difficult to serve or we want to spend that money more on a marketing and focus on expansion. Is that a right understanding?

Anuj Kacker: Yes, so if I look at domestic, we already have 35% activity margins, and which is a very healthy margin. We are not looking at necessarily further expanding margins as far as the retail business is concerned, rather getting more customers tuned into our business. One of the big challenges that we do face in our business is not the availability of jobs or the availability of employment opportunities. It is the awareness that is there amongst the target audience and their parents of these opportunities. Therefore, it is worth our while to invest more into advertising, marketing and other forms of customer acquisition. So, the combination of these would give us access to, they may certainly they would be accessible to the customer. The second area is of course technology. When I am saying technology, it is not, don't necessarily confuse it with the typical EdTech type of technological interventions, but look at it more as a technology in the delivery process. So, the combination of these would give us access to, they may certainly they would be higher incurrence of cost, which will be more than compensated by higher revenue and customer acquisition in this segment. So, the focus as well as the retail business is not to grow margins beyond what they are necessarily. How -- having said that, there is an inherent leverage built into our franchising model, which is that our costs don't go up in the same proportion as the top line does. So, that gives us scope, a lot of scope to be able to reinvest those margins back into driving top lines.

Chetan Shah: Thank you, so much, thanks.

Anil Pant: Chetan, right? Chetan, one of the things that I think you need to understand is, is our growth path going to be continuous. And as long as we are able to grow at that 30, between 30% and 40% in terms of top line, our margins will anyway grow, and our margins will grow disproportionately. I mean the profit, the PBT will grow disproportionately and subsequently also margins. And frankly, this is not a margin game anymore. Right now, it's more about customer acquisition, more number of students that we are able to add. I mean you look at it this way how many even edtech companies are there who can talk about a close to 300-400 crore top line and a 100-crore bottom line? There are hardly any. In fact, none in that edtech and all of them are in the loss-making phase still. So, like Anuj rightly said, a lot of leverage still left, a lot of juice still to be taken out of the system.

Chetan Shah: Thank you, sir. Thanks a lot.

Anil Pant: Thank you.

Sidharth A: Thank you, Chetan Shah. Our next question is from Apurva Shah. Apurva, would you kindly unmute yourself and ask your question?

Apurva Shah: My first question is on Institutional Business side. The profits from the Institutional Business has gone up but so have the losses from corporate bill. So, is this going to be kind of a proportional kind of thing, or it was just a one-off kind of thing?

Anil Pant: Losses? I mean I didn't get the question fully.

Apurva Shah: Losses from this corporate, it is shown under segment PBT, corporate segment.

Anil Pant: That is not a loss.

Saurabh Gada: That is overheads Apurva. That is not corporate business, that is corporate overheads.

Apurva Shah: Okay. But then the figures are…

Anil Pant: Yes. We have spent a lot of money on training. We have spent a lot of money on bolstering the manpower because of the student acquisition model. So, these are costs which are good costs to have.

Apurva Shah: Okay. The second question is on the dividend side. Historically, Aptech has been a good dividend paying company. Why so less dividend despite bumper cash flows?

Anil Pant: The board felt that 60% dividend was a good dividend. Ravi, you want to take that.

T. K. Ravi: Yes, certainly. I think it is the highest that we have done in the history of this company. So, 60% along with the bonus issue is certainly not a small dividend nor the bonus at the time in any manner.

Apurva Shah: Yes. But still, we have 237 crores of cash equivalents. We are not capital-intensive company. We don't need much cash for any new line of business, except for acquisition. Can we expect something concrete has come up now, which can be announced in the year term?

Anil Pant: It can’t be shared on this call.

Saurabh Gada: I would like to just add one more thing. So, 237 crore is the (cash and cash equivalents) balance as of 31st March, but that also includes a lot of student advances, Apurva.

Anil Pant: His question is relevant. But there could be other needs for the money which the board felt, right, Apurva?

Apurva Shah: Okay, because this year if you see practically entire cash flow company has kept with itself.

Anil Pant: Okay, fair enough.

Apurva Shah: Okay, that's it.

Sidharth A: Thank you, Apurva. You stole my question. Now we move on to Manikanth. Manikanth, would you like to unmute yourself and ask your question?

