Veranda
Veranda Learning Solutions Limited

26th February 2024

To **The Secretary** **BSE Limited** **Phiroze Jeejeebhoy Towers,** **Dalal Street,** **Mumbai - 400 001** **Scrip Code: 543514**	**To** **The Manager,** **Listing Department,** **National Stock Exchange of India Limited** **Exchange Plaza, C-1, G Block, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051** **Scrip Code: VERANDA**

Sub: **Transcript of the Audio Recording of Q3 & 9M FY24 Earnings Conference Call**

Ref: **Disclosure under Clause 15(b) of Para A, Part A of Schedule III, read with Regulation 30 of SEBI (LODR) Regulations, 2015**

Dear Sir/Madam,

In continuation of our letter dated 22nd February 2024, providing you the weblink of the Audio Recording of Q3 & 9M FY24 Earnings Conference Call held on 22nd February 2024, organized by the Company, we attach the transcript of the conference call and the same is also made available at –

https://www.verandalearning.com/web/index.php/stock-exchange-intimations

Kindly take the same on your record.

Thanking you,
Yours faithfully,
For Veranda Learning Solutions Limited

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Veranda Learning Solutions Limited

Q3 & 9M FY '24 Earnings Conference Call"

February 22, 2024

MANAGEMENT: **MR. KALPATHI S. SURESH – EXECUTIVE DIRECTOR AND CHAIRMAN**

MS. SARADHA GOVINDARAJAN – CHIEF FINANCIAL OFFICER

MODERATOR: **MS. MAHALAKSHMI VENKATACHALAM – EY INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to the Veranda Learning Solutions Limited Earnings 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Ms. Mahalakshmi Venkatachalam from EY Investor Relations. Thank you and over to you ma'am.

Mahalakshmi V: Yes, thank you Sagar and good evening, everyone for joining us on the call. Before we proceed to the call, let me remind you that today's discussion may contain forward-looking statements that may involve known and unknown risks, uncertainties, and other factors. It must be viewed in conjunction with the business risk that could cause further future results, performance, or argument to differ significantly from what is expressed and implied by such forward-looking statements.

Please note that the results and presentations are available on the exchanges and on company's websites. Should you need any assistance to receive that, you can write to us, and we'll be happy to send them a call. Today on the call, we have the Senior Management of Veranda Learning Solutions Limited which is represented by Mr. Kalpathi S. Suresh, Executive Director and Chairman and Ms. Saradha Govindarajan, Chief Financial Officer. We begin with the business performance followed by Q&A. Now I would like to hand over the call to Mr. Kalpathi S. Suresh for his opening remarks. Over to you sir.

Kalpathi Suresh: Thank you Mahalakshmi. Thank you to all the investors who have taken time to be on this call today. Good evening, everyone.

This call essentially is to first bring you up to speed on what is the thesis and philosophy of Veranda. Fast forwarding over the last couple of years of performance into the Q3 results that we recently announced and the aggregated nine months performance for the current running year FY24. Since this is our maiden call, I'd like to take you through our overall strategy followed by operational financial highlights for the quarter and the nine months into December 2023, post which we will open the floor for Q&A.

Veranda Learning Solutions, since its listing, has emerged as one of India's fast group standing and growing educational enterprises. Our core mission is to deliver top-tier education to a diverse array of learners through a variety of channels, online, offline, and many blended formats in between. Through strategic collaborations, timely acquisitions of fairly strong and reputed brands, we have successfully broadened the reach of our education services to many students nationwide.

With the industry expertise and technical knowledge of our team, coupled I think with the seamless integration of relevant technology, Veranda is now well positioned to achieve our goals of providing education that's just not high in quality but also affordable to what we call as a real India. At Veranda, we offer a comprehensive ecosystem which is designed to support individuals with both formal and vocational education, from preschool to K-12 schooling to graduation, post-graduation, test prep, employability training, and all upskilling initiatives. We want and we maintain a robust presence across all segments of the education sector.

What this allows Veranda to do is to be a learning partner of choice for students continuing education and also to ensure that we extend and enhance the lifetime value of a learner to Veranda itself. Veranda learning is backed by a strong leadership with in-depth experience, not just experience in building business organically but also inorganically by identifying, acquiring, efficiently integrating, and growing these strategic assets all as part of a single seamless ecosystem. I think our guiding strategy has always been to acquire established brands that demonstrate a consistent record of outstanding outcomes while building the fabric that caters to the entire learner's life cycle.

What this allows us to do, as I had explained, is to extend the lifetime value of a customer while ensuring that we continue to add value at every step. Thus, it is critical that every step of the education life cycle is provided by brands that are preeminent in their respective spaces. In terms of the start of the journey, since our first strategic acquisition in 2020, we have been sort of relentless in extending our partnerships with leading names in the industry.

This approach has facilitated the expansion of educational offerings and also at the same time broadened our geographic presence where today we have physical locations in over 300 cities and towns of India. Talking about the journey where we started, we began with the acquisition of Chennai Race, which was a well-known player in states, central government-related test prep in the South, which gave us a significant presence in that segment. Later, we acquired Brain 4ce, whose customer-facing brand is called Edureka in 2021.

