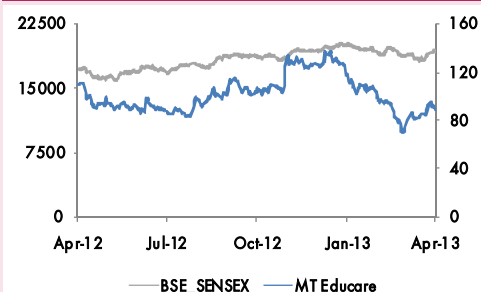


## Stock Data

No. of shares	: 3.95 Cr
Market cap	: Rs 348 Cr
52 week high/low	: Rs 142/ Rs 67
Avg. daily vol. (6mth)	: 119,050 shares
Bloomberg code	: MTEL IN
Reuters code	: MTEL.BO

Shareholding (%)	Mar-13	QoQ chg
Promoters	: 42.88	0.0
FIs	: 5.16	(0.81)
MFs / UTI	: 4.24	0.72
Banks / FIs	: 0.07	0.05
Others	: 47.65	0.04

## Relative Performance



Source: Axis Capital, Bloomberg

## *Aims to tutor India with extensive offerings*

## Financial Summary

Y/E March	Total Income (Rs Cr)	EBITDA (Rs cr)	PAT (Rs Cr)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	DPS (Rs)
2011	106	19.0	8.1	2.36	55.3%	-	18.12	-
2012	131	23.1	13.2	3.78	60.2%	-	25.14	0.45
2013E	156	28.5	17.4	4.40	16.4%	20.0	22.05	2.22
2014E	211	43.3	23.1	5.86	33.1%	15.0	21.68	3.04
2015E	249	54.2	29.1	7.37	25.9%	11.9	22.75	3.78

Source: Company, Axis Securities Ltd.

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## ■ Regional expansion: The next leg of growth

- ❑ MT Educare Ltd. (MTEL) started with 1 centre in Mulund, Mumbai & within a span of 5 years has spread its wings across 8 states via 128 locations.
- ❑ Plans to consolidate its presence in these 8 states with focus on opening centers at new locations (MTEL is opening new locations in cities like Pune & Kolhapur) with a long term vision of transforming itself into a pan India player.

## ■ Target National level test for scalability

- ❑ MTEL focuses on National level examinations (such as IIT, CA, CS, MBA, medical tests, etc) which have uniform language & curriculum on Pan India basis. Plans to launch JEE coaching in Karnataka in next 2 years.
- ❑ Company has pursued inorganic route to expand into national level examinations with the acquisition of Chitale Coaching classes targeting MBA aspirants & "Lakshya" targeting IIT, NEET & NIT aspirants.
- ❑ Enhanced focus on CBSE & ICSE business verticals in order to rapidly scale its school operations across India.

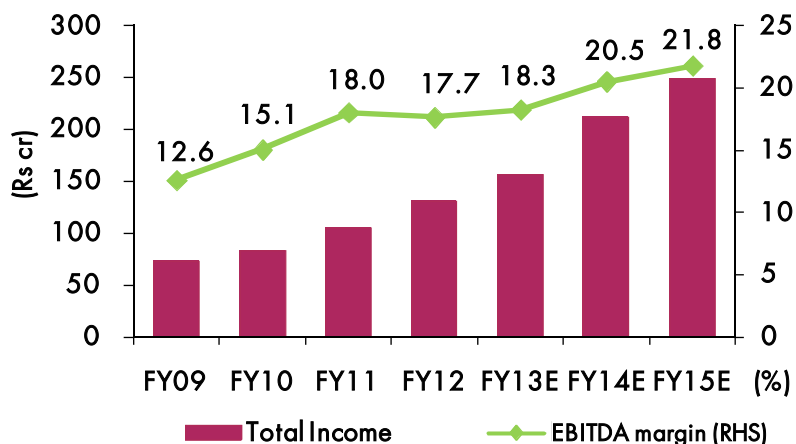
## ■ Catch them young: INK Model

- ❑ MTEL has been instrumental to usher in revolutionary changes (INK model) to coach students.
- ❑ Has expanded its school segment by foraying into coaching V<sup>th</sup> – VIII<sup>th</sup> standard students; has put to use the new technology based coaching model.
- ❑ Has an infrastructure of 24 terminals, capable of serving 6,000 students all over Mumbai at any given point of time.
- ❑ Highly scalable business model which aids in broadening MTEL's school segment's rev. base, gives an edge over competitors
- ❑ Margin accretive as Co. saves on class rent & allied expenses; also lays a strong foundation as these very INK students will be their prospective IX<sup>th</sup> & X<sup>th</sup> pupils.

