Q2 FY16 Earnings Conference Call Transcript

Moderator Good Day Ladies and gentlemen, and welcome to Tree House Education & Accessories Limited Q2 FY16 Earnings Conference Call. As a reminder, all participant 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 this conference call, 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 from CDR India. Thank you and over to you, sir.

Shiv Muttoo Thank you. Good morning Ladies and Gentlemen, welcome to Tree House Education & Accessories Earnings Conference Call for Analysts and Investors. The call has been hosted to discuss Q2 FY16 financial performance and to share operating highlights with you.

We have 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 from Mr. Bhatia and Mr. Shah after which the call will be open for Q&A.

I would like to mention that certain statements made on today's call maybe forward-looking statements. The actual results may vary from these forward-looking statements. The company does not offer to update them publicly to reflect changes in performance and a detailed statement in this regard is available in Tree House's Q2 financial results presentation which was sent 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. Thank you.

Rajesh Bhatia Good morning and thank you for joining us today. I shall initially discuss the broad progress we have made in Q2 following which I would request our CFO Mr. Sanjay Shah to give you more specifics on our financial performance.

I am pleased to share with you our performance for the second quarter of this fiscal year. We continue to witness a healthy growth trajectory on the back of focused implementation of our business strategy. Tree House Education as most of you must be aware has been a pioneer in early childhood education and today is by far the largest self operate pre-school chain in the country. In addition, we provide K-12 services to select schools.

During Q2 FY2016 we remained focused on expanding our pre-school network in existing and new cities. And we do this on the back of huge demand for early childhood education from various favourable demographic factors that are enabling recognition of the need for education at an early stage. In fact, Q2 witnessed 73 new center openings which is the highest ever number of center openings in a single quarter. This shows the execution capacity of the company moving to a different level altogether.

This quarter we set our footprint for the first time in several new towns such as Ahmednagar, Goa, Gurgaon, Jalgaon, Noida, and Ratnagiri. We have now opened 108 new centers in the first half of the year and remain on track to easily exceed our annual target of 150 plus new center openings for this fiscal year. As a result, we are present in 103 cities across India with a total of 720 pre-schools out of which 611 are company operated.

An important highlight associated with our expansion this year is our entry into the Delhi-NCR market. We are entering this market and are excited about the growth of this market and have completed the setting up of 35 centers and target at least 50 more centers in these locations by the end of financial year 2016.Delhi and the NCR market as you would all know, if you see the census, is the largest populated metro in the country and has overtaken even Mumbai in terms of population. It is a very lucrative market with the high per-capita GDP and strong discretionary spending power. We did not open in Delhi for quite a few years but waited for the softening of the rentals in the Delhi market and then move into that market. We believe our aggressive entry into Delhi will be a strong growth driver in the coming years to come.

We believe we are an evolving company and as a result are constantly seeking avenues to grow, innovate, and expand. We have recently undertaken the initiative of re-branding 100 key centers of Tree House to Tree House- i which stands for innovation, ideation, imagination, and information. All these centers will be providing tablets in classroom which will have content on early childhood education which has been developed in-house by the Tree House team, Android based apps for parents where they can see their children on real-time basis to monitor the child's activities.

As many of you must be aware, besides our pre-schools we also manage 24 K-12 schools in the states of Maharashtra, Gujarat, and Rajasthan. We are consistently growing our occupancy levels across the schools, increasing the utilization on our committed investments in this segment will be a key driver of long-term value creation at Tree House.

Another area where I would like to give you an update on is the outstanding receivables, I hope you had had a chance to go through our earnings presentation which includes a detailed note on this. Total outstanding receivables as on 30th September 2015 stood at Rs 62.61 crores out of which I would like to highlight that nearly 50% has been received as on date of quarter two results announcement and we remain on track to recover the balance. The current receivable situation is a result of the prevailing cautious spending environment. We sometimes do lend favorable terms of payment to parents to enable volume expansion but we want to keep our margins intact.

Tree House as I have always maintained is a social impact company engaged with thousands of families and their children. We believe that in line of business, we have to draw a balance between the sentiments associated with the parents and children and protecting the Tree House brand and goodwill associated with it and for our shareholders to maintain long-term profitability. Thus, we keep watching our receivables very carefully and we are confident that close monitoring of the situation will allow us to manage the receivable swell.

Moving on to day care services, we think the availability of quality, standardized day care services is the need of the hour as the country sees a substantial increase of women in the workforce. However, we also see an under supply of such services in the market. We believe that with our strong network of day care centers we can capitalize on this demand. Tree House has as of today successfully provided day care facilities in 250 of its centers and going forward we plan to increase the same. This is another segment which we expect to deliver strong results and gain traction going forward.

For the remainder of FY16 our priorities will remain centered around crucial integration for success of our pre-school. We remain committed towards our aim of creating and delivering high quality content consistently across the network of our pre-school. Overall, we are confident of delivering our core competencies and constant innovation to capitalize on the substantial opportunities for growth in the education sector.

On that note I would like to hand over the call to Mr. Sanjay Shah, our CFO who will take you through the financial discussions for the quarter. Thank you so much for joining us.

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 September, 2015.

In Q2 FY16 we registered increase of 15% year-on-year revenues to stand at Rs 57.3 crores, this was primarily attributed to the healthy increase in the number of pre-schools along with increased enrollments at our existing centers. In last six months that is half year of FY16, total revenue stood at Rs 126.3 crores which is up by 22% year-on-year.

This quarter EBITDA witnessed an increase of 1.6% at Rs 30.2 crores, EBITDA margin was impacted due to 73 new center openings during the quarter which is the highest in the history of the company in a single quarter. This had an obvious bearing on capacity utilization, we also incurred expenditure related to launching the centers that we have experienced in the P&L account. As a result, our investments towards enhancing sales and marketing activities stood higher in the quarter. EBITDA in half year FY16 stood at Rs 74.4 crores which is an increase of 18% year-on-year.

Quarter two FY16 profit after tax was reported Rs 12.7 crores, up 1.2%. PAT half year 2016 was Rs 30.9 crores, up by Rs 7.4 crores year-on-year basis. We remain focus on anything of our financial profile and building value for stakeholders. In this context we are encouraged by the recent update of credit rating for our long-term bank facility by CARE from A- to A.