With this acquisition, Veranda expanded its presence in software education, both upskilling and reskilling across domestic and global markets, particularly in English-speaking countries like the United States. Subsequently, we acquired J. K. Shah Classes, arguably the top player in financial-related test prep with over a 40-year track record. This is more to sort of highlight the philosophy that we have and how we have sort of adhered to it as we kept expanding through acquisitions.

Later, the company, through acquisitions, expanded its services into K-12 school management, both for CBSE and international schools, job readiness training for students in colleges, employability training focused on jobs in private banks like HDFC or an ICICI bank, and also tuck-in acquisitions in Kerala, Andhra Pradesh and Telangana to make Veranda Race now the largest player in the South for state central government test prep training. Obviously, as I mentioned, we look for alignment of value systems with the promoters, with the selling promoters. We look for profitability and pedigree in any acquisition.

For us, that's the minimum checkbox that we take before we even evaluate an acquisition. Further, we also look to ascertain what is the headroom available for growth. This is to ensure that we are buying into a business that can have sustainable growth and not just growth for a couple of years.

So, we look for what is the headroom for growth and what are the macro factors that drive that growth. We also agree with the existing management on the plan for growth and the trajectory of such growth that we will want to achieve in the next three to five years. With that in place, we go ahead and complete the acquisition, assuming all the diligence comes through properly, financial, legal, commercial, and forensic diligence all comes through properly.

Hence, as I mentioned, we seek robust and profitable brands with a proven history of delivering outcomes in each of our potential acquisitions. We, of course, aim to address gaps in our portfolio and cover the entire student life cycle, as I mentioned, from preschool to upskilling, which would be for working professionals. I think as a company, we also engage in close collaboration with each company to help them further optimize their operations and identify adjacencies and opportunities for substantial scaling over the coming years after we become part of that gap table.

I think just to distinguish while we are acquiring many of these assets in the education space, we are also very strategic. Hence, we look for what is the value that we can bring into the companies that we acquire beyond what they were already doing even before we came. Unless we are very clear in terms of our strategy as to how we can grow them significantly stronger and faster, better than what they were doing before we came, we do not look at that as a potential acquisition that we would make.

I'll probably go through just a couple of quick examples. For instance, our initial acquisition of Chennai Race, again a 10-year-old brand, which boasted a significant presence pre-COVID but faced a notable and significant decline during the pandemic times. We stepped in to assist them to do a market assessment as it existed at that time, understanding the consumer behaviour, which was predominantly then online, facilitating strategic adjustments for them to achieve a sustainable growth in the environment, which was now completely online, essentially a forced behaviour but was completely online.

We looked at government test prep candidates who were preparing for more than one exam, and almost all of them prepared for more than two, three exams at a time. Hence, we launched an integrated combo product. The banking segment that Race was operating in was starting to stagnate.

We expanded the portfolio programs that they offered to include State Public Service Commission, SSC, railway recruitment, all of them, wherein we expanded the target segment market size and basically ensured that the headroom we had for growth was now very significant. We also entered into newer test segments, launched newer products. We also set up many own centers and expanded the geographic presence by adding franchises.

I think through these strategic initiatives, Race has grown significantly, and it's on track to achieve a revenue in excess of INR90 crores with an EBITDA of INR15 crores for the year ended March 2024. That's sort of what we do with acquisitions that we make. Unless we think that this is the change that we can bring, we don't even consider that for an acquisition as a target.

So, we consistently make the effort to undertake and identify new and future growth areas, continue to expand the headroom for growth, expand the target segment that we can address. The idea is also to look at alternate ways that we can deliver these courses to expand the business reach multi-fold. Again, I will probably take an example, which is very different from Race, of Edureka, which is Brain 4ce.

Edureka is the customer-facing brand. Again, a 10-year-old business, strong brand, and completely online as a business. After we took a controlling stake in the business, we introduced a network of offline centers branded as Edureka Learning Centers.

These centers aim to provide the cost-effective instructor-led courses that they were doing online, and we took them to Tier 2 and Tier 3 cities. We leveraged the experience that we had in franchising earlier and brought it to bear. Edureka was a pure online business that went online and offline.

Race was a business that was predominant offline. We took it both online and offline. We also used and improved the channels through which we can reach our audience to expand the target segment. This is something that we do across all our businesses. A significant aspect of this endeavour, of course, involves pointing and implementing alternate delivery channels to broaden the reach. Edureka, as I mentioned, was an online pure play where we brought in Edureka Learning Centers to take them into Tier 2 and Tier 3.

What it also meant was it also gave us the opportunity to skill college students while they're upskilling and reskilling during their college education. I'll probably give one more example before I circle back to the overall strategy. J.K. Shah Classes, which was a significant player in CA coaching as it is nationally known as a renowned brand. Except that the CA coaching segment itself has been stagnating for the last five, seven years. For us, the headroom was a critical part of a strategy.

We expanded the focus from CA coaching and made it commerce coaching. Starting from integrated programs where we have BCom, where a student can do BCom and CA at the same time, now with J. K Shah Classes, or a BCom with ACCA again under the same brand.