Manikanth A: First of all, congratulations on a stellar quarter. So, my question, first question is on, so if we take the past three years, the first quarter is always a decline in revenue and followed with a decline in profit. So, like you said, there is an increase in business. So, the coming quarter, are we going to break this? So are we going to maintain the same margins for the next quarter?

Anil Pant: So, the margins would be similar, but the numbers obviously would not be in line with Q4. It would be significantly better than what we've posted in Q1 of last year. I've gone on record saying that in some of my TV interviews.

Manikanth A: Okay, fine. The second question is regarding the shareholding pattern. So, despite the company is performing the best in the decade and the stock being higher, so the promoters and FIIs and DIIs are slightly not even increasing. They are a bit reducing the stake. So, do we see any FIIs, DIIs interest for entering into the organisation?

Saurabh Gada: We cannot specifically share the data, which is not in public domain, nevertheless, yes, there are conversations that we are having. There is interest and we are meeting people (as disclosed to the exchanges).

Manikanth A: Okay, so any interest received from the other side? So, the names are not required, but are we hearing a good interest from the other side as well?

Saurabh Gada: Yes, that's what I'm trying to say.

Anil Pant: Manikanth, we have a reasonable amount of FPI buying. FII and DII are reaching out and Saurabh is in constant talks with people.

Manikanth A: Okay fine. Yes, that's it from my side. Thank you.

Sidharth A: Yes. Thank you, Manikanth. Our next question is from Jash Shah. Jash, would you like to unmute yourself and ask a question?

Jash Shah: First of all, congratulations to the management on a stellar financial year. My question is pertaining (to) the increase in trade payables on the cash flow statement in FY23. The increase in trade payables has the number that we see is 72 crores versus 10 crores in FY22. So, I was just trying to, I was wondering why has there been a substantial increase in the trade payables? Is it because of the change in commercial arrangement that we have, with our business partners or is it something else?

T. K. Ravi: There are two things. One is, of course, as Anil said that there is one large customer where the money is actually realized on the 31st of March, which is a substantial amount of money. And progressively a good part of the credit terms has got to be paid over a period of time following 31st of March. Second is, which is the second part, sir?

Jash Shah: Business partners.

T. K. Ravi: This is the business partner agreement. Obviously, as they migrate into the student delivery model, that is reflected as a liability, once you put the student advances that you will see by the company and the service is yet to be performed.

Jash Shah: Okay. I think that pretty much answers my question. Is it the, like, these are the same reasons for increase in other current liabilities as well?

T. K. Ravi: Absolutely.

Jash Shah: Okay, understood. So, I just have one more question regarding ProAlley. I believe the last update we have on ProAlley is on, as of Q1 FY23 post, which we have not received any updates on that. If there's any kind of further investment that the company has made into the segment or, any metric would be really helpful.

Anil Pant: Jash, there have been significant investments that have been made in terms of content development.

Jash Shah: Okay.

Anil Pant: We are still finding our way around how to scale up on customer acquisition in that space. I have been adequately clear in all my interactions with whether it's analysts or whether it's in TV interviews, that we are not going to burn money like the edtech companies in terms of spending money to gain customer traction. So, it's still a work in progress. And my own belief is that sooner rather than later we'll find the right mix and the right way to take that to market and to benefit the organization from that without burning money.

Jash Shah: Understood. Yes. Perfectly sensible way to go. All right. I think that was it from my side. Thank you, once again and congratulations.

Anil Pant: Thank you.

Sidharth A: Thank you, Josh. Participants would like to ask questions, may kindly raise their hand, unmute themselves and ask. Mayank, Mayank Babla.

Mayank Babla: Yes, hi, this is Mayank from Enam Asset Management. I had one question regarding the free cash flows. Could you help us with the free cash flows for the last four years, please?

Anil Pant: Saurabh can you pull up. Mayank, we may not have it for the last four years. I think we have it for the last three years. So, I guess that will have to suffice for now. But in case you're interested, Saurabh can mail that across to you for four years subsequently. Saurabh, can you just?

Saurabh Gada: If we were to look at net cash flow from operating activities, less CapEx. So, our free cash flow for FY23 was 133 crores. And that number was 39 crores in the previous year. And one before, the longer trend, I can share the data with you after the call.

