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“MPS Limited

Q2 & H1 FY‘23 Earnings Conference Call Transcript”

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MPS



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Moderator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY '23 Earnings Conference Call of MPS Limited. As a reminder, all participant's lines will be in 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 and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Arora, Chairman, and Managing Director. Thank you, and over to you, sir.

Rahul Arora: Thanks, Mike. Good afternoon, and welcome to our Q2 FY '23 earnings call. Today, I have with me Sunit Malhotra, CFO of MPS Limited; Sukhwant Singh, Chief Delivery Officer-India. Today, Sunit will kick things off in our opening segment by discussing our Q2 FY '23 performance. Then Sukhwant will update us on the Content and eLearning business. Finally, I will discuss how the current financial year is shaping up, and also provide an update on the recent acquisition of E.I. Design. Let's get going. Over to you, Sunit.

Sunit Malhotra: Thanks, Rahul. We developed impressive momentum in Q2 that also drove significant margin expansion. At INR 125.60 crore, FX adjusted revenues were up by 13.77% against the previous year, primarily driven by three factors: growth in the content business particularly in our scholarly customers, including Journals and Books, Growth in the eLearning business standalone and in E.I. Design, and more stability in the platform business.

I would like to now hand it over to Sukhwant to discuss the Content and eLearning solution performance in Q2 FY '23, and overall prospects for the business in FY '23.

Sukhwant Singh: Thank you, Sunit, and hi, everyone. So, I'll start with an update on the Content Solutions business. Our revenues in the Content Solutions business grew by almost 10% in the Q2 FY '23, over the same period last year and the profit increased by almost 30% during the same period, so a growth of 10% in revenue and 30% in profit.

Journals led growth in the Content Solutions business in Q2 FY '23, and given the highly profitable nature of this business, the scale-up also meant that margins also improved for the Content Solutions business as a whole. So the expansion was led by the phenomenal growth in business with both our established as well as the new customers. The other part of our Content Solutions business, the Books vertical also did well in Q2 FY '23. The trend towards offshoring continued in our education business, which sort of further helps our margins.

Coming on to our eLearning business. The eLearning business significantly grew in Q2 FY '23, due to the addition of E.I. Design and an impressive double-digit growth in MPS Interactive and TOPSIM, which is our German-based entity. The revenue grew from a consistent flow of projects from both our Star accounts and also the new customers. The highlight of the growth at

TOPSIM GmbH was that it was primarily driven by product revenue enabled via the new TOPSIM cloud, which is a high quality of revenue from a financial as well as a strategic lens.

While our revenues grow, our order book also expanded by over 20%, as we booked significant and sizable orders. Our pipeline is robust across different types of work, diverse geographies, and varied across training strategies. So, while margins significantly expanded in eLearning, they have yet to reach their true potential and we strive to expand this further in Q3 and H2 FY23.

Thank you, and back to you, Rahul.

Rahul Arora:

Thanks, Sukhwant. The muted start to FY23 in Q1 was left behind in the rear-view mirror, as we gained significant new momentum in Q2. We are well on track to beat our guidance of INR 100 crore in PAT in FY '23 despite the looming recession. As in the eLearning and platform solutions business, various factors give us confidence, including our content business is doing exceptionally well with our scholarly customer base. We were at the early innings of the growth story for this customer base and growth will continue to unfold for the rest of the year. After a steady pickup in Q2, performance will be even more impressive in the content business in the second half of the year.

While we reported growth and rich margin expansion in Q2 in the eLearning business, our ambitions are higher and will begin to be unlocked truly in the second half of this financial year. In our third year of ownership, the Platform business is finally stabilizing, given the distressed nature of the HighWire assets and the fact that we acquired at a competitive purchase price, we saw massive ROIC during an impressive payback period of fewer than three years. Though true growth will only unfold in the fourth, possibly the fifth year of ownership.

To conclude my comments, I'm delighted with our continued progress in the integration of E.I. design into MPS. The experience of acquiring a growth asset at a competitive purchase price is remarkably different from a distressed acquisition strategy.

