

## NAVNEET EDUCATION Q3 FY22 EARNINGS CONFERENCE CALL

3<sup>rd</sup> FEBRUARY 2022

- **Operator:**
- Ladies and gentlemen, good day, and welcome to Navneet Education Q3 FY22 Earnings Conference Call hosted by Prabhudas Lilladher Pvt. Ltd. As a reminder, all participant lines will be in a listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* and 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Jinesh Joshi from Prabhudas Lilladher. Thank you and over to you sir.
- **Mr. Jinesh Joshi - Prabhudas Lilladher Pvt Ltd.:**
- Thanks Yashika. On behalf of Prabhudas Lilladher, I welcome you all to the Q3 FY22 earnings call of Navneet Education Limited. We have with us the management represented by Mr. Sunil Gala - MD, Mr. Kalpesh Dedhia - CFO, and Mr. Roomy Mistry - Head IR. I would now like to hand over the call to the management for opening remarks and then we can open the floor for Q&A. Thank you and over to you sir.
- **Mr. Sunil Gala - MD, Navneet Education Ltd.:**
- Thank you Jinesh. This is Mr. Gala here. So good morning ladies and gentlemen. I welcome you to Q3 numbers to discuss the Q3 numbers of the company, but before I do that, first let me introduce a gentleman Mr. Sanjeev Shah who is also on the call right now known to the Gala family and Navneet Group for over 20 years and now he has been helping company build various EdTech strategies for the group. A little bit on Sanjeev, after a long stint at Kotak Bank at a very senior level, Sanjeev joined Times of India Group Family Office at the strategy level where he was responsible to launch Bennett University and various EdTech businesses including TimesPro and overall now he has over 10 years of experience in EdTech businesses. He will present post my discussion on the standalone results; he will present all of us various EdTech strategies decided so far by the group and the company that will take in future. I also introduce our new CFO, Mr. Kalpesh Dedhia who has joined us recently. Little bit on Kalpesh, he has 23 years of experience with manufacturing companies and consulting businesses.
- So with this introduction to two new members on this call from Navneet, now let me share and confirm broadly that schools across India and particularly in our Co-states have more or less opened. Central and state government is very important have also realized that keeping schools shut is more harmful

particularly for the student community. The usage of books is not going to go away. Online learning has not been effective or successful, but we agree simultaneously that digital in the schools will stay and grow going forward. With these opening remarks I'm now very confident of a normal year for your company from next year. Of course the improvement has already been witnessed in Q3 of the current year. Keeping normal year in mind, your company has strongly started required activities including building inventory and marketing for the next academic year. So this is the future though I spoke about, so now let me briefly talk about Q3 FY22 and nine months FY22. As you all know that Q3, we had a growth of 85% in revenue and nine months -- for nine months it was approximately 28%. I agree that these numbers are not yet comparable to FY20 as we all know the status of schools opening in the first and second quarter. With this now I will go business with business and briefly tell you what is the status.

- First I'll talk about publishing business -- book publishing business, which is immediately after certain grades opened in both the states, we saw pent up demand for our digest category, workbook category, which contributes more than 45% of publishing revenue, more or less did not happen in the current year. The reason being schools reduced the curriculum and decided to teach core topics only to the students because of very limited period that they had. And the third category, the last minute revision series, popularly all few of you may know it as 21 Question Set, which normally happens in Q3 will probably happen in Q4 once respective government announces the physical public exam. So on publishing what I am saying is that, this year of course we will be much better than the last year, but from next year management is very confident of a normal year now. Similarly on domestic stationery, the demand already came in, in Q3 and as I mentioned about the publishing business, we are very confident again here that business will be as normal as pre-pandemic.
- Now on stationary exports. You may recall that in my earlier calls I had mentioned that exports has come back to normal and more or less it will be normal in the current year itself. Particularly, we are seeing -- for future I am now saying that we are witnessing strong inquiries not only from our existing customers, but also from our new customer -- from new customers. The hopes are quite high that company will be able to grow continuously in exports of stationary and of course as you all know the margins in export stationary is much better than domestic stationary. Overall we are very optimistic on the future growth. I will little bit speak about our subsidiary now. eSense, I will leave it on to Sanjeev who is going to briefly tell us about overall EdTech strategy and the status of the businesses. So first I'll start with our subsidiary Indiannica. I agree that in first three quarters, we saw losses in Indiannica, but as you all know that CBSE publishing or textbook publishing, Q4 is always the best quarter. So with reopening of schools and the feedback received from the market, as well as our marketing teams, we will see normal Q4 of the current year and for the full year FY22, we are hopeful of EBITDA positive in the current year itself and from next year of course then we are going to see growth only.

- Our other investment in K12 Techno; first I should mention here that company is in full growth plan. From present 42 schools, which opened in 2122, it rather operated 21-22, 16 new schools have been already opened up for the next academic year taking total schools to 58 now. Simultaneously, it has started marketing their products and services to other schools as well and the response has been very, very encouraging. It means the company has entered into B2B segment apart from its own 58 school that it will operate, it will also -- it has also entered into B2B segment also and giving their product and services to other schools. With this progress, I'm happy to announce an investment by a new investor in accompanying last quarter at a pre-money valuation of \$300 million. No doubt our holding has reduced marginally due to this new investment. Since it is an aggressive growth plan; both front as far as opening of more and more schools as well as entering B2B segment, profitability of the company will be impacted or is already infected, but the value of company has improved drastically. So this is briefly about Navneet and my subsidiaries except the EdTech. So now with this, this ends my discussion and view on Navneet's standalone and console information. We will be happy to answer all questions on this post discussion or presentation by Sanjeev Shah on EdTech. So now, Sanjeev I request you to take it over please.

