

22 Mar 2016

Initiating Coverage (BUY)

CMP

INR 166

Target Price

INR 205

MT EDUCARE

Stock Details	
Industry	Education
Bloomberg Code	MTEL:IN
BSE Code	534312
Face Value (Rs.)	10.00
Market Cap. (Rs. Mn)	6,590.30
52wk. High/Low (Adjusted) ((Rs.)	199.90 / 96.30

Shareholding Pattern Jun '15	
Promoter (%)	42.78
FII (%)	0.00
DII (%)	22.52
Public - Other (%)	34.70
No. of Share Outstanding (mn)	39.82

Valuation Summary				
	FY 14A	FY 15A	FY 16E	FY 17E
P/E (x)*	16.24	20.31	21.00	18.00
EV/EBITDA (x)*	7.84	13.85	12.00	10.06
P/BV (x)*	3.05	5.24	5.48	4.91

*TTM for Current Year

Based on Market Price as on 1st Apr is taken for FY14

Key Financial				
Rs. Mn	FY 14A	FY 15A	FY 16E	FY 17E
Net Sales	2,018	2,270	2,875	3,582
EBITDA	423	466	651	798
Net Profit	210	297	376	453
EPS (Rs.)*	5.3	7.5	9.4	11.4

*Un adjusted

Key Ratios				
	FY 14A	FY 15A	FY 16E	FY 17E
EBITDA Margin (%)	21.0	20.5	22.6	22.3
EBIT Margin (%)	14.6	16.6	19.6	19.6
Net Pro. Margin (%)	10.4	13.1	13.1	12.7
Debt/Equity (x)	0.00	0.00	0.00	0.00
RoNW (%)	19.7	25.0	27.9	29.2
RoCE (%)	18.7	23.8	25.9	27.0

One Year Price / Volume



Divya Sood (Research Analyst)

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We recommend 'BUY' on MT Educare for a target of INR 205 - valuing the company at P/E of 18.0x FY17E Earning.

INVESTMENT RATIONALE:

- Proxy Play on Indian Demographic Dividend Through Education
- Established player in the classroom segment
- Diversified Service Offerings
- Geographic Expansion
- Potential Growth in Science Segment
- Flipped Classroom Model
- Pre-University model to thrive the revenues
- Expansion of Asset-Light model with Sri Gayatri Educational Society
- Technology driven growth from Robomate and Learning Management System (LMS)
- Government projects to provide services
- Strongly backed-up with School Section and Commerce Section in Tier-I Cities
- Focus on national level exams

VALUATIONS AND VIEW:

MT Educare is one of the trusted organized players providing coaching services And Served 133,404 students in 9M FY16 through four business verticals – School, Science, Commerce/UVA and Robomate. Diversified product offerings catering to students right from Std. IX to students appearing for Engineering and Medical Entrance Exams (including IIT Entrance), exams for CA course and MBA aspirants. Network consists of 270+ coaching centers in 10 states/union territories including Maharashtra, Karnataka, Tamil Nadu, Gujarat, Punjab, Haryana, Chandigarh, Kerala, Andhra Pradesh and Telangana. We value the business at 18x FY17E EPS and recommend a BUY rating on the stock with a target price of INR 205 per share.

RISK & CONCERNS:

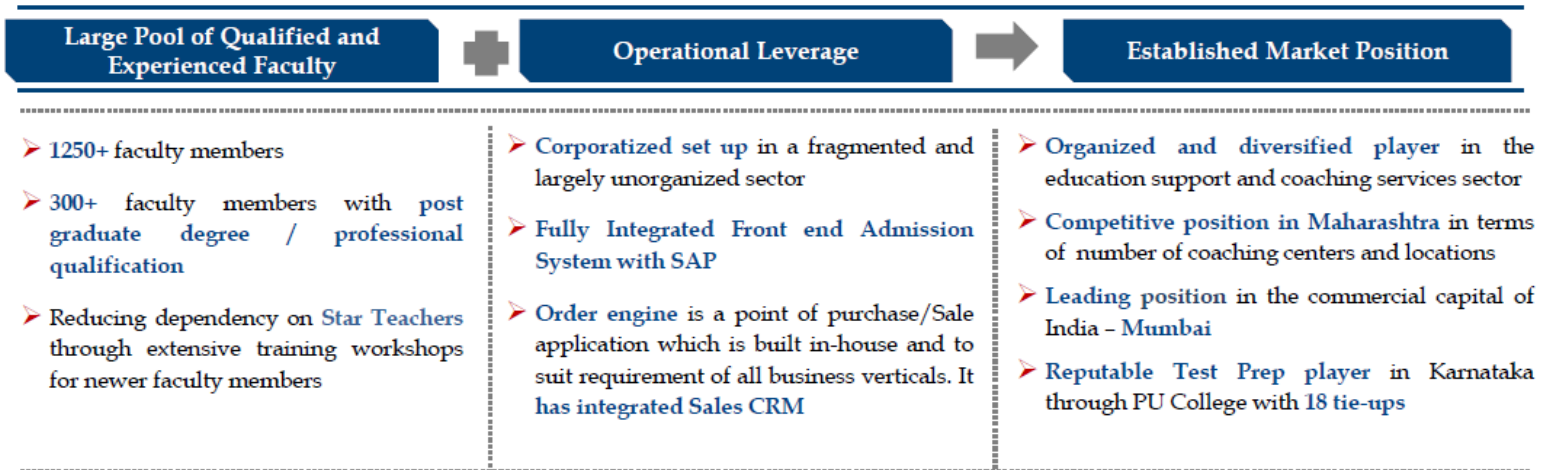
- External Technology effecting Industry as emerging techniques and methods of teaching from competitors.
- Industry with No Entry barriers and often Competition from unorganized sector.
- Geographical concentration.

COMPANY BACKGROUND:

MT Educare is one of the trusted brands established in 1988 and provides coaching services and educational support services under the brand name of “Mahesh Tutorials” which has Serviced 133,404 students in 9M FY16 through four business verticals – School, Science, Commerce/UVA and Robomate. Diversified product offerings catering to students right from Std. IX to students appearing for Engineering and Medical Entrance Exams (including IIT Entrance), exams for CA course and MBA aspirants. Network consists of 270+ coaching centers in 10 states/union territories including Maharashtra, Karnataka, Tamil Nadu, Gujarat, Punjab, Haryana, Chandigarh, Kerala, Andhra Pradesh and Telangana. Technology enabled classrooms coupled with unique teaching pedagogy through flipped classroom and high quality digitized content with emphasis on teacher training through workshops. Company acquired Chitale’s Personalised Learning Pvt. Ltd. (MBA test prep player), Lakshya Forum for Competitions Pvt Ltd (IIT test prep player in North), Tied-up with Sri Gayatri Educational Society in Telangana and A.P. Expansion through more PU tie-ups in Karnataka.

	School		Science		Commerce/UVA		Robomate	
Target Segment	<ul style="list-style-type: none"> • 9th and 10th standard in Maharashtra state board • CBSE & ICSE board 		<ul style="list-style-type: none"> • 11th and 12th standard, engineering and medical entrance examinations • JEE Mains+ Adv • MHT-CET and K-CET 		<ul style="list-style-type: none"> • 11th and 12th standard • CPT, CA-IPCC & CA Final • MBA entrance (CAT, CMAT, etc) • Skill development 		<ul style="list-style-type: none"> • School Section (IX & X), Science section, Commerce section. 	
	FY15	9MFY16	FY15	9MFY16	FY15	9MFY16	FY15	9MFY16
Revenue Segmentation	42%	29%	34%	34%	18%	20%	1%	15%
No. of Students	34,431	32,860	22,461	20,030	25,218	33,679	1,862	46,835

Source: Company presentation



Source: Company presentation

Financial Performance	INR 2,270 mn Revenue - FY15	19% Revenue CAGR FY13-15	INR 466 mn EBITDA - FY15	INR 258 mn Adjusted PAT FY15	
Key Metrics	1,33,404 Number of Students Serviced*	1,250+ Number of Faculty (as on Jan, 2016)	20,000+ hrs Content Library - AV Lectures	40+ IT Services/ Product Development Team	
Presence	10 9 States & 1 Union Territory	150+ Number of Locations*	270+ No. of Coaching Centers		
Results	2,230 Students who scored >90% in 10 th standard	1st, 9th & 11th All India Rank in CA Final	4th CA IPCC	7th All India Rank in IIT-JEE	4th All India Rank in AIPMT

INDUSTRY OVERVIEW:

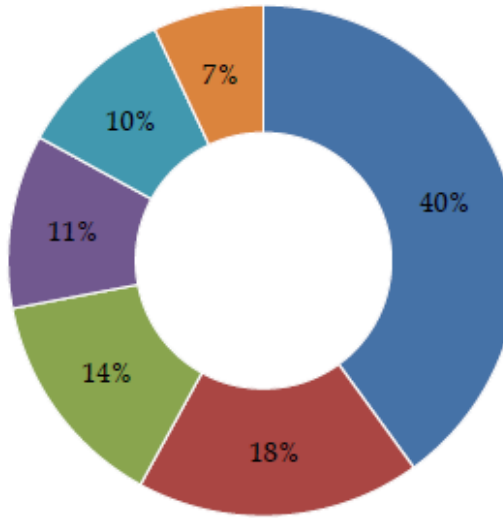
Indian Education Industry – An Overview

Indian education sector is on its robust growth track, driven by factors such as penetration rate, gap between demand and supply, increasing rate of working women, drastic change in urbanization, raising awareness and other factors. India is one of the largest education sectors in the world which has 700 universities, more than 1.8Mn schools, more than 35,000 higher education institutes and 40 Mn seats in vocational training centers. India is also third largest in terms of education enrollment with over 20Mn enrollments per year. Schooling segment in India is estimated to reach US\$ 144 Bn by 2020 from US\$ 44 Bn in 2011, whereas higher education sector in India is expected to increase to US\$37.8 Bn by 2020 from US\$10.1 Bn in 2010.

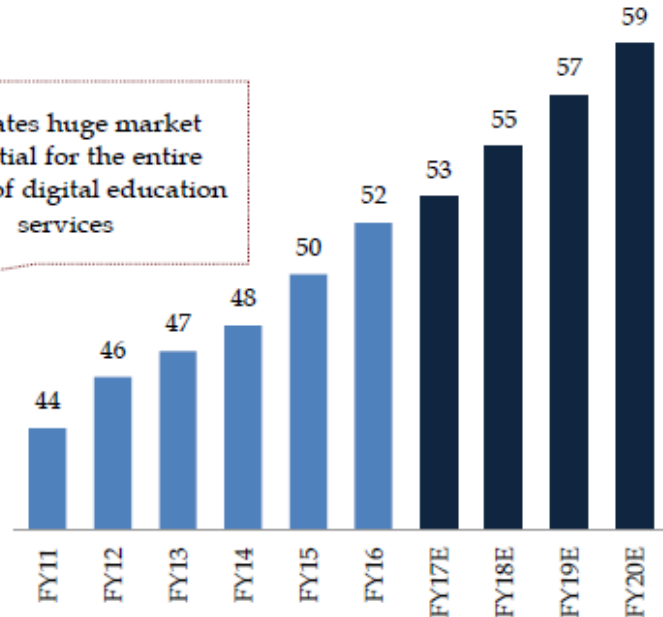
India's online education market size is expected to touch US\$ 40 Bn by 2017. As per RNCOS, distance education market in India is expected to grow at a CAGR of 34% over FY14-18. Moreover, the aim of the government is to raise its current gross enrollment ratio to 30 per cent by 2020, will also boost the growth of the distance education in India. Worldwide E-Learning markets will show fast and significant growth in the next couple of years. The worldwide market for E-Learning reached US\$35.6 Bn in 2011 and expected to reach US\$51.5 Bn by 2016 with the CAGR of 7.6% over 2011-16.

2011 Census - 40% belonging to the school and college going age

Growing no. of Educational Institutions (000's)



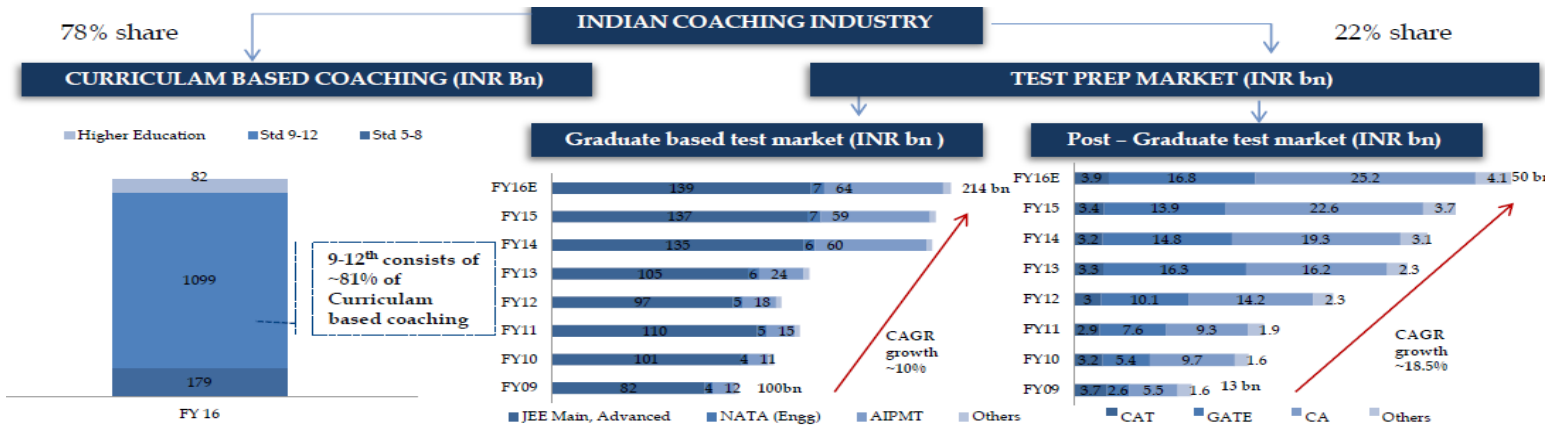
Indicates huge market potential for the entire gamut of digital education services



Source: Company presentation & Crisil

Indian Coaching Industry – An Overview

The Coaching industry in India is expected to grow at a CAGR of 13% over the next 5 years, reaching a size of Rs. 3,280 bn by 2021



Proportion of students taking private coaching

Segments	Share%
Primary (Classes I-V)	22%
Upper Primary (Classes VI-VIII)	26%
Secondary & Higher Secondary (Classes IX-XII)	36%
Graduation	20%
Post graduate & above	13%
Overall School education & higher education	26%

With just 26% of students overall taking private coaching classes, the scope for growth in this segment remains massive

GROWTH TRAJECTORY

	2011 INR bn	CAGR for the period %	2016E INR bn	CAGR for the period	2021E INR bn
Indian Coaching	826	16	1,753	13	3,280
9-12 th	516	16	1,103	12	1,978
Curriculum	607	18	1,374	13	2,578
Graduate	133	10	214	13	402
Post-Graduate	22	18	50	15	101

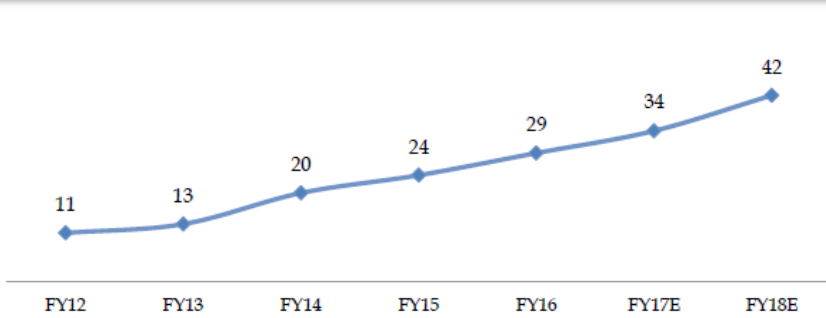
Source: Crisil

Source: Company presentation & Crisil

Digital Education in India

Over the next few years e-learning is expected to grow at a sharper rate in revenue terms as compared with schools due to low penetration cost and higher potential growth.

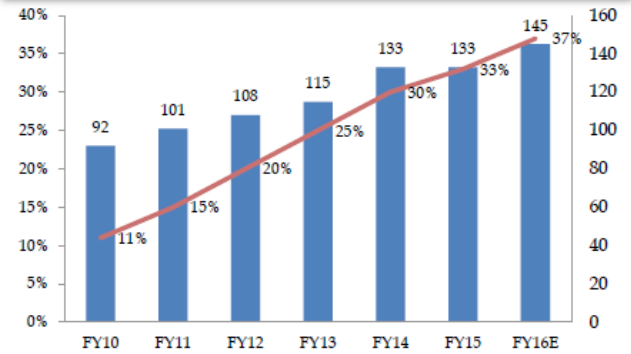
Internet Penetration (%)



Source: Crisil

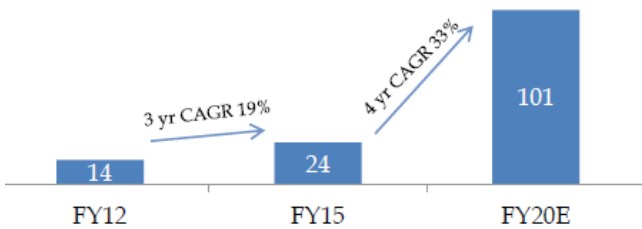
- ✓ Growing preference among users for on-the-move internet access
- ✓ Proliferation of low-cost data handsets
- ✓ Rise in network coverage of high-speed data services

No. of Urban private schools & Digital Penetration

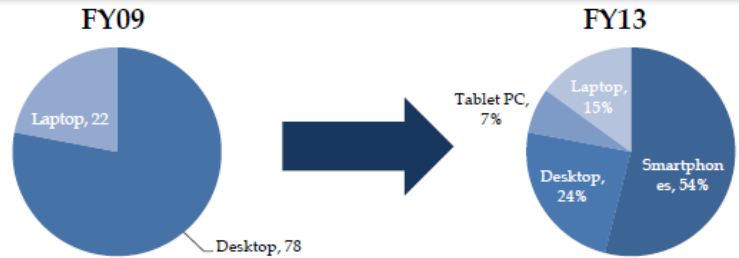


Urban private schools believed to be core target market for digital education would imply significant growth for the digital industry going forward

Digital Education Industry INR bn



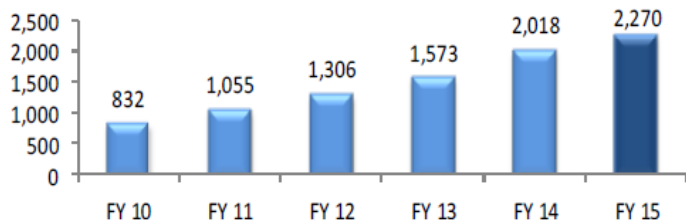
Rapid shift from Desktop to Smartphone expected to continue going forward



Source: Company presentation & Crisil

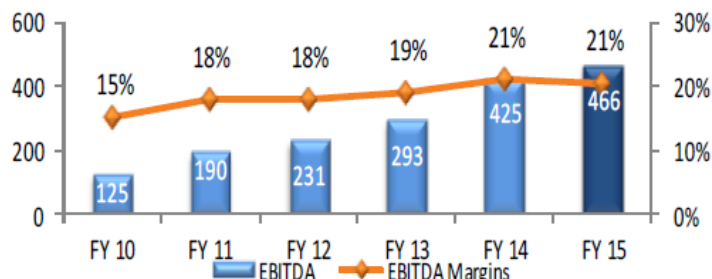
FINANCIAL OVERVIEW

Revenue (INR Mn)



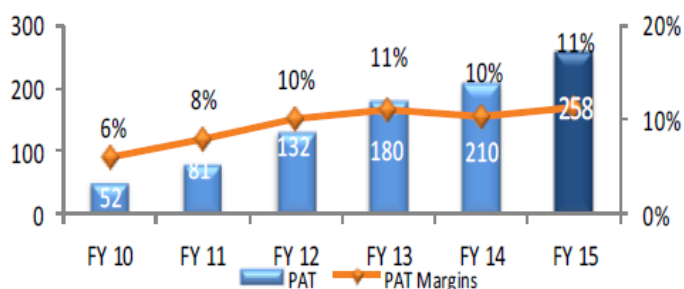
FY 10-15: 22 % CAGR

EBITDA (INR Mn)



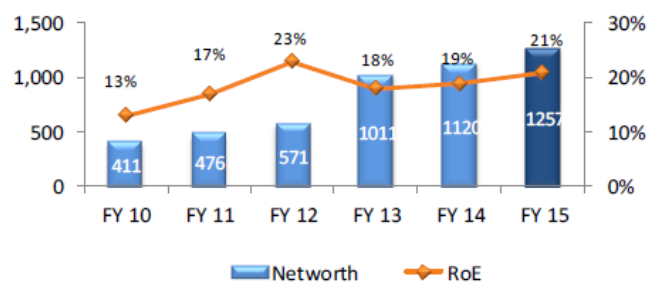
FY10-15: 30% CAGR

PAT (INR Mn)



FY10-15: 38% CAGR

Networth (INR Mn)



Q3FY16 Performance Overview:

- Q3 FY15-16 Total Revenues up 25% YoY, PAT up 34% YoY,
- 9M FY15-16 Total Revenues up 30% YoY, PAT up 32% YoY

Q3 FY16 Performance Highlight (Standalone Basis)							
(in Million)	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	YoY (%)	QoQ (%)
Revenue	48.30	45.80	62.85	73.71	61.95	28.26%	-15.95%
Other Income	1.86	2.31	2.14	2.14	2.07		
Total Income	50.16	48.11	64.99	75.86	64.02	27.63%	-15.61%
Expenditure	-38.89	-37.24	-54.70	-50.79	-44.41		
As a % of Sales	80.52%	81.31%	87.03%	68.91%	71.69%		
Interest	-1.14	-1.3	-0.33	-0.56	-0.93	-18.42%	66.07%
PBDT	10.14	9.57	9.97	24.51	18.68		
As a % of Sales	20.99%	20.90%	15.86%	33.25%	30.15%		
Depreciation	-3.57	-3.55	-3.33	-3.46	-3.91		
PBT	6.57	6.02	6.64	21.04	14.77	124.81%	-29.80%
As a % of Sales	13.60%	13.14%	10.56%	28.54%	23.84%		
Tax	-1.66	-1.05	-2.43	-6.86	-5.33	221.08%	-22.30%
Net Profit	4.92	4.97	4.21	14.18	9.45	92.07%	-33.36%
As a % of Sales	10.19%	10.85%	6.70%	19.24%	15.25%		
Equity	39.79	39.79	39.82	39.82	39.82	0.08%	0.00%
EPS (Rs)	1.24	1.25	1.06	3.56	2.37	91.13%	-33.43%
CEPS (Rs)	--	2.14	1.89	4.43	3.35		
OPM %	23.34	23.73	16.38	34.01	31.65		
NPM %	10.18	10.86	6.7	19.24	15.25		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Net Sales	1,272	1,505	1,958	2,089	2,716	3,395	4,074
Other Operating Income	34	68	60	181	159	188	235
Expenditure	1,075	1,280	1,595	1,804	2,235	2,797	3,353
EBITDA	231	293	423	466	640	785	956
Depreciation	78	86	128	89	88	96	104
EBIT	153	207	295	377	552	689	852
Interest Expenses	0	-	0	40	25	48	48
PBT	152	207	295	337	527	642	804
Tax	64	76	111	117	161	201	256
Other Income	40	47	24	71	10	12	14
Extraordinary Items	0	-	-	-	-	-	-
Net Income Before Adjustment	128	178	208	291	376	453	561
Minority Int./Income from Assoc.	(4)	(2)	(3)	(7)	-	-	-
Adjusted PAT	132	180	210	297	376	453	561

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Equity share capita	352	395	398	398	398	398	398
Reserves & surplus	219	616	722	859	1,043	1,265	1,539
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	571	1,011	1,120	1,257	1,441	1,663	1,937
Minority Interest	1	(2)	(7)	4	(0)	(1)	(1)
Share Application Money	-	0	-	-	-	-	-
Loan Funds	-	-	-	-	-	-	-
Net deferred tax liability	-	0	0	0	0	0	0
Other Long-term Liabilities	53	84	30	71	93	116	41
Long-term Provisions	7	6	12	15	19	24	29
Total Liabilities	632	1,101	1,156	1,350	1,554	1,804	2,008
Net block	477	794	1,078	707	683	658	627
Investment, Loan & Adv.	213	365	251	850	537	742	904
Total Current Assets	608	619	500	571	806	1,020	1,316
Current Liabilities & Provisions	666	677	674	780	473	618	841
Net Current Assets	(58)	(58)	(174)	(209)	333	402	475
Total Assets	632	1,101	1,156	1,350	1,554	1,804	2,008

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17E	FY 18E
Operating Cash Flow	170	(90)	557	672
Cash Flow from Investments	(47)	173	(281)	(240)
Cash Flow from Financing	(77)	(137)	(224)	(263)
Net Changes in Cash	45	(54)	53	169
Opening Cash	95	140	86	139
Closing Cash Balance	140	86	139	308

Peer Comparison

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Tree House Edu.	77	5.8	325.8	2.60	6.1	(59.52)	55.8	5.03	0.48
MT Educare	166	20.3	659.0	1.55	9.5	92.07	62.0	28.28	5.24
Career Point	107	12.7	194.2	0.93	5.9	181.34	18.2	12.98	0.57
Zee Learn	31	89.4	993.7	-	2.3	108.26	22.3	12.35	4.11
VJTF Eduservices	55	35.9	96.8	-	0.4	144.87	5.4	33.74	5.26
Virtual Global	8	126.5	321.2	-	0.8	1,580.00	9.1	195.45	5.56
Greycells Edu.	32	45.3	24.9	-	0.8	(1.23)	2.5	(1.59)	0.90

*TTM

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