We also brought in cost accountant, company secretary, CMA, CFA, CPA. In fact, in a couple of colleges, we have had requests for us to take over the entire commerce department in terms of academic delivery. We expanded the scope of content that we delivered through J.K. Shah Classes, and that ensured that we created a significant headroom for growth under that brand. We also opened up programs on a residential basis. We today have made this, I would say, experiment in four or five locations in India. We did one in Raipur. We did one in Ahmedabad. We did one in Chennai. We did one in Trivandrum. Different sizes. Chennai was around 450.

Trivandrum is about 700 people. Residential programs, where the student got the choice to focus very significantly, 24 by 7, into clearing out their exams and achieving outcomes. What we have also found, these are initial days, but I think in a couple of months, we'll have strong results coming out.

But what we have found that, in terms of achieving outcomes from our residential programs, we are starting to see that in some of the cases, we are able to achieve outcomes which are over 80%, 85% of the people who get in are able to achieve their outcomes and clear the particular exam that gets them the job that they wanted, or the professional qualification that they were looking to achieve. That, of course, going into the next year, gives us the ability to achieve price premiums based on the success that we have delivered during this year. That's another one that we've been experimenting with.

In the coming year, that's something that we will drive deep nationally to achieve price premiums. The sustainable margins that we are seeing for such residential programs in the early days, we are seeing anywhere between 25% to 35%, depending on what segment we are catering to. I think Veranda, one of the programs that we launched organically was the Veranda IAS program.

This is for civil service aspirants. This was kicked off as a wholly residential program in Chennai in February of last year. What we are finding, early days again, but what we are finding is we expect to see some very promising results coming out of the -our students who are going to appear for the UPSC exams.

Some of the other initiatives, organic in nature, we started the Veranda higher education segment. This was launched in August of 2022 and offers long-term certification, diploma, and degree programs in collaboration with leading colleges, both in India and overseas. We did a business of about INR7.5 crores of booking.

This was for financial year-end at 23. It has increased to about INR40 crores of bookings this year till date and is on track to deliver more than INR100 crores of business in FY '25. This is a completely organically grown business from scratch.

The business, of course, in terms of margins, works with a lag due to the upfront marketing costs that we take in our books as costs and the revenues recognized over the duration of the program, which is typically about 1.5 years, 2 years, being certification or diploma and degree programs. What we also look for that is any business that gets integrated into the Veranda ecosystem stands to gain from a comprehensive network of both organic and inorganic ventures. This framework allows our businesses to seamlessly channel customers to other entities within the network or tap into a broader customer base that we have, thereby leveraging the entire value chain.

I think this network effect gains momentum and I think you will see the impact of this, which should lead to a multiplier effect in the coming years. To also ensure that we formalize the benefits of this synergy, we have introduced what we call as Veranda Privilege as an initiative. This exclusive program extends special advantages to students and parents affiliated with the entire Veranda family.

Students who have been a part of the Veranda ecosystem will now enjoy privileged access when enrolling in programs offered by any of our group entities. Apart from delivering additional value to our customers, it also expands the target segment for our group entities. Of course, that's enhancing the synergistic value that I've always been talking of for any of the companies that we acquire.

We have also ensured that we continue to also look for other ways to grow and expand margins. One of the leverage is to also ensure we continuously increase our course catalog of our offerings with an emphasis on both technology and skill. One of the initiatives that we have, which is again part of the Veranda ecosystem, is a publication business, which we plan to expand across our business units.

As most of you would know, the cost of developing content, which we internally call as R&D, is a cost center that most of education companies will have. We are looking at trying to see how to leverage a cost center and indeed to make it like a profit center by ensuring that we come out with a whole lot of publications that we can circulate to students beyond just the confines of our online or offline registered courses to everyone who can just pick up a book for both online or offline reading. So, this is an initiative where we are again using some part of the ecosystem, which is in publication, bringing that benefit to all other parts of the business.

So, you will soon find our books in all subject matters in which we are providing courses. You will also start finding our books in the bookshelves nationally. We have been actively doing strategic partnerships with various institutes.

One of them in recent times that we actually announced was the Illinois Institute of Technology. This collaboration with them aims to enhance the education offerings, not just in information technology, but also in what we call K-12 dual credit programs. So we are going to start driving these benefits into our K-12 schools that we manage and across the K-12 ecosystem, even outside of schools that we manage, because this will provide students with, I would think, unparalleled access to cutting-edge courses and possibly a seamless pathway to higher education, because they would be involved with a higher education organization like the Illinois Institute of Tech, which today is incidentally the most valued, the best ranked in the State of Illinois.

University of Cambridge Online is another one that we are working with through Edureka. This is to bring higher education online courses, which are led by the University of Cambridge Academics, to India for the first time. We launched it a few months ago and we have had some great success there. As with all acquisitions, this is something that I keep mentioning, that doing acquisitions is really not a smart strategy.

This is something that's been done over the years. A lot of people know it. I think the key is what type of businesses do you acquire, what synergies do you build, and what changes strategically that you are able to bring, what accelerators can you put in place to create value out of those acquisitions.

I think a few of the examples I mentioned was to indicate what parameters we use to acquire, how we stitch this fabric together, and most importantly, what we look for to drive value post-acquisition. Apart from all of this, one of the things that are key in any acquisitions is how we do the transition planning, and that becomes very key. While there is a risk, I think one of the significant mitigations that we are doing of this risk, obviously, is to ensure that whoever is selling the business to us has a significant reason to stay on and build it even stronger with the support of the entire Veranda organization behind it.