- **Mr. Sanjeev Shah - Management, Navneet Education Ltd.:**

- Thank you everybody. The very important background to start this discussion with is, what is the Navneet Group thinking about EdTech and then of course as a very important point regarding the market competition and everything else. Now when this business was being built -- the EdTech business was being built in the last few years, the approach was done like Sunil mentioned with very smart investments in for example K12 Techno, which has turned out to be a great financial investment and a very good learning ground also, but more importantly, I think the family has very clearly reached the conclusion that they need to move from being in the business of content and move publishing to getting into the business of education, which may or may not depend on book publishing and this very important strategic orientation has already happened within the family after which when we sat down to evaluate what we need to do in the digital opportunity. We spent about two months going through all the options that are in the marketplace and we've arrived at a very simple structure internally to focus our efforts across the EdTech world. So what we have now is a very clear SBU strategy. We have a focus on the B2B segment, which is where the school will be a customer; that is the paying customer for us what we are calling SBU 1. Then we have the second SBU, which is focused on the pre K B2C segment and this is an important feature for us because we believe that the pre K opportunity is something which is far more tempting and attractive from a long term perspective compared to the slightly more crowded higher than pre K segment, which is after the age of 8 -- from 8 to 15 and 16. So we've decided to start the B2C journey in the pre K segment.

- The third SBU is staffed with the responsibility of building the tutoring business and also focusing on partnerships. So for that the objective is very clear. We want to use Navneet's immense heritage and network with schools to penetrate the B2B business first and that is critical for us because Navneet has been a respected partner of the school for decades and there is a huge comfort that the school has with the Navneet brand. So we are in the process of putting in place integrated sales team between Navneet Education Limited and Navneet EdTech where Navneet education sales people will work jointly with the EdTech sales team to help the B2B business get registered with schools, which will deliver at the very base level and ERP platform to the school with LMS focus and the content for that LMS will come currently mostly from Navneet's content history and the books that they have been publishing and over a period of time, as the B2B business moves into newer territories, it may also work with non Navneet publishers where the other publisher has a strength, say for example in the SSC curriculum and Navneet doesn't have a presence in that state, the B2B business will partner with publishers and develop an LMS, which is relevant for that state SSC curriculum. So the B2B business is currently focused significantly on LMS and ERP, but the long term plan in SBU 1 is to develop a network of services, which the school anyway spends on and the idea is to offer a number of goods and services to the schools, which may happen through companies where we have invested or it will happen with partners who we believe can serve the results that the school expects. So for example if a school is looking at sports as an important event in the student's life, Navneet has made a strategic investment in SFA and we believe SFA is an excellent company to present to schools as a sports partner. So the school will engage with SFA and the B2B business will be responsible for delivering that SFA experience to the schools from a sales support perspective where the execution will be managed by SFA. Now I'm explaining this with the SFA example because we will have a number of partnerships in the next three to four quarters, which go beyond sports into subjects like test prep, things like English, the entire arts, and hobbies, which are all skills that students in schools need and schools are not equipped to deliver those services on their own. So our SBU 1 will effectively be the supermarket for the school to access these services that is the main focus of SBU 1.
- SBU 2 like I mentioned already will focus on pre K and we are launching our B2C business in that segment in the next three months with a physical plus digital experience for the child. So we are going to launch the business with kids, which will have toys and tools for their child to learn better and we worked closely with psychologists to also make sure that the child is not exposed to only a digital experience. So the second SBU will be the B2C focused SBU and like I said the third SBU is focused on tutoring and developing all the partnerships. Now importantly these three SBUs all need to be consolidated under one legal entity, which will currently be 100% subsidiary of Navneet Education. We are in the process of structuring this entire portfolio with the help of tax and legal experts to arrive at one entity, which will take charge of this EdTech Group. We are also very conscious that this business will need to be funded over the next two to three years. In some cases the funding they need to be aggressive because the

market has already lot of well funded competitors. So we are very careful about now committing more funds from Navneet at this stage. We have in fact already committed and invested close to 200 crores in the existing EdTech portfolio of Navneet, but going forward the intention is in the next three to four quarters, we may access the private markets to fund EdTech business through this consolidated horizontal subsidiary of Navneet. So the idea is to create very strong and robust business plans for the SBU. We are in a way thankful that the market has already delivered a number of learning's both successes and failures. Some companies have become museums and some companies have become trophies and I think there is immense learning for us from both these sets of companies. We are very conscious of the fact that the market in EdTech has been developing very aggressively for the last five to six years and just from a time perspective it may seem that we are entering the market slightly later than most of the senior players in the industry, but given the huge under penetration of technology in education, we believe that this industry will give a growth opportunity to new and serious players for the next 10 to 15 years. It will take a lot more effort and time with a lot of regulatory support for the market to reach a high level of maturity. So we are currently very clear about the focus. We are very conscious of the fact that we are dealing with very young and impressionable minds.