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 would 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. We have the first question from the line of Akshat Vyas from Karvy. Please go ahead.

Akshat Vyas Sir just couple of questions. One thing you said in this quarter, you added 73 new centers right, so previous quarter the same corresponding quarter how much centers did we add?

Sanjay Shah In the last quarter 35 self-operated centers were added and there were no franchisees added, in this quarter we added 71 self operated and 2 franchisees.

Akshat Vyas Q2 FY15 you added 30 you said?

Sanjay Shah No, Q1 FY16 I added 35 centers.

Akshat Vyas Sir I am talking about Q2 FY15 how many centers did we add?

Sanjay Shah Q2 FY15 we added 1 franchisee and 32 self operated center.

Akshat Vyas And sir so our margins this time were low because of these centers adding, so going ahead what would be the sustainable margins which you would look at?

Sanjay Shah Akshat what happened is that all the new centers take little time to get mature and currently what we are continuously expanding in Delhi and if you observe that in last one year we have added almost 176 new centers. And if you see last three quarters, Q4 FY15, Q1 FY16 and Q2 FY16, we added 152 centers on a self operated centers and all these centers take time to mature. So the related expenses on the rental, minimum center operating expenses, the salaries have come on my P&L with no significant corresponding revenue from these particular centers. So definitely when we are at the growth stage at certain point of time, certain operational expenses increased with no pursuing revenue and hence this time you see 700 basis points impact on the EBITDA. So at least for next two quarters I see that when you are expanding it will be range bound.

Akshat Vyas So full year for FY15 our margins were around 57%, so would it be the sustainable margins going ahead same ones for the next full year FY16 also, we will be at those levels at least, right sir?

Rajesh Bhatia Let me just add over here our thought process, you see in the first quarter, our margins were upward of 60%. First understand that we are growing the company. We were not present in the Delhi market, we raised our money in the QIP offering and also looked at the Delhi market in a timeframe where these rentals on the real-estate side especially in Delhi NCR region are down by about 40%. In the course of building this company over the years, today we are predominantly the number one player by far ahead of rest of the competition in the large super metro like Mumbai, Delhi is another super metro. We clearly expanded significantly in Mumbai on a sustainable basis way back in 2008-09, much before we were listed and then at that point in time the rentals cost in 2008-09 had completely crashed and so had the markets. 2007 unfortunately was a year where rental costs were very high, the whole economy, the whole market was buoyant and it was very difficult to maintain on a cost basis, EBITDA level margins of 50%, which is operating level for our centers that we would like to operate at. The opportunity came to us for Delhi only in the last 8 to 10 months where we have seen significant slide down in values of rentals across various parts in the country and we definitely envisaged that it was time to take action and close long term transactions in the city of prime properties for playgroup and nursery part of our business. And so we took advantage of the same and entered into the Delhi market by opening large number of centers.

Now let me just say that 35 openings in one go and a significant number of openings in the next five to six months, you have to see that historically for Tree House we have reached our targets of 90 or 100 centers in the city of Mumbai where we started our journey, over a period of 7 to 8 years , and here look at the execution ability. In Delhi-NCR we would be able to reach those kind of numbers in 12 months since we started, and coupled with the fact that we would have taken advantage and blocked ourselves out for a five year period in one of the most lucrative markets where spending power and spending capacity is greater than Mumbai. Thus with historic EBITDA margins of +60% , with large cash levels on the books of the balance sheet, we have the ingredients to move to the next level of growth. And in the interim, i.e. in the short-run you would sacrifice short-term for the long-term because we are here to build a long sustainable enterprise which has a pan-India presence with the Delhi market in our hold and we are very clear that in the next 18 to 24 months because this is again a fragmented market and I have seen this over my lifecycle in the city of Mumbai, we will be the number one player over there. We have reached the number one player mark in many-many metros in this country and we are already present in Jaipur, Lucknow in Bhopal, in Calcutta, Patna, Ranchi, and Delhi was waiting for us to just enter. And the obvious decision was will you bite the bullet now or will you bite the bullet later on. I think the entire event and the circumstances in front of us with these historic margins meant that let us bite it now and we can take a small hit on the margins in the absolute short-run, but in the absolute long-run over the next 24 to 36 months I think we will grow significantly because Delhi will be a big contributor like Bombay has been.

And I would add over here that a truly retail presence in the pre-school market which is unregulated, with the pan-India self operated presence and we are a 720 outlets and going way up to the four digit market over the next two to three years, we believe that we would have created a company, a true education company with a national presence on the ground on virtually every 2 - 2.5 km radius in various large cities. I would say that a 50% plus EBIT is not something which is small and I would say that yes the moment we saw a 60% EBIT and in the last conference call and in various meetings also I have been very clear that we would like to utilize our additional margins for building the brand because at the end of the day the brand and the brand value of Tree House is something which is unlike any other education company which has a pan India presence across thousands of families which includes playgroup nursery for the 1.5 to 5.5 years, which includes day care facilities so on and so forth. So I think that is what we are building and that is where we will finally reach.

I would also add that the margins like you said whether they will be 57%, 58%, 55% that is difficult to comment because as we enter Delhi we would be spending money on customer acquisition and building the brand. And we have entered at a time when the starting from December the admission enrollment for April would come in and we are well poised to take that whole city by storm.

