



“ZEE Learn Limited Q3 FY-11 Earnings Conference Call”

January 27, 2011

**MODERATORS: MR. SUBHASH CHANDRA – CHAIRMAN, ESSEL GROUP
MR. SUMEET MEHTA – CEO, ZEE LEARN LTD.
MR. VINEET JAIN – CFO, ZEE LEARN LTD.
MS. MEGHA SINGH – ZEE LEARN LTD.**

Moderator

Ladies and gentlemen. Good afternoon. This is Rochelle, the Chorus Call Conference Operator. Welcome to the Zee Learn Ltd. Q3 FY 2011 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Megha Singh of Zee Learn Limited, thank you and over to you madam.

Megha Singh

uoy knahT Rochelle. Ladies and gentlemen, thank you for joining us today. This conference call has been organized to update our investors on the Company as performance in the third quarter of Fiscal 2011. We do hope that you have had a chance to go through the earnings release and the results, both of which have been uploaded on our corporate website www.zeelearn.com. To discuss the results and performance, joining me today are Mr. Subhash Chandra – Chairman, Essel Group, Mr. Sumeet Mehta – Chief Executive Officer of Zee Learn Limited and Mr. Vineet Jain – CFO.

We will start with the brief statement from Mr. Chandra on his views about the education sector and his vision for the Company, followed by a brief statement from Mr. Sumeet Mehta on the Company background and 3rd Quarter performance. We will then open the discussion for questions and answers. I would like to remind everyone that anything we say during this call that refers to our outlook for the future is a forward-looking statement and must be taken in the context of the risk that we face. We would also like to add that this call is purely for analysts and investors and if there are any media companies on the call we request them to please disconnect. I now request Mr. Chandra to address the audience.

Subhash Chandra

Thank you Megha and good afternoon friends. As some of you may know that education has always been close to my heart and I believe that it is

fundamental to unlock human capital and potential and shaping future generation. We began our journey where the child begins - in our first preschool a few years back under the Kidzee brand. We then grew with the child into K-12 segment schools with the pedagogy designed to bring out their innate potential. Today Zee Learn has embarked on a journey to enable one million children to become well rounded individuals. With India requiring large number of schools and colleges to meet the demands of its young population, the role of private sector is becoming increasingly important. The current revolution in the education sector will have to evolve with the changing environment in this sector. I believe that this sector will soon see its full blown potential and we are committed to be the leading player in this sector. Now I hand over to Sumeet to take you through the details of the Company and 3rd Quarter performance. Thank you.

Sumeet Mehta

Thank you Subhash ji and good afternoon to everyone present in the call. Let me begin by giving you an overview of the Company. Zee Learn Limited is primarily a brick and mortar focused preschool to K-12 Company that has so far grown through the franchising route. Our preschool chain Kidzee is the market leading preschool chain in the country and our school chain of Mount Litera Zee School is a fast growing presence in the K-12 segment. We also have our presence in the youth vocational segment within animation training business under the brand Zee Institute of Creative Art offering degree, diploma and certificate courses in animation and special-effects. And the second one being Zee Institute of Media Arts that runs short-term courses in direction, editing, sound and other production related courses.

With that quick overview of the Company let me take you through the Quarterly results. In the Quarter ended December 31, Zee Learn Limited's revenue stood at 98.3 million with an EBITDA of 3.97 million. For the year till date, the Company revenue stands at 297.2 million with an EBITDA of 22.7 million. In the third quarter, we added 71 Kidzees into our preschool Franchisee chain and 10 Mount Litera Zee Schools taking the total number of Kidzees signed during the year to 151 and total number of Mount Litera Zee Schools signed during the year to 24. During the Quarter, we added

5098 students into the Kidzee preschool chain taking the total number of students for the year to over 40,000.

The other important development was that during the Quarter we tied up with Gakken Education Limited, a leading education company in Japan, for bringing their Science Experiment classes to India. This project is in pilot stage at the moment. The Company is also developing other school solution products that enhance the learning of science, maths and languages in schools.

With that, I would also like to share that the board of directors, in its meeting held today, approved the scheme of amalgamation of Essel Entertainment Media Limited with Zee Learn Limited under the provisions of section 391 to 394 of the Companies Act, 1956. Let me share some perspective on this transaction. The Company intends to create a few centers of excellence including one at Bandra-Kurla Complex and about 10 Company owned Company managed schools across India. This is important to create a sustainable K-12 business and to build institutions that can guide the Franchise ecosystem. This will also strengthen the Mount Litera Brand and establish it as a leading thought leader in K-12 education.

Just for your information, Essel Entertainment Media Limited through its 100% subsidiary, Digital Ventures Pvt. Limited, which is DVPL, is in process of constructing about 5 lakh Sq Ft of space at BKC. The Company has during the last financial year entered into an arrangement with DVPL for 95,000 Sq Ft of the above area for an ICSE-IB School. The Company, at that point, had contemplated to take up additional area. However, due to the pending the restructuring, that is a demerger from Zee Entertainment Enterprise Limited, the process could not be effected.

With completion of the process of restructuring, the Company intends to get access to this additional 4,03,324 Sq Ft area at BKC through a process of merger of Essel Entertainment Media Limited with itself. Post this scheme, DVPL will become a 100% subsidiary of the Company. The said area is

proposed to be utilized for the education projects for Zee Learn Limited such as K-12 school, a preschool, Zee Institute of Media Arts, Zee Institute of Creative Art, a business school and a vocational training program.