In fact, the E.I. operating model has allowed us to scale our most significant eLearning business and direct some of the super creative teams to focus on higher-value pursuits and projects. During the week of October 24, we launched a new brand called EI powered by MPS, which will represent our combined eLearning business. The brand is positioned as an emotionally intelligent experience design company. Our new logo is inspired by Daniel Goldman's five pillars of emotional intelligence. We want to leverage the power of human connection and empathy to build resilient, high-performing individuals and teams with more profound engagement with the organization. Understanding the intent and not just the scope is part of our DNA, which helps us connect with learners over and above and beyond training.

Our ability to create an impact on their lives enables performance, helps drive career growth, and creates a belonging that transcends beyond data and analytics, assisting organizations to

reinvent the workplace experience. We look forward to your continued support in this exciting new growth phase of MPS of building scale.

I would now like to open the call to questions.

Moderator: Thank you, sir. We will now begin the question-and-answer session. Participants who wish to ask a question may press star and one on your touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We have the first question from the line of Vaibhav Bhattacharya from Honesty and Integrity. Please go ahead.

Vaibhav Barchytiya: So in the last quarter, you said about the ESOP program that you were exploring for talent retention. So just wanted an update on that. Have you finalized something and what is the update on that?

Rahul Arora: Thank you, Vaibhav for the thoughtful question. Yes, it's in progress, and we're expecting to close that out this financial year. Of course, we have to go through the Nomination and Remuneration Committee and then also get approval from the Board of Directors. So we are following the process.

Vaibhav Barchytiya: Okay. So it should be in place by the end of the year is what you're saying?

Rahul Arora: Yeah. Fingers crossed.

Vaibhav Barchytiya: Okay. Got it. And secondly, does this merger of Penguin Random House and Simon, which is now getting delayed, are we in any way associated with these companies? Or will we be impacted either positively or negatively, due to this development, if this merger doesn't go through?

Rahul Arora: So we are not in the trade segment. Both the publishers that you have mentioned are in trade publishing. Our focus is on learning and education. So within publishing, we work with scholarly publishers and education publishers, including college and K-12. We do not work with trade publishers, at least not in a significant way. So for us, this has no impact at all.

Vaibhav Barchytiya: Okay. Understood. Got it. That is all from my side, Thank you.

Moderator: Thank you. Participants who wish to ask a question may press star and one on their touchtone telephone. We have the next question from the line of Arjan Balakrishna, an Individual Investor. Please go ahead.

- Arjan Balakrishna:** Thanks for giving me this opportunity and congratulations on a great set of numbers. My question is on any update on acquisitions because we've been talking about big-ticket acquisitions. So is there anything in the pipeline this financial year?
- Rahul Arora:** Thank you for your question and your kind support. As I shared previously, we are always actively pursuing acquisitions. We have a growth office that is focused on this strategy. At any given point in time, we are examining 10 to 15 different opportunities. Currently, we have about four that are active and warm. In terms of when we will close one, that is more forward-looking information and guidance that we do not provide. But yes, acquisitions continue to be very much part of our growth strategy. And out of the 10 to 15 that we're pursuing, 4 is what I would call warm and things that we think will be closed in the foreseeable future. What is that foreseeable future, time will tell!
- Arjan Balakrishna:** Thanks, and one final question, last quarter, I think there was some kind of delay in one of the projects, if I recollect correctly, the eLearning business. Is that now back on track? If I remember correctly.
- Rahul Arora:** Yeah. It was more in the education business. It's back on track, but still, we have not recognized that revenue in Q2.
- Arjan Balakrishna:** Ok great, Thanks. All the best.
- Moderator:** Thank you. Participants who wish to ask a question may press star and one on their touchtone telephone. We have the next question from the line of Arjun Goel, an Individual Investor. Please go ahead.
- Arjun Goel:** Hi Sir, and congratulations on a very strong set of numbers. Sir, I had a question. Can you tell me what is the dollar or the constant currency growth rate for the last quarter of Q2, either on a year-on-year basis or on a quarter-on-quarter basis?
- Rahul Arora:** We typically track and report the FX-adjusted revenue, which is pretty close to the constant currencies, and that is 13.77%, as reported we are at 14.87%.
- Arjun Goel:** Okay. So the number to focus on is this FX-adjusted revenue?
- Rahul Arora:** Yes. We focus on the FX-adjusted revenue because these are reported. We are getting benefits from the depreciation of the rupee.
- Arjun Goel:** So on the same subject, that EBITDA has gone from INR 30 crore to INR 40 crore over the last year. So how much of this INR 10 crore would be because of foreign exchange benefits? And how much would it be internal efficiencies or things like that? Can you break it down further?
- Rahul Arora:** So I'll let the finance folks calculate that really quick. But again, I would encourage you to look at our investor presentation that we upload on our website.