Lastly I would add, that since this market is a quasi, branded, fragmented market. There is a lot of disruption happening when a player comes with 70, 80, 90 branches into a big city like Delhi or it is expanding in to other cities significantly, the fragmented marginal mom and pop shops which can be branded or unbranded for their survival are going to come up with terms and conditions for their customers which will give their customers slightly better credit periods in terms of how they are supposed to pay their school fees, so on and so forth, it is similar to a retail bania shop below the house who gives that kind of retail credit and stuff like that. The point I am making here is, it is a call between two things, one is, whether you want volume growth and margins to remain intact or you want volumes to fall and you want more receivables. So that is the call which we continuously evaluate at our end, I sit with the CFO and try and understand how this works because the ground realities compared to the realities when you are making a model are far different. That is something which one has to evaluate on a continuous basis because when you are opening these centers you are actually doing a ground level micro warfare or a battle in every two kilometre radius on the street and it is like a street fight where you are trying to gain ground from these small fragmented players. And if they have been in that market for the last two, three, five years, they will definitely give you a good fight. It is not that just because you are coming, they are just going to say that you can walk into this street and we are just going to watch you, it does not work like that in real life. So having said that, everything that you see that is happening is a culmination or an eventuality of what we are seeing at the ground, but our past experience in big cities like Bombay, Ahmadabad, Jaipur, Kolkata, we have succeeded and we have succeeded significantly to becoming the number one player in each of these cities such as Pune, Nagpur, I can go on. And we truly believe that in the Delhi market which is in fact bigger than the Mumbai market, we will make large strikes. In the short-run, yes there could be 200, 500,700 bps dip here and there but if we had looked at these dips every time I do not think we would have reached that 720 outlets. So this is my take on this entire thing.

Akshat Vyas Sir just one more thing, this breakeven for all these new centers would be in how many months, normally?

Rajesh Bhatia See, I will explain to you. In cities where we are present we consider for a model the breakeven period to be about 24 months. But if you say in a city like Mumbai, Pune, Nagpur where we are already present we try or we hit our breakeven even in 12 months at times. In city like Bombay, in six, seven months we reach our breakeven, that is very-very fast because the brand is very well established and we are building a new center next to our existing center because the demand supply mismatch is there for our brand and the demand far outstrips the supply, so there it is faster. If you go to a smaller town, say Jaipur or Lucknow or Patna or Ranchi, it will be about 24 months. But if you go to a Tier-III, Tier-IV towns, please understand why the town is called a Tier-III, Tier-IV town, it is because the density of the town is also smaller and because the density of the town is smaller and the paying capacity will be relative to that town. I would add that there it can take between 24 months and 30 months because you have to get that entire large flow. But the EBITDA level margins in the Tier-III, Tier-IV towns, though the breakeven points maybe 18 months to 30 months, will be much more because the rental costs are much less. So these are the kind of things that you see across different varieties of markets, the super metros, the Tier-I cities and the Tier-II, Tier-III, Tier-IV cities. So that is the kind of breakup you will see across these markets and each of these is defined based, one, on the density of those cities, two, on the paying capacity and better EBITDA margins in Tier-III, Tier-IV are because of the lower rental costs of these small towns. And once you have built significant name in those towns then you are there for like I would say for the next 100 years.

Moderator Thank you. Our next question is from the line of Abdul Karim from HDFC Securities Limited. Please go ahead.

Abdul Karim Despite being a cash rich company , there is more focus on adding debt. However on another side, your interest income is less than the interest expenses, so please put some color on the same?

Sanjay Shah Now regarding debt, see as Mr. Bhatia explained that we need to continue to expand. And we went ahead with our plans even if there was slow growth and also debtor collection was under pressure but we are now managing that. So we went ahead with our expansion from the same state rather more aggressively in this quarter and hence we added debt. But at the same time if you see that our net debt is only Rs 25 - 26 crores and once we get sale proceeds of our Baroda school which has already been announced for Rs 52.5 crores, a certain portion of debt will be paid off against that and in that anticipation only we had gone ahead with our expansion and utilised the debt proceeds for our expansions. Secondly, what was the second question, on the interest?

Abdul Karim Yes.

Sanjay Shah Interest income, see it is not that entire amount of fixed deposits has been used. Therethere are certain other term loans also, where we had an historical 12% - 12.5% rate of interest cost. Those are outside my OD, FD where a certain fixed deposit has been used for that which has corresponding income against the expenses, but there are certain term loans which historically we have taken for the buildings which are now going to be sold.

So those costs are little over the income and hence this difference between Rs 8 crores income cost and Rs 6 crores income.

Rajesh Bhatia Let me add over here that very-very clearly in the last quarter what you have seen is a slight aberration because the sales proceeds of the K-12 school, based on the real-estate market as I mentioned being very soft, did not come forth. But we believe that we should get the sales proceeds in the very near future and that is going to significantly reduce our debt position. Secondly, our collection drive has been very-very sharp in the last month and a half or so and we have been more aggressive in collecting of our fees with parents, this is also adding. Thirdly, this entire increase has been from the fact that we have expanded and opened 71 new outlets in just 90 days and obviously over this year we are in the process of adding and closing a large significant part of Delhi NCR region in one drive. Having said that, we are cautious of the fact that you have mentioned and we are very clear that going forward over the next three to six months you will see a substantial reduction in debt. Lastly I would add that over the last couple of years we have added a lot of schooling capacity in the K-12 business and that schooling capacity and the kind of monies that have been invested are more or less complete. What we have done is that we have more or less completed our K-12 drive and I would add that a significant ramp up over the next two to three years in that business is going to give us multiple jumps in our free cash flow. So all the business drivers, you see once we have done Bombay, Delhi, Kolkata, Chennai, we have captured a large part so we have put a lot of money in to building blocks and we have also added capacity in the 24 K-12 schools where we are doing school management. All these building blocks are in place, all we are doing now is just increasing the capacity utilization. And going forward, as we tone down the expansion, as we stop the K-12 growth rate in terms of adding more capacities and thus significantly trying to add number of children so that capacity utilization goes up, we see that over the next 24 to 36 months and then over a long-term period, we will be a company which will throw out buckets of cash like an FMCG player, because our belief is very simple and I reiterate this that 15% of household income goes in staples and you see a lot of free cash flow in companies which are in the business of selling staples, 10% of every household goes in education and not a single company has been created in our country which shows this kind of a thing and I believe that Tree House will be the first company which will be able to demonstrate this. But to be able to do that and to build a pan India company, one is not building a regional play, one is not building a regional play on the Western side of the country or the Eastern side of the country or the Northern side of the country, one is also not building a segmental play or a single vertical play, dealing with 1 market students or 2 million students, what one is dealing with is 7% of the population of the country between 0 to 6 and what one is dealing with is over the next 10 years the per capita income of this country going up significantly if we believe that 7% GDP is here to stay. And for doing those things one has to make significant inputs in terms of taking calls, growing and putting the building blocks in place which require setting them up and investing money . That being done, over the next 24 to 60 months you will see huge positive free cash flow and we believe that our debt to FD position and the size of our balance sheet is not alarming at all, it is very-very small and we have significant large EBITDA contribution. And each of these businesses as we stop growing them in terms of adding newer capacities and thus utilizing our existing capacities, we think we are going to show significant I would say positive free cash flow to our shareholders and that is exactly the thought process, is to first build the entire thing and then to just ramp it up because when you are a national player it is only then that there is some value created rather than being just a regional player.

