Q1 FY16 Earnings Conference Call Transcript

August 11, 2015

Moderator: Ladies and gentlemen good day and welcome to Tree House Education and Accessories Limited Q1 FY-16 earnings conference call. As a reminder all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shiv Muttoo - CDR India. Thank you and over to you, sir.

Shiv Muttoo: Thank you. Good afternoon, ladies and gentlemen. Welcome to Tree House Education and Accessories earnings conference call for analysts and investors. The call has been hosted to discuss Q1 financial performance and to share operating highlights with you.

We have we with us on the call Mr. Rajesh Bhatia, Managing Director and Mr. Sanjay Shah - CFO, Chief of Compliance and Head - Investor Relations. We will commence with comments from Mr. Bhatia and Mr. Shah after which the call will be open for Q&A session, where the management will be glad to respond to any queries you may have. I would like to mention that certain statements made or discussed on today's call may be forward-looking statements; the actual results may vary from these forward-looking statements. The company does not offer to update them publically to reflect changes in performance and a detail statement in this regard is available in Tree House's Q1 result presentation which was send out to you earlier.

I would now like to invite Mr. Bhatia to commence this call by sharing his thoughts on the company's performance and the strategic progress made thus far. Thank you.

Rajesh Bhatia: Good afternoon, everybody and thank you for being with us on the call. It has been an exciting journey at Tree House and I am glad to have this opportunity to interact with all of you today. I would take a few minutes to give you an overview of our business, the thought process, and the progress we hope to make in the future.

Tree House Education and Accessories Limited has been pioneer in the early education sector in India over the last 12 years. Today we are the largest self-operated pre-school chain in the country and we provide services to some select K-12 schools. We have a wide range of courses for different age groups of children from play school, nursery, junior KG, senior KG, and in terms of the high schools we provide services for K-12 which is from kindergarten to grade 12^{th}.

: We see immense scope of growth for ongoing secular growth in the education industry in India where there is a clear undersupply of quality schools, we believe that education specially the early year play a crucial in the development and shaping an individual's future. Indians across the country even in smaller towns and cities are increasingly aware about the positive role that high quality education environment can play in the future growth of children. With changing demographics, rising urbanisation, growing income levels nuclear families, working mothers and other such factors playing out there is a clear shift in the way education has looked at. Demand is increasing and there is a huge need for high quality standards in education. At Tree House we are best positioned to address this need and we will fulfill all these needs across markets for our consumers.

We, being India's top consumer centric education services company, are focused on expanding our network rapidly maintaining control through self-operated centers backed by a good system and robust processes to ensure that high quality education is delivered across every center of Tree House in the country. This is backed by a best in class curriculum content and innovative teaching methodologies creating a holistic education program of high quality without forgetting that we build affordable schools for the middle-class.

Over the years our effort has borne fruit and we have attained some milestones that set Tree House far apart from any other organization in the education vertical. Today we have a network of 647 pre-schools spanning across 97 cities out of which 540 centers are company operated. We believe company operated centers are our key differentiator vis-à-vis other participants in the pre-school sector. We also managed 24 K-12 schools in the states of Maharashtra, Gujarat, and Rajasthan.

Tree House has a unique curriculum which blends the play way as well as the Montessori methods to provide a perfect balance of education and fun for children. We have a committed and enterprising young team that remains updated with high quality training imparted to them in ensuring that teaching methodology designed by our in-house curriculum team is delivered first to the teachers and in turn to the children in the class rooms. Having standardized the center expansion process we have moved our network across the country we believe that we are in a position to accelerate our expansion and we can now open about 150 centers annually. Backing this belief in structured approach towards opening new schools. We have a dedicated team that continuously evaluate the opportunities city wise to increase the penetration in those cities as well as new center additions with an assurance that execution happens efficiently to ensure that a center opens up in time.