But apart from that, we are also building a succession plan in place for all business units, and it is backed by a detailed and structured learning and development plan. This is being driven by our group HR, and there is a plan in place over the next three years, four years, to build the next set of leaders who will take on under the mentorship of the existing management.

Currently, there is a plan. It's in full swing. We are grooming the second-level leaders who are identified from within the system and mentored under the leadership of the current business owners. Additionally, given the experience of COVID and the type of impact that it had had, fairly adverse in many businesses, all of our businesses are today pandemic proof.

All of them operate in a hybrid mode with a blend of offline and online delivery channels. We have built process and systems to ensure that we can switch to an online-only mode across functions within a short and predictable time frame with no disruption at all to operations if at all there is a recurrence of another pandemic-like event, which forces, again, everybody to go online. And this is also starting to be fire-drilled across various businesses at random to ensure the system's readiness.

Going forward, we would be acquiring, we expect to acquire 50% of Tapasya Education Institution. This is for a consideration of about INR120 crores through Veranda Excel Learning, which is a material subsidiary company of Veranda. This will bring into our fold about 20-odd schools, junior colleges, and about 10 colleges offering B. Com, BBA programs. This will also mark our foray into not just school management, expand our offering in the school management space, but also expand our offering in terms of college management.

We expect to be acquiring a few more businesses. These acquisitions would mark our entry into spaces such as study abroad. It will deepen our offerings in the commerce space. It will also help us make further inroads into the managed school services segment. But we expect to close these acquisitions in the next few months, and I think post which the fabric is expected to be fairly complete, which would in turn pave the way for enhanced interaction between the companies.

And then after that, we'll focus only on synergistic and organic growth moving forward. As we look back in terms of where we have come from the time, we originated the company and listed, it brings me great pleasure to share that our dedication and effort have yielded significant results. We have moved from a revenue of about INR75 crores in FY '22 to about INR266 crores for the nine months ended FY '24.

More important for us, apart from a jump in revenue, is that while achieving this growth in revenue, we also achieved a positive EBITDA of about INR40 crores for the nine months ended FY '24, in contrast to the loss of about INR39 crores for FY '22. And that has always been the focus, not just achieving growth, but achieving growth in a manner that's profitable. As we look to the future, we are optimistic about the last quarter of this year ended March.

We are already seeing signs of a fairly strong quarter across all our businesses. Our predicted revenue is expected to close about INR380 crores to INR400 crores. We are aspiring to achieve a year-on-year revenue growth of about 100%. And of course, most importantly, while maintaining our EBITDA margins between 16% and 18% for '24.

As we embark on further years of continued growth, I think the most important aspect for us is that we achieve this growth in a way that's sustainable, going strongly into the future. And of course, it will need a lot of the continued support and trust from the investment community, which we have been lucky to have so far.

With this, I would like to hand the call over to Saradha. She is our CFO, who will sort of walk you through the financials a bit more in detail. Thank you once again for being on the call. Saradha?

Saradha Govindarajan: Yes, thank you, sir. Good evening, everyone. I would like to briefly touch upon the key performance highlights for the quarter and nine months ended 31st December 2023. To first begin with the quarterly updates, on a consolidated basis, our total operating revenue stood at INR91.84 crores in Q3 FY '24 compared to INR47.88 crores in Q3 FY '23. This is a growth of about 92% year-on-year.

Our gross profit stood at INR56.02 crores, with a gross profit margin of 61% for this quarter. The EBITDA stood at INR17.19 crores for Q3 FY '24, which is 18% increase on a year-on-year basis. I would like to emphasize that this was a strong growth in spite of the lean season that we usually witness in the third quarter in the education sector in general.

The ESOP expense for the quarter stood at INR2.25 crores and hence the adjusted EBITDA for the quarter stood at INR19.64 crores. Coming to the finance cost, the finance cost for Q3 FY '24 stood at INR19.91 crores. This includes a non-recurring expense of INR2.7 crores towards the debt that we repaid this quarter. It also includes a non-cash expense of INR5.93 crores towards unwinding costs arising out of acquisition-related liabilities.

The average interest to the debt taken by Veranda is 12.12%. This on an outstanding debt of INR256.56 crores leads to an annual interest expense of INR31.1 crores. The total depreciation for Q3 FY '24 stood at INR17.7 crores. The depreciation cost for this quarter includes a non-cash expense of approximately INR9.92 crores. This is arising out of amortization of intangible assets pertaining to the acquisitions that have been completed.

Coming to the segment-wise performance, the revenue from RACE business stood at INR26.32 crores for the quarter compared to INR13.28 crores for the same quarter last financial year. This is registering a strong growth of approximately 98%. RACE business also reported an adjusted EBITDA of INR7.61 crores for Q3 FY '24 compared to a loss of INR13 lakhs in Q3 FY '23.

The Brain 4ce business reported a revenue of INR20.42 crores compared to a revenue of INR22.45 crores in Q3 FY '23. While it looks like a marginal decline in revenue, the business reported a higher adjusted EBITDA of INR3.32 crores as compared to INR2.01 crores for the same quarter last financial year. For JK Shah Classes, the operating revenue for Q3 FY'24 stood at INR21.01 crores with an adjusted EBITDA of INR5.64 crores.