Abdul Karim Any update on Baroda property sale, last time you told me it will take one month to be final?

Rajesh Bhatia See, let me say that as far as the Baroda sale is concerned the deal is on and we are working towards the completion of the deal.So the point is it is a significantly large deal of Rs 52.5 crores and it is being done with a group of people, and in our communication we have been told that we should be able to close this very-very soon.

Abdul Karim And question regarding the day care, every quarter you are adding day care business, could you share the revenue contribution from day care in first quarter, second quarter and the FY15?

Sanjay Shah In FY15 the total revenue was Rs 1.17 crores, in Q1 it was Rs 45 lakhs and in this quarter it is Rs 51 lakhs.

Rajesh Bhatia So you see, in the last one year it was only Rs 1.17 crore and this year already in the first half it is close to a Rs 1 crore and obviously some of the centers have just been added. So I would say that yes it is not a business where one will see an overnight kind of a thing, but what we are basically seeing is that everything that is contributed adds to the margin. So the margins over here are very large, margins over here are upward of 80% on the EBITDA side and it also sweats our asset. Third, it also gives for the first time a pan India presence of day care facilities branded company operated across the country, please understand and realize that for a country with such a large population and more and more women going to work, there is not a single branded daycare player. I think what one must completely realize and I always keep reiterating this, this is like getting in to the pre-school market way back in 2003, 2004 and waiting for this whole market to be kicking in 2016, 17, 18 and creating a large pan-India presence, because of our large reach now we are reaching day care facilities across the country. I would also add over here that a large number of information technology players, airlines, hotels, the Tree House brand and the day care play also has reached the human resources side of many of these large companies and continuously they are in talks with us.. And if you see a like-on-like play in the US which is Bright Horizons, you would see that such a similar kind of a pan India play in India, if one can see on the radar, is just Tree House. And all these are building blocks I would say, what we are completely clear is we look at the short-term when we are driving the car, we look at the short-term as to where we will be in 2016- 2017 but we also look at where we will see ourselves in 2020 and 2022. I think each of these are a separate milestones and as we move we look at the short-term, the medium-term and the long-term objectives and each one in the building block process is towards that.

Abdul Karim And for next couple of quarters what numbers of additional day care you are looking for?

Rajesh Bhatia So like I am saying, if you just do a clear analysis, last year we did about Rs 1.17 crores, this year the current trend is showing that we can be at about Rs 2.5 crores or so, the way the trend is growing and we are also seeing significant traction in enrollments every month. So on a month-on-month basis we are seeing enrolments going up. One must realize that day care in large parts of urban India is becoming a necessity and which is where we are one of the key players who is getting benefit of that and are able to build a brand consciously telling parents that the trust factor is very high.

Abdul Karim And my last question, what is your CAPEX guidance for next two quarters?

Sanjay Shah CAPEX what we plan is, as is mentioned that we plan to open 50 more centers in Delhi and another 30 in other locations. So additional CAPEX what we expect will be in the range of Rs 55 - 60 crores.

Moderator Thank you. Our next question is from the line of Pravin Sahay from B&K Securities. Please go ahead.

Pravin Sahay Just a few queries, like we have started centers in NCR with more of a long-term leases, so how much is duration for this?

Sanjay Shah See, we always do five year lease deeds and with an option that we can renew them for another five years.

Pravin Sahay And on Tree House- *i* is there any pricing differential from the normal Tree House?

Rajesh Bhatia Yes, so let me explain to you. This is the next mode where we are going to, we call it Tree House- *i*.. Over the last three years we had entered into a program internally where we built our entire curriculum content along with our internal team which can go on to a tablet and the tablets can go on to the classroom of children in the age groups of 3.5 years to 6 years. That program has been rolled out in the last six months or so, if you see our large number of centers even in the city of Mumbai, children in the age groups of 3.5 to 6 which is the Junior Kg, Senior Kg classrooms are already using tablets in Tree House. None of our competitors which are largely franchisee in nature and they have more investment to do because of that are able to do it. Second, because we have self operated centers we have a large control over the markets by giving additional inputs to parents. Going forward, we have developed a Tree House app, where a parent working in the office can just open the app and they can see their child in the classroom even at 9.30 in the morning. Now This kind of a thing in pre-schooling is very-very different, imagine seeing your child in the classroom be it a two years old child or a three years old child, it gives you a lot of confidence, trust, faith and it takes the entire brand goodwill to the next level.

Now again we are able to do these kind of things much ahead of our competition which is why I call it innovation, ideation and we are moving in step with times. Again, the same app will tell you what homework your child has to do in the evening, if there is something to be done, it will have photographs of your child in the classroom which includes what activities he or she did during the course of the day. I think all those things are something which Tree House can do because of the control it has over its own centers. And that I think is very difficult for competition. Now what typically happens is, yes, looking at the current market scenario we could increase our fee point between 5% to 10% but adding these features and what we do at Tree House is very simple, rather than telling our parents that we will do this for you in the future, so we are going to increase fees by 20%, we have already introduced it in the classroom because most of the children are going to rollover with us and parents are already seeing the tablets in the classroom, so we have already introduced it.

Now what happens is that rather than saying a 5% increase or an 8% increase, we are very clear, we can see a 20% increase. And if you see the customer, the customer is very sharp, the customer understands value for money and the customer understands what is coming in return. The whole idea of Tree House- *i* is to make, in every city, our top centers in terms of volume, in terms of where we are situated in that micro market, marquee centers, enhance margins and take the brand into two positions, one is mass market and two is premium and those premium centers will have variety of these things which the mass market centers may not have to that extent and that can be in the form of saying that you could have one tablet between two children or three children against one tablet between four or five children where they get to see or hear most of the content in the classroom. Moreover to familiarize them with the latest technologies and the latest world at the age of 4 because they are already using these tablets in form of Android Phones with their parents, so they know the touchscreen etc and we are also introducing them to the touchscreen much earlier in their lifecycle. So the new age parent who is part of our brand family understands this completely and I think they do not see this in competition as much as they see it in us.