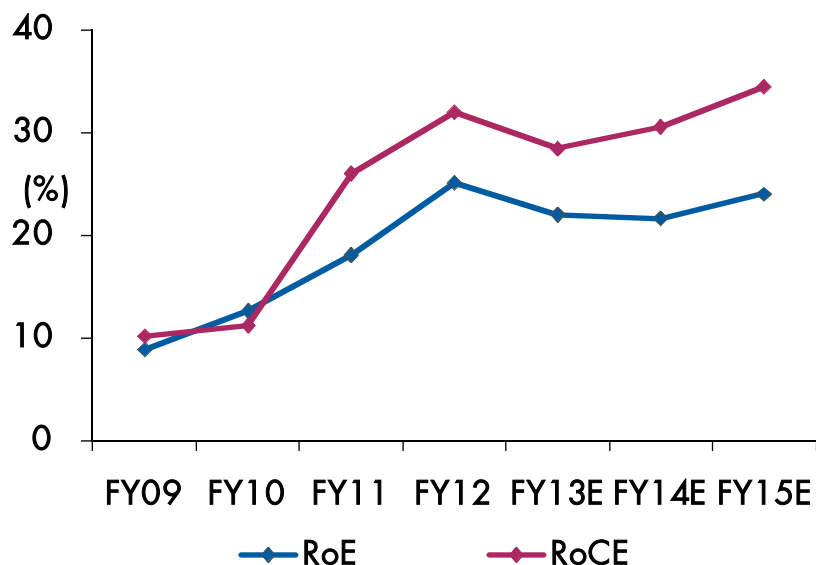
## ■ Karnataka PUC: Emerging opportunity

- ❑ MTEL is aiming at 30 tie-ups in next 5 years and target revenue of Rs 90 cr from Karnataka PU college opportunity by FY18.
- ❑ Karnataka PU college tie up model is an asset light opportunity, EBITDA and return ratios accretive for MTEL as all infra. costs are borne by the colleges.

## Revenue and EBITDA margin



## Stable return ratios



Source: Company, Axis Securities Ltd

## ■ Lakshya: A fitting acquisition

- Lakshya acquisition marks MTEL's entry into the highly lucrative & huge market of IIT aspirants. (12.82 lakh students have applied to take the JEE to be held in April 2013).
- The change in IIT JEE exam pattern from 2013 has been a blessing in disguise for MTEL as these changes further accentuate the synergies to be gained from Lakshya acquisition.

## ■ Op. leverage will kick in with higher capacity utilization

- With the current average utilization rate @ 44%, there is enough room available for MTEL to scale its operations with the asset base created over the last decade.

## ■ Cash Flow strengthened on 3 pillars:- Zero debt, negative working capital and asset light business model

## ■ Valuations

- We estimate MTEL to post total income at a CAGR of 26% & bottom-line at 30% over FY13E-FY15E.
- Highly scalable & asset light business model, zero debt and negative working capital will command premium multiples.
- Healthy return ratios with ROE's over 20% and ROCE over 30% expected during FY13E - FY15E.

## ■ We value MTEL at 15x FY15E earnings to arrive at a price target of Rs 111 giving an upside of 26% over CMP of Rs 88.

## MTEL:- Coaching for students of all age group

### School Section

- IX<sup>th</sup> and X<sup>th</sup> Standard (Std)
  - Maharashtra, Gujarat, Karnataka State Board
  - CBSE & ICSE Board
- INK model (V, VI, VII & VIII<sup>th</sup> Std.)

### Science Section

- XI<sup>th</sup> and XII<sup>th</sup> standard
- Test prep for the engineering and medical entrance examinations (JEE Mains and JEE Advanced, NEET)