Coming to our K-12 network currently there are 24 schools to which we provide school management services. Our K-12 schools are a natural extension of the pre-school segment and many of them act as feeders to our K-12 schools. The total capacity of our K-12 schools is pretty large and the current occupancy is about 35%. This utilization will increase year after year as more and more children come to our K-12 schools. We have also initially invested in the infrastructure of five of these 24 K-12 schools. We have monetized the first K-12 assets for Rs. 17.1 crores and have signed an MoU for the second one of Rs 52.5 crores.

The cash flow from the divestment are being used to paying down the debt and deleverage the balance sheet. We are focused to taking forward the process of monetization of our investments in the K-12 schools and despite that we will continue to provide school management services to all these schools. Our association with them will be in the form of services.

We are also increasingly using our pre-school premises to offer day care services. We believe that the large opportunity over the next five years in this country as we see more and more women going to work. Tree House is once again a pioneer in offering organized quality day care facilities leveraging our brand name and infrastructure in 190 centers nationwide. Also from our very own experience the demand for day care services extends beyond the large cities and is thus a significant growth opportunity for Tree House. I can only add that Tree House being self-operated is able to provide this service across 97 cities now and going forward to many more such cities as we expand our foot print.

Coming to a quick insight into long-term financial trends. We have proven track record of expanding operations with enhancing profitability between FY-12 and FY-2015 our revenues have grown at a CAGR of 36%, margins have expanded and profit after tax has increased at a CAGR of 41%.

Going forward, we see us as a growing brand that will increasingly symbolize a positive and conducive learning environment that will give children a strong head start in an evolving world. We believe that by continuing to deliver on this focus strategic approach Tree House is positioned to deliver consistent results over the long-term.

With this I come to an end of my observations for the business. I would like to hand over the call to Mr. Sanjay Shah, who you take you through the financial discussions for the quarter. Thank you.

Sanjay Shah: Thank you, Mr. Bhatia. I welcome you all once again on the call. Thank you for joining us today I will focus on the financials and operating performance of the company during the quarter ended 30th June, 2015.

In Q1 FY-16 we recorded revenue of Rs. 69 crores which is an increase of 28% over the corresponding period last year. In Q1 we added 35 new pre-school centers and all are self-operated and set foot in nine new cities. Today we have 647 centers in 97 cities around the country. We continue to witness good traction with our new centers and are looking to add 150 centers this financial year and see this momentum to continue into the next year as well.

: Speaking about the profitability we reported EBITDA of Rs.44.2 crores, up from Rs.33.3 crores in the same quarter last year. EBITDA margin expanded to 64% from 61.7% in Q1 FY-15. This was mainly driven by the increase in our new centers and in same store sales along with our continuing focus on the cost management. However, I would like to mention here that we see our focused sales and marketing initiatives may involve a more aggressive spend through the rest of the year and we see yearly margin at the same level as last years.

: Q1 PAT was reported at Rs.18 crores normalizing for an exceptional item in Q1 PAT was Rs.21.2 crores, up 32%. Return on capital employed on a trailing 12 month basis is 19.8% in Q1 with a leverage potential of the business across segments and K-12 monetization plan we see returns from the business drive an upward trend going forward. We will remain focus on driving value for every stakeholder in our business.

: That brings me to the end of my opening remarks today and I would like to request the moderator to open the call for question and answers. We will be happy to take any questions you may have. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Sathyanarayanan of Cholamandalam Securities. Please go ahead.

Sathyanarayanan M.: Sir, can you please comment the new enrolments or admissions for this academic year compare to the previous year like both in terms of play schools and also the K-12 schools.

Rajesh Bhatia: So I would just add that the enrolments this year as compared to the last few years has been in line and I would say that yes, we continue to see a kind of similar trajectory happening. I would only add a word of caution that yes, the kind of margin expansion that one would see in terms of the fee rise et cetera has been a little tepid compared to the previous years and this is in line with the consumer sentiments across markets in the country and taking into account the kind of scenarios that we feel in terms of consumer spending. On the whole yes, we are seeing volume growth happening.

Sathyanarayanan M.: Okay. Sir in this academic year like what kind of fee hike you have taken in both in pre-schools and K-12?

Rajesh Bhatia: So we have been able to take a fee hike in the K-12 segment of roughly about 10% plus more to the tune of about 12% and in our pre-school we have been able to take hikes in the region of about 5% to 7%.