- Arjun Goel:** Yes.
- Rahul Arora:** You will see that the EBITDA was calculated on an FX-adjusted basis Revenue, not on reported revenue. So that's actual EBITDA. The reason for that growth in EBITDA is primarily from our Content business. You'll see our margins are significantly expanded, and a large part of that is the Journals and Scholarly content business, which as a proportion of our overall content business, has grown. And this is a higher-margin business. So, whenever journal or scholarly content grows, it tends to outperform all the other aspects of content. And because it is now increasing proportionally, it's a healthy sign from a margin perspective.
- Additionally, we have also seen an improvement in our eLearning margins. As Sukhwant described at the start of the call, while we are satisfied with the performance, we still need to unlock our true potential in eLearning, which you will start to see from quarter three onwards. So, what you're seeing on our investor presentation on the EBITDA margin front is FX-adjusted revenue.
- Arjun Goel:** Okay. So that's actually very encouraging. That's a very good sign, right? If I've understood it correctly. Like, it's because of better more value-added services versus just a tailwind of the dollar appreciating, right?
- Rahul Arora:** Yes. So, it is proper operational performance. But then again, there's also that aspect of the rupee depreciating, which has given us additional tailwinds. There was a solid core already available, which drove everything. Roughly, if you compare very ballpark estimates; roughly, the difference would be 2% to 3% coming from the currency. Most of it comes from the operations front.
- Arjun Goel:** Okay. Wonderful. And sir, you mentioned about eLearning, what do you estimate is higher target margins? I mean, you're saying it's still not up to the mark. So what is the mark?
- Rahul Arora:** Our goal, of course, is to get to the industry standard of 25%. That's just an average number. So, our first milestone is 25%. But of course, MPS typically does better than our competitors, and our sights are set on 30 percent. And when we get to 30%, we will not settle. We'll continue to pursue margin expansion. So I'm hopeful we'll get very close to the number this year.
- Arjun Goel:** Okay. Wonderful and best of luck!
- Moderator:** Thank you. Participants who wish to ask a question may press star and one on their touchtone telephone. We have the next question from the line of Jyoti Singh from Arihant Capital Markets Limited. Please go ahead.
- Jyoti Singh:** Thanks for the opportunity and congrats on a good set of numbers. Sir, my question is on the segment side. As you did mention that we have not reached the potential we have. So what is the growth strategy that we are targeting that will be helpful to drive more revenue and growth in our business?

Rahul Arora: So are you talking across the business or specifically in eLearning?

Jyoti Singh: Across the business.

Rahul Arora: Yes. So overall, we have a multi-pronged approach.

Today across the business, we have ~600 customers, and our first strategy is to go deeper into each of these customers. We are working very closely across the company. You'll notice that we spoke about Star accounts at the top of the call. Star accounts are accounts we've identified that potentially, over time, should become large customers for MPS. We currently have placed 30 customers in the Star account program, which has already begun to scale. So this exercise started about two years ago. Our next phase will be to take this 30 to 100. So, we will ramp up from 30 to 100 accounts, which we will scale and grow again. The first leg of the growth strategy is organic, which ensures that out of the 600 accounts we own, 100 become Star accounts over the next few years. We've already executed 30 and will ramp up to the next 70.