Mayank Babla: Sure, thanks. Yes, that's pretty much it from my side. Thank you.

Sidharth A: Yes. Thank you, Mayank. Sunny.

Sunny Gosar: Yes. Thanks for the follow up question. I had a more strategic question on the retail business. So currently it looks like that MAAC, Arena, Lakme and your Aptech Learning are the key growth drivers, at least for the last two years. In the visible future, these segments will drive growth. But as these segments mature over the next few years, how are you looking at some of the newer segments like aviation, preschool? If you can give some color on how are those segments evolving and what's the growth plan in some of these new segments?

Anuj Kacker: See, as far as the preschool is concerned, preschool was the best segment, which was the hardest hit during the COVID period, obviously because by definition, they have been closed, they closed first and opened last. So obviously there was a wipe out of that business during the COVID period. Post-COVID, we have started the process of rebuilding it. And as with the great general philosophy of the company, the idea is not to burn money just on customer acquisition, but to grow it profitably and profitability in that business has also been improving ever since we started the rebuild process. The preschool business as a whole is an immensely big business, as with huge potential, we will go on expanding at a slow and steady rate within that segment. But the broader question, I think if I can expand your question a bit, it's not limited to these two itself. There are several domains which exist within India and for that matter outside India as well, where there is large employment potential and that is what attracts us. We generally don't like to play in very niche areas, no matter how profitable or no matter how attractive that may be for some other players. So generally, our endeavor is to look at those domains where there is large employment potential and the possibility of doing the training or education in a distributed mode. So, between these two parameters, there are at least seven or eight potential areas which can be looked at by companies like Aptech and obviously, we do look at that as well.

Sunny Gosar: If you can give some basically broad numbers on the preschool. So, I believe you had about 30, 40 centers as per my last memory, but what's the number currently and basically the 100 new store additions that you are looking at, does that include preschool or that is more?

Anuj Kacker: Some of them would be preschool. I wouldn't have the number off hand. Saurabh, you have the number of centers for preschool? Again, those numbers don't mean as much in the overall context of the company because the size of each of the per center revenue of a preschool would be much lower than our other segments.

Saurabh Gada: So, we have not added many centers in preschool actually in last year. Only two centers have been added.

Anuj Kacker: See, as I said while earlier, this business led to a severe attrition during the COVID time, including the number of centers.

Sunny Gosar: Right. But do you potentially see this segment to become like a reasonably large revenuecontributing segment in the next three to four years?

Anuj Kacker: It has the potential of doing so. If you see some of the other players who are there in this business are doing pretty large volumes.

Sunny Gosar: Sure. In terms of like we partnered with Lakme in the beauty segment, do you think that as a strategy does the company believe that strong brand partnerships help in this business and are we actively thinking on those lines?

Anuj Kacker: Obviously, our success with the Lakme partnership model has given us confidence that this is a workable model for us going forward as well into other areas. Besides brand, I tell you what it really helps is cuts down the go to market cycle because the subject matter expertise if it comes from a person or a company where which is already well versed in that particular domain or subject matter, expertise. So Aptech doesn't have to spend time, effort and money and the risk of failure to be able to capture that particular domain. So short answer is yes, it's given us confidence that this is definitely a model which we should look at for other domains as well.

Sunny Gosar: And one last question from my side, how is the partnership with HCL coming along? Are we seeing any progress there? Or if not, what are the bottlenecks that we are seeing in that segment?

Anuj Kacker: No, currently we have not seen much traction with the HCL tie-up.

Sunny Gosar: So are we looking to change things around there or?

Anuj Kacker: Yes, obviously it has gone back to the drawing board as it were. That particular one has not worked out in the anticipated manner. We have gone back to the ground board because as a domain, as a potential, sometimes your first step does not work out the right way or give you the anticipated results. But if you see the basic precepts of that agreement was what? Again, that there is a lot of employment potentiality, there is a gap between the supply and demand in the IT segment. That has not gone away.

Sunny Gosar: Sure, thanks for all the detailed answers and good luck for the coming years. Thanks.