Sathyanarayanan M.: Sir, like can you quantify like your enrolment growth in terms of percentage that would be helpful sir in this year. What kind of growth we had in terms of…

Sanjay Shah: Broadly I can tell you that the same store sales growth on all our mature centers has been in the range of 26% to 27% this year.

Sathyanarayanan M.: What about K-12 because there were like many schools which were operating in a temporarily building this year most of them converted into the permanent building. So I am just curious know about the K-12 schools like how much the enrolments increase because of the new facility?

Rajesh Bhatia: We now have 35% capacity utilization and our estimate is that this capacity ramp-up in the next five years will go about 75%.

Sathyanarayanan M.: Okay. And what kind of capacity you have currently sir like total capacity in K-12 schools?

Rajesh Bhatia: So the number of seating capacity is roughly about 47,000.. In certain schools the single shift is kind of touching the roof and next year, two or three of these schools will have dual shift.

Sathyanarayanan M.: Okay. You are talking about the K-12 schools sir?

Rajesh Bhatia: K-12.

Sathyanarayanan M.: And sir in your opening remarks you said about this the pre-school children becoming feeder stock for this K-12 schools. Based on your experience can just highlight what percentage of the children normally take enrolments into the K-12 schools.

Rajesh Bhatia: As a company say in a city like Mumbai, our K-12 schools are present in only certain areas and within those areas, let me add, that about 35% of children studying in our pre-schools will come into our K-12 schools. The remaining would stay back on our pre-schools because typically for the small babies in the age of 1 -2.5 years, parents would prefer that they stay in the pre-school till the time the child is a little more fitter physically and to be able to travel in a school bus or other wise and the parents typically want the child to come in the K-12 school in the age group of three to three and half. So those children will always remain in pre-school and the market for pre-school would continue for us or for any other player in all these areas. It is only at the age of three and half years that the child would be taken in to a kindergarten and in a large high school. Having said that, the range is about 35%.

Moderator: Thank you. We will take the next question from Abdul Karim of HDFC Securities. Please go ahead.

Abdul Karim: As per your post earnings presentation highlights Tree House has entered into tie-up with large employers in the IT, ITES Banking and consulting companies to provide day care service for their employees. Please throw some color on the same and how do you see the feature of this strategy on day care segment?

Rajesh Bhatia: A large number of IT, ITES companies do require day care services for their employees and this you see in places like Mumbai, Pune, Hyderabad, Bangalore. What is happening is that the women workforce in the largest IT company in the country without naming that company the number of employees is about 300,000 and 100,000 employees are women employees. Now a lot of these women employees are young mothers and software engineers and would like to have a daycare facility very close to where they are working and which is a safe environment for their children. Tree House best fits into this in two ways. One, it provides them with the pre-school environment for their child at one and half years and it also ensures that the child is relaxed in the same environment after school hours and on their way back home these moms can pick-up their children from our pre-schools centers/day-care centers which fall on the way to their house and this is the unique strategy of Tree House in each of the cities. Carpet bombing of these cities with large number of centers makes us a community center around residences where they stay and it gives them a lot of comfort to drop the child in the morning and then pick-up the child in the evening on their way back. At the same time the differentiator is that in a city like Pune or Hyderabad or Bengaluru we are present in bungalows with garden areas and the child gets an atmosphere like the one in their house and that is also very-very essential in the early years for the development of the, I would say, mind, body and soul for the small child.

Abdul Karim: Okay. Say what is the breakeven level for any center or set-up cost of center and how much it takes time to close the breakeven level and currently how much center stands below the breakeven mark and how much centers are having no students?

Sanjay Shah: Out of 540 centers nearly 66.75% of the centers are matured centers. When we talk about a matured center it means those centers which have started contributing positively towards EBITDA. So that is the range currently that we are working with and it is progressively increasing quarter by quarter. When you talk of the number of centers which have zero kids, I can tell you out of 540 centers maybe 12% of the centers are maybe having zero kids but that is the case as on30th June but as we are talking today on 11th August, the situation may be different for those centers. There are few centers that are still to achieve the maturity and we term them as lagging centers and as we move ahead since our admissions are on a daily basis and as we progress to next quarter, thee centers will start supporting the EBITDA and their maturity level will keep improving.