- There is a very strong reason to be careful with the Navneet brand. We don't want to get aggressive just because we can raise money and we can deploy it aggressively. We are consciously looking to build on the Navneet brand, but there is another study, which we are undertaking to see whether we need to rebrand EdTech business slightly differently so that it connects with the younger audiences also. So while the culture from Navneet and the respect that the Navneet brand has is very important. The working culture in the EdTech group will need to be developed independently keeping in mind the new people that we are hiring. So for example we have already moved the Bombay EdTech team into another office in central Bombay. The tech team will be based in Bangalore. As we speak we are working with very senior headhunters to staff the B2B and B2C business with experienced professionals from existing EdTech companies and digital companies who will come on board with their experience because we do not want to underestimate the challenges of execution and we are very conscious of the fact that while the group has a strong pedigree in content and history, it doesn't have the competitive experience in EdTech today, which is important to respect and the only way we can reduce that risk is by hiring extremely seasoned professionals from the relevant experience, which will make this journey more predictable for us. So from our perspective, that is a very important de-risking. We are also very conscious of the compensation that needs to be paid to new people from the digital ecosystem. We've already developed aggressive compensation packages.
- We have an ESOP scheme which is currently under finalization to make sure that we attract and retain the right talent. We are going to create an Advisory Board, which will help us think through the key decisions in the EdTech business from a

long term perspective and we are very conscious also that some of the segments in EdTech are extremely well penetrated and well capitalized and those are segments in which we will not invest cash to build their business, but we will partner with existing players for the B2B vertical. I think from an overall perspective, we are very conscious that this will take us anywhere from 6 to 8 weeks to develop with a certain relevance in the market these are not short journeys. These will be long journeys, but we have the benefit of a very well populated competitive set; like I said there are trophies and there are museums and we are doing our best to learn from both of them. So this is a very long opening remark -- set of remarks from our side. Happy to take questions if there is anything further that you'll want to ask.

- **Operator:**

- Thank you very much sir. Ladies and gentlemen we will now begin with the question-and-answer session. Anyone who wishes to ask a question may press '\*' and '1' on your touchtone telephone. If you wish to remove yourself the question queue, you may press '\*' and '2'. Participants are requested to use handset while asking a question. Anyone who has a question at this time, please press '\*' and 1 star one on your phone. We have a first question from the line of Nagraj Chandrashekar from Laburnum Capital. Please go ahead.

- **Mr. Nagraj Chandrashekar - Laburnum Capital:**

- Hi. Thanks for taking my question. Congratulations on a strong center results in standalone business. Just -- Mr. Shah I just wanted to understand the three SBUs, what sort of segments of students will we be going after specifically, will they be the state board, CBSE model school children, and that is the core advantage we have especially in Maharashtra and Gujarat with Navneet Publication Business, will we be going towards CBSE students, will be going towards a more elite CBSE students, some of those schools have their own element systems in place, some of their own classroom digital investments already done, some of the larger chains at least, so specifically what sort of schools will be we targeting and what sort of span do you foresee here going forward in the next two three years?

- **Mr. Sanjeev Shah - Management, Navneet Education Ltd.:**

- So I'm very clear that we need to take huge advantage of the Navneet network at least for the first four to six quarters. We will use the Navneet access in the school system and the Navneet content strengths which are largely like you mentioned Maharashtra and Gujarat State Board and CBSE. So the intent is to develop the LMS, which is focusing on these states and the CBSE curriculum. Thankfully it is established beyond doubt that branded content is not really likely to be the differentiator in the long run. It is how you treat the content. It is how you embellish the content with digital assets and experiences to make the student get better outcomes. So we are in fact moving very aggressively into building a

system internally to focus on states, which have a good valet opportunity both in SSC and naturally CBSE, but then Navneet may not even have a presence and therefore for us the initial journey will be the Navneet footprint of content and schools, but in the next three to four quarters, we want to start exploring for the next academic year, which are the states where we need to go and work with other publishers, but the intention is very clearly to focus on SSC private and CBSE to begin with.

- **Mr. Nagraj Chandrashekar - Laburnum Capital:**

- And what do you – you mentioned we have already spent 200 crores on private investments thus far I guess including SFA, what will be the standalone balance sheet investment post FY22 into days investments going forward and how much would -- how much would you look to raise within this?

- **Mr. Sanjeev Shah - Management, Navneet Education Ltd.:**

- So the 200 crores, I should explain that. The 200 crores is made up principally of K12 Techno, which is more than half of the KT. The balance is divided between other investments, which there is a company called Genext, which we own 52% -- 51.8%, which is a tutoring business and we have smaller investments in other STEM companies. One is called Tinkerly and the other is called Be-Galileo. So, this is a portfolio of investments. In addition to this, the B2B business has been in existence for some time. It is under the brand name of eSense and that entity has been around in this B2B space focusing on product and market expansion. So the balance is made up of the funding that went into eSense. The SFA investment will be -- some part of the SFA investment is already included in the 200. The balance will happen in the next two quarters in and that will be over and above the 200 crores, which is SFA specifically. The group is very conscious of the fact that these investments need to deliver returns to Navneet and obviously thanks to the stupendous performance of K12 Techno, where we had a strategic investor with a pretty respected -- respectful benchmark valuation. The overall financial returns from this portfolio will be good, but our intent is not to build a portfolio of financial investments.
- Our intent is to actually invest in building the three SBUs and for this we are in the process of finalizing the business plans. We are not in a position to give any guidance today about the amount that we will raise, but we have to be very smart about the dilution and there are structures which will help establish dilution correlated to performance and things like that, which we will obviously discuss very carefully with potential investors in the next three to four quarters. I am confident that we will have a pretty good, solid business plan to present to investors in the next two months, but we thought it is better not to go immediately to investors. We would like to deliver -- at least the proof of concept has to be established with the B2C business. We want to show the B2B tracking with the Navneet sales team. So we want to have a conversation with investors may be closer to the end of this calendar and that's when we will be in a position to

discuss what is the likely dilution in the EdTech group, but the EdTech group will capture the value of everything including K12 Techno, the other investments, eSense, and whatever else we're building. So it'll be one entity, which will have a consolidated value representing all their tech interests of Navneet.