The second piece of our growth strategy focuses on new capabilities and development. Every year, we launch new capabilities in partnership with our customers and develop products that either offshoot existing products and solutions or combine different parts of the business. So, for example, this past year, we've launched three initiatives. The first one was when we launched a new version of Magplus, an existing platform whose latest version is based on HTML5. Another initiative was where we combined the capabilities of our eLearning business and our content business to go after the educational institution market, so that was another go-to-market strategy. The third one is that we are building another platform that combines our Benchpress product from HighWire and our MPSTrak product from MPS as a new project for Project Herald.

These are just three examples of many things we have been doing to launch new products and capabilities.

The third strategy we are pursuing is going after new logos, and the way we're doing that is we have been very thoughtful and rigorous in terms of our marketing, both offline and online, to drive awareness and interest in the company. We have also started to scale up our sales team. So we have an account development team that's focused on 600 customers. But now, we are also investing in a sales team going after new logos based on the leads we generate from our various campaigns.

These are examples of what we're doing on the organic side. On the inorganic side, we have transitioned from acquiring distressed assets at distressed prices to acquiring growing assets at competitive prices. E.I. was our first such acquisition. As I described to the gentleman in the previous question, we are actively pursuing 10 to 15 growth assets. And currently, there are four possible transactions that we're pursuing where we feel optimistic about some form of closure in the coming periods.

Jyoti Singh: So sir, my next question is on the margin side. What margin guidance you are targeting coming FY '23-24 and how much growth we are targeting?

Rahul Arora: In Content, we're happy with the 40% we're reporting. Beyond this, we want to drive it through revenue growth. There's significant operating leverage available in the content business. So as revenue grows, margins will continue to expand. With Platforms, we want that to operate closer to the Content margins. And on the eLearning side, like I was describing earlier, we want to be at 30%. So 40%-40%-30% is what we would like to strike in the coming year. That's the goal that we're striving towards.

Jyoti Singh: Ok. Thank you, Sir.

Moderator: Thank you. Participants who wish to ask a question may press star and one on your touchtone telephone. We have the next question from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Hi to the MPS team. Congratulation on very strong numbers. Hope my line is audible.

Rahul Arora: Yeah. Your line is clear.

Rahul Jain: Yeah. So I have a couple of questions. Firstly, on the new branding that we have done and more, any more input that you could give in terms of how the clients are seeing this? And also, in terms of what exactly you want to position with this new branding. That is question number one. Second thing, from a profitability point of view, we have seen that comparison from last year, we are doing more revenue with a lesser employee headcount. How sustainable is this? And thirdly, also a related question for the sustainability of profitability because that is driving a much faster earnings growth versus revenue growth. So, if you could give your thoughts on these three aspects. Thank you.

Rahul Arora: Sure. The first aspect of rebranding is having the most comprehensive capability set in the eLearning space. We do everything from learning consulting to learning design to simulations, games, AR, and VR. We have a bunch of learning platforms. The TIS acquisition gave us many capabilities, and we had EI Design earlier this year. The thought process behind this rebranding was to help the customers understand that our value is not the products and services but our ability to solve pressing learning problems for our customers and then focus on growing that customer relationship. The products and solutions are simply tools that are meant to solve those critical learning and development challenges that our customers are facing.

So, we're not trying to sell products or sell services individually. Instead, we are solving learning and development challenges that our customers are facing, and these products and services are all the ammunition we need to enable that problem-solving. Why emotional intelligence? Our emotional intelligence value proposition is saying that we will design the learner solutions for you, keeping the context of the learner in mind and the context of the learner's environment. One must respect that when a learner goes through a learning journey when they join an organization,

or during upskilling/reskilling within an organization, there's an immense change process the learner is going through. Very often, an organization or a vendor partner like MPS focuses on the product, the service, or the solution and needs to catch up on the learner context.