Abdul Karim: Okay. And say one thing you are planning to add 150 pre-school in FY-16 so what would be the mix percentage as in tier-I and tier-II and tier-III cities?

Rajesh Bhatia: Now we are large dominant player in the city of Mumbai, and are now focussing on the city of Delhi. We are now entering the Delhi market where our presence was virtually not there and that is one focused place where you will see a lot of expansion happening in this current financial year. We are also expanding in areas where our brand is already present which is in cities like Pune, Hyderabad, Bengaluru were our brand is very famous currently. We add so that our we achieve our break evens faster since the brand is already known and we have a large number of students already in those cities, so the word of mouth is there and it becomes very easy to have more mothers come into centers in areas where we are not represented and where we are in the process of opening up centers. Also the mix and match kind of helps us in achieving faster breakeven points. So in the large metro of Delhi and in tier-I you would find us opening 100 odd centers and the remaining 50 centers will be tier-II and tier-III cities.

Moderator: Thank you. Our next question is from Vishal Shah of Allard Partners. Please go ahead.

Vishal Shah: My first question is that we have entered almost 25-30 new cities over the last one year. So you have mentioned that the enrolment growth has been steady in the existing centers but how has been the response particularly for the centers in the new cities which we have entered?

Rajesh Bhatia: Well it is muted as of now, in the sense that when you enter smaller towns like Sholapur, Sangli and Satara and some of these newer cities where we are there, if you ask me it will take us about 12 months to have the first run in the city in terms of brand awareness. See one thing you must understand and I have always believed in this when you open a new branch in a city, obviously the branch will start with zero children and it is about building that branch from zero children to the first 20 children and once you have built the first 20, the mothers over there, around that branch who know that there is pre-school community center which has come up it could take anywhere between six months to nine months to get going from there. But after the ramp-up from 20 to 40 and 40 to 80 is pretty fast and that is where we drive in terms of our teacher quality, in terms of delivery to the child, in terms of our response to the mothers. All this helps us to achieve break evens in 18 months to 24 months in a center and by the time we reach 24 to the 36 months yes, we have operating level EBITDA margins of about 50%. So I would say that many of these markets are new, the rentals in these markets are pretty low and the way we see the market we believe that over the next 12 months to 18 months we see a large huge potential from these markets. And we also believe that as we penetrate deeper into tier-II, tier-II cities, the demand for early childhood education is increasing and while you need to educate people, it would not be as much as you would need to educate them about ten year back in the smaller markets. The technology interface the way they can access internet and read about early childhood education makes it more simpler for them to realize that the earlier years from zero to six are so important in the age group of the child in terms of putting them in school/ pre-school at an early age one and half so that brain development which is fastest in those years, they can also take advantage of the same. There is a lot of information / articles on the internet so they can read all of them and one realizes that unlike ten years back there is a demand which is already there and Tree House fills in the places for being quality education service provider and that is where we get a large response. Our strategy in these cities continues to remain the same as we have in any other city- we carpet bomb the city, we open 3-4-5 centers or as many as that city demands in our belief and which our team believes can take forward and obviously we do our ad spends accordingly to ensure that cost of customer acquisition is optimized and breakeven points have reached quickly.

Vishal Shah: Thanks, Mr. Bhatia for that. Second question is that as we are scaling up aggressively in the recent times and mainly on self-operative basis, what the initiatives which are being taken to boost the top-line management of senior level hiring and the internal controls so as to maintain the same high quality standards which Tree House is known for.