Moving on to the nine-month FY'24 updates. Our total operating revenues for the nine-month ended December 2023 stands at INR259 crores which is a growth of about 130% over the same period last year. EBITDA for nine-month FY'24 stood at INR39.57 crores as compared to a loss of INR13.71 crores for nine-month FY'23. The EBITDA margin is 15% for nine-month FY'24 and 18% for Q3 FY'24.

With this, I conclude my remarks and request the moderator to open the floor for question-and-answer session. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you very much for the opportunity, sir. And I must say the opening remarks provided a lot of insight into your thought process and it just gave a lot of clarity. So, thank you very much for that as well.

Sir, in your opening remarks, you mentioned that there will come a time, not many months from now, where you will be done with the current round of acquisitions. You said that the fabric will be in place for more synergistic and organic growth.

So, I was just wondering, sir, once you are done with all the acquisitions, what would be the size of the company by then in terms of revenues? And on that base, what kind of organic growth do you envisage going forward over the, let's say, next three to five years?

Kalpathi Suresh: So, the acquisitions that we are currently targeting, you know, obviously, we have in the process of doing diligence. So, I would put that as a caveat to saying that if we should fructify these acquisitions, the target that we are hoping to achieve for FY'25, we expect to be able to double our revenue, going from about INR400 crores to INR800 crores for FY'25. And we should see our EBITDA going anywhere between INR350 crores to INR400 crores of EBITDA.

So, in a sense, it shows up a significant pickup in terms of EBITDA margins. I think it's largely coming on the back of a couple of assets that we are acquiring that are showing EBITDA margins far higher than what we are currently achieving. So, I would think our steady state EBITDA margins might be between 27% to 30%, maybe steady state margins. FY'25 might show a significantly higher number, essentially because a couple of these acquisitions will strongly kick in, hopefully for most parts of the year.

Agastya Dave: Right. And so, on that base of INR800 crores, what kind of - as of now, a lot of the growth is coming from acquisitions, right? It's really not organic in nature. A lot of it is, I take that point. But once the acquisitions are done, the entire portfolio that you will have, what kind of long-term growth rates can we expect?

Kalpathi Suresh: I think quite a few of them are. So, I'll sort of go with, let's say something like Veranda Race, which today is the largest player in State Central Government exams in the South. But the North is probably, you know, 60%, 65% of the national market, right? So, that's a significant unexplored market that's there. So, we have a significant headroom to grow these businesses. So, I would think going forward, one should continue to expect us to grow anywhere between 40% and 45%, year-on-year, driving both the top line and the bottom line.

Agastya Dave: Okay. After the acquisitions are done, sir. On the base of, let's say…

Kalpathi Suresh: This will be just organic.

Agastya Dave: This will be purely organic. Okay, great, sir. And, sir, one final question, and I'll go back in the queue because I have other follow-up questions. So, again, once the acquisitions are done and you will start growing purely organically, these businesses, you said these are both that is they have the ability to shift to online, but they are also offline.

So, what kind of capital intensity do you have in this business? Both in terms of fixed assets that -- so if you have to double the business again, what kind of capital expenditure can we expect on the fixed assets side and then also on the working capital side?

Kalpathi Suresh: I will answer one part of the question. I think Saradha wanted to add some to answering the last question. But on the first part, a lot of our businesses are being grown through own and franchise centers. As you would know, a franchise center is asset-light and also operating system-light, because it's really operated by the franchise with oversight, support, and supervision by the franchisor. But even for our own centers, the strategy has always been to go with rental premises.

So, while you will see us making rental deposits, you will not see us adding on to hard assets, almost all of which will be rental assets. Of course, in our own centers, the operating management will be exclusively ours. But in terms of additions to capex in terms of hard assets, we don't expect to make any of them. So, while we expect to grow the business through own centers and franchisee centers, and also through our online presence, we expect all of it to be asset-light. So, we don't expect to do much of capex to drive this growth that we are projecting going forward.

Agastya Dave: Great, sir. Sir, I have other questions. I'll go back in the queue.

Moderator: Thank you. The next question is from the line of Monika Arora from Share Giant. Please go ahead.

Monika Arora: Thank you so much for the opportunity and many congratulations on good set of numbers. So, I want to...

Moderator: Sorry to interrupt. Ms. Arora, your line is breaking up in between.

Monika Arora: Okay. Is it better now?

Moderator: Yes, ma'am.

Monika Arora: Okay. So, if you can give any guidance on how the financial...

Moderator: Sorry to interrupt once again. Monika, ma'am, your line is breaking up once again. Monika ma'am, we are not able to hear you at all. So, in case if it is possible, can you...

Monika Arora: Hello.

Moderator: Yes, ma'am.

Monika Arora: Okay. So, I was asking that the results look good, sir, but how do we see the next five years in terms of revenue and also in terms of the margins?

Kalpathi Suresh: While we have internal plans for all the assets going into the next three to five years, that's part of our acquisition itself. Before we do the acquisition, we have the next three to five-year plan. We broadly agree upon, and we do a commercial intelligence on those projections before we take it. But as you know, lots of things change in five years, Monika.