Pravin Sahay So basically this Tree House- *i* is for the premium market, basically for NCR or Mumbai region, right sir?

Rajesh Bhatia No, it is even for the premium market in our existing centers in Mumbai, so a number of our existing centers in Mumbai where the fees charged are in the region of Rs 60,000 to 80,000, it can go up to Rs.75,000 to Rs.1 lakh and that is going to be a significant driver compared to any of our competition, because whilst we are valued more in the mass market brand, our pricing in many of our centers is much ahead of the premium player in the market.

Pravin Sahay Just on the K-12, how old these schools are?

Rajesh Bhatia So each school is in a different lifecycle, , there will be schools which are more than 6, 7 years old and there will be schools which are just about 1 year old. Because each school is in a different lifecycle the maturity stage of each school is very different.

Pravin Sahay So all 24 are of a different ages, right?

Rajesh Bhatia Exactly, all 24 at different ages so all 24 are of different ages because they have come up at a different time.

Pravin Sahay On an average what is the age of these 24 schools?

Rajesh Bhatia So it is different for different schools, the average age per say I would not be able to give it to you right away, but what I would say that since each of these schools have a different age at which these schools are there, the kind of cash throughout that each of these schools give is different. I would add one significant thing over here, that Tree House is the only company in the schooling market where the schools throw out large amount of cash on an asset light model, max in 48 months. Now that kind of a thing none of the other schooling companies are able to do even on an asset heavy model and that talks significantly of our brand, our goodwill and the kind of inputs we give in the classroom. Because the growth rate of our schools compared to any of the schools in the vicinity is the highest in terms of enrollments also and we believe that going forward that is getting accelerated as we stop further investments. But we must realize that there are certain investments which we have to do and that is what we have done and completed in the last 7 to 8 months which is what you see where the balance sheet is currently. So going forward as each of these schools is maturing, I would say that the kind of free cash over the next four, five years that these schools are going to throw out is going to be so significant that the shareholders and stakeholders at Tree House are going to reap large benefits.

Pravin Sahay Just on the expansion part, I just wanted to know like we are going to continuously increase our pre-school whenever we find any opportunity, is it like that?

Rajesh Bhatia I did not get your last question.

Pravin Sahay So on the expansion part for the pre-school, we had expanded quite aggressively and now reached to a 720 level, so our strategy is to continuously grow or expand in the pre-school whenever there is an opportunity we find or is there any certain numbers we have in mind to certain extent will grow?

Rajesh Bhatia So let me say that as we grow, yes, at a particular point in time we would like to consolidate ourselves and ramp up our capacity utilization. Delhi was and I have always said this that Delhi was one of the large market where we wanted a significant presence because of the population and the density. So we personally believe that yes, you would see us in a slight consolidation mode because we have aggressively expanded and we have taken advantage of the low lease rentals and we will ramp up our capacity significantly to show our shareholders and to analysts free cash flow and positive cash flows and obviously through free cash flows debt reduction wherein all the barrels will be firing, preschools, K-12 schools everything, but we would see this over the next 12 to 18 months.

Pravin Sahay Just lastly one clarification from my side, for the pre-school we take fee at one go or in the phase manner from the parents?

Rajesh Bhatia We take it in a phased manner.

Moderator Thank you. Our next question is from the line of Gaurav Sanghavi from Bajaj Allianz. Please go ahead.

Gaurav Sanghavi Sir just wanted to understand a bit more in details about our expansion plan, so this year we have opened additional 100 centers, so out of which how many are added in NCR and what is our plan of addition for this year, next year and say five year down the line how many centers you would like to have?

Rajesh Bhatia So let me say Gaurav that we have added about 108, definitely at the pace at which we are growing we will go to about 150 plus very-very easily and I would add that yes, going forward over the next year based on how many openings we do and how entrenchedwe are in the market and from December to March we will watch the capacity ramp ups in the newer centers, we will take a call as to what kind of expansion we will do going forward. Yes, our current belief is that you add the numbers we would definitely reach close to 750 to 800 between that range. And over the next 24 to 36 months, yes the four digit mark, we may just slowdown a little bit because we have entire large Delhi market to gobble up and we would like to use our resources to focus on that large metro market. Because what is very important to understand that as a brand if we have Delhi and Bombay in our pocket and a lot of other cities are already in our entire game plan are doing very-very well ,we believe that we will be a significant player to reckon with in this part of the world.

Gaurav Sanghavi So this 100 addition in this year, is it largely in NCR or basically spread across…?

Rajesh Bhatia So we have completed a large round of expansion in some of our existing places also which include cities like Pune, which includes parts of Chennai, parts of interior Maharashtra, a number of towns have been covered because we have a significant presence in Pune already and then our focus is on the Delhi market. If you see Madhya Pradesh, Uttar Pradesh, say for one or two cities there, Goa where we were not present we have gone into that market, but we are largely focused only on the Delhi market.

Gaurav Sanghavi And what is the CAPEX per center there given a decline in the rental over there and comparatively lower rental than Mumbai

Rajesh Bhatia See, the lower rental does not take away the FSI, the lower rental does not take away the size of the bungalow and when you are in Delhi and NCR all those places have mansions, they are like big bungalows with gardens and lawns. Mmost of our centers if you ever go around in Delhi you would see us in large size bungalows over there and road facing bungalows where we have taken really marquee centers in Delhi this time at significantly lower prices. Having said that, obviously the cost of doing up the bungalow remains more or less in line with what we already do because they are very large bungalows with open spaces and cost over there are in line with the cost we spend in the city of Mumbai.

Gaurav Sanghavi So it would be roughly same as around Rs 50 lakhs?