- **Mr. Nagraj Chandrashekar - Laburnum Capital:**

- Understood. Just one last question. You mentioned Indiannica would get back to EBITDA break even this year, just a question on eSense sentence, should schools be -- schools reopening just mean a return to the 20 crores revenue run rate and break even EBITDA and should you be able to see that in FY23?

- **Mr. Sanjeev Shah - Management, Navneet Education Ltd.:**

- So in eSense actually we will have a -- we are clear that the market penetration on the B2B platform will be higher this year because of the huge focus we had on product development. We have -- we're trying to create if I can very loosely call it the octopus model where we want to have 5-6 very important touchpoints with this school, which the school is very happy to engage with and therefore we are trying to create a model where the school naturally will find it difficult to unbundle itself with the comfort that it has from the services that we are providing and that cannot happen only with the LMS, it has to happen as a package with all the other products and services. I am at the same time confident that we will need to invest also in eSense because the platform will need to be robust enough to handle everything for example blackboard in the US is probably a good name to use in this conversation. We are not trying to ape or become the blackboard of India, but the sheer scale and size at which some of these companies have been built are important learning's for us. Now do we want to get into fee management for this school, do we want to get into teacher training for the school, do we want to get into the entire student on-boarding process in the school. A lot of these questions are what we are currently in the process of answering and finalizing for the business plan. So I'm sure we will have more sign on from a school perspective for the B2B business, but I don't -- I can't predict at this point whether we will be EBITDA break even because of the new investments that we need to make.

- **Mr. Nagraj Chandrashekar - Laburnum Capital:**

- Yes, thank you.

- **Operator:**

- Thank you. We have the next question from the line of Abhishek Tandon from Bowhead India. Please go ahead.

- **Mr. Abhishek Tandon – Bowhead India:**



- Hello sir. Thank you for the opportunity. Considering the loss of secondhand books over the last two years and increasing paper prices, is it fair to assume that publication revenue would be let's say 20%-30% higher than FY20?
- **Mr. Sunil Gala - MD, Navneet Education Ltd.:**
- Yeah. So I agree that the usage of second books will definitely reduce going forward particularly in the next year when all the schools have reopened and therefore there will be additional demand for the books and I also agree that the paper prices have increased over last eight months or so and that all will be passed on to the end consumer. So, overall I may not be able to tell you exact numbers. This is little early, premature because let schools really settle, but it will be definitely better than FY20.
- **Mr. Abhishek Tandon – Bowhead India:**
- Okay. Thank you sir. Just one question, so when we look at the presentation, the YTD revenues for Indiannica in the Q3 presentation it comes out to be approximately 7.9 crores, while in Q2 presentation it was 11.19 crores?
- **Mr. Sunil Gala - MD, Navneet Education Ltd.:**
- These revenues mean?
- **Mr. Abhishek Tandon – Bowhead India:**
- The revenue for Indiannica.
- **Mr. Sunil Gala - MD, Navneet Education Ltd.:**
- Yeah. The unfortunate part in this business is that major revenue happens in Q4 and Q1 later on, but thereafter in Q2 and Q3, we have sales return. Because of the higher sales return, the revenue decreased and it is a phenomena every year. So overall in nine months, you will see little the dust reduction in number at the end of nine months versus at the end of six months, but Q4 will make up all this reduction in sales and therefore it will be always better to look at a total year numbers instead of just quarter numbers, but Q3 reduction is majorly or in nine months reduction over six months is majorly because of the sales return.
- **Mr. Abhishek Tandon – Bowhead India:**
- Okay. Have we already seen demand coming for the Indiannica products? Because it is a Q4 phenomenon and we are already up.
- **Mr. Sunil Gala – MD, Navneet Education Ltd.:**
- Yes. And therefore in my opening remarks, I said that my marketing team is very-very confident about getting orders, no doubt. Those schools have recently

reopened, schools are settling down. They have assured us that they do need all these books and of course they will need books. So, in the month of January-February-March we will definitely see that orders are received. We are very confident about it.

- **Mr. Sanjeev Shah – Management, Navneet Education Ltd.:**

- If I may just add a point Abhishek, while the school network is clearly getting activated for touch and feel experience, regulators are also extremely clear that they want kids to go back to school because they are worried about learning outcomes. So there is no doubt that the school system will move faster with opening up. One other important thing that has happened in the experience in the last two years of parents and teachers, I am saying teachers in schools in the same category; teachers, schools, and parents, is they have also found a huge value in the online experience. So, I think it would be a very brave parent who said, 'I don't want any digital exposure on the learning for my child and I will only shift now full to the offline experience'. So every parent wants the child to go to school and to develop a lot more skills than just sitting in front of a screen. But it is, I think that there will be a lot of importance which parents will give to the good experiences they have had in the digital learning that they went through in the last two years. And of course, this is also a function about, are we talking about India, are we talking about urban India, are we talking about rural India, semi-urban India, wallet and all of that. So while the school system is getting activated, I think that online experiences in most cases have also been very encouraging for parents to keep that engagement with the online world. That is the additional point towards Sunil was saying.

