

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



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:

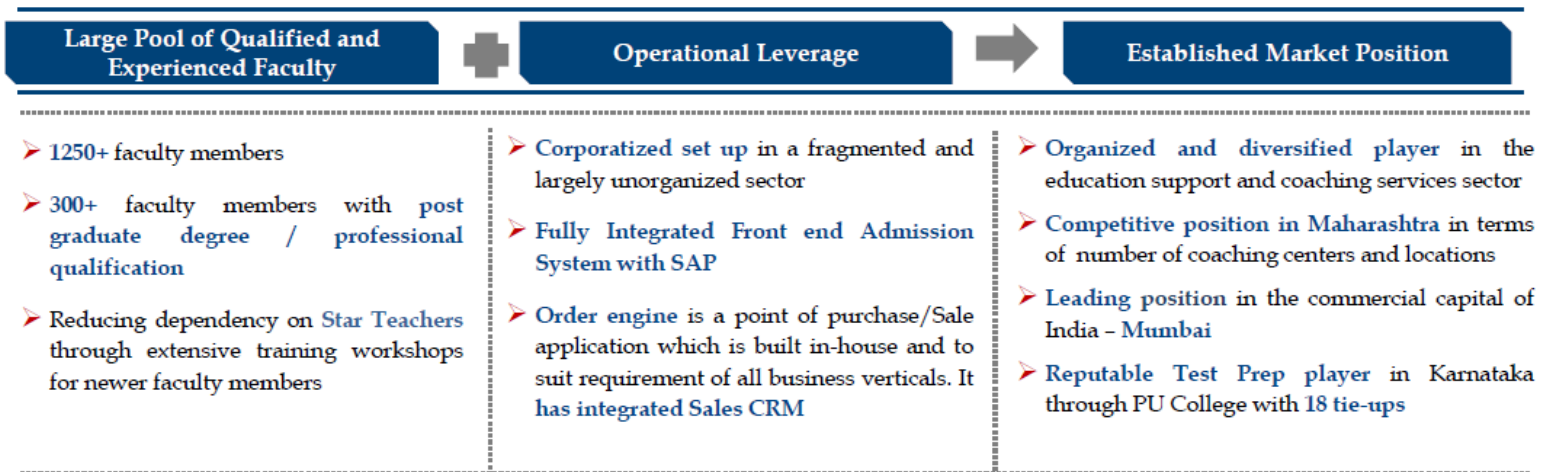
- External Technology effecting Industry as emerging techniques and methods of teaching from competitors.
- Industry with No Entry barriers and often Competition from unorganized sector.
- Geographical concentration.

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:

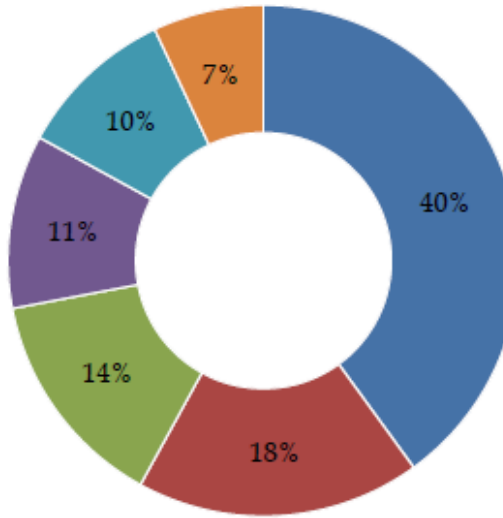
Indian Education Industry – An Overview

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.