Rajesh Bhatia It is there, it is roughly in that range because like I am saying all the bungalows are painted in the same manner across the city of Delhi, Ghaziabad, Noida, Gurgaon, the same feel and look is there, a huge kind of branding is there outside the bungalows, inside the classrooms all are done just in the way they are in line with Tree House and a lot of them also have unlike the city of Bombay garden areas and stuff like that which also need to be done up and made child friendly. So Delhi has a slightly different flavor because of the size of the city compared to a city like Bombay and obviously it has a different taste in that respect also.

Gaurav Sanghavi And the second question is on this Tree House- *i* which we have rebranded, so does it mean it will increase the revenue and margin at the existing centers and the 20% kind of increase you are talking that will…

Rajesh Bhatia Yes, so we would not like to comment on that because these are early days, but we are just telling you the line we are taking, the way we are going ahead and moving forward and we are just telling the market that yes that this is the way we are moving forward in some of our marquee large centers in existing cities where we believe that we will maintain huge gap and edge between us and the second player.

Gaurav Sanghavi And our long-term loan and advances have moved up by around Rs25 crores, if I compare it from a March level, so how much has gone for incrementally K-12 school deposit?

Sanjay Shah It is about Rs 22 crores.

Moderator Thank you. Our next question is from the line of Gaurav Jalan of Avant Garde Wealth Management. Please go ahead.

Gaurav Jalan Few things, one is, what is the K-12 security deposit as of end of March, what is that figure?

Sanjay Shah Rs 140 crores in March, Rs 162 crores as of 30th September.

Gaurav Jalan And how is that figure expected to move going forward, are you going to see some of these deposits return to you or do you expect to just keep on to keep growing over time as you put in more deposits towards you K-12 schools?

Rajesh Bhatia We are working on ensuring that as the free cash flow of these schools gets paired up, the deposits will come back. So our endeavor is to see that the entire deposits come back over the next couple of years. We are working on certain methodologies to see that if we can get the deposits back faster, but going forward the figure of Rs 162 crores may go up a little bit but that remains stagnant over there for a large period of time and it starts actually coming down.

Gaurav Jalan And in terms of the revenues from your K-12 schools, I believe it was Rs 23 crores for fiscal 15, what is the outlook for that going forward, so fiscal 16 and then a few years into the future?

Sanjay Shah K-12 revenues in the first six months this year we have clocked around Rs 17.8 crores and we would like to be in the range of around Rs 22 - 23 crores this year because majority of the revenue based on the information we have locked in the first six months and next two quarters whatever incremental revenue is there will be in the range of Rs 4 - 5 crores.

Gaurav Jalan So but why is the revenue from the K-12 segment not growing, I mean as the utilization at your schools increases should we not we expect that revenue to grow?

Rajesh Bhatia So the point is, as the capacity utilization in the schools gets better. Now there are two ways in which the free cash flow of those schools comes back, one, by way of revenue and, two, by way of return of security deposits. So going forward as you see large free cash flow coming from the schooling business, you would also see some part of the security deposits coming back.

Gaurav Jalan And the realization that you have, if I look at your revenues per center, that has gone down quite sharply in Q2, I mean you have opened a lot of centers this quarter but you had opened a lot of centers last quarter as well, so I am just wondering why that decline has been particularly sharp in Q2?

Rajesh Bhatia Because we have opened the centers in Q1 and Q2 put together, if you add 106 centers then definitely it was a conscious decision and there would not be any significant contribution of those centers on my top-line and hence if you linearly divide those additional centers it will definitely reduce the per center revenue. But if you remove those non-performing centers, only performing centers rather it is much better.

Gaurav Jalan So just to ask the question a little differently, in fiscal 15 for the full year your average revenue per center was around Rs 34 lakhs, so that how do you expect that figure to look like in fiscal 2016 and going forward?

Sanjay Shah I would like to say that the figures will be more justified with this new expansion, because I need to have at least two quarters of FY17 to run through to give more justification, because if I am going to open 150 centers in FY16, definitely those all centers would not contribute but they will definitely be in the denominator when you divide the total pre-school revenue. And so in FY16 definitely it would not be comparable to FY15, which was Rs52 lakhs per center but it will definitely be around 10% around that or more than that or nearby that figure.

Gaurav Jalan So fiscal 2017 is when you think you can expect to get back to the fiscal levels?

Sanjay Shah Yes, it takes 18 to 24 months for the center to mature and start throwing EBITDA and contribute and when I am on the expansion spree with just doing CAPEX, the top-line will take its own time to build up in those centers.

Rajesh Bhatia So please understand that when we start centers in Delhi we have two options, either to be just in time and then try and start if there are some delays here and there because when you open centers you really cannot say whether the timeline of opening will be 90 days, 120 days or 140 days depending on the kind of things you do in the center, the kind of additions you do in the center and the kind of work that is done by various contractors.

Second, also one has to take into account the kind of holidays that happen during the course of the year where the contractors also go on leave. Having said that, the Delhi market opens up in December for new admissions, if one is not ready for the market then one can have pain over 12 months rather than taking some pain in the short-run for three to four months. So what we have done is that we have significantly opened large number of centers and have gone ahead starting from June July onwards, and so what you are seeing is that large centers being opened up, but yes the capacity utilization in those centers is not there but that is the nature of the pre-schooling business. And going by the nature of the business one has taken that conscious decision, just opening it a little earlier so that we are ready for the season for April much earlier in December.

Sanjay Shah What you said Rs 2 lakhs per center for entire FY15?

Gaurav Jalan No, I said Rs 34 lakhs, isn't that the figure approximately?

Sanjay Shah Yes, see what you have taken is that certain centers which are not open because you have not taken entire 505 centers I think on that.

Gaurav Jalan Okay, I will need to look at the figures but I had calculated approximately Rs 34 lakhs based on the average number of centers, revenue divided by average number of centers you had opened during the year.

Sanjay Shah Yes, because if you take all the centers right now, it is still in thethe range of Rs 34 lakhs right now also with this 611 centers. My total pre-school revenues are Rs 104 crores and if you divide it by 611 centers it is Rs 17.5 lakhs and it is half yearly figure, so you will have to multiply by 2.

Gaurav Jalan Maybe I will follow-up with you regarding the calculation.