So, if I am a new employee and I've joined an organization in the tech space, which has high churn, my context is very different from someone who is in a manufacturing plant, has been with the company for 20 years, and is now trying to learn a new technology. So, we optimize for the learner's context, both in terms of the individual's context and the environmental context, which ensures that as the customer outsources to us, they know that we are coming at this from a humanist approach versus just trying to sell a product and service—so focusing more on the value!

We launched this at DevLearn, one of the world's most significant learning events, a couple of weeks ago and received a great response. This rebranding was not done in isolation. We had an advisory council of our customers that helped us think through the process after the acquisition of EI Designs for customers from both sides. So, it was inspired by some of our customers. It represents two things: one, when learning and development are thinking of outsourcing, they have a partner that they can trust, who will be consultative, creative, and also create magic through the learning. But also, the second piece of this is that we will not just think about our organization, our customers' organization, but really about the end learner in mind.

So that's on the rebranding piece. In terms of margin expansion, we've always spoken that this business has significant operating leverage, where MPS is different from some of our other competitors in the marketplace, in general, because we invest significantly in developing new workflows, new processes, as well as new technologies to make sure that we continue to be efficient. We are always looking for ways to automate and system-based delivery. We have a team based out of Bangalore, headed by our CTO, and we have a unit called MPS Lab that focuses entirely on speed and efficiency. There are almost 100 engineers across various roles that are focused on efficiency. These engineers are focused on our internal headcount, not on external platforms.

We've been investing in this now for almost a decade. Some of the returns are compounded now, and we've seen some of the effects of return, as customers also have. Because of the pandemic, they accepted much of the innovation and automation we wanted to introduce. So there's one lever coming from doing more smart work rather than grunt work. And, of course, the second lever is that we operate in Tier 2 cities as much as possible. And, of course, post-pandemic, that's even been further expanded, as we've on-boarded talent across India through remote working, even in our eLearning business.

Speaking of margins, for the Platform business, we want to get towards the Content business margins, and for the eLearning, we see a path towards 30% over the near term. And, of course, we have other plans that will require more effort once we get there, but 30% in eLearning is possible. From a sustainability standpoint, as I advised, the Content business margin in the late 30s, or early 40s, is very sustainable.

Rahul Jain: And if I can, one more. If you could share your thoughts in terms of having a very long tail of customers with a very low per-client revenue matrix, how we plan to optimize on this front, either from a mining perspective or prudential segment proven if you intend to do that. Any general thoughts on growth spread with macro taking the shape that we see this? Any views on that?

Rahul Arora: Yes. As you would have noticed, our customer concentration over the years has significantly reduced. Our top 10 now contribute to less than 50%. This number was like 80% five years ago; similarly, even the top 15 are at 55%. Again, this number was almost 90% five-six years ago. So, there's been a significant diversification by intent to diversify the customer base to protect ourselves from any shocks that might happen due to the macroeconomic environment. We have a wide net, as I described earlier. We do have a Star account strategy that is bearing fruit. So, for the last two or three years, we've focused on 30 customers and graduated them to our Star account status.

We have the infrastructure and relationships available to scale this from 30 to the next 70 customers. And then, if a macroeconomic situation does present itself, I think at this point, we are diversified to absorb any significant shocks. But of course, macro eats micro. So, we, as a management team, are aware of the environment and are constantly in touch with all our customers. We have deep relationships with our customers. So, if the situation does present itself, based on the cues that we will get faster than anybody else because of our deep relationships with our customers, we will adapt and amend.

But as of now, we are not hearing anything except what we see on the news. Customers are not telling us that they will be pulling back. At DevLearn, we saw 2x of the participation before the pandemic. So, we're not seeing it, but we are aware and watching. But we have yet to get any data or evidence that it affects our business, at least not in the next six months.

Rahul Jain: I mean, Rahul just on this more. The client question was more the other way around and not from the concentration point of view, but just trying to understand the cost-benefit analysis in terms of a very large number of clients because if I strip out the top 10 numbers average revenues per customer for the rest of the portfolio would be a very small number.