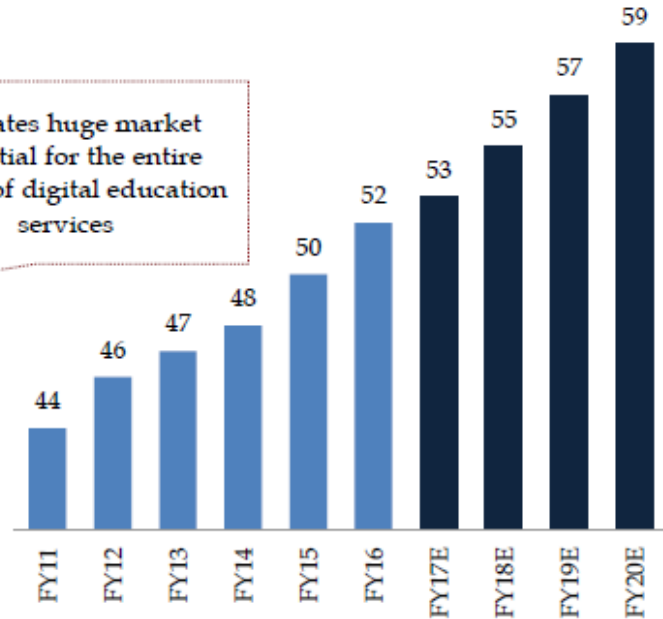
2011 Census - 40% belonging to the school and college going age

Growing no. of Educational Institutions (000's)



■ < 20 years
■ 30-40 years
■ 50-60 years
■ 20-30 years
■ 40-50 years
■ > 60 years

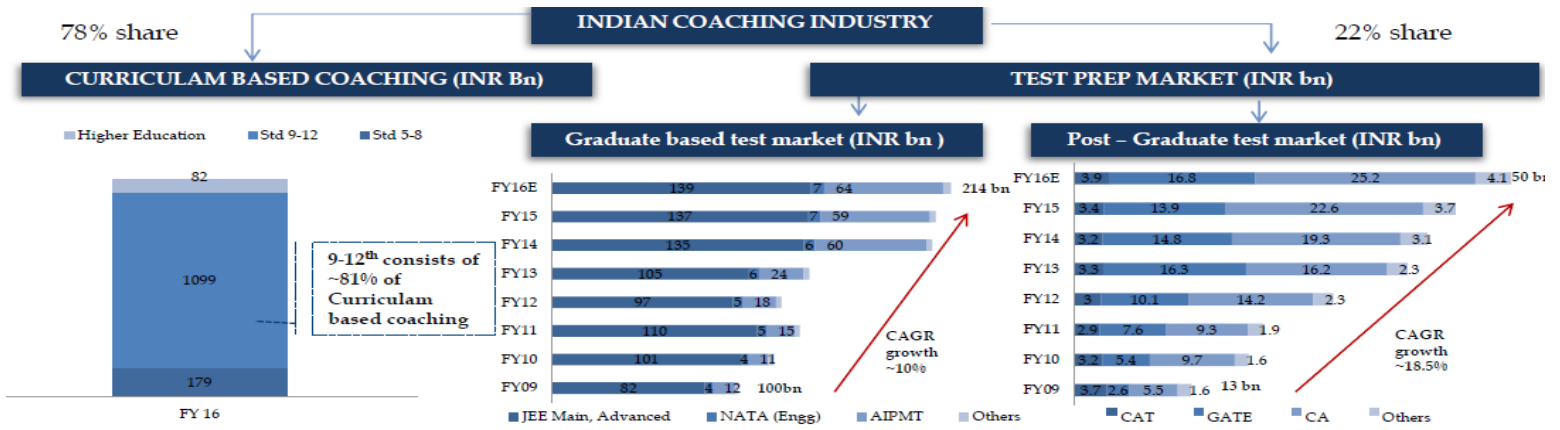
Indicates huge market potential for the entire gamut of digital education services