Sanjay Shah Sure. So we are not below the average that's what I would just tell you.

Gaurav Jalan Just one other related point, would it make sense to think about a capacity utilization figure at an overall level because it seems like as you are opening new centers, if you were to disclose what your capacity utilization is that might help us get a better sense of why your average revenues might be slightly lower or the trends in that direction.

Sanjay Shah Gaurav in my business, especially in pre-school it is very difficult to define the capacity because I can run one batch, two batches, three batches. Sso to just give you a flavor of that, right now in 96 centers I run three shifts and so that is the way I function, on almost 357 centers I run two shifts and balance I run one shift because I have just started the centers. So this is the way I function, so once those two shifts also get filled up fully, I will start third shift also in that. So with the same cost I can share my asset and build up by revenue, so capacity definition per say in this is little difficult in pre-school business.

Moderator Thank you. Our next question is from the line of Nidhi Agarwal of Sharekhan. Please go ahead.

Nidhi Agarwal I want to understand how the profitability of K-12 schools are moving and by when we can start seeing it making profits on net basis?

Sanjay Shah Nidhi, profitability if you see basically, now if you see the revenue for the Tree House per se we have operated like say in last six months, out of Rs 17 crores my EBITDA has been in the range of around 80% for that, 78% to be specific and around Rs 1.4 crores is of the depreciation on that, so basically whatever they have been contributing that has been fairly significant for us right now.

Nidhi Agarwal I am specifically talking about the K-12.

Sanjay Shah Yes, I am talking of K-12 only Nidhi, K-12 segment basically. See whatever revenue flows in, now you may be talking much on the investment vis-à-vis the revenue right. So as Mr. Bhatia explained that as the capacity utilization in the K-12 schools that we manage and as they get filled up gradually over next two three years, there will be surplus over there. Apart from getting better revenues there will also be inflow of the deposits which will reduce my capital employed in the K-12. Further there will selling of our assets, of which one of Rs 52 crores is due immediately, so that will also go off the book. So all this reduction investment is corresponding filling up the capacity at the K-12 level, the revenue will keep growing and you will keep seeing the gradual important in the K-12 segment revenue.

Nidhi Agarwal So over the first half how has the revenue moved for K-12 schools?

Sanjay Shah It is Rs 17 crores.

Nidhi Agarwal Over last year?

Sanjay Shah Last year it was around Rs 9 crores.

Nidhi Agarwal So it almost doubled?

Sanjay Shah Yes, the entire year last year I billed Rs 19.5 crores, in first two quarters I billed Rs 17.82 crores.

Nidhi Agarwal And sir how are we guiding for the full year, because in the first half we have just 7.4% growth in PAT, so we are going to see more pressure on margins because of opening of schools or how is it?:

Sanjay Shah I won't be able to give you any guidance on this right now.

Moderator Thank you. Our next question is from the line of Vishal Rampuria from Dimensional Securities. Please go ahead.

Vishal Rampuria One question basically on pre-school side, if I look at my debtors it is roughly Rs 20 crores pending, so I understand that largely we take fees in advance right, so why would there be any debtors from pre-school?

Sanjay Shah No, I think Mr. Bhatia has clarified and it is also in the press release that there are spending issues in the economy and everyone doesn't pay in advance, there are cases where people pay monthly or they would like to pay quarterly.

Rajesh Bhatia So people pay monthly, bi-monthly, so on and so forth and quite a few times when you see what happens that at the central level if the school fees is Rs.50,000 and the enrollment has to happen and like I said you are sitting in a market where there are other fragmented players, the particular parent could be paying just about Rs.10,000, corresponding player on the other side would be charging a similar amount of money. Now if you have to, now the whole definition over there is whether you want to take the child or you do not want to take the child because the parent or the customer can then go to the neighborhood shop and take admission there on favorable or flexible terms. Having said that, when you take the volume increase and keep the price intact and the margins intact, you face a receivable problem where the parent then has to pay every single month Rs.4,000 to Rs.5,000. Now having said that, while you may have post dated cheques also from the parent, there have been large instances when those cheques also bounced. Having said that, you have to then do the follow-up, try and get the money from those parents and many a times because these are pre-schools and unlike high schools, the follow-up etc have to be done but there is no bad debt, all the money comes in, it does make come in with slight delay of 15 days, 20 days, at the most a month. Now having said that, the nature of the market is such that in the last three to six months the consumer per say has gone into a mode where they are more cautious, the job market has not increased the way it should have increased, the job market is not giving them the kind of growth one is expected, spending per say gone up and I would just add because we deal with thousands of families, as we deal with families across cities, the food inflation specifically you see that is also hurting a lot of middle class families and we deal with middle class families across the country and we are very clear that these middle class families are where the price of certain inputs in the household eating habit have gone up by 200%, 300% and the consumption of the same increases significantly it definitely adds pressure on their ability. And so we have to understand that at our center level we are very clear that the money will come in but we have to be nice to those families and we have to be nice to those children. There are two options in front of us, one, we say you give the money or take the child home if you do not pay the money, now that can have a significant negative bearing on the brand, it can have a significant negative bearing on the goodwill and the way Tree House operates the business. The other thing is to have a receivable and then face set of investors who would say why there is a receivable. My core philosophy in life is very simple, we have opened these schools, one, with a profit motive yes for shareholders, but at the same time there is a core value system and the core DNA that runs in our organization and the culture and the way we, and you see 99% of the employees of the company are women employees and the women employees at various centers are dealing with moms who come with their small children, there are less dads who come because they are working somewhere or they have their own shops and stuff like that and so they are going to work. So they are more sympathetic with each other, they are more understanding with each other, like I am saying the money has come in, it takes some time but the nature of the market is such and as we grow the volume and as we grow in various cities, please understand what you are talking or what you are understanding is basically a Bombay or Delhi phenomenon, please understand that if I was just a western player in the city of Mumbai and specifically in certain pockets like South Bombay or Bandra or Andheri, it is a different matter, but if I am in Panvel, Lower Panvel, Kamote, Kadamboli, Khargar, in Vasai, Virar, Nalasopara, you see I cater to thousands of small children whose parents maybe working in any of the back office jobs in many of the companies from who you represent. So a large number of these families are whom we cater to and we are part of their family chord. It is not that they leave their two year old child and the child us with us for three years just like that, the brand is built over the years because we have supported these families and we have never had a bad debt of even a single parent in our books in that time frame. So we are very clear that the money comes in, it takes some time. Other option of sending the child home, and that we have never done in our lifetime if you see in terms of even price increases, in terms of the various customer interfaces that Tree House has you will find that compared to any other institution, compared to any other player you will find us always being absolutely in favor of the parent. And that is what has made our goodwill so strong. So we will not compromise on our goodwill but we are very-very clear at the same time since we are in the market that we will get the money. So we definitely strive and get this over 30 to 40 days and we have been successful in doing that. I would only add that when you go to smaller cities, you go to Banaras, Gorakhpur, Allahabad, Kanpur, Jabalpur, Ratlam, Gwalior, Jhansi, smaller-smaller cities, what you find over there is that the whole process is a monthly process. While when you go to Delhi, let me add, that while the fee structures will be Rs.60,000 - Rs.70,000, they pay us small amount upfront, Rs.10,000 - Rs.15,000, the rest is the monthly structure. Now in a monthly structure, it is very simple, the child comes to school but the mother or father does not come to school to pay us and you have to keep reminding them and then facing this 30 day, 60 day, 90 day reporting period and so over there one sees this kind of a thing. Now the option in front of us as a management is twosome like I mentioned earlier, either to make the receivable zero and then face a volume drop or to allow this to happen with volume increases, etc., but have a small receivable which eventually comes in 30 days to 45 days.