- **Mr. Abhishek Tandon – Bowhead India:**

- Thank you so much for that.

- **Operator:**

- A reminder to the participants. If you have a question you may press '\*' and '1' on your phone. The next question is on the line of Umang Shah from Sarath Capital. Please go ahead.

- **Mr. Umang Shah – Sarath Capital:**

- Hi sir, thank you for the opportunity. Sir the first question would be, what percentage of our company's publishing revenues would be coming from vernacular school?

- **Mr. Sunil Gala – MD, Navneet Education Ltd.:**

- It will be from next year I am saying, though in the current year more was from English medium because English medium schools very little active more. But

going forward in a normal year, 60% will come from vernacular and balance will be from English medium.

- **Mr. Umang Shah – Sarath Capital:**

- Right sir. Thank you for this. The reason for also asking this question is, these schools tend to have students that come from financial backgrounds that has not had access to digital education to a large extent. So when we are looking at expanding on business in ed-tech do you think... like what percentage of our schools would be able to even afford the solution that we plan to sell them?

- **Mr. Sunil Gala – MD, Navneet Education Ltd.:**

- I know, I fully agree with your point and we are conscious about it. So our first all products, major of our products will be in English only, focusing as Sanjeev said SSE and CBCE schools. The subsequent penetration will be in vernacular once we understand that parents are ready to invest in this, that time only we will bring in, no doubt. But with whatever English products that we come out with, part of it we will try and bring that into vernacular also. So whichever schools can afford simultaneously, they can go for it. But we are not going to focus very heavy on vernacular right now.

- **Mr. Sanjeev Shah – Management, Navneet Education Ltd.:**

- Umang, just to add to what Sunil said, and I have also the benefit of having worked in a very large media group which is I think a very close surrogate to the education industry. The Wallet in the non-English world, actually is astounding. The sheer ability for a parent to spend money on discretionary items, which are triggered by smart communication, marketing and advertising have already been established. I mean, every single product in India is significantly marketed into Bharat as compared to India and I am just saying Bharat and India to explain English and non-English. I also believe that a lot of the digital experiences are not restricted to English. The adoption of internet and the time spent on internet across non-English speaking geographies is actually phenomenal. So it is a function of really what we can prioritize, like Sunil said. We don't want to be drop hand grenade everywhere and then hope that something works out. We want to really focus and establish our ability to deliver outcomes. So we just don't want to get things done. We have to make sure what we are doing is worth it and the experience of the customer is good enough for us to then think a bit more confidently for the next year, for beyond English. But a lot of that thinking will have to start soon. It can't happen...we may launch Hindi in the next academic year, but the thinking of that will have to start before December this year. So, there is a lot of product-tech content integration, which is reasonably different from English. So while the market access will be based on our execution in English, we need to start thinking and investing in skills. Like for us the important thing is to hire a Hindi team that thinks in Hindi, not thinks in Hindi and speaks in English. We want somebody who can understand the consumer better than the

English speaking colleagues that we have. So we are actually being very careful. We are not going after those segments today. But I think the Wallet and the respect which the consumer is engaging today with brands is actually established way beyond doubt with the media, by the media industry.

- **Mr. Umang Shah – Sarath Capital:**

- Thank you for this insight sir. Sir, second question will be, it is a very good capital allocation point of view, our investment in K12 techno over the years, it has panned out really well. Sir what was the rationale of investing Rs. 75 crores for a 14% stake in sports management company? Do we see the same kind of launch in your growth that K12 has seen?

- **Mr. Sanjeev Shah – Management, Navneet Education Ltd.:**

- So, I think the important thing is first to understand the sports industry and the sports management business. So, I think across the country from every single state government, not every single, but let's say at least 15 state governments and the centre, both are extremely focused on pushing sports as an agenda for the development of the child. I don't think the focus is on winning more Olympic Gold medals alone and obviously Neeraj Chopras of the world are extremely encouraging for people to say, 'yes, we can do it' and I think there is a clear... starting from Abhinav Bhindra till now the amount of focus that has come with very-very important CSR initiatives to build the sporting industry is actually very notable. So we think the push from the state/central government is actually going to get bigger. The current budgetary allocations for sports this year also have only proved the point.
- The school system is also now picking a leaf out of this and realizing that the motivations for the school is to one is, the actual development of the child. Physical activity beyond doubt establishes that a child's holistic development is far better than just becoming very intelligent in STEM, for example. The physical exposure is a big thing for schools. They want the child to become a better learner, they want the child to become a better human being, and this is done with the noble intention of making the child get an overall exposure. So schools are actually very keenly investing in sports exposure for their children. They want children to take part in table tennis tournaments, they want them to take part in football tournaments. Every school doesn't have the infrastructure so, there are networks... there are companies already set up, which are doing infrastructure sharing. There are B2C apps available for people who want to play badminton game in South Bombay or in North Bombay, you can actually look for the badminton court and you will be allotted one hour on a badminton court just because you subscribed to an app. So, sports and sports infrastructure and sports management is actually becoming a huge movement across the country. It has a lot to do obviously with physical fitness also, but it has fundamentally a big ability to improve the holistic development of the child.