Rajesh Bhatia: So we have recruited a lot of people in the last three months and that too very-very senior people. So if you have just been reading the newspaper on the classified column not just in the city of Bombay but across the country you will find that one of the large serious hirers not just for women but for across the both Area Managers, Managers, Senior Manager in every single city, even the smaller cities. Even the hub and spoke model that we have in the state capital with smaller cities is being enhanced to ensure that our reach is faster and the on-ground coverage is very large. So if you ask me on the top management side yes, we take new people who have worked in the spectrum of education with eight years - ten years of experience in functions which are to do with marketing, finance or I would say building blocks in terms of large organization. So at Tree House currently I would say that stage one of our growth is complete, we are now in stage two where we see that we will be a significant large self-operated pre-school chain in this part of the world which is China and India and the way we are currently growing as you rightly said yes, in the next three years though we are already are at present, but in the next three years we will be a significantly large sized player and I would only add that for every one child in the U.S. there are six children in India that is the kind of market size that we are talking of. In terms of consumer spending, 10% of household income has been spent on children's education, 15% is spent on staples. So that 10% which is being spent on education, there is no clear representation for someone who can do pre-school, day care all of it. And last but not the least I would say that see the significant shift in the way demographics has happened. In the last 20 years the kind of people now in the age groups of 25 and 30 who are young parents, have all been part of a system where English is the language of education for them unlike a generation back. Even in smaller with the internet accessibility the awareness to send the children to school is also growing. So this market size over the next five or seven years is going to grow significantly and we are taking absolutely adequate care to ensure that Tree House brand stands for high quality. We are ensuring that our training programs are delivered adequately and I can tell you that yes, even as I speak to you we are in the process of rapidly increasing our human resource talent.

Vishal Shah: Okay. And my third question is on the cash utilization firstly, what is the CAPEX guidance for FY-16? What is the current debt and cash on the balance sheet and given that we would be receiving proceeds of one of the school this year. Can we see a step up in the dividend payout from this year onwards?

Sanjay Shah: Yes, that will be a Board call and I think we will not be able to comment on the dividend step. But once we have our final profitability figures and the Board can take a call then. But on the CAPEX spend I can give you guidance that we may be at the same level as last year of around Rs. 100 crores.

Vishal Shah: Okay. And what would be the debt on the books as of 30th June?

Sanjay Shah: We have in the range of Rs. 102 - 105 crores.

Vishal Shah: Okay. And the cash would be?

Sanjay Shah: It is Rs. 140 crores.

Vishal Shah: Okay, fine and sir last question is on margins considering the fact that we enter new cities the quarter one margins are pretty solid because we may have entered at a lower pricing. You did mention that on a year-on-year basis the margins would be maintain but I wanted to touch upon from a two to three year perspective that if day care becomes as a significant contributor to the overall pre-school segment which Mr. Bhatia touched up. Is day care is much higher margin contributor and how would that impact the margins going forward from a two year to three year perspective?

Rajesh Bhatia: First quarter margins are pretty high and our belief is that you should take into account the fact that we will be spending more money in the next two quarters to three quarters to build up business in Delhi and in other similar cities that we are entering. So we obviously we will utilize the significantly large margins that we get in our existing markets which are old and mature, to spend more on advertisement and customer acquisition, to ensure we grow significantly faster in these markets and gain traction in a much faster manner. So I would say yes, over the next three or four quarters certain areas where we already are significantly large will keep adding robust margins and as we utilize the assets more and more for day care the margins are going to keep increasing because that is a kind of no brainer because it just flows down to the EBITDA. The rental costs and a lot of other costs are eliminated and that will definitely add to our margins but yes, we would utilise some of these margins in building business in the newer cities like Delhi where we believe that there is a potential which is as large as the potential that we have in the city of Mumbai.

Moderator: Thank you. Our next question is from Aliasgar Shakir of Elara Capital. Please go ahead.

Aliasgar Shakir: Sir, just wanted to check on the real estate our channel checks have suggested there is a lot of softening in commercial real estate prices and a couple of discussions with listed companies who are also into service led offering have been opening centers in the range of similar to 1,000 - 2,000 square feet area have been suggesting they have gone a little slower because they have been renegotiating with a lot of real estate players and there is a lot of reduction in price that they are witnessing. So I just wanted to check with you if we have witnessing similar trends and what impact that could probably have on our growth and profitability.