Rahul Arora: Yes. We maintain efficiency ratios for all our customers. An efficiency ratio is nothing but total direct costs divided by net revenue, and we ensure that efficiency ratio, the target for everybody is 40% of the company, for every customer and the red zone is 60%. So as long as every customer engagement is between 40% to 60% of the efficiency ratio, we don't have that problem because we're very, very disciplined, and we make sure that every customer contract that we sign is between that 40% to 60% efficiency ratio.

Rahul Jain: Sorry, I could not get this for 40%, or 60% what exactly is this, sorry?

Rahul Arora: So what we do is for every customer, we calculate the net revenue. Net revenue is revenue less outsourcing, so we get the net revenue for the customer. Then we look at the effort and the cost

of manpower to be deployed on that customer. That number should be 40% of the Net Revenue, and our ceiling is 60%. So every project at MPS operates in this zone of 40% to 60%. So as long as we are between 40% to 60%, we execute the project. If we cannot complete the project between 40% to 60%, we do not take on the project. So, we are highly disciplined.

Rahul Jain: Got it. Thank you

Moderator: Thank you. We have the next question from the line of Sachit Motwani from Param Capital. Please go ahead.

Sachit Motwani: Congrats on a great set of numbers. My first question was in eLearning, excluding E.I. Design, how would have been the sequential growth in Q2?

Rahul Arora: As I was sharing earlier, we have four business units in our eLearning business, if I can call them business units, for lack of a better word. E.I. and MPS Interactive, India-based entities, grew in double-digits. Our TOPSIM entity, the German entity, also grew in double-digits. Our Swiss entity, which does about CHF 1.5 million annually, had a decline of about 30%.

Sachit Motwani: But sequentially you would have growth, right?

Rahul Arora: I am saying year-on-year. So Q2 of this year versus Q2 of last year.

Sachit Motwani: The second question is, has the full payment for the E.I. Design acquisition been done?

Rahul Arora: I'm sorry, can you repeat that Sachit?

Sachit Motwani: I'm saying the payment for E.I. Design for the acquisition, has that been done?

Rahul Arora: Yes. All payments have been completed. That was completed last quarter.

Sachit Motwani: The last question is, how do you fix accounts as Star accounts when you talk about Star Accounts?

Rahul Arora: So, we look at three fundamental factors. A Star account can be a Star account if it checks two of three boxes. One, the current size is large. Second, the future potential is considerable, or third, it has a strategic element. So, if the account is an Apple or an Amazon, I can say it's a blue-chip customer. If a customer checks two of these three boxes, they qualify to become a Star account.

Sachit Motwani: And do you have plans to get into IT services also at some point in time? So are you still evaluating that?

Rahul Arora: So that was a thought. We had an acquisition opportunity that we were pursuing then. It was very opportunistic. It wasn't a strategy per se. It was more of a possibility, and we were flirting with it. But we have learned that there's still so much low-hanging fruit in this business, in the

content, eLearning, and platforms business. We want to stay focused. We are only approaching 70 million in revenue right now. As I've shared in vision 2027, our goal is 3x that. We can 3x to that level by staying focused. Again, it's not that we will not make acquisitions, but they will all happen in this realm. That was just us getting distracted.

Sachit Motwani: My last question is, you've been talking about some consolidation going on in the content space. Would you be willing to acquire a company in the content space? The only reason I'm asking is that if you do so then there would be again a concentration risk because you'd be highly dependent on the content business.

Rahul Arora: We will only do it if there is some new capability. We wouldn't do it just for the sake of revenue.

Because post the pandemic, there's still juice in content solutions for growth. Like we're seeing in the scholarly business today with journals growing. There's still juice for us to grow organically. We've created significant lines of differentiation between us and the competition. Our positioning in the marketplace has now been elevated post the pandemic. We could deliver to a much higher level than the marketplace on average. So, organically we should be able to grow in content.

The only reason we would pursue an acquisition is if there's a capability set that we do not own, and that capability set would be very niche because we are already reasonably end-to-end.

So yes, if it expands capability, but knowing the market in general, it will likely be exceptionally focused. But yes, there are still opportunities within the value chain with a capability we don't currently own.