- The second motivation for some schools maybe this year commerce associated with this; which means if you have a sports event, you have the ability of obviously giving the child and the parent a good experience. But at the same time, it has the ability to attract either sponsors, advertising brochures or even just participation fees, and that is the smaller motivation for lots of schools. So, the macro on sports and fitness is very-very clearly, it is not a cyclical phenomenon. It is a structural phenomenon. Most youth brands have also realized the advantage of having sports as a communication medium to improve sales. So, for us sports is a very important category to focus on with schools. Now, there were two ways we could have done this. One is we actually found a team that could do sports management and like we are building the Leapbridge business which is a B2C business, we sit and build a sports business. We actually developed that thinking with specialists and hire a team, and empower them, incentivize them, and they develop the sports business for us. But when we met SFA, we obviously spent, I think, a good maybe 2 to 3 months before we actually took the decision of making the investment. But we spent a lot of time understanding them and their preparedness to catch this macro theme on sports. We were convinced about the macro theme. None of that came just because we met SFA. I mean, anybody who is active in studying the education business will know that the ecosystem around education and schools definitely includes things like sports management. So for us SFA seem to have everything that you would want in a bunch of team members who understand sports, have the humility and the operational orientation to build out events and IP who are now continuously getting validated with approvals from state and central governments. And for us, therefore the intent was to build a long-term relationship with SFA, which we felt would have been better done with a financial investment as well.
- Now the financial investment is a function of obviously what is the dynamic market from a valuation perspective, what is the competitive element out there and therefore there is a very important path to this journey, which is evaluating the numbers, the company's ability to deliver it, and obviously then from a future perspective, what will be the value of this financial stake in addition to the strategic benefits that will arise from this association. So at this point of time, we have not yet integrated SFA into our network with the B2B school system. We are in the process of establishing those channels between the two organizations. We want to train our B2B sales guys to talk about sports. We are not going to manage events, we are not going to execute the sports business, SFA will do that. But we are very clear that this sports opportunity for the school is too big, and we definitely want to be the preferred partner for the school when they think of anything in sports. So which is why we went and made the investment with SFA. We do have the customary rights on looking after the investment, we do have a Board seat, we have full access to management and team, they will be meeting us regularly with updates, they are involving us in all their strategic thinking. So at this point of time, we are extremely bullish about sports and SFA is going to be the tool for us to be relevant with the schools for that budget or the spend that the school wants to incur to make the child a better human being.

- **Mr. Sunil Gala – MD, Navneet Education Ltd.:**
- Umang, added to what Sanjeev said. If you see NEP, NEP 2020 sports as a subject now has been made compulsory. So we know that each and every school will have to properly organize sports or teach sports, and therefore, in our bouquet if we fill this activity and offer to the school, we will have a great advantage. And finally be it schools or anywhere else in the country I think the end customer or end beneficiaries are the students, and if Navneet is associated with that community indirectly, I think it will help Navneet much better.
- **Mr. Umang Shah – Sarath Capital:**
- Correct sir. Very useful. Thank you so much.
- **Operator:**
- Thank you. The next question is from the line of Aditya Sen from Robo Capital. Please go ahead.
- **Mr. Aditya Sen – Robo Capital:**
- Good morning, sir. For the ed-tech part I would like to reconfirm one thing that is it restricted to Maharashtra and Gujarat states only in the initial stage?
- **Mr. Sanjeev Shah – Management, Navneet Education Ltd.:**
- No, it is not restricted only to Maharashtra and Gujarat. We will have Maharashtra, Gujarat and the CBSE curriculum, which will be taken to CBSE schools in the larger cities of India. So Maharashtra-Gujarat is clearly a strength for Navneet and we are already working with the Navneet team to establish the B2B business footprint. As we speak, we are actually collecting information about all the access that the Navneet group has to schools across the country. So, one of the other big things which we are building is a data culture in the ed-tech group. We are in the process of actually finalizing a very senior data engineer who will come on board and help build the data stacks to actually see where Navneet has been in a good relationship with the school for a number of years, and if they are not from Maharashtra and Gujarat it doesn't matter to us because in any case, the product is delivered online, the B2B experience is online. So, we are creating a sales team which will overlap with Navneet's strengths at least for the first 3 to 4 quarters. But like I said, by the end of this calendar year, we will have a slightly more aggressive orientation on the B2B business which goes beyond the Navneet's footprint. But it is very important for us to test the... make sure that our product and platform are working well, customer is happy, our entire internal system is on customer support, customer handling, solving queries, solving problems; all that is done in a very seamless and confident way, and we need to get all this done before we start thinking of non-Navneet footprint. But to begin with it will be the Navneet footprint, which includes CBSE.