Rajesh Bhatia: So we have been doing this for last many-many years and I would say that the last significant dip that one witnessed was in the year 2008-2009. And that significant dip was actually an opportunity for us and companies like us which have a lot of cash on their books and are able to utilize that aggressively to take advantage of the market trends and to be able to lock on to long term lease contracts at significant lower prices. Here are witnessing a similar state of affairs currently in the market. I can add that the kind of transactions that we have been doing in the market today and some of these transaction which we did not enter a year back are now coming to us at rates which are roughly about 40% lower rentals than a year back. So the market is very-very soft. In fact it is a complete buyers' market and the rates are significantly soft and we are seeing that in every single market. For example we are now in the Delhi market and our basic aim of getting into Delhi market now was because we are seeing a 35%-40% dip in the rentals over there already. So we think it is a great time for us and a phenomenal time to make profit. Markets may go down by 5%-10%. in fact what is happening is that in a bad market like this you also get a lot of choice. In a market where everyone is trying to chase, the choices are also limited. So then you have to sometimes compromise on the choice of where you want to go because the rental costs may not fit in the model that you have built for that particular center. So having said that right now it is a complete buffet you can select what you like, you can take your sweet time in getting the landlord to pull the price down. Our personal estimate is that for the next 12 to 18 months we do not see this change in any which ways we think it will get worse before it gets better.

Aliasgar Shakir: Okay. So then just to follow-up there so do we expect that to have an upward bias on our profitability even that may probably revise our fee probably accordingly?

Rajesh Bhatia: See that gives us the chance to build volume and to achieve breaks evens faster. In that micro market, it helps us bring our pricing points in a more competitive manner compared to the other players who are there in that market. They have probably been logged in transaction values which are two years or three years before us and at a very high price. So the only thing that it does for us, it just gives us a larger comfort in trying to achieve breakeven faster..

Aliasgar Shakir: Understood. So just on day care you have already book in quite a bit I just wanted to understand from your existing set up, so a part of the IT companies with which you are tying for the day care center I presume that is separate from the 190 centers that you have already declared which have now day care centers opened up. I just wanted to simply understand these 190 centers what sort of revenue potential we see and what kind of revenue contribution in each of the centers do you expect probably to come through in terms of either you can say probably revenue or in terms of number of children and what kind of revenue model do we have there?

Rajesh Bhatia: As far as the day care market is concerned it is like the pre-school market about 40 years market. It is at that stage. It is just tip of the iceberg and the whole market is waiting to get explored. See what one has to realize is that in the entire consumer spending psyche, the number of women getting into the work place is increasing every single day. And we look at these trends not to say how 2018 will look, I would go further and say how would 2025 look and if you ask me 2025 would entail a scenario where a lot of consumer discretionary money would go into different kinds of spending habits which means that couples will work, their eating habits will be more outdoor than to cook at home. And for their children obviously their demand for day care services will be significantly higher and there Tree House is absolutely the only one poised to take that opportunity. Because tell me on brand in India in the next five years with the pan India presence offering day care services for children in the age groups of 1.5 to 8 years. There are none. No one is building it. Even on the branded players this is completely franchised and franchisees are I would say quasi mom and pop. So how do you gauge quality standards for day care services. I think in a country which in the next 10 - 12 years expected to be the most populated country globally, housing the services hub of the world and with a growing population of women wanting to work. So there is no pan India player who is going to build facilities to support this. One does not see anyone building it even in the near future and that too for the mass market in terms of the middle class person being able to afford it. So women who are working in call centers, in BPOs, airline industry, logistics, and in schools as teachers. It is huge market and they really do not know where to keep their child. And last but not the least where we are seeing significant inroads coming very fast for us, is the growing problem of trust and faith and child abuse. How do I trust where to keep my child in safe hands? So that brand building is done by Tree House. And there for that trust and faith, the pricing does not matter after that because what is more important is that when I come back at 6:30 in the evening I have a safe child coming back to me and that is where Tree House is building its name and reputation across the country which is taking the brand name and the brand value far ahead of the rest and that is something which is we have been doing for the last 12-13 years. So it is a word of mouth business. Ultimately in that community in that micro market, mothers speak to each other and that is just is a self-feeding exercise. If you ask me in the next 4-5 years, 15% - 20% of our top-line can be from day care and a large part of that will be just a pass through to our profits before tax and we see a big-big thing happening in terms of both our preschool as well as our day care business. Moreover we expect demand also to be healthy from the middle class household, given the way normal inflation is across the world and India, where both husband and wife are very educated and both want to work. They need a safe place for the child and right now Tree House appears to be the only entity that is filling gap.