Sachit Motwani: Got it. Thanks a lot, Rahul, and once again Congratulations on the great set of numbers.

Moderator: Thank you. We have the next question from the line of Vaibhav Bhattacharya from Honesty and Integrity.

Vaibhav Bhattacharya: Yes. Thanks for queuing the follow-up. So nearly 1/3 of our revenue is from European or UK clients and we have seen significant currency movement in that region which actually increases the cost for the customer because their currency has depreciated. Are you seeing that they are trying to renegotiate some of the pricing so that they can reduce the burden because it's quite a substantial jump for them? Because all the contracts are denominated in USD.

Rahul Arora: Yeah. So 34% of our revenue comes from UK and Europe, but 84% of our billing is in USD.

Vaibhav Bhattacharya: Right.

Rahul Arora: This has happened over some time. It was in the 60% if I remember correctly. Even the customers there are negotiating primarily in USD. They've transitioned to that because these are global companies. They're not just European companies. I'm talking about most of the customers we work with in Europe and not a minority; our customers are global. Global publishers have

offices all over the world. So, their standard is US dollars. That's how they've been run. And we don't see any changes there. And we're not hearing anything from our customers about any changes.

In terms of price, on the content side, we tend to be price warriors anyway. We don't tend to win customers on price; we tend to close customers on price if that makes sense on the content side. On the platform side as well, we're middle of the pack, and on the eLearning side, we are in the middle. So, we aren't the most expensive vendor out there. So, we don't have those kinds of pricing negotiations with the customer that others would.

Vaibhav Bhattacharya: Got it. Understand. That is all from my side.

Moderator: Thank you. We have the next question from the line of Arjun Goel, an individual investor. Please go ahead.

Arjun Goel: Just a follow-up. I have a question regarding the industry structure on the content side and actually more on the scientific journal side. So I was reading this statistic that Elsevier and others like the top four or five global publishers account for like 40% or 50% of all the scientific papers published, right, in any given year. So I wanted to know, basically, and I believe this number is only growing larger, right? It's consolidating. So I wanted to know like where does MPS sort of fit on the content side in the structure? Because like do we target these top five players and try to grow their accounts? Or are we catering more to the smaller universities and things like that? So if you can just throw some color that will be helpful.

Rahul Arora: Our industry is very niche, and most people don't follow our sector. Let's draw parallels with another industry so that you and others on the call get where we're coming from. So, let's look at video-based content. So today, you have Netflix, Prime Video, and Disney driving content, and we all are accessing content through subscriptions.

In our world, the publishers are Netflix and Amazon Prime, and Disney Hotstar. What MPS is doing is we are producing content that gets delivered through these companies. So, if more content is created worldwide, irrespective of the channels that provide the content, MPS will be successful. So, what we are doing is we are one step behind in the value chain. We are the producers of the content. And then all the names you described on the scientific journal's side are the content distributors. So, for us, the market could consolidate or get even more diversified, but we're concerned that there will be more content in the world five years from now. And as long as there's more content in the world five years from now, we will be successful.

Arjun Goel: But in this scenario, right, don't the Elseviers get bargaining power because we are consolidating do they try I mean, do they try squeezing the likes of MPS?

Rahul Arora: So, how does Netflix, Prime Video, or Disney differentiate themselves? They differentiate themselves through new, fresh content that beats the competition. So, the pressure is not on the price. The pressure is on differentiation. So, they need to work with vendor partners that can

enable the differentiation. So, the pressure is more on the quality. The pressure is more on the speed of the product.

Arjun Goel: Thanks. That is very insightful. Thank you.

Moderator: Thank you. Participants who wish to ask a question may press star and one on your touchtone telephone. We have the next question from the line of Keshav Garje from CKIPL. Please go ahead.

Keshav Garje Sir, thank you for providing me with this opportunity. I wanted to congratulate you on an all-time high profit this last quarter and we hope that the company stays on a growth trajectory. Sir, so since you mentioned in the call after the E.I. Design acquisition that we should be expecting at least one more acquisition in this financial year.