Vishal Rampuria And second question is on the borrowing side, if I compare it with your March number, March and September, your borrowing amount per say has gone up even though we have got various amount of cash in our books, just to understand why we are not deploying our own cash instead of borrowing?

Rajesh Bhatia So you see that we are very-very clear that yes, before the end of the year we will try and match it up and bring down the size of the balance sheet, we also are expecting monies from asset sales which we continuously are working towards and we have done the first asset sale also and we are in the process where we have announced the second asset sale, obviously we have shown the market that we are moving in a direction where we are focused on doing more asset sale. So definitely we are in the market trying to do further deals because one can significantly or one can easily see the path that we are taking. Having said that, before March we will take a conscious call on what you have said and based on that, but we will take action but as of now we see that some of the deals that have been announced money is going to come in and this is the September position is just a small aberration.

Vishal Rampuria So can we expect that that the debt would be repaid, some part of it at least?

Rajesh Shah Yes, yes definitely, the whole idea is to reduce the debt and bring it down significantly.

Vishal Rampuria One more question on the NCR Delhi market, you spoke a lot about how lucrative is the market, can you give some more color about the competitive pressure in these markets, I think there are lot of branded players in that market if I know it correctly. So if you can give some insight about that as well.

Rajesh Bhatia So as I said there are branded players, but the branded players are all franchise operators and Tree House had no presence and no significant presence in those markets till last year. Having said that, similar thing, if you compare Delhi to Mumbai market like-on-like, if you go back in history 10 years back it was a similar landscape where the competitor branded players had large number of centers compared to Tree House at that point in time. 10 years back in 2005 Tree House had just about five centers in the city of Mumbai compared to other competing companies which had large number of franchisee outlets. Over the last 10 years one has seen and as we grew, like I said we took seven, eight years to ramp it up to 100, I would say that in Delhi we have been able to do it and will do it over the next couple of months and in the first three to four months as you have seen we have already done about 35 centers. Having said that, yes, there are similar competitive players but as a company like Tree House gets in and we are very firm on our commitments, very firm on our quality of content, delivery of content, lager sized centers, larger sides mansions, bigger garden areas with maybe competitors in that area are not able to compete because of that sheer size, all these make a significant dent and I would say disruptiveness in the market in the first phase and obviously these franchisees if they see a volume drop or they see that their margin drops are there, you see definitely the process of consolidation like it happened in Bombay I am very clear will happen in Delhi.

Vishal Rampuria Sir one more question on the financials, so if we look at your operating cost on a quarter-on-quarter basis it has not gone up, even though we have opened so many centers in the last quarter, so why would the cost not go up?

Sanjay Shah Operating cost has gone up.

Vishal Rampuria No, if you look at the breakup which is given in the filing on the exchange, so you have got four headings, one is operating cost, the other employee benefit, then depreciation and amortization and the other expenses. So operating cost has not gone up 13.6 for this quarter and for Q1 also roughly the same number, so why would not the cost go up? I think I assume rental cost is part of this head?

Sanjay Shah If you see my operating cost like in Q1 is around Rs 13.67 crore, now it is Rs 13.65 crores, right?

Vishal Rampuria Yes.

Sanjay Shah Yes, that is which includes more of the rentals, so within that breakup you see rentals have gone up but the operating expenses within that, have been under much control because we have processed overall control on our internal cost and we have made much efficient on the kids and other costs that we incur.

Vishal Rampuria Sir one last question on your K-12, sir as you mentioned on the call that around Rs 22 crores more has been given as a deposit to the K-12 institutions, so can you give more color, what kind of more funding will go to this K-12 or the entire amount typically what you have given that has peaked now?

Sanjay Shah What we have given Rs 162 crores of deposits, now what we see is that we are at the closing stage and Mr. Bhatia said that we have completed the project and we are the process of consolidating and filling up the capacity, there will be some schools which fund certain requirement for the CAPEX because there are some schools where to complete affiliation we need to have a complete lease for 33 years so there is a stamp duty cost and there are certain CAPEX cost where certain of the expansion of the capacity in existing schools are required. So there will be some cost on that, so right now I will not give you that figure but there will be some deposits more will be there.

Moderator Thank you sir. Ladies and Gentlemen, with that we end the Q&A session, I now hand the conference over to the management for closing comments.

Rajesh Bhatia Thank you all for joining us in today's call. We hope that we have been able to answer all the questions and queries. Should you need any additional information please feel free to call us. Thank you all and with you a very Happy Diwali. Thank you.

Sanjay Shah Thank you.

Moderator Thank you very much members of the management team. Ladies and Gentlemen, on behalf of Tree House Education & Accessories Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.