Sidharth A: Yes, Sunny, those questions were really insightful. I also learned a lot today. Sushithal Reddy, would you like to unmute yourself and ask your question?

Sushithal Reddy: Yes, hi. Thank you, so much for your opportunity. Sir, congratulations on a great set of numbers. Just wanted to understand on one specific point regarding this growth, which you said the new model would be a physical model to penetrate the tier 3 cities. Just wanted to get more thoughts about it. So right now, what I understand is we operate various franchises and we do not have faculties on our own rules. So, like how would we expand and when we offer digital model, how would these faculties actually go out and teach various locations? And what would the numbers or broad economics would look like if in this specific model?

Anuj Kacker: Okay, so no, it is very clear. See, it addresses the very problem that you are highlighting, which is the availability of faculty. The faculty availability in tier-3 cities is much lower than that is available in class one and two cities. So, the basic model is that the bulk of the teaching or a significant portion of the teaching of the course happens centrally in a remote fashion, remote live fashion, not recorded delivery. Then the, where the local franchisee takes care of the infra as well as the customer acquisition, which is good. So obviously, his investment comes down and the fact that you are able to amortize the cost of the faculty across a larger set of geographies, larger set of towns works in both the franchisee's favor as well as the art favor. So, it addresses the very problem that you were highlighting.

Sushithal Reddy: Correct. So basically, what you are saying is if there is one franchisee which is based out of Mumbai, that franchisee would further go ahead and offer specific courses in some other cities, maybe?

Anuj Kacker: No, no, no, no, no, no, no, nothing to do. This model is not to do with the current franchisee's faculty doing anything. This is faculties which will be on Aptech's rolls, who will be doing centralized teaching to those franchisees who are located in class three cities. Nothing to do with the, let's say a Mumbai franchisee or a Delhi franchisee.

Sushithal Reddy: Okay. So, on a broadly, how many faculties would we be having on our rolls currently?

Anuj Kacker: As we go along under this model, around, we think in around 50 faculties, we should be needing in a matured state.

Sushithal Reddy: Okay. And currently, how many would we be having?

Anuj Kacker: About 10, 7 or 8, sorry.

Sushithal Reddy: Okay. Great, yes. Thank you, so much. So, any flavor you can tell us on what the economics would look like? And like, what is the growth? Like, how many cities do you plan to grow? And do you have any ballpark numbers?

Anuj Kacker: As I said, there are about 100 class three cities in India. Okay. You have to differentiate this from 3A, which is much lower. Out of which we are there in Arena in about half of them. In MAAC, we are there in about 20%, slightly lower than 20% in terms of penetration. So obviously, our first target is this set of 100 cities. What is the first part to your question?

Sushithal Reddy: Got it. So, do you have any internal target? Like, which year, how many years, when can we achieve this and what any color on the market?

Anuj Kacker: Obviously, we’ll have to wait and see. The model was piloted during the FY23. We've got some encouraging results and now we'll be looking at scaling up this year.

Sushithal Reddy: Great. Thank you, so much. Thank you. That was very helpful.

Anuj Kacker: Incidentally, the model is also scalable internationally, although we have not yet built it into the plans. But potentially, it is scalable there as well.

Sushithal Reddy: Okay. Got it. Thank you.

Sidharth A: Yes. We have a repeat question from Jash Shah. Jash.

Jash Shah: Hi. I was just trying to understand what management is thinking about in terms of growth in next two to three years in Global Retail, as well as the Institutional Business. I believe the Institutional Business bit has already been answered that we expect 70 to 100% growth in next three to five years. But if you could shed some light on the Global Retail business, that would be helpful.

Anil Pant: I'll take this. It would be better than Institutional.

Jash Shah: Okay. Got it. So, can we expect anywhere around, let's say 100%?

Anil Pant: We grew what, 40% over last year? Right? I expect anywhere between 25% to 40% is a sustainable growth matrix over the next five years. See, because this is not based on just some numbers that we are pulling from the air. This is based on actual job opportunities which are available in the market, which is a fundamental driver of our business. As long as the number of jobs in those segments keep on increasing at the pace at which they're increasing and we increasing our market share of those jobs. These numbers that we're talking about are very eminently doable.

Jash Shah: That's good. All right. Yes, that was it from my side. Thank you so much once again.