### Commerce Section

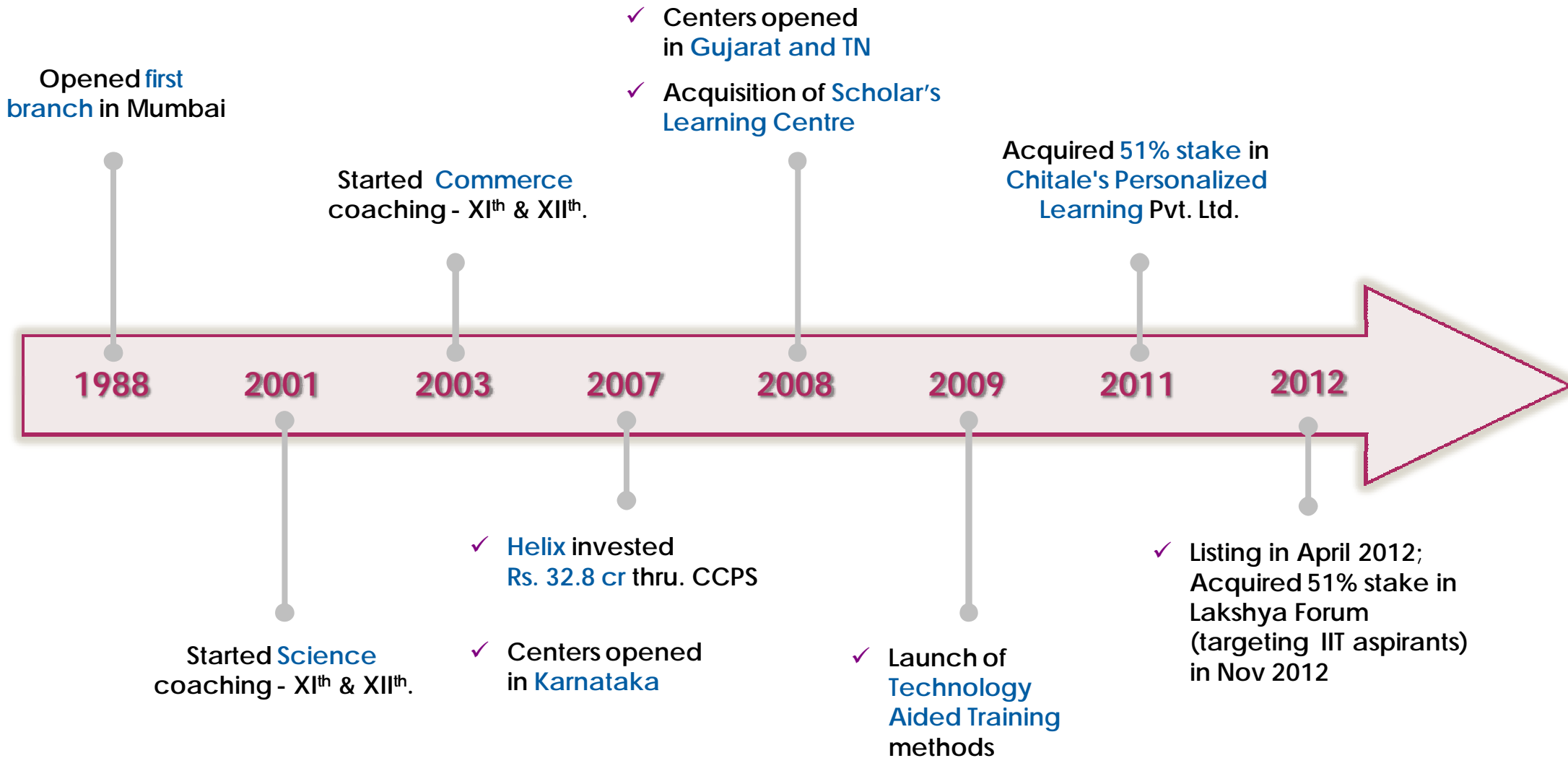
- XI<sup>th</sup> and XII<sup>th</sup> standard
- CA-IPCC , CA Final, CA-CPT
- CS-Entrance
- Bachelor degree in Commerce (UVA)

### Others

- Coaching for CAT, CMAT
- Coaching services in Dubai
- Government Programmes
- Sale of Content through various distribution channels

- “Mahesh Tutorials” – is a 25 year old flagship brand of MT Educare Ltd. (MTEL) which has been providing coaching services since 1988.
- The largest and one of the oldest players in the Mumbai coaching industry.
- MTEL provides coaching services to students across diverse fields right from School (Std. V<sup>th</sup> to X<sup>th</sup>), college (XI<sup>th</sup> & XII<sup>th</sup>), entrance test preparatory courses (engineering, medical & MBA) and CA.
- The company is engaged in coaching and support services for students and operates under 4 business verticals; **School Section, Science Section, Commerce Section and Others**
- MTEL has expanded its reach to 128 locations (210 coaching centres of which 10 are franchisee) across 8 states. 156 centres out of the total 210 are based in Mumbai. From FY07 to FY13E the number of locations grew at a CAGR of 27% from 31 to 128.
- MTEL has 1,128 qualified faculty members of which over 600 are in Maharashtra (including the assistant teachers).
- MTEL has been visionary in its approach and has adopted latest technology for providing coaching services. Teaching in remote areas & Tier 2 cities (the likes of Kolhapur) is done through the use of V-Sat technology. A single faculty can teach approx. 4 batches with the use of video conferencing. This helps in generating higher revenues without higher cost burden.