So, with that as a caveat, let me just sort of say what I already mentioned in some parts of this call, but I'll sort of collate it all together. This year, we sort of expect to touch about INR400 crores in terms of revenue. We expect to deliver about 16% to 18% of EBITDA. There are acquisitions where we are currently working through diligence. With these acquisitions coming into play, we expect our margins to go anywhere between INR350 crores to INR400 crores. We expect to see our top line moving to about INR800 crores or a bit above. And again, quite a bit of that is being driven through acquisition. Part of it is organic.

And as I mentioned that with the current set of acquisitions we are targeting, we are pretty much putting a pause on acquisitions and going forward, it will all be organic. So, post FY'25, it's all going to be organic. As I mentioned, with most of these assets, we look to understand what's the headroom available for a sustainable growth?

And for us, sustainable growth is to look at the next three to five years, whether the headroom allows us to continue that momentum for three to five years. So, from an organic perspective, we expect to be able to move going beyond FY'25, to be able to drive this at about 40% to possibly 45%, both in terms of top line and bottom line, in terms of growth, which would predominantly be organic and synergistic growth.

Monika Arora: Thank you so much. This was really helpful and detailed. All the best.

Kalpathi Suresh: Thanks, Monika.

Moderator: Thank you. The next question is from the line of Varun Srivastava from VS Research. Please go ahead.

Varun Srivastava: Hi, sir. Thank you for the opportunity. So, my first question is on a bookkeeping question on Slide 7. So, I'm looking at the current quarter numbers and I see a gross profit of INR56 crores, again, and we subtracted INR11 crores for direct advertising towards corporate. So, I am arriving at an EBITDA of 38, if I subtract those costs, but I am seeing 17 as the EBITDA number. So, could you please help explain the gap of the INR20 crores?

Kalpathi Suresh: Saradha, you want to take this?

Saradha Govindarajan: Yes. Is this a nine-month number?

Varun Srivastava: Yes. No, this is the first column, the Q3 FY'24.

Saradha Govindarajan: So, nine months of INR39.57 crores, Varun.

Varun Srivastava: Yes.

Saradha Govindarajan: And three months of INR17.19 crores. So, INR56 crores is gross profit. And after that, we have expenses of about INR39-odd crores. That leads us to INR17 crores in EBITDA.

Varun Srivastava: Okay. So, the line items that are mentioned here are only for the advertising and the corporate expense. So, what else is the expense at around INR20 crores, which is not?

Saradha Govindarajan: I'll take you through it. Obviously, we have book costs, inventory, content-related direct costs. Then we have other employee benefit expense. All manpower costs is not mentioned here. We've only called out expenses that are usually looked for in an education sector, which is an advertisement and promotion.

There's a lot of focus on that. That's why those two have been called out. But the other costs include employee benefit expense of approximately INR22 crores. That's missing here. And cost of goods sold, which is basically books, content, R&D.

Varun Srivastava: So, that will also be more variable in nature, right? So, that will grow as the business scales.

Saradha Govindarajan: Some of it is not directly classified as direct costs as per accounting standards. Some of it would fall under indirect costs.

Varun Srivastava: Okay. And just another follow-up question, a more broader picture. So, are there any plans for offerings in the engineering and management space? And also, I saw that there was a U.S. subsidiary that we had recently set up. So, is there any plans for overseas expansion as well?

Kalpathi Suresh: The Tapasya, which is one that we are closing. Through that, we currently manage both B. Com and BBA course offerings. So, there is a plan to go beyond BBA into an MBA program through a B-School. And that would, again, be part of the growth strategy for Tapasya for the next three to five years.

Varun Srivastava: Okay.

Kalpathi Suresh: The overseas, as we had mentioned, Veranda HigherEd is a program where we have relationships with leading universities both in India and overseas. And we are, through that, building some very exciting pathway programs where students can now do six months' study here, do the balance possibly in campuses in Dubai or even campuses in UK or the U.S. as part of a completion of a program. However, margins are significantly higher.

Some of those revenue relationships might potentially be driven from a U.S. subsidiary. And that sort of makes it tax efficient since a lot of the work happens overseas. You would want to see how to capture that in the U.S. subsidiary. So, there, you would start seeing it playing a plot in the offerings that we do in that space.

Varun Srivastava: Got it. Okay.

Saradha Govindarajan: Varun, just to add to that, even through our Veranda HigherEd program, the Veranda HigherEd offering, we are looking at, you know, Master's in Science and Engineering-related offerings also. So, for example, we are currently looking at launching MS in Geoinformatics and other related programs. So, we're pretty much eyeing the engineering and management space through Indian tie-ups also, like Imricor, XLRI, Goa Institute of Management. These are universities that we have tied up with to offer certificate and degree programs to working professionals.

Varun Srivastava: Got it. Okay. Thank you. Thanks a lot for answering my questions.

Moderator: Thank you. The next follow-up question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you again for the opportunity, sir. Sir, recently we saw the regulations coming in from the government. So, whatever has come out so far, has that had any effect on either our current operations or our future plans?

And in terms of regulation, that's obviously a risk, sir. We have seen a lot of disruption happening in the U.S. over the last 10 years because government kept on changing regulations. And generally, any government approaches regulation with the finesse of a drunk bull, right?