Moderator: Thank you so much. We will take our next from Nidhi Agrawal of Sharekhan. Please go ahead.

Nidhi Agrawal: I want to understand the competition from unorganized day care and even the big ones like Euro Kids, how do you see them in entering a new city and isn't it a threat for you when they start offering discounts?

Rajesh Bhatia: This market is largely fragmented. This market is going through a process from being fragmented to getting consolidated. In this phase of consolidation, it typically starts from the large markets such as the Mumbais and Delhis of the world first and then moves on to the smaller towns like Pune, Hyderabad, Bengaluru, Calcutta or Jaipur and then moves to smaller towns. Yes, there are fragmented players all over but let me tell you or give you example of the city of Mumbai. Our internal research says that there are about 230 to 240 pre-schools in the city of Mumbai and about 140 of those are Tree House. And if you ask me as an entrepreneur when I started this in 2003 with one Tree House, the consolidation over the last 10 years - 12 years has been significantly large. If you see a city like Kolkata, you will find there will be about 57 pre-schools and 35 of those 57 are Tree House. So in every city whether it is Jaipur, Ranchi, Patna, Lucknow, Pune or Hyderabad, you will see that Tree House in last few years has been gaining significant first and foremost presence. Tree House is actually the biggest consolidator of this market and it is in the large markets and then in Tier-II, then going to Tier-III. So each of these markets follow a process. This is a journey, I am not saying that it is going to happen in the next 12 months or the next 24 months but our significant belief is that over the next 36 to 60 months you will see us going from one level to another and we will be increasing the number of lives we touch every morning significantly.

Nidhi Agrawal: That is very insightful. I want to know sir how the margins differ from your K-12 services, day care service, and pre-school.

Rajesh Bhatia: On the K-12 services we are a school management service provider. We charge for various activities that we provide as a service to these schools, be it curriculum, content, newer curriculum, human resource, and every single aspect of it and there our margin for those services will be about 75%. In terms of our pre-schools you have seen our EBITDA margin at the operating level. In day care it will be significantly higher it will be about 80%-85% because lot of the rental cost is already factored in our pre-school model, so the day care model does not take rentals into account at all.

Nidhi Agrawal: And what will be the revenue breakup between these three?

Rajesh Bhatia: Last year about 93% was from pre-schools and the remaining was K-12.

Nidhi Agrawal: Any guideline in percentage for how it is going to move in the future?

Rajesh Bhatia: See we look at both the business in the same way, our pre-school and day care business continue to be bread and butter and we are robust in it and remain largely focused on that business.

Moderator: Thank you. Our next question is from Jigar Shah of Maybank. Please go ahead.

Jigar Shah: I have a couple of questions. One is the on the K-12 business how do you see the future panning out and how you expect to realize the reasonable rate of return on the capital employed in this business.

Rajesh Bhatia: **W**e are at 35% capacity utilization as I mentioned. So as the business matures, as the capacity utilization goes up, our realizations will get better over there. Besides that what we are already doing is as you would have seen, we are divesting our real estate and are bringing the money back and hence, you are will see a significant jump in our return on capital employed year after year because of that. Part two is as we ramp up the capacities, which will take time as it is a process, so 35% will jump to maybe 75%-80% over the next four to five years and if that happens a lot of the amount that is invested in the K-12 business would be coming back and that is going to take us in our regular mode to a very high return on capital employed. That is where we are focused on and we believe that over the next four or five years we are on path or a journey where we are going to reach there. We do not see anything that is going to stop us from reaching there.