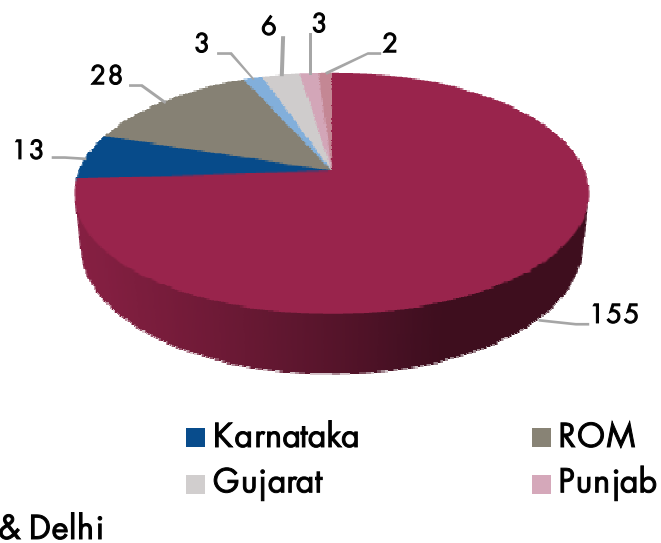
# Company Milestones



## Division wise student segregation

Division	FY 09	FY 10	FY 11	FY 12
School	24,710	27,323	29,227	31,774
Science	9,069	11,231	11,527	14,524
Commerce	8,282	11,256	12,610	12,143
CA	1,943	2,907	4,936	8,093
MBA				1,483
<b>Total</b>	<b>44,004</b>	<b>52,717</b>	<b>58,300</b>	<b>68,017</b>