They come barging in and they destroy everything, take the industry back by five, six years. And that's always a risk. So, how do you see those risks panning out? That's my first question.

Kalpathi Suresh: I think quite a bit of what you said is true. Except some parts of the new regulations that came for coaching institutes have been, I think, are required. Let me put it that way. Not so much as a business owner, but I come from IIT Madras, and I know the type of rigor for such coaching that happens. Luckily, I could study at home, never had to go through the Kota type of a rigor of a residential program. We have largely seen the type of impact that it has had on people.

While I think I strongly believe in things being competitive and being equal for everybody to compete, sometimes you get pushed to an extreme. So, having said that, in terms of direct impact for us, our impact on all the programs that we offer is minimal to zero. We don't have students who are sub-16 years where we provide training like a typical coaching classes. The only places, if at all, we do some coaching which might start coming is for CA Foundation, where people who are in 11th and 12th can do.

And most of those kids, unless they are drawing the schooling system early, otherwise, typically, kids who are in 11th are now 16 years, kids who are in 12th are 17 years. And the coaching regulation is predominantly for people who are less than 16 years old. This is, I think, targeted at people who go through coaching from 6th standard or 9th standard onwards, leading to a professional test prep type of exam or an entrance test prep type of exam.

Additionally, what we do, while a lot of our students are not in that age group below 16 years, but we have always had a system of providing mentorship to all students in all our programs. And that sort of makes it easier for them to take. So, the coaching is done by a particular tutor, but there is a mentor who works with them, both to give them the inspiration and also to ensure that these kids see it in the right spirit and take it in the right spirit.

So that's a system that we already have where we provide some amount of coaching and counselling through mentorship. But having said that, we don't have students below 16 years in our system, except, of course, we have kids in our managed schools. And that's outside the purview of the regulation.

Agastya Dave: Those are schools. Yes, those are schools. Right, right. So, I'm not asking this question as a bookkeeping question. I'm asking just to understand your point of view here and your thought process, the debt part. So obviously, as of now, the business is growing rapidly and you're requiring using a lot of debt. So, what is your long-term approach to debt? Are you debt averse? And this is just a transient process where we are scaling up using debt and we'll be paying down by raising equity at some point in the future. Is there a debt equity ratio where you like which you are very, very uncomfortable crossing? Is there an absolute debt level which you will not cross?

Kalpathi Suresh: So, let me put it this way. Ideal debt that we would like to have in the system is about one and a half to about 1.75 times of EBITDA. That's about the debt I would generally be comfortable with. Now, in future acquisitions, there is a plan to look at equity like instruments so that we're not overburdening the company with debt. I'm not so much averse to debt. I am averse to overleveraging.

Some debt is always good and healthy. It also provides a certain level of tax cover to the profits that we achieve. But I don't like overleveraging. And this is more to ensure that if the environment changes adverse and interest rates for whatever reasons spikes up, we have the ability to just sit tight for a couple of years and go debt free if that should be required. We just have to stop all investments, put all the EBITDA that we achieve to closing debt, and in two years, we can go debt free.

That's about the overall philosophy on debt. So, there is no debt averse, but I don't like to overleverage. So, at some point, you'll see us leveraging on equity like instrument to bring down the debt significantly.

Agastya Dave: Right. Another reason I ask this question is that the cost of debt is fairly high. You may want to refinance. I don't know at what point in the future that would be realistic to do. When would the bankers agree to that? But that 12% number is a bit on the higher side. So that is why I was just wondering.

Kalpathi Suresh: I think the only reason you see us borrowing costs high is because of an inability to leverage on the banking system to finance acquisitions, at least in the current regulations that we have. So, it has to come from banking institutions or some type of a structured finance because banks can't participate in acquisition financing. But once our merger, for instance, we completed the merger of the SPV with the operating company in the case of J. K. Shah Classes.

So now the debt is sitting in the operating company. Now it gives us an ability to structure this so that we are able to leverage on much, much cheaper debt because the operating revenues are very healthy to take care of the debt. So, when the acquisitions are ongoing, you will see us having a spike up in cost of money, but it should significantly start going down once the mergers get completed.

Agastya Dave: Right. Which would be, let's say, within the next six to 12 months, right?

Kalpathi Suresh: So, the last time we thought we can get it done in six months, but this was an NCLT process. So, it ended up taking nine months. Actually, we got to do it only in November. Our internal target was July. It got pushed by three, four months. So yes, but that's about the time frame. Six to 12 months is when it should get done.

Agastya Dave: Got it. So, a final question, a big risk in, not a risk, but it's a property of the industry itself that we see fairly regularly is that the assets, and I'm talking about the human resources here, the teaching staff, there is a lot of attrition which happens. And it's very unpredictable. It's not structured. So, I was just wondering, how are you handling that? And what are your policies around that? How will you manage that going forward?

So, I'm not just talking about the companies that you are acquiring, the management of those companies, they will probably most likely continue to work with you guys. But the human resources, the teachers, the professors, the mentors who are part of the operating companies. So how are you handling that, sir?