Jigar Shah: The other point is on if you can give an idea on how your enrolments have been in this season?

Rajesh Bhatia: Our enrolments have been just like last year. Like I said the only difficulty has been that unlike previous years we have not been able to increase our tuition fees significantly. Over the last couple of years we were able to increase it by

15%-odd and this year we have been able to do it by about 5%-7% and this is basically to do with the kind of consumer sentiments we see in the market. We are also cautious in terms of our approach of not letting the volume go. So we do not have a dip in our volume at the same time and our belief is very-very simple- for us it is very important that we grow the number of lives we touch. The number of people that we are able to influence in terms of service offering and the number of households that we can be in- that is going to be the long-term driver for a brand like us and that is going to be the journey over the next 5-7 years to make it a pan India education brand and that is where we believe we are headed. And to that we are not only focused on price increases but we are also focused on volume increase. Hence this is something which we take a call on every year based on what we see around us in our markets, in terms of the way even job growth happens in the country and the way we have already got thousands of parents who interact with us so we nearly come to know as to how they are doing or they are doing in their jobs or their businesses and the way their incomes are getting better or getting hurt. Based on these factors and looking at the ground reality across, we take a call whether the market can absorb that kind of price increase and at the same time the volume is also not hit. This is a continuous thing that whole team keeps evaluating this based on every center feedback that we get from the local Center Managers who interact with the mothers or they interact with the fathers and we have a feel of those micro markets and how things are in the economy.

Moderator: Thank you. Our next question is from Jagannadham T of Karvy. Please go ahead.

Jagannadham T: Sir just couple of questions. One is regarding the security deposits in regards to K-12 schools when can we expect this fund to come back to us like in the next three years or four years?

Rajesh Bhatia: So over the next four to five years you will see a part of that security deposit coming back to us.

Jagannadham T: Any approximate percentage or such anything sir if it is….

Rajesh Bhatia: It is difficult to give you in terms of percentage but yes, we believe that our 30-40% of that deposit would be coming back.

Jagannadham T: Okay, thank you sir. And one more thing of the funding for this expansion plans how is the funding being done in future like next three or four years?

Rajesh Bhatia: We have strong flows in terms of our operating cash flow, we have significant cash on our balance sheet so we are adequately funded we see no problems in current expansion plan.

Moderator: Thank you. Our next question is from the Amish Kanani of JM Financials. Please go ahead.

Amish Kanani: Sir I miss the number for second school monetization which might have been mentioned in the release but just to recap.

Rajesh Bhatia: Second being monetized at Rs 52.5 crores.

Amish Kanani: Okay. And sir I want to understand what is the plan for the rest of school and any number that you have in mind in terms of total potential cash release that can happen through there.

Rajesh Bhatia: See we have already gone on a path, so the first school was monetized, the second school announcement has been made, and we will complete in this financial year. Obviously the path is very clear if you see. To our shareholders and to our stakeholders we are committed and I would say that we are probably one of the only company that is able to monetize schooling assets.. So obviously once the second one is through we would be left by three assets. The path is there and we are walking that path obviously it is well understood that after that we will do the third one also. So we are very-very clear that we will move on the path where return ratios for the company will only get better year after year for our stakeholder.

Amish Kanani: Yes, sure. With this Rs.52 crores will be added to cash over and above the Rs. 140 crores that you have?

Rajesh Bhatia: We will pare down debt using that. So when we sell assets we basically pare down debt with that asset sale.

Amish Kanani: Okay. So to just clarify this Rs. 140 crores is not sitting any part of that is not sitting in Rs. 140 crore that is mostly QIP money that you have, right?

Rajesh Bhatia: Yes.

Amish Kanani: Yes, so the Rs.100 crore CAPEX for next one or two years can be easily funded by this cash plus money that you are having from this?

Rajesh Bhatia: Absolutely, correct.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to the management for closing comments. Over to you, sir.

Rajesh Bhatia: Thank you very much for joining us. Hope we have been able to answer your question. Should have any further queries please feel free to contact us. Thank you.

Moderator: Thank you. On behalf of Tree House Education and Accessories Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.