## Region-wise centre segregation:- Foray into newer regions other than Mumbai

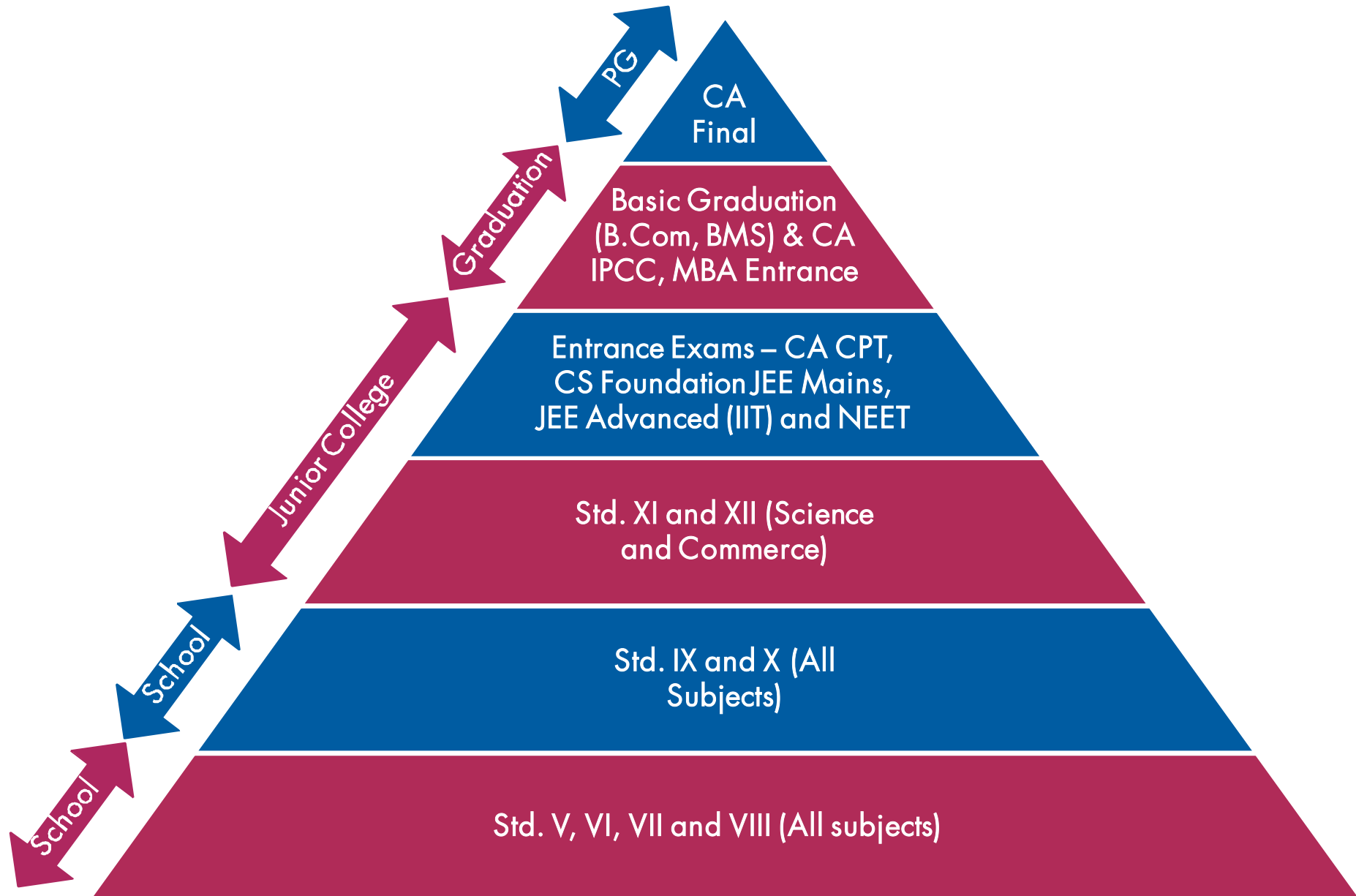


## Focused regional diversification

Particulars	Mumbai	Karnataka	ROM	TN	Gujarat	Punjab	Haryana & Delhi	Total
School	87	4	15	-	3	-	-	109
Science	28	4	12	-	-	-	-	44
Lakshya	-	-	-	-	-	3	1	4
KTK. PUC	-	5	-	-	-	-	-	5
Commerce	33	-	1	3	3	-	1	41
Chitale	7	-	-	-	-	-	-	7
<b>Total</b>	<b>155</b>	<b>13</b>	<b>28</b>	<b>3</b>	<b>6</b>	<b>3</b>	<b>2</b>	<b>210</b>

Source: Company, Axis Securities Ltd

# Business Overview – Capturing the entire Value Chain





# Investment Rationale

# Coaching Industry: Large Addressable Market

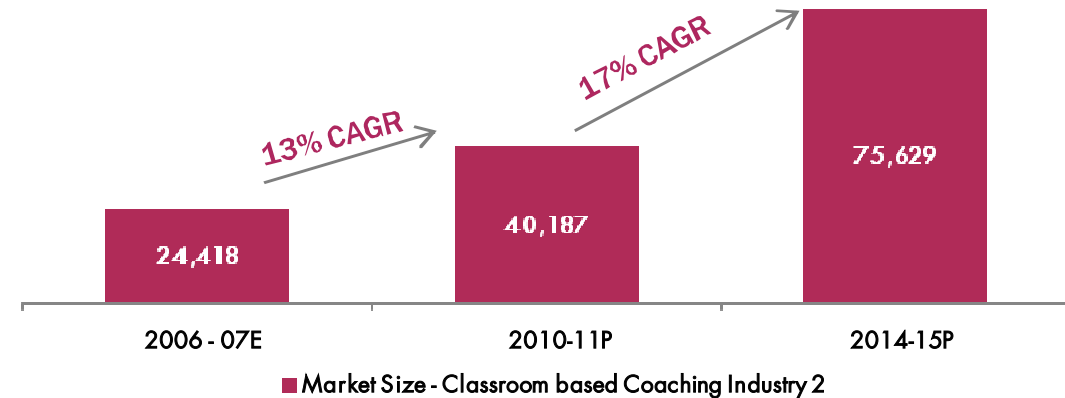
## Coaching industry:- Unperturbed growth

- As per the Asian Development Bank, in India a whopping 60 % of primary school children and up to 83% students in high schools receive private tutoring.
- The coaching industry in India is estimated to grow at a CAGR of 17% between 2010 – 11 & 2014 – 15 as against 13% growth during the last 4 year period.
- Mumbai coaching industry is one of the most lucrative market in India and is expected to grow at a CAGR of 11.6% to Rs 4,500 cr over FY11-15E.

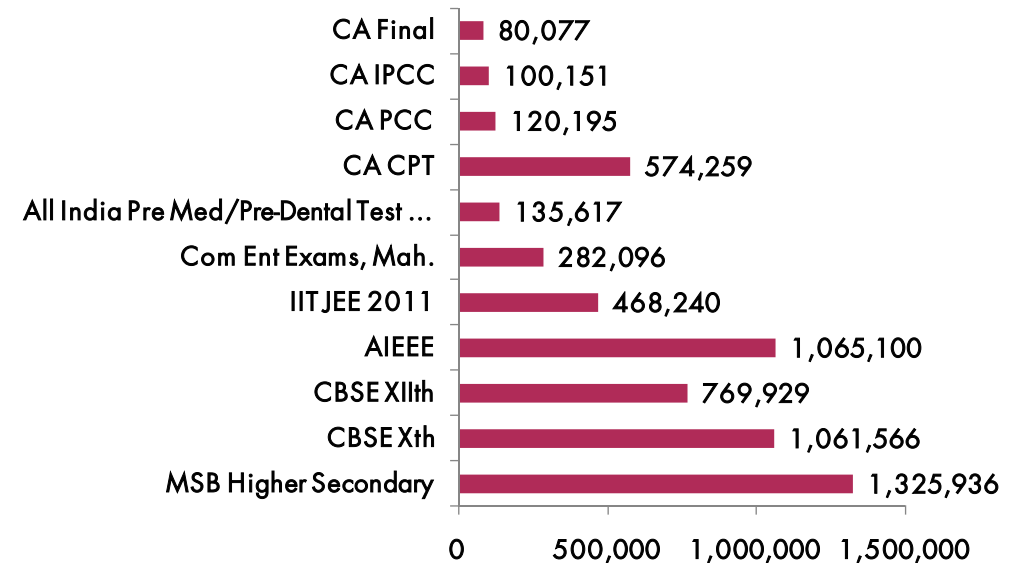
## Strong structural factors aiding the growth of this sector

- Factors are expected to drive the coaching industry :
  1. Rising disposable income;
  2. Increasing household spend on education;
  3. Infra & structural bottlenecks for formal education;
  4. Increasing private sector participation; and
  5. Growth in addressable market.

The Indian coaching industry is expected to grow from Rs. 40,187 crore in 2010-11 to Rs. 75,629 crore in 2014-15. (Rs Cr.)



## A large market opportunity No. of Students appearing in various examinations



Source: Websites of JEE, IIT Delhi, AIEEE, MHRD, Annual report of ICAI, Maharashtra Directorate Of Medical Education and Research, Crisil

# Regional expansion: The next leg of growth

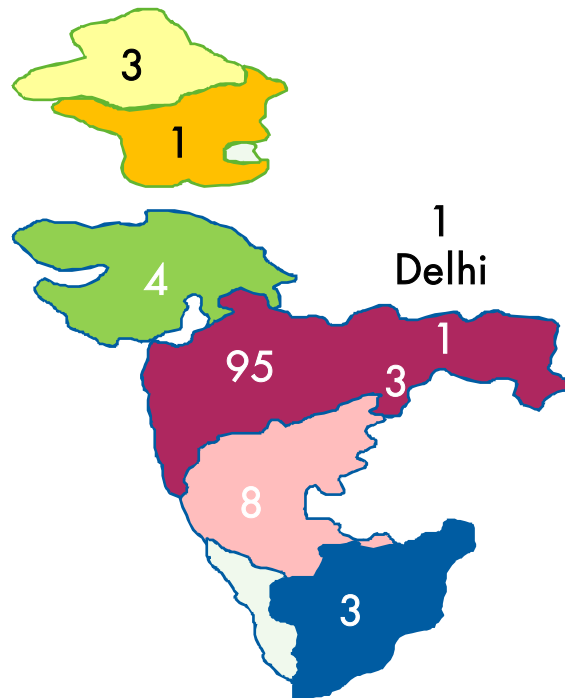
Until 2007, MTEL operated only from Mumbai

In 2007



In 2012, MTEL now has created its presence across 8 States

In 2013



- MTEL Commenced its operations with one centre @ Mulund, Mumbai with coaching service for Maharashtra state SSC board.
- Within a span of 5 years, MTEL has spread its wings from 31 location in Maharashtra in FY07 to 128 locations across 8 states in FY13E.
- Each region is strategically evaluated and based on growth prospects & student preferences MTEL introduces coaching services in that region. For instance, MTEL has launched only CA courses in Tamil Nadu, only Engineering in Karnataka and only Commerce in Gujarat.
- MTEL has practiced restrained by not launching all streams at all locations and have followed a focussed approach for achieving diversification & scalability.
- MTEL has recently began its journey of regional expansion and is expected to grow at a scorching pace from hereon. The company has created presence in 8 states, plans to consolidate its presence with focus on opening centers at new locations (MTEL is opening new locations in cities like Pune & Kolhapur) with a long term vision of transforming itself into a pan India player.
- Regional expansion aids in reducing geographic concentration that MTEL has in Mumbai (75% centers are located in Mumbai) & opens up newer growth avenues across regions achieving revenue diversification.

Source: Company, Axis Securities Ltd

# Target National Level Tests for Scalability

- Focusing on National level examinations (such as engineering, CA, CS, MBA, medical tests, etc) which has uniform language & curriculum on Pan India basis. (The coaching industry suffers due to language/curriculum variations across different states which restricts players to limit their presence in particular State/curriculum).
- MTEL has pursued inorganic route to expand into national level examinations with the acquisition of Chitale Coaching classes targeting MBA aspirants and recent Lakshya acquisition targeting IIT & NIT aspirants. With these acquisitions it has achieved an easy gateway and a head start in these competitive examinations which would have been difficult if MTEL had planned to venture solo.
- National level common examinations provide enormous opportunity for coaching players like MTEL, as large number of students appear for these tests. (For instance, 12.82 lakh high school graduates have applied for JEE Mains to be held in 112 cities in April 2013).
- Co. is also increasingly focusing on CBSE & ICSE business verticals in order to rapidly scale its school operations across all states of India.
- **Expansion Plans:** MTEL is expanding its school segment in Maharashtra in cities like Pune and Kolhapur. Moreover, plans are also on to launch JEE coaching in Karnataka in next 2 years. CA batches were started at Delhi & Rajkot in FY 2013 and plans to expand its presence in cities such as Pune, Ahmedabad and other North Indian cities in FY14.

## Huge student base targeting national level exams

Students Appeared	2005	2006	2007	2008	2009	2010	2011	2012	CAGR (%)
AIEEE	397,178	490,193	599,096	792,752	962,119	1,065,100	1,118,000	1,187,000	16.9%
IITJEE	198,000	299,288	243,029	311,258	384,977	472,000	485,000	479,651	13.5%
AIPMT	210,061	233,591	210,318	161,230	135,617	146,230	207,590	257,960	3.0%
CPT	-	-	112,788	167,809	229,789	250,282	255,210	261,309	18.3%

Source: Company, Axis Securities Ltd

# Catch Them Young: INK Model

## School segment: Expected to cross Rs 100 cr mark in FY15E

Particulars	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E
No. of students	24,710	27,323	29,227	31,774	33,201	38,181	42,762
% y-o-y		10.6%	7.0%	8.7%	4.5%	15.0%	12.0%
Revenue (Rs cr)	39	42	50	60	71	85	100
% y-o-y		7.9%	17.4%	20.9%	17.6%	20.8%	17.6%

## INK Model:- Synopsis

- INK model uses internet as a 2 way communication medium between faculty and students. Use of graphics, sound, pictures aids in better understanding for students.
- It gives a feeling of personal coaching as each student gets to interact face to face with the faculty.
- With adoption of INK model students save on precious travel time to coaching classes. Moreover, **parents can easily monitor their children's studies with this direct to home coaching service.**

- Until 2012, MTEL focused on school segment providing coaching services to IX<sup>th</sup> and X<sup>th</sup> Std. covering all subjects across 3 boards (Maharashtra, ICSE and CBSE).
- MTEL via its INK model, is bringing revolutionary change to coaching students by adopting a technology based teaching model.
- With the recent launch of INK model, the company is expanding its horizon and is foraying into providing coaching services to students of V<sup>th</sup> – VIII<sup>th</sup> standard.
- Similar to its base school model, for INK model MTEL will cover all the subjects and across 3 boards (Maharashtra, ICSE & CBSE).
- MTEL has set up 24 terminals which are capable of serving 6,000 students at any given point of time.
- **Advantages for MTEL:-** A highly scalable business model, broadens its school segment's revenue base, gives an competitive edge over peers, margin accretive (as company saves on classroom rent & allied expenses) and also lays a strong foundation as these very INK students will be their prospective IX<sup>th</sup> & X<sup>th</sup> pupils.
- **Management is targeting 2,000-3,000 admissions in the inception year of INK. We believe, MTEL had created a strong base in IX<sup>th</sup> & X<sup>th</sup> section of school segment and now the INK model will emerge as next growth driver for the school section.**

- Karnataka has emerged as a prime tutorial market and a hub for medical and engineering preparatory examinations in India. The state of Karnataka conducts PUC board examinations for university admissions.
- Pre University Course, popularly known as PUC is an intermediate course of 2 years duration conducted by state education boards in India. A person desiring admission to any Indian university must pass this course. The admission to this course is based on marks obtained in Std X and the PU course is required to get admission in colleges offering professional courses like medicine, engineering, etc. In state of Karnataka, there are standalone PU colleges only offering XIth & XIIth Standards.
- MTEL is targeting the engineering space, and already has several tie-ups with PU colleges in Karnataka to provide test preparatory coaching and management consultancy services. Currently present in 5 cities viz., Bangalore, Tumkur, Hubli, Mangalore and Udupi. Company has followed 2 business models targeting PU college opportunity: a) Tie-up model and b) Owned model.

## **Mahesh PU college (Tie-up model)**

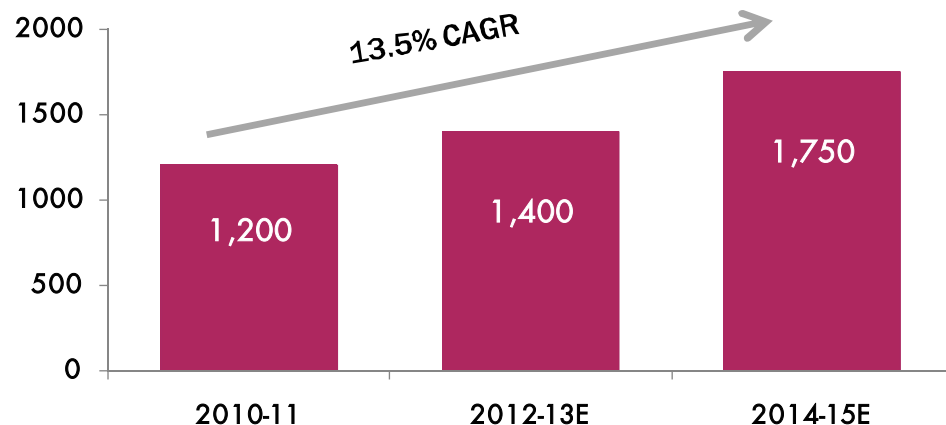
- MTEL enters into college tie ups whereby it provides test preparatory coaching and management consultancy services.
- 15% of revenue is shared with the college for utilizing the college infrastructure.
- Currently, MTEL has 4 college tie ups (Bangalore, Hubli, Tumkur & Udupi) and is servicing 550+ students.
- MTEL earns revenue through 2 streams:- coaching fees and management consultancy fees.
- MTEL also has successfully concluded advanced talks with 4 new colleges for tie ups in Feb 2013 and will be revenue accretive in FY14. MTEL is targeting to service 1,500 students through this 8 college tie-ups in FY14E.

## **Mahesh PU college (Owned model)**

- MTEL has built a 4 storey (75,000 sq ft) PU college at Mangalore, Karnataka and has commenced operations in Feb 2013. This is an owned property of MTEL.
- MTEL also is in the process of constructing a hostel (11 storey structure) capable of accommodating a total of 1,000 students; 4 floors will be constructed in Phase I by June 2013.
- MTEL earns revenue through 5 streams; rental income (hostel & college), coaching fees and management consultancy fees (hostel & college).
- MTEL is already servicing 850 students in Mangalore (via leased infrastructure). They will soon be transferred to the new Mahesh PU college facility. MTEL is targeting to increase the no. of students serviced to 1,500 in FY14E.

# Karnataka PU College: Emerging Opportunity

## Karnataka Coaching market (Rs cr)



## Science section student and revenue (Rs cr)

Particulars	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E
No. of students	9,069	11,231	11,527	13,924	11,835	12,604	13,994
% y-o-y		23.8%	2.6%	20.8%	-15.0%	7%	11%
Revenue (Rs cr)	18	21	26	33	35	48	55
% y-o-y		17.3%	20.6%	26.7%	7.0%	38%	15.2%

- **Scalability:** MTEL is targeting 10 PU college tie-ups by FY14E and is aiming at 30 tie-ups in next 5 years (achieve revenue of Rs 90 cr only from Karnataka PU college opportunity by FY18).

## Advantage MTEL

- Karnataka PU college tie up model is EBITDA accretive for MTEL; as all infra. costs are borne by the colleges. As per the agreement, MTEL has to share 15% of its revenues with the college whereas cost savings for MTEL adds up to over 20% of revenue (for rent, advertising, staff salary, power, etc which is borne by colleges).
- It is also important to note that MTEL is looking to only expand via the tie-up model in Karnataka going forward. For MTEL, tie-up model is an asset light opportunity, where they only have to incur approx. 20 lakh capex for refurbishing college premise/classroom (only TAT and A/C costs). Thus, return ratios will be positively augmented in medium term.
- We expect Karnataka PU college (Engineering) to emerge as one of the prominent revenue streams for MTEL over the next 5 years. Moreover, MTEL will also be creating a strong base of potential IIT aspirants which will aid Lakshya's expansion planned in Karnataka in next 2 years.

Source: Company, Axis Securities Ltd

- MTEL acquired 51% stake in Lakshya Forum for Competitions Pvt. Ltd (Lakshya), a leading North Indian IIT, Engineering and Medical Entrance teaching institute. Lakshya has witnessed stellar growth since inception. (From 0 to 12 cr revenue in 5 years).
- The total consideration will be paid by MTEL over a period of next 3 years & is contingent on certain milestones to be achieved by Lakshya. The agreement gives an option to MTEL to buy 100% stake in Lakshya up to 30th June 2018.
- This acquisition marks MTEL's entry into the highly lucrative and huge market of IIT aspirants. (12.82 lakh high school graduates have applied for JEE to be held in 112 cities in April 2013).
- The change in IIT JEE examination pattern from 2013 has been a blessing in disguise for MTEL as these changes further accentuate the synergies of this acquisition (explained below).
- Lakshya currently is present in Punjab and will be expanding its reach to other North Indian states of Haryana, HP, UP and J&K. Whereas, MTEL will focus on the West and Southern states of India to provide IIT - JEE entrance coaching.

## Old IIT examination Pattern

- Single Entrance National Level Exam.
- 12th Board exams had less relevance for IIT admissions as 60% in Std. 12th was enough for a student to give a shot at IIT. Thus, students seldom gave importance to 12th Board examinations.
- A student could take 2 separate exams; AIEEE and IIT JEE. Not faring well in one did not rule out success in another.
- State-wise importance was limited. Thus, single city, region, State gained prominence for this examination. (For instance, Kota).

## New IