

Interview as submitted to Business Standard on Oct 15, 2024

1. What are the strategic advantages that CL Educate is expecting from acquiring NSEIT's digital examination business?

Large and healthy growing TAM, strong business moat and profitable business unit with strong leadership team are the three strategic wins in the NSEIT DEX acquisition by CL Educate.

Assessment is a core activity in multiple areas for governments, organisations and educational institutions as well as ordinary citizens/learners and includes areas such as recruitment and promotion, professional certifications, school and university assessments, entrance examinations, vocational certifications and individual certifications etc. As a result, it is a large TAM opportunity that adds up to about 9 crore assessments in India alone. NSEIT DEX brings this adjacency into the fold of CL Educate.

Assessments is a 7000 crore INR market growing at 12 percent within which digital assessments is growing more rapidly at 16 percent and comprises two-thirds of the overall market.

NSEIT DEX also comes with a business moat since this is a deeply technology led area and only two players have built scale in the space of digital assessments.

Thirdly, NSE IT DEX is an extremely robust, well managed and profitable business that adds INR 200cr to CL's topline and a 17%+ margin to the EBITDA, with most of the long-term potential still hugely in the future.

2. How will the integration of NSEIT DEX enhance CL Educate's existing services in test preparation and assessments?

We see these two businesses operating independent of each other from board composition, goals, strategy, focus, technology and so on. These are two adjacencies within the education or learning value chain but not a deep overlap on each other. In fact, it is a distinct possibility that NSEIT DEX could aspire for a separate listing in a few years' time.

Assessments is a significant need even for test-prep players which when offered by NSE IT DEX will also be extended to Career Launcher as an arms-length customer.

3. What are the projected financial impacts of this acquisition on CL Educate's revenue and EBITDA in the coming years?

As discussed earlier, we are adding a business that is generating an annual revenue of about 200cr and a margin in excess of 17%. The acquisition though is expected to get concluded in this calendar year, and the revenue and EBITDA additions for FY'25 will contain the stub portions relevant to the duration when NSEIT becomes a subsidiary of CL Educate.

What makes us most excited about this business from an investment perspective is that we are adding a well-established and profitable business that is significantly accretive on critical financial parameters including EPS, ROE and ROCE.

4. What is the expected growth rate of this India assessments market?

The Indian assessment market presents a compelling investment opportunity, showcasing robust growth and digital transformation. Valued at over Rs. 6,900 crores in 2023, the sector is projected to reach Rs. 13,000+ crores by 2028, driven by a strong 12% CAGR.

Notably, digital assessments dominate the landscape, accounting for approximately 64% of the market and exhibiting an impressive 16% growth rate. The online assessment segment is poised for significant expansion, expected to more than double from Rs. 4,400 crores to over Rs. 9,500 crores by 2028, underscoring the sector's potential for substantial returns and technological advancement.

5. What are the opportunities that you're looking beyond India?

NSEIT DEX's technology platform and expertise in EdTech delivery presents a compelling opportunity for expansion into key international markets such as Singapore, Indonesia, the Middle East, and North America. Given that CL has operating leadership on the ground in these geographies, we see exploring these markets in the near future in a phased manner.

Over and above these, there would be perhaps more obvious opportunities in neighbouring markets like Sri Lanka, Nepal, Bangladesh, etc.

Entering these regions would not only drive significant topline growth but also substantially enhance margins, making it a highly attractive strategic move.

6. What is the significance of the growing digital assessment market in India, and how does CL Educate plan to capitalize on this trend?

Post COVID, the demand for digital assessments has grown at an accelerated pace. Digital Assessments is expected to grow at a CAGR of 16% as per market estimates, as against a 12% growth rate for the Assessments market overall. Assisting this trend are tailwinds from both the government and private enterprises as they seek to leverage the following:

a) Increased Efficiency: Digital assessments enhance the examination process by minimizing the time and resources needed for conducting, grading, and analysing results, leading to a more streamlined approach and offering greater control over security.

b) Scalability: Digital platforms are equipped to handle large-scale assessments, catering to various needs such as academic testing, corporate hiring, and professional certifications.

c) Wider Reach: These assessments provide access to remote and underserved areas.

d) Cost-Effectiveness: By eliminating the need for question-and-answer papers, corrections, etc. digital assessments significantly lower operational costs.

With the acquisition of NSEIT DEX, CL Educate not only enters the digital assessment markets but also starts at a healthy 20% relative market share. This will enable CL to have a platform from which it will look to expand its market share in India and abroad. While DEX has a country wide reach with its 230+ physical centers and 3,000+ elastic locations, its expansion to international markets will result in a margin expansion along with the geographical penetration.

At present DEX is present in the Recruitment & Promotion, and Entrance examinations & Professional certifications examination segments. And its current clientele are mostly quasi-government organizations. Post the acquisition, due to its scalable nature and wider reach we plan to enter other assessment areas and compete across multiple domains.

7. How does CL Educate plan to fund the acquisition, and what are the implications for its financial health?

We will be financing the acquisition through a mix of debt and internal accruals. And, given that DEX is a cash generating business with healthy growth rates, we also plan to retire the debt over the next 3 years.

8. In what ways does CL Educate plan to expand its market presence in SAARC countries and other international markets following this acquisition?

There is a dedicated team that is studying and leading the global footprint opportunity at CL Educate. DEX's international growth strategy will generate the plan that will be relevant for various global markets including SAARC. Singapore, Indonesia, North America and West Asia will also be in the consideration set when internationalisation, as a theme, becomes a business priority for DEX.

9. What challenges does CL Educate foresee in integrating digital exam capabilities with its physical test prep centers?

The strategy and idea are to ensure that these two businesses pursue their paths independently. While both the test preparation and digital assessments businesses fall within the broader EdTech spectrum, they operate as distinct businesses. Each will maintain separate teams for strategy, sales, operations, marketing, technology and support. However, there would be places where arms-length relationships are possible which will be explored once the dust settles over the next four quarters, say.

With both businesses operating as independent companies, with predominantly distinct Board of Directors, we believe we can make the most of business opportunities that come the way of each without any conflict of interest.