Sidharth A: Yes. Thank you, Jash. Mayank?

Mayank Babla: Thank you for taking my question again. I was just wondering what sort of disruption would GPT or generative AI have on our businesses? Means, would it be net-net positive or negative across the business lines that we are present in? Thanks.

Anuj Kacker: I have a one-hour answer and I have a five-minute answer. The clear answer is that it is, as we view it, it greatly helps our students because particularly those text-to-image generative AI, it makes the process of visualization that much easier for our students and therefore improve the quality of their creative outputs. But even if you look at text-to-text, in text-to-text also there are, like with all of us, it's nothing to do with student itself, but we have looked at methods on what does it mean for our evaluation systems, what does it mean in terms of certification methodologies or even the counseling process itself. In fact, we have started the process of training all our sales counselors across the centers on how they can use BARD or how they can use chat GPT or GPT-4 in answering the student's queries on a real-time basis. So just the sheer power of AI, particularly generative AI, in the whole productivity process is going to be immense, as it is going to be for all of us put together. And education is no different. But yes, there are certain, let's say questions or aspects which will change as we go forward. The initial phase always stresses on plagiarism, on those topics, which will die out over a period of time or the platforms themselves find easy solutions to those issues. Really, but in the medium term, short to medium term, I think it will be a huge benefit, not a benefit, a huge benefit to the way the creative process works, currently.

Mayank Babla: Right. So, you mean to say this way this will definitely not replace some of the services that we have to offer or training in the training segment or anything?

Anuj Kacker: No, it has nothing to do with that. It's not that, let's say filmmaking is being reduced by that. It's the question of the process of building up those visual shots, images, graphics, films, et cetera. The models that, for example, to a certain extent, if you look at what gaming did to immersive media, right, catalyzed, or let's say it was a low-hanging fruit through which the immersive media itself got a push. So that's what's happening on the generative AI as well. Of course, the very early days, I mean every week or if not every day there is a new announcement, which is coming up from every setup. And we are trying to set up a small tinkering lab within our system of people who understand this best to be able to formulate the right strategies for us to be able to capitalize the power of generative AI.

Anil Pant: One of the really simple things to this is that all these things that Anuj was talking about are actually tools which can be used by us in enhancing the quality of teaching.

Mayank Babla: Thank you, thank you so much.

Sidharth A: Thank you, Mayank. Ashwin Reddy.

Ashwin Reddy: Yes, hi, thank you for the opportunity and congratulations on fantastic numbers. Just to continue the discussion on what the previous participant asked. So, one feedback that we're getting from the industry participants is that the cost of making a movie or the number of people needed in the employment base is going down. Because, or at least it is expected to go down. I can't say it's going down right away but maybe they believe that things will become more efficient. That's point number one. Second, the people who are in the industry are moving up the value chain, meaning, you can get, we can get more work done with a number of people. Plus, the fact that the MAAC and Arena students have right now employed at the starting point of the employment table right. So, do you see a reduction in the volume of throughput or is there a need to start a separate brand for the next level of operating? Because I at least from our understanding is the current, the set of students that you have, might not be the ones who might fit ready into what the industry needs. There is a, there could be a big gap in terms of quality of students versus what the industry needs. Is this fair and any thoughts on that?

Anuj Kacker: No, the first part of what you say one part of what you said is fair, that our students enter largely at the entry point. But the second part is neither correct nor fair, which is that they stay there. In fact, if you were to really, just as a case in point, just pull out the credits of the Oscar-winning, Oscar-nominated movies in the visual effects and animation category of the last three years. And just if you were to count off the alumni of Arena and MAAC students who have found credits in those movies. You could then, like for example, Dune, I remember there was, I think we counted, there were nearly about 100 of ex-MAAC and Arena students who have created in those Oscar-nominated movies.

Ashwin Reddy: Right. So again, to be clear, I understand that there is a large, or there's a good number of people who are doing that, but there's also a large scale who might not be doing that quality of work. So, my point was more on the volume front in the next two, three years or three, four years. How do you think about the volumes? Would there be need for so much volume?