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

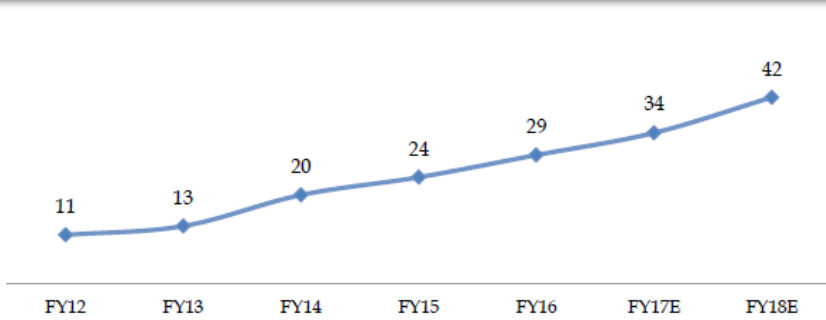
Source: Crisil

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.

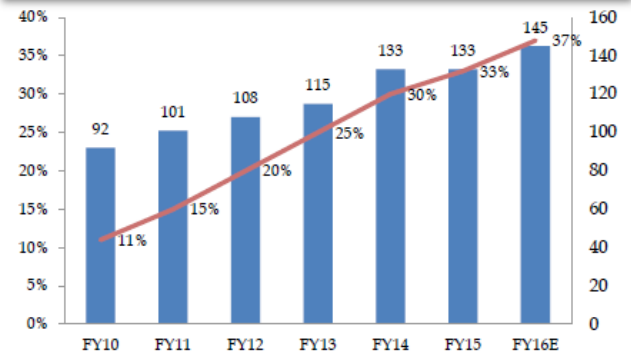
Internet Penetration (%)



Source: Crisil

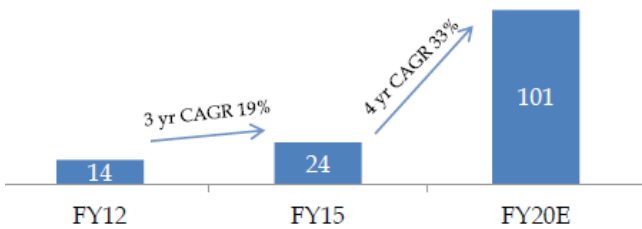
- ✓ Growing preference among users for on-the-move internet access
- ✓ Proliferation of low-cost data handsets
- ✓ Rise in network coverage of high-speed data services

No. of Urban private schools & Digital Penetration

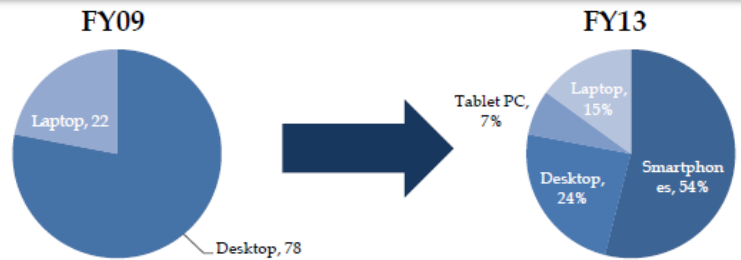


Urban private schools believed to be core target market for digital education would imply significant growth for the digital industry going forward

Digital Education Industry INR bn



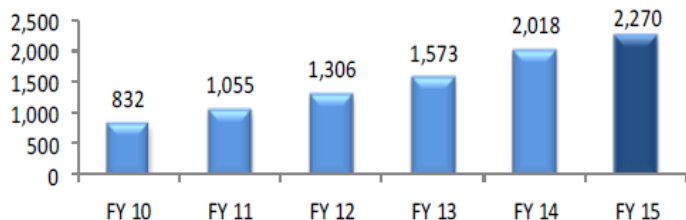
Rapid shift from Desktop to Smartphone expected to continue going forward



Source: Company presentation & Crisil

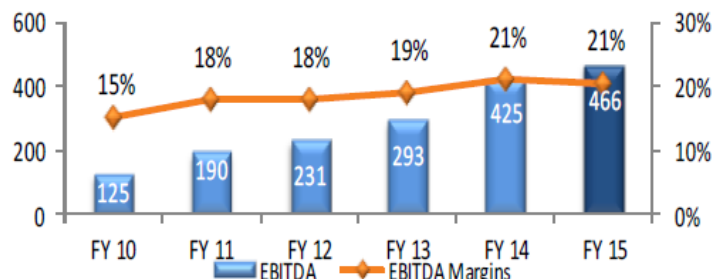
FINANCIAL OVERVIEW

Revenue (INR Mn)



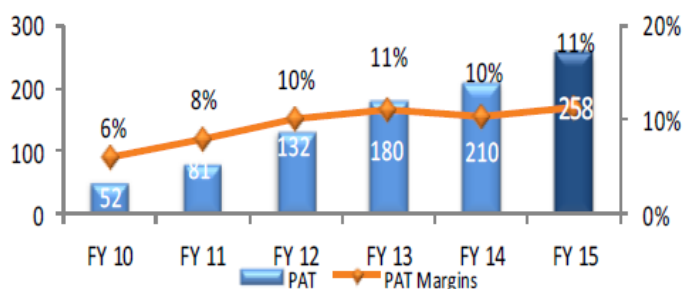
FY 10-15: 22 % CAGR

EBITDA (INR Mn)



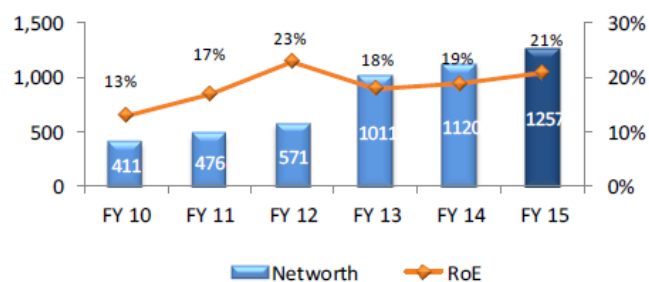
FY10-15: 30% CAGR

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

Disclaimer: This document has been prepared by Wealth Discovery Securities Private Limited (hereinafter referred to as WD) to provide information about the company(ies) and/sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies). This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Wealth Discovery Securities Private Limited (hereinafter referred as WD) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

WD generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, WD generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing among other things, may give rise to real or potential conflicts of interest. WD and its affiliated company(ies), their directors and employees and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the affiliates of WD even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report Reports based on technical and derivative analysis center on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. In addition WD has different business segments / Divisions with independent research separated by Chinese walls catering to different set of customers having various objectives, risk profiles, investment horizon, etc, and therefore may at times have different contrary views on stocks sectors and markets.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt WD or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold WD or any of its affiliates or employees responsible for any such misuse and further agrees to hold WD or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The information contained herein is based on publicly available data or other sources believed to be reliable. Any statements contained in this report attributed to a third party represent WD's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. This Report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. While we would endeavor to update the information herein on reasonable basis, WD and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent WD and/or its affiliates from doing so. WD or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. WD or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and noninfringement. The recipients of this report should rely on their own investigations.

WD and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. Subject Company may have been a client of WD or its associates during twelve months preceding the date of distribution of the research report WD and/or its affiliates and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report. To enhance transparency, WD has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of WD research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	MT Educare
1.Analyst ownership of the stocks mentioned above	No
2.Served as an officer, director or employee	No

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject WD & its group companies to registration or licensing requirements within such jurisdictions.

Wealth Discovery

Transforming Knowledge into Wealth.

COMPLETE WEALTH MANAGEMENT SOLUTIONS !



Understanding financial needs.
Optimising returns...

Head Office

Wealth Discovery Securities Pvt. Ltd.

1206, 12th Floor,
Kailash Building K.G. Marg.
Connaught Place
New Delhi-110001

Telephone:

91 +11-43444-666

91 +11-43444-623

Email:

info@wealthdiscovery.in

Website:

<http://www.wealthdiscovery.in>