Rahul Arora: I didn't say that. I said that we are working on many acquisitions, and four out of them are warm. We can expect an acquisition in subsequent periods. I did not say that it would happen, it might happen, but I can't confirm when it will happen.

Keshav Garje: I stand corrected. But in any case, since we are looking out for acquisitions, and sir, with the recessionary trends in Western countries and the sentiments at rock bottom, so are you seeing the asking price for these acquisitions becoming more sensible and more lucrative for us?

Rahul Arora: It appears to be a Buyer's market. Companies are asking for higher prices, but transactions are getting executed at more reasonable levels. We are seeing transactions getting completed at lower multiples. I can speak for our space.

We're moving into a world of a Buyer's market. I wonder why this is; we see a lot more volume in the inflow of these possibilities. I'm not a Finance expert, but you have fewer opportunities if the market is dry. But for some reason, we are seeing a much heavier inflow of possible deals than we have in the last five years.

It's a buyer's market because we are seeing transactions happening at a much lower multiple, given the growth of the business. And E.I is a good example. We bought them at less than 3.5 times EBITDA, and this company is north of 20% EBITDA margin and growing at 15%- 16%. So, we have executed one this year itself.

Keshav Garje: Sir, also wanted to understand that I joined this call a bit late, so I hope I'm not repeating myself, but this platform division, so you think that this financial year will be the last year of contraction and from next financial year, even this division will start growing?

Rahul Arora: Yes. so this was our last acquisition of a distressed asset. We've now made seven distressed asset acquisitions before E.I. From our experience, we've seen that it takes five years, on average, across the seven that we've done for such an acquisition to start to perform. Our first year is about stopping the bleeding and ensuring they're cash positive.

The second year is more about getting the customers and the employees satisfied. In the third year, the customers and employees tend to get more optimistic about the future, and we start to see some growth in the fourth year. And in the fifth year, things begin to take off. We've just started our third year in HighWire, and we will have to see how the cycle performs out, but that's typically been our experience, and HighWire is part of the course. Perhaps slightly ahead of the rest because HighWire was profitable from the first month. But other than from a growth perspective, it's going to follow that four-five-year cycle that we've seen.

Keshav Garje:

Ok Sir. Thank you very much and best of luck.

Moderator:

Thank you. We have the next question from the line of Mahesh from RIA. Please go ahead.

Mahesh:

What would be the size of the four opportunities that you're pursuing in eLearning?

Rahul Arora:

We are not looking at anything less than **USD 10 million** in revenue.

Mahesh:

So would that be bigger than E.I. Design?

Rahul Arora:

Yes, of course. E.I. was much smaller. So, we are not looking at anything less than **USD 10 million** in revenue annually. We are not looking at anything that's declining. We are looking at profitable businesses that are growing, businesses that are north of \$10 million in annual revenue, and thriving businesses.

Mahesh:

Are they based out of India?

Rahul Arora:

Sorry?

Mahesh:

Are these opportunities companies based out of India?

Rahul Arora:

We're looking at India-based and international opportunities both.

Mahesh:

Ok. Thank you very much.

Moderator:

Thank you. Participants who wish to ask a question may press star and one on your touchtone telephone. As there are no further questions, I would now like to hand the conference over to Mr. Rahul Arora for closing comments.

Rahul Arora:

Thank you, everyone. As I said, Q2 was a strong recovery after muted Q1. We continue to support our guidance from the first quarter that we will beat INR 100 crore in profit after tax in FY '23. Many experts tell me on the finance side that it is a magical moment when a company crosses that level, especially with a diversified customer mix, new opportunities get unlocked, and more unique plays open up. We are hopeful that once we achieve the level of scale, new opportunities will also open up for us.

Thank you for all your support over the years. This has been a very long journey. And we're starting to see that MPS is now moving from being a small, mid-sized company to a company



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seriously contemplating scale. So thank you for your support and great questions that keep us honest and humble. And again, thank you, everyone, and catch you on the next call.

Moderator:

On behalf of MPS Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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