In closing, I would like to reiterate that the Company is focused on the preschool and K-12 space and will continue to build on its existing expertise in managing Franchisee preschools and schools. In addition it will drive school solutions and add Company owned, Company managed schools to its business portfolio to fuel its future growth. With this, I thank you again for joining us and would now like to open the floor for question-and-answer session.

- Megha Singh** Thank you Sumeet. Ladies and gentlemen we are ready for questions now.
- Moderator** Thank you. Ladies and gentlemen, to ask a question at this time please enter * followed by 1 on your touchtone telephone. The first question is from the line of Sunil Tirumalai of Credit Suisse. Please go ahead.
- Sunil Tirumalai** I just have a couple of questions; I am trying to understand your business model. Sir, if I look at your preschool business, how does the revenue model work; what are your price points; how much the Zee Franchises make; If you could just give some idea on that and the margins etc.
- Sumeet Mehta** Hi Sunil, difficult to answer this question because our price points vary across tiers, depending upon the city and the region that you're talking about. It will be hard to give you an average number.
- Sunil Tirumalai** And would that apply for your Franchisee and the sharing arrangements with your Franchise as well?
- Sumeet Mehta** Yeah. See the approach that we follow is that we work backward from Franchisee ROI but because the rentals and the fee structure in different cities and different tiers are very different, the Franchise fee and the revenue from the Franchisee vary across regions.

Sunil Tirumalai And given your portfolio of your preschools, could you give an idea to roughly estimate the metros or Tier I cities, Tier II cities etc?

Sumeet Mehta Yes, I would be able to give you a break-up in terms with the different zones. Just to give you an overall perspective, about 30% to 35% of our Kidzees are in the metros or the top 8 cities and the rest of them are in the rest of the country. As far as the zonal break-up is concerned, we have total 700 preschools signed up and out of these 700 preschools most are in north and east. I think about 400 would be in north and east and the remaining 300 would be split in west and south. There is no real concentration in any particular zone, north and east are slightly ahead of west and south but most of the preschools are fairly equal distributed.

Sunil Tirumalai Okay. Could you just repeat the cities' number that you mentioned earlier? I have missed that.

Sumeet Mehta Around 35% to 40% are in the top 8 cities.

Sunil Tirumalai And just my last question on your education tie up with Gakken Education from Japan. If you could just give an idea as to what kind of products or services you are looking at and what are the target markets that you are looking at over here?

Sumeet Mehta Sure. Gakken Education is a market-leading player in Japan and they have a project called Science Experiments classes which they take to schools wherein they cover the important concepts of science through the principle of learning by doing. So we are bringing those experiments classes to India and we will be providing them to existing schools as a school solution product and the idea is to implement it in existing schools and be able to charge a per student, per month kind of a fee from those schools where we implement these experiment classes. So currently, these experiments classes are focused on science and like I mentioned in the future we are looking at also executing classes regarding maths and languages.

- Sunil Tirumalai** And how would this product be delivered, is it a computer based product or is it a book product or is it an actual laboratory?
- Sumeet Mehta** It is an actual laboratory apparatus. So we set up a lab in a school and then we enter into a fixed term agreement with the school so that our initial investment in the laboratory then recovers over a period of time.
- Sunil Tirumalai** Okay, sure sir. Thank you, that is useful. I will come back later on for further questions.
- Sumeet Mehta** Sure thank you.
- Moderator** Thank you Mr. Tirumalai. We have a follow up question from line of Sunil Tirumalai from Credit Suisse. Please go ahead.
- Sunil Tirumalai** Sir, just on the preschool business. I think your business is already at a reasonable scale. I am just trying to see what are the challenges you will face when you become a 1500 Franchise or 2000 Franchise, in terms of maintaining quality across all these schools. What are you doing to keep yourself geared towards that?
- Sumeet Mehta** Sunil, as I have explained, I think that's on top of mind because as we scale up we maintain our level of quality but let me address your issue about scaling up. I think the first thing which is in mind is that the preschool market is still very under penetrated in the country. The penetration levels are still at about 18% to 20%. So the preschool market has not even completely scratched its surface in terms of numbers of pre schools. So while 700 preschools looks like a large number, we believe that it can easily grow multifold over the next 3 to 4 years. That is one. Second is the big quality leap that happens when you grow from a regional player to a national player. We kind of overcame that threshold point a couple of years back. Now the issue is to continue what we have been doing over the last two years in maintaining quality, which basically refers to very strict compliance in the centre through a centre point mechanism; teachers' quality which is maintained by ensuring that there is a minimum standard of

people who are recruited for Kidzee and then their training is taken care of by us. Then there are regular school visits too, where we observe the classes and give back feedback to teachers to ensure they are delivering the curriculum as we have designed. So those are 2 or 3 things which we do consistently to ensure the delivery in the school is as per the design envisaged by us at the HO.

Sunil Tirumalai Okay that is interesting. Since we don't have too much of knowledge of your history, recent financials that we have got, can you just throw some light as to what your growth rates have been? How many schools you had a year ago or couple of years ago and so on?

Sumeet Mehta This year we have added about 151 Kidzee in the first 9 months, last year we did about 85 and the year before that we had done around 150 plus Kidzees. Last year saw a bit of an aberration because we went through a transition phase but on an average we would be continuing this straight, even attributing this it in the future.

Sunil Tirumalai Okay sure thank you very much sir.

Moderator Thank you Mr. Tirumalai.

Megha Singh Ladies and gentlemen thank you again for joining us today. We hope to have a transcript of the call on our website www.zeelearn.com soon. We look forward to speak to you again at the end of the fourth Quarter of Fiscal 2011 or even earlier on a one to one basis. Thank you and have a great day.