Anuj Kacker: Let me answer it in two ways. Okay, let me first give you a little bit of a macro perspective. I have the good fortune of privilege of being part of the task force set up by the Ministry of Information Broadcasting, which was announced by the finance minister in the budget speech two years back. Now, they have recently published their report. And which is right now in the public domain for comments. If you were to look at that report, you will see that they're talking in terms of adding two lakh jobs in this AVGC space every year, on an average, over the next 10 years, until 2030. So, over the next seven years. So, and just to give you a picture of what two lakh jobs means, currently, there are about two lakh jobs. So, the pundits as it were, out of the fear, that the kind of growth that they are anticipating in the industry coming in various shades, they have of course good reasons for looking at those kinds of growths. Yes, productivity will, any tools, any technology helps building up productivity, which is a good thing because if productivity goes up, the cost of production comes down, which attracts more work into India and those studios and therefore the volume goes up. The equation is very simple. The very good thing.

Ashwin Reddy: Right. But so, what we should understand is that the content of MAAC itself will change to an extent that it will, it's enough to accommodate the upskilling required. But because the reason I ask is, right now when we look around, there are separate finishing schools which you come across, which kind of is the gap between the industry and MAAC, even today. So, there are some schools which kind of is the gap, but is that, so the rationale for me asking is that, so that's the only thing.

Anuj Kacker: See, I'll tell you, everything plays a role and one should not discount anybody's, any particular type of role which anybody is playing. For example, if you talk about finishing schools, we are in the process of setting up a, what we are calling a center of excellence, which you can also call a finishing school. But those are called specific technologies because the technologies are changing. Technologies which are being used in the production pipeline are changing. Now what is coming in is more in-camera VFX and virtual production. Okay. So, we're setting up a huge setup in Bombay to be able to train people in those technologies. So as technology moves, obviously we move along with it. But if you think that has been the history of Aptech from the beginning, at each stage we catch a wave and we ride the wave. When there was a multimedia wave, we caught the multimedia wave, then we got the animation wave, then we got the VFX wave, then we are in the process of catching the gaming wave and now there is virtual production. So, that's an ongoing evolution of technology and our evolution goes with that, hand in hand with that.

Ashwin Reddy: Right. Understood sir. Second question is on the Institutional Business. Has there been any, say lowering of competition or has there been rationality in the industry or have people left the industry or has the industry changed in terms of the industry structure or they become more oriented in that or it's purely our execution or our orders from the which resulted in these numbers and outlook which are outlined.

Anil Pant: See the one good thing about the Institutional Business that we do is that it's never going to undergo a recession. Because, I mean, whatever happens there are going to be entrance exams, whatever happens there are going to be recruitment exams. See, small players will fall by the wayside. Right. You have enough business there for at least about four or five players to survive simultaneously. My own belief is that this business in the next five years is likely to be about a three, four thousand crore business out of which we hope to be able to get our fair share of the pie. That's what's going to drive this business.

Ashwin Reddy: Understood. Great, thank you so much. I mean this is helpful and good luck.

Sidharth A: Dr. Pant just had a question. What would be the current size of this Institutional Business?

Anil Pant: For us, we've mentioned it is 170 crores.

Sidharth A: No, no market size. Like you said, in a couple of years it could be four to five (thousand).

Anil Pant: So likely to be in the range of about 1,500-1,600 crores today.

Sidharth A: So exponential growth over here.

Anil Pant: Yes.

Sidharth A: Fine. I got it. Very insightful call. But I would still give our participants another chance at asking questions. In case you have any questions, you can just unmute yourself and ask. We had a very good discussion today. So, despite covering Aptech for two and a half years, I learned more today. Yes. Anybody? Anybody else with questions? Or I guess there are none.

Anil Pant: Siddharth, with your permission, I'll just take about 60 seconds.

Sidharth A: Yes.

Anil Pant: So, while we talked on the numbers a lot, and we also talked, I mean I was very happy with the quality of questions that came up on the academics part of it, on the training part of it. One of the things that we do, which is almost impossible for the formal education sector or any other smaller player to do, is make the student job ready. And Ashwin, when you were talking about this, some of the things that you were talking about MAAC and Arena students. In fact, I've had the exact opposite reaction from industry recruiters. We have almost 2,500 recruiters who hire from Arena and MAAC. Now, what they love about the Arena and MAAC students is that they come in with an innate set of skills that are lacking in the kids who graduate from the so-called finishing schools or the formal education system. Some of them, for example, you can't teach this in a formal education system where we put them, we put MAAC students through something called 100 hours, where they're supposed to create a movie in 100 hours. They're sleeping in the center, they sleep, eat, do whatever but get the movie out in 100 hours. So what skill set is this teaching them? This is teaching them the skill set of working under time pressure. Right? We teach them presentation skills. We call this the six-edge advantage, which is actually baked into our pedagogy itself, which makes these kids inherently employable. And honestly, I mean I've been asked this question in multiple forums, which I've addressed across the world. We are not out to create the next Oscar winner. Right? I mean if it happens, I'm happy. We are out here to provide employment to those 30, 40, 50 thousand students that we are doing today who come into our Arena and Max centers and get them their first job. After they get their first job, it is obviously up to them to get themselves upskilled. If they want to come back to us for certain skills that they lack, they can come back to us as working professionals. If they want to go elsewhere and learn, they can go elsewhere and learn. There are tie-ups which are provided with schools in Canada, UK, Australia, the US, which our students can access today. So, for us, we are very clear that we are in the mass. We are not in the niche. I mean if somebody wants a specific person or a specific skill set, which we don't have, if there aren't going to be enough employable people in that space, sorry, we are not going to get into it. Yes. So, that six-edge advantage that I talk about, Ashwin, is something that we pride ourselves on.

This is the reason why we have not 10, not 100, not 1,000, we have tens of thousands of stories where children of auto drivers, taxi drivers, vegetable vendors, maidservants, this category of people come into our centers, pay a lakh of rupees with a lot of effort, get into their first job, earn about 25-30,000 rupees, and within a few years, they are into that INR 8-10 lakh category per annum, very, very easily. So, this is our pride and joy. This is our method. This is our pedagogy. This is who we are. I mean a finishing school, yes, I mean how many kids will a finishing school turn out, 30, 40, 50? Industry needs 2 lakhs. Right? So, we have a very strong Industry connect alliance and placement team, which keeps connect with these 2,500 recruiters. If you see, we have a platform called 'Creosoul', where our students actually showcase their work that they've done over the period of enrollment in the center. Recruiters are able to see the quality of work which these kids have posted, and they're actually able to make offers to them seamlessly through the platform itself. So, there is a lot that has happened here, which actually, if you ask me, I rate ourselves a little above these finishing schools. A finishing school takes probably the best from an Aptech or an Arena and makes them better. For me, I take whoever comes to me and make them adequately employable. Now you decide which is a better business model.

Sidharth A: Right, sir. I agree with you. In fact, I remember when I first met you and you had explained this concept of bringing up the underprivileged people's children. So, that was a very unique thing that Aptech is doing.

Anil Pant: Let me make an appeal. I mean I see lots of people on this call. I mean all of you are well off. All of you are doing extremely well in life. So, my request to all of you is whether you go and buy Aptech shares or not, honestly, that's not the important thing for me. But if each one of you can go and sponsor one kid who you believe is underprivileged and send him to an Arena or a MAAC or a LAPA center and make their life, I would be extremely grateful to all of you. I think that it would be a day made, it would make our day. It would make your day in terms of influencing somebody's life positively. And Sid, that's all I had to say.

Sidharth A: Yes. And this time I, by the way missed your, those videos of, especially the LAPA Academy videos which used to show us, the Saurabh used to proudly show us. This time I missed those videos. But I still remember each one of them.

Anil Pant: We'll share them with all, everybody, whoever wants it can reach out to Saurabh, then we'll share that with them.

Sidharth A: Yes, right. Anybody else has questions? Or we'll call it a day. So, with that, on behalf of Systematix, I would like to thank Dr. Anil Pant and the top management team of Aptech for giving us the opportunity to host the earnings call. Trust me, Dr. Pant and team, we all learned a lot on Aptech and your sector today. Thanks a lot once again sir.

Anil Pant: Thank you.

Pravir Arora: Thank you.

Saurabh Gada: Thank you very much, Siddharth. Thank you, everyone, for participating in the call. Look forward to meeting you all again next quarter.