Kalpathi Suresh: A, of course, we are buying into businesses which has had a lot of pedigree and very strong relationships with the existing management. There are enough incentives, and I think more than incentives, there's a lot of alignment of vision where we expect the existing management, existing sellers to be with the organization. As I mentioned that in all of the businesses, the active management in all of them are continuing to be a part of Veranda. There has been no change.

But having said that, I mean, one of the things where we have the benefit as a listed company, and we already started doing it, is we are providing stock options with too many of top employees of the companies that we have acquired who never had a chance to be able to have access to a listed stock and option. We're extending that.

In case of, since in J.K. Shah classes, we have offered to some of the top professionals and faculty within that system. And we will be doing that again with all of the other businesses. So even below the level of the selling shareholder stroke top management, even there is the next level of management, we are using stock option plans to keep them in the organization.

And I think as part of Veranda, one of the things that Vivek is doing, who is group HR, he ensures that anybody in any part of the organization have an L&D plan to be able to, at some point, be able to sit in my seat and oversee the entire system of Veranda, not just the respective businesses where they come from. So, it sort of gives them a long career path if they wish to stay on and be able to be managing a business a lot bigger.

Agastya Dave: Right. Great, sir. Thank you very much for the opportunity, sir. It was really nice.

Saradha Govindarajan: I just want to add something here. So, when these faculties and professionals come in from smaller company into a larger corporate, we are also very particular on giving them all the statutory due related formalities. So, these people would not have been part of a company that was offering gratuity before. So simple things like that, right, from medical insurance to gratuity and the corporatization helps them, number one.

The number two is the technology part, right? Making their life easy and they can focus on what they like the best. This is very true of professionals in the teaching and healthcare space. Today, they're doing a lot of admin and other work. So, we are trying to ease their lives and give them a better working environment as well. So that adds to the hooding.

Agastya Dave: Ma'am, would you have a bond structure where the teaching staff has to sign a bond, let's say for two years, three years? Like what we used to have in the IT sector many years back?

Moderator: Sorry, Mr. Dave.

Agastya Dave: Yes, I'm done. I'm done. If they can answer this question, then I'm done.

Saradha Govindarajan: We do not have that. I don't think it's legally tenable also. So, we do not have that. But it's our relationship that holds us to that.

Agastya Dave: Perfect. Thank you very much for the opportunity, ma'am. Thank you very much, sir. Good day. Thank you.

Moderator: Thank you. The next question is from the line of Pradyumna Singhania from Rashi Fin Corp. Please go ahead.

Pradyumna Singhania: Yes. Thanks for the opportunity. So, I have just one question. So, I just wanted to know, you're doing due diligence for your new acquisitions. Suppose that doesn't go through. What is the growth that we're going to expect in our current business for the next year? And the year after that?

Kalpathi Suresh: So, from an organic perspective, again, we are going off a small base. So, the number two is a set of acquisitions that we did are just starting to kick in right now. Because they were done much later. So, on the back of that, we expect to be able to organically grow our EBITDA probably by 80% to 90%. This is just organic for FY'25.

Pradyumna Singhania: So, based on the new acquisitions that we're trying to do, suppose those don't go through, next year in FY'25, you're going to assume to do around INR100 to INR120 crores of EBITDA?

Kalpathi Suresh: So, I sort of indicated that we expect to be with the new acquisitions, we are targeting about INR350 to INR400 crores of EBITDA. So out of which, we would expect about INR130, INR140 crores to come from our existing businesses, because some of them are kicking in late because it was acquired late in FY'24. And the additional EBITDA will come from the acquisitions that we are doing.

Pradyumna Singhania: Right. So, I was just talking of in case the acquisitions don't go through, the ones which you're doing now. So, then we're at INR130, INR140 from the old acquisitions that we have?

Kalpathi Suresh: Yes, that's from the existing business.

Pradyumna Singhania: Right. And suppose they go through, where are you getting the new funding from? And where are the funds being raised from exactly?

Kalpathi Suresh: So multiple conversations are ongoing we stay, so I don't want to comment on specifics, but suffice to say that the fundraise will largely be through equity-like instruments. We're not really planning to add significantly to our debt. As I said, I'm fairly averse to over-leverage. So, the new acquisitions, if the diligence doesn't throw up red flags and it comes through clean, then it will be largely driven through equity-like instruments.

Pradyumna Singhania: Okay. Thank you so much.

Kalpathi Suresh: Thanks.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Kalpathi S. Suresh for closing comments.

Kalpathi Suresh: Thank you. Thanks to all of you who were able to join the call today. I know this was sadly late in the evening, and it's been about an hour. Thank you for your questions and thank you for listening patiently to our commentary. I hope we were able to sort of address most of the questions that came. But if there are any further questions, please reach out to our IR partners at EY. Mailing addresses have been mentioned in the investor presentation.

Again, to reiterate, we sort of seem to be on track to achieve our targets for this year. In fact, in some of the aspects, we are ahead of the schedule as to where we expected at the end of nine months and where we are. While we have outlined our growth plan for FY'25 with and without acquisitions, clearly, we're not looking at FY'25 as the plan that we are shooting for. We have very clearly a long-term vision, and our objective is to see if we can maintain our growth trajectory well beyond FY'25.

Thank you once again for participating in the call and taking time off in the evening to be present. Thank you very much.

Moderator: Thank you. On behalf of Veranda Learning Solutions Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.