- **Mr. Sunil Gala – MD, Navneet Education Ltd.:**
- Aditya, I may add here that the first product that the, first product of course product eSense was already in the business, but the new product that we have just introduced, which includes assessment and LMS with content and that is focused towards CBSE, and that we have already started marketing. So it is apart from Maharashtra-Gujarat the CBSE marketing has already started by Navneet. So it will be not only two states.
- **Mr. Aditya Sen – Robo Capital:**
- Okay, that's good. I was asking this because there are many competitors who are already into this LMS thing, both listed and unlisted and they are expanding really fast, like we also have western the publisher, that is also expanding really fast.
- **Mr. Sunil Gala – MD, Navneet Education Ltd.:**
- Yeah we are aware of this fact. Finally, how we deliver the content and how it is useful to the schools will finally be the winners. So having understanding of the whole curriculum and the way it is taught in the school, that benefit Navneet has and therefore we are more confident that whatever product we will come out with will be accepted well in the market.
- **Mr. Sanjeev Shah – Management, Navneet Education Ltd.:**
- Aditya, I just want to double-click on this point regarding competition. So, there is a... it is a simple thesis that at least we have followed that competition helps the market understand the benefit of using a platform. So if there are three players out there, all are aggressively going after the same customer, obviously the better player will get the customer and may even retain from a renewal perspective. The advantage of having a slightly more, how can I say, I mean there is a difference between aggressive and rational, but having a competitive marketplace is good because your customer does not need to be re-educated. He is already familiar with the product, and obviously we have to make sure that we differentiate both from a product perspective and even from a conduct perspective. So for us, it is useful that there is a market which is familiar with B2B, is familiar with B2C and this is not going to change. Every publisher in India who thinks like Navneet will have to also execute like Navneet and for us it is... already most of our large school publishers have already created some sort of LMS. There are LMS ERP businesses available where you can give your textbook and you will get back a PDF or you will get back a slightly modifying LMS.
- So all this is happening, bundling of physical books with the digital version is already happening across the publishing business. But I think the differentiator will be how you use technology, how can we use VR, how we can use games, how we can create an involvement of the child in addition to the physical linked experience that he has. Because, Pythagoras theorem has been the same for the last, I don't know, 100 or 200 years, whenever it was announced. How you teach

it can differentiate and that is what I think is going to be the game. There is no market segment which will not have competition. I mean, there is no way we can hope for a thinly... then the segment is probably not worth it, right, if there is no competitor. Then obviously that is a segment that even we will be very careful, if they were only one or two players. So, competition is in our opinion, it is a good thing because it has a lot more upside than downside that is how we look at competition.

- **Mr. Aditya Sen – Robo Capital:**

- Okay. And with such expansion plans at our hand, what levels of revenue and margins can we expect going forward? Because you are expanding too much in this ed-tech park, so I would like to know those figures or any forecast on the same.

- **Mr. Sunil Gala – MD, Navneet Education Ltd.:**

- Yeah so, Aditya no doubt it is a new activity or a new segment that everyone is trying to enter, including Navneet and we do realize now in my opening remarks, I did mention that online is not that successful with the reason that 95% of the student population do not have access to any online education. And frankly, whoever tried learning online or teaching online platform are not that very happy. But digital in the school will get used more and more and here therefore Navneet has to go after digital investment and digital business. Now, little early for us to comment on revenue numbers and margins. But overall since the education system will require the digital products and services, Navneet should be there by that way and we are also conscious of the fact that it will be used with the books only. It cannot be used independently, none of the things can be used independently. So in couple of quarters, we will have more clarity on this, but it is very important that Navneet focuses on digital.

- **Mr. Aditya Sen – Robo Capital:**

- Okay sir got it. Thanks a lot.

- **Operator:**

- Thank you. The next question is in the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

- **Mr. Jinesh Joshi – Prabhudas Lilladher Pvt Ltd.:**

- Yeah. I have a question for Sanjeev surrounding the ed-tech strategy. So if I look at SFA we are a minority partner. We have bought a 14% stake for Rs. 75 crores, which implicitly values SFA at about Rs. 500 plus crores. The quantum of investment is huge and we are a minority partner over here. Even if I take the example of a K-12 while the preliminary evaluation is about 300 million with the investment of a new partner coming in, over there too our stake is not very high.



So given this buzz around ed-tech, do you think that in future, whatever investments we will make, we will try to be a majority partner so that the entire valuation upside is captured over here? Because see, being minority exit becomes difficult I mean, say if we have to look out for an exit, it might be difficult and that can be the case with K-12. So I just want to know what are our thoughts on our future ed-tech investments and how do we plan to take it forward?

- **Mr. Sanjeev Shah – Management, Navneet Education Ltd.:**
- So, I think it is important to understand that we are not going to build a portfolio of investments in ed-tech to support our ed-tech intent. We will be extremely selective on investments like I am just using Test Prep as an example for the B2B business, that is SBU-1 what we are calling SBU-1, which is where the school is the customer. It is proved beyond doubt that in the 8<sup>th</sup>, 9<sup>th</sup>, 10<sup>th</sup> there is a certain focus for careers, which is becoming more and more important for parents and therefore for schools. So the demand is clearly there. Now for us, it is important to think through Test Prep as a billed or partner option. Now, we are very clear that for Test Prep, we will not build the business, we will not invest. We will partner with a Test Prep company with whom we can talk to a school about offering test prep services. So our intent is not to create a portfolio of investments with or without minority or significant stakes. The intent is to really develop a portfolio of goods and services and I am saying goods because I think there is also an e-commerce opportunity in the whole school universe, which is not tapped yet. But I think for the better of time, there is an opportunity to if, not if, but when we get to a significant size in terms of number of students, there is also a potential e-commerce opportunity to be developed for the business, which we don't have on our radar for the first 4 to 6 quarters at least. But that is why I am saying goods and services.
- We will not be in an investment zone for companies. We are very-very selective and opportunistic. I mean, while SFA has been done, we have a team of very good analysts that we have hired across the group where we are tracking all the deals that are coming to us even before SFA. In fact, after the K-12 techno investment was made and with Tinkerly and Be-Galileo on an average, every 10 days to 2 weeks, we are being called in to study one potential investment opportunity. So we have a tracker where I think currently there are, I think if I am not mistaken, 30 or 35 deals which we have been referred to. Among the 30-35 maybe we have studied 5 or 6 with a lot of details. The balance 30 I think we have politely declined to participate in the discussions. We haven't signed NDAs also, we don't even engage with the advisors because those segments are not relevant for us or the companies are not looking good enough for us. So we are not going about this business from an investment orientation. We really want to build the business carefully and use both Navneet's capital and then investors' capital. I mean, tomorrow when you have a private equity investor, it is the same equity return orientation that we will have. Even if Navneet has invested Rs. 200

crores today, we have to be accountable to Navneet on what we do with that money and how the value of the ed-tech business grows.

- So investments is not a strategy. I just wanted to clarify this because, the fact that we have made 3-4 investments, it is correct for people to presume that, okay, we will be making more investments. But that is not a strategy. It is going to be extremely selective, we are less likely to make more investments. We are likely to partner and do nice sound partnerships with people who can service our school customers.
- **Mr. Sunil Gala – MD, Navneet Education Ltd.:**
- So Jinesh just one or two more clarity here, that SFA has raised 13 million. So, 3 million has been invested by some other investors and therefore the valuation will of course change. And to specific to your answer, as Sanjeev said more association we believe could be had if we are together partnered with them. And mind well that for SFA, we have complete rights to offer sports management across all schools in India. So that right that we have that also will have tremendous value for Navneet to really go very-very fast and promote this. Finally, we are not going to own the company, that we are very sure about it, the areas where we do not have domain expertise. So we are not going to own the companies.
- **Mr. Sanjeev Shah – Management, Navneet Education Ltd.:**
- Jinesh, sorry. If I may add one more point to what Sunil just said. It is also not necessary for us to retain our stakes in these companies. So, if and when SFA goes for its next funding round, we will take a very simple look at the funding of that investment opportunity and then weigh that in favour of what we are building. Like if, for example, the Leapbridge business, which is our own B2C business, where we own the Leapbridge brand, it is an IP that we believe in strongly. The pre-K segment is very-very important for us. We might actually, at that point of time, take a decision that diluting our stake in an investee company in favour of the other investors is probably alright if we are able to deploy capital in favour of better return expectant assets like Leapbridge. So, because we are invested and we will own 14% does not mean that while we have pre-emptive rights and all that, it is not necessary that we will retain our stakes in these companies. We don't know at this point, but the intent would obviously be to deploy capital towards the assets where there is more predictability and more control over the outcomes.
- **Mr. Jinesh Joshi – Prabhudas Lilladher Pvt Ltd.:**
- Sure. And in future, do we have any plans for fund raise, especially for ed-tech?
- **Mr. Sanjeev Shah – Management, Navneet Education Ltd.:**
- Yes, very clearly the business will need capital. There is no doubt about the funding requirements of the business and given that Navneet has already

invested Rs. 200 crores plus a little more of SFA which needs to be put in the next two quarters, we will definitely need to capitalize the ed-tech business. So, which is why we said that we will develop a very articulate business plan for each of the SBUs in the next month or two. We are looking at taking this entire consolidated funding requirement of ed-tech to the Navneet Board in the next 2-3 months. We want to have a discussion with the Navneet Board about what we want to do, the Navneet Board has been anyway continuously updated every quarter by Sunil and me and that the process that we have started in any case, we suspect we will need to do a fundraise by this calendar end, it will need to get done. And mind you, there is another potential, I am not suggesting that we are going to do it, but there is a potential encashment of some of your investments also. So for example, K-12 techno today is a \$300 million valued company. Now we have to obviously be respectful and smart about all our decisions. But there is a potential treasury opportunity in creating that cash flow also for the ed-tech business. So, we have a lot of options on the fundraise, on the funding rather, not the fundraise. But we are very conscious that Navneet, we don't want to put the pressure on the Navneet balance sheet beyond the point in time. We want to be very respectful of the youth support that Navneet has given till now, and the sale and the content access that we have today in ed-tech is coming principally because of Navneet. We would have had to think very differently if this was not a Navneet group company, but our journey in ed-tech is getting slightly easier because of these two huge advantages that we have, slightly easier. It is not going to make us feel overconfident about what we are doing, but it will just get slightly easier because of the Navneet strength. So we don't want to put more pressure on Navneet as far as the funding is concerned.

- **Mr. Jinesh Joshi – Prabhudas Lilladher Pvt Ltd.:**

- Sure. Thank you so much.

- **Operator:**

- Thank you. Ladies and gentlemen due to time constraint, that was the last question. I would now like to hand the conference over to the management for their closing comments.

- **Mr. Sunil Gala – MD, Navneet Education Ltd.:**

- Yeah. So I thank everyone who have attended this conference call. I specially thank Jinesh Joshi of Prabhudas Lilladher to have arranged this call. If anyone of you has any questions later, you can connect to Roomy and we will try and answer each of your queries. Thank you.

- **Mr. Sanjeev Shah – Management, Navneet Education Ltd.:**

- Thank you everybody.

- **Mr. Roomy Mistry – Head IR, Navneet Education Ltd.:**

- Thank you everyone.
- **Operator:**
- Thank you very much members of the management. Ladies and gentlemen, on behalf of Prabhudas Lilladher Private Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

**End of Transcript**