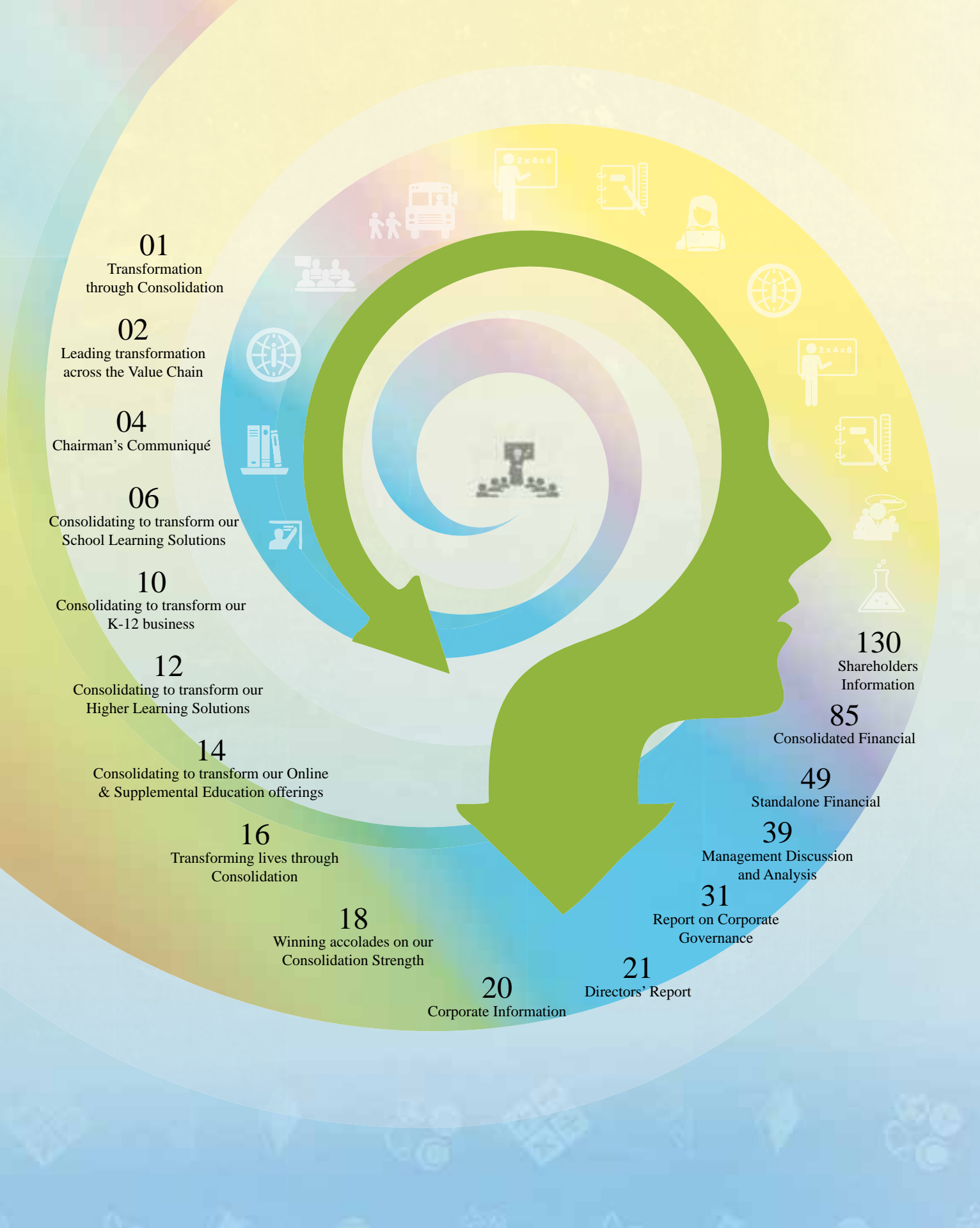




# TRANSFORMATION THROUGH CONSOLIDATION



Annual Report 2012-13



An organizational entity maps many critical phases in its growth charter. As it evolves and expands, moving in tandem with the changes in the industry and the economy, it undergoes several transformations to scale new peaks in its phased odyssey. Consolidation is one such important transformational phase in an organization's growth strategy. It is that stage in a company's evolution story that enables it to strengthen its roots and entrench itself even more firmly in the business milieu within which it operates.

Educomp today is in such a phase of consolidation which, going forward, shall enable us not only to add robustness to our business model but also to pave the way for the next step in our journey.

Our consolidation focus is geared towards strengthening not just our brand and product portfolio but also our reach, presence and capabilities. Having built an enviable position as India's largest organized education services player, we are now engaged in leveraging our brand equity to create greater value through our multiple growth engines. With a strong thrust on operational efficiencies and cash flows, strengthening our balance sheet and launching new products and services, we are now in another vital transformational phase that is in synergy with our overall objective of delivering high value to all our stakeholders.

Aligning ourselves to the growing aspirational education needs of the Indian middle class, we are structuring our offerings across the education system towards long-term transformational goals through a six-point agenda.

This agenda, formulated under 'Educomp 2.0 strategy', is based on:

We have spent the past few years in developing our capabilities for the application of innovative solutions through the education value chain. Armed with our six-point agenda, we are now in the phase of consolidating these capabilities to build education infrastructure that shall transform the nation's learning landscape, to make it more insightful, in-depth and incisive.

1

Focus on a few key verticals and exit all other non-core businesses

2

Cautious growth while building a strong operational backbone

3

Cross-sell and up-sell new products to the huge existing base of our clients

4

Asset ability mismatch correction and debt restructuring thereof

5

Lean organization and cost optimization across the board

6

Improved leadership bandwidth and human capital

# LEADING TRANSFORMATION ACROSS THE VALUE CHAIN



Unique IP core bringing innovative solutions to the market



India's leading diversified education services provider with presence across the entire education eco system



Reaching ~34,500 schools & ~22.8mn students



#1 player in digital content based, interactive school learning solutions



Largest K-12 digital content library in the country with over 16,000 modules of rich 3D multimedia educational content



Strong presence in Higher Education, with 7 higher-ed colleges and state-of-the-art infrastructure



#1 corporate player in K-12 schools, with 51 schools operational and 48 more in the pipeline



Leading player in pre-schools with 225 pre-schools operational across the country



Huge R&D base for content development and pedagogy





## Pre-School Initiatives



## High School Initiatives

### Digital Content Solutions



### Professional Development

### High Schools



## Higher Education Initiatives

### Higher Education

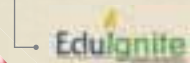


### Vocational Education



## Online & Supplemental Initiatives

### Assessments & Counseling



### Test Preparation



### E-learning Platforms



# CHAIRMAN'S COMMUNIQUE

## Dear Shareholders

Educomp is approaching its 20th anniversary next year. Over the last 20 years, we have brought unmatched innovation into the education sector in India and have maintained our leadership position for several years in a row. It is now time for us to plan for the next phase of growth.

In the year gone by, our priority has been 'consolidation'. At the start of the year, we embarked on a business transformation agenda called "Educomp 2.0", and took several important initiatives to streamline our operations, increase efficiency and productivity with a clear focus on strengthening our balance sheet and becoming free cashflow positive faster.

During the year, we made significant progress on each of the points in our transformation agenda and several initiatives are still ongoing. The Smartclass business is rapidly transforming. We have changed the business model from a securitization-financing business model to the BOOT model, where we will be focusing on hardware paid up-front. Smartclass price erosion seems to have stopped. We have reorganized the Smartclass organizational chart into a more customer centric structure, instead of function centric. The restructuring will help us optimize our work force

and the leaner structure will result in lower operating cost, better customer engagement and a more effective structure for the long term.

The migration from being just a product company to a solutions company has started off well. In order to capture a larger share of the customer wallet, we have recently launched several new products that we will cross-sell to our existing base of customers, using our existing sales and distribution network. These new products include our tablet product called Smartclass Tab, an English Language Lab product called English Mentor, an assessment product called EduIgnite, as well as a school curriculum product called EDAC. The customer response to these products has been very encouraging and we look forward to rapid growth of these products in the quarters and years ahead.

The consolidation and asset monetization initiatives are on track. We sold our entire 50% stake in EuroKids International Limited to a group of investors led by GPE India and made 3x of our original investment, creating significant value for our shareholders. We had a primary capital investment of ₹ 22 Crore from Kaizen PE and Bertelsmann, in our internet education platform business Authorgen. This transaction brought the much needed investment for the innovative internet company and has insulated Educomp

from any further capital infusion requirement. At the same time, there is a potential value creation upside, maintained through a minority equity stake.

Towards the end of the financial year, we sold our entire 50% stake in the vocational training business IndiaCan, to our JV partner Pearson, one of the world's largest publishing and education services company. This transaction would save the Company from the need of funding the losses and other capital needs of a non-core business.

We have also initiated the process of closure of loss making businesses in our portfolio. While a couple of them have already been closed, others are in the process and will get completed over the next couple of quarters.

Overall, our business transformation agenda is well on track, but several initiatives are still ongoing and the transformation process will continue through FY14 as well.

Financial restructuring has also been a key priority in our transformation process. As you are aware, over the last few years, your Company has had rapid growth in all business verticals and we have expanded our operations to become the only diversified education company of India. This expansion has required significant capital investments and has had an impact on our balance sheet, which has grown significantly, partly because of debt capital. Also, as some of our businesses have long-term cashflow characteristics, like the K-12 Schools business and the Higher Education business, the assets created are long-term in nature, whereas some of the debt is short-term in nature, resulting in an asset-liability mismatch. Therefore, one of the core priorities for your Company over the last year has been to strengthen our balance sheet and correct this asset-liability mismatch by replacing our short term maturities by long-term capital.

We have had significant success on this front. Earlier in the year, International Finance Corporation (IFC) along with Proparco, the French developmental institution, took a nine year exposure on us, giving us \$70 million in ECB financing. This, along with

additional equity financing from Mount Kellett as well as the Promoters, helped pay off our FCCB liability in full on the due date.

More recently, the Company, in consultation with its senior secured lenders, has taken the decision to undertake a debt restructuring exercise under the CDR mechanism. Our senior lenders have shown support of our long-term business plans and are supportive of our efforts to achieve a sustainable debt structure. This is an important step towards stabilizing our business by enhancing liquidity and injecting additional working capital. We believe this will help us to safeguard the interests of our key stakeholders, including customers and vendors.

I would like to conclude by saying that your Company has come around a full circle - from start-up to expansion to diversification and now to consolidation. Now, it is time for Educomp 2.0 and a new chapter in the history of the company.

And we have begun well.

Before I end, I would like to express my sincere thanks to our team members, our investors, bankers, shareholders, partners and our customers who have supported us at each stage of our evolution and have believed in us.

I look forward to their continued support in the year ahead.

Warm Regards

**Shantanu Prakash**

Chairman & Managing Director



# CONSOLIDATING TO TRANSFORM OUR SCHOOL LEARNING SOLUTIONS



Serving 14,823 schools with 6.8 million students

Steered by its six-point transformational agenda, Educomp initiated a major reorganization and restructuring of its Smartclass business during the year. The key components of this restructuring are optimization of costs and workforce, coupled with customer centricity.

The restructuring efforts have already begun to show results as the average number of classrooms per school went up from 6.5 in the whole of FY12 to 13.3 in the last quarter of FY13. The Company has also moved towards greater customer engagement and coverage through the merger of its entire 600-strong workforce across sales and servicing functions, with effect from April 1, 2013.

A new system has also been introduced, whereby the Company will now only facilitate appointment and training of Resource Coordinators, which it was earlier providing to schools with Smartclass. This will help reduce HR and administrative costs for the Company.

In a strategic shift, the Company has migrated back to BOOT model for Smartclass accounting April 1, 2013. It has also initiated the process of transforming the business to a bilateral relationship between Educomp Solution Limited and the customer, with no vendor or third-party intervention.

The Company expects the partnership or alliance route to emerge as a major growth driver for its Smartclass business as it transforms itself from a product to a solutions provider.



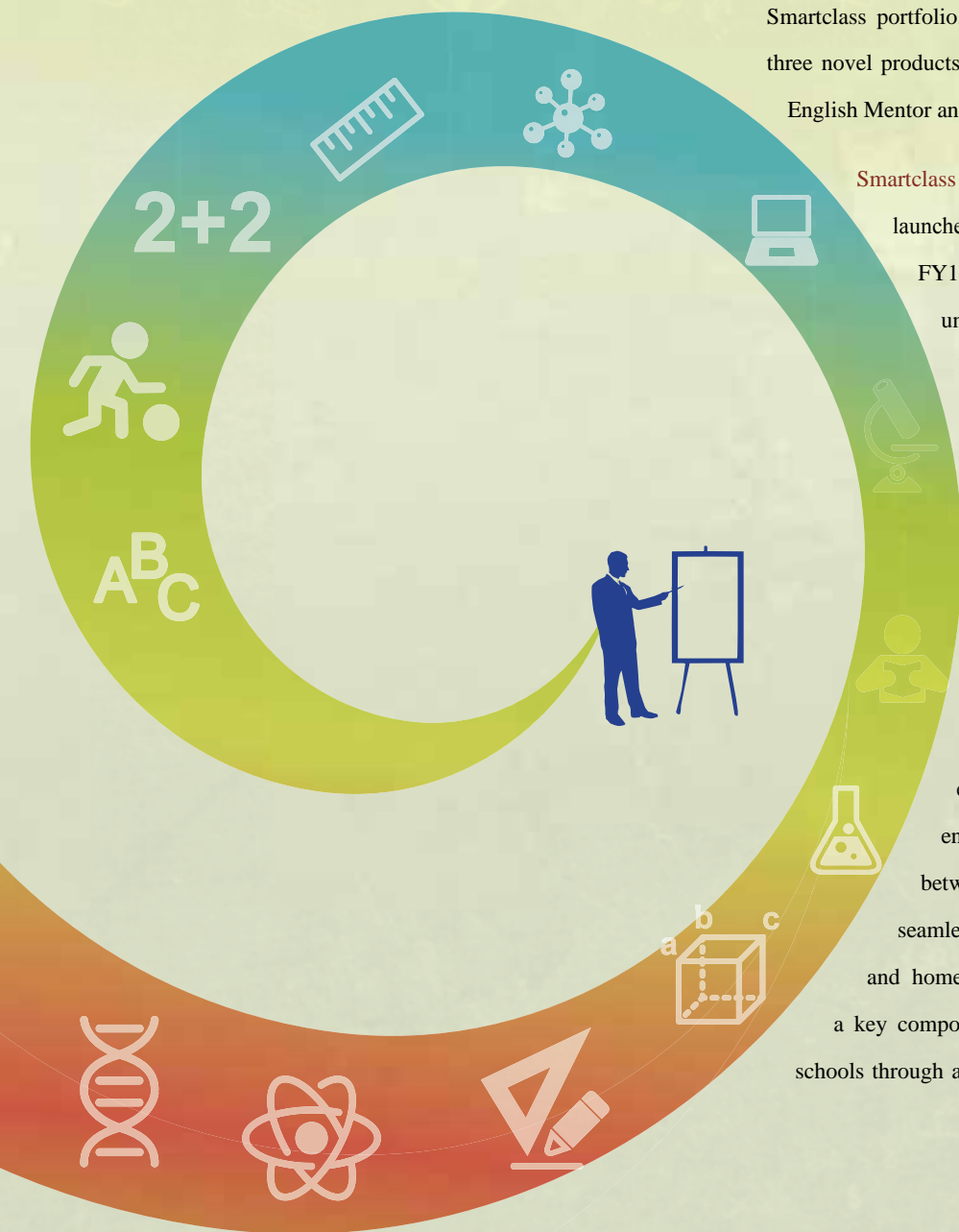


The Company has also taken some key initiatives aimed at better resource alignment. A major initiative relates to going back to Haier, one of its largest hardware vendors in India. The Company has entered a five-year agreement with the vendor for procurement of credit and supply of equipment. In another strategic initiative, it has tied up for Rs. 200 crore school financing from a leading

private sector bank. Educomp is also getting into a strategic relationship with a technology partner to augment its product and service offerings.

The Company is continuously engaged in launch of new, contemporary and technology-led innovative products, developed through extensive R&D, in order to expand and enhance its Smartclass portfolio. The Company has successfully launched three novel products in recent months, namely Smartclass Tab, English Mentor and EduIgnite.

**Smartclass Tab** – This is a revolutionary tablet product launched by the Company in the first quarter of FY14. Keen to capitalize on the immense, unfolding digital opportunity, the Company has developed this game-changing product, which is aimed at eventually replacing schools bags. This first-of-its-kind product in India has the world's largest content repository in line with the K-12 curriculum. It is rich in applications and provides a complete teaching experience to students through amalgamation of Smartclass CTS, Educomp Online and eDac e-Books solutions. The product enables ease of dialogue and interaction online between students, teachers and parents through seamless digital connection between schools and homes. Constant evaluation of performance is a key component of this product. To be sold direct to schools through a B2B model and to consumers through the



Company's distributor chain, the Tablet has been launched in a select few schools to a highly positive response. Encouraged by the response, the Company now plans to scale up product sale in the coming quarters.

**English Mentor** – English Mentor is another innovative product that the Company successfully test launched in FY13.

With English proficiency becoming a sine quo non for progress in today's global education environment, English Mentor has been evolved as a unique English Learning programme that bridges the gap between academic learning and skill development. Merging sound pedagogy with smart technology, the programme uses the innovative technologies for comprehensive skill development with a balanced focus on Speaking, Listening, Reading and Writing skills. With personal workbook for every learner for home activities and follow-up activity sessions, English Mentor empowers learners to become competent and confident communicators.

Requiring limited personal intervention by the teacher, English Mentor uses tools that include: Read and Write Tutor, Vernacular Translator, Picture Dictionary, Tense Simulator, Read the Text software, Listening Comprehension, Spoken English, Combination Sounds, and many more. These easy to use tools provide technology-based modules to sharpen the English skills of learners. Objective reading scores and lexile levels, along with student-wise reports, enable regular assessments as part of the programme.

**EduIgnite** – This is a progressive and scientifically designed assessment system that helps students identify and nurture their inner potential to achieve excellence. This assessment product has been well received in the market. EduIgnite acts as a career guidance tool, with extensive psychometric tests, counselling, one-to-one sessions, interactive seminars helping students, parents and schools make scientific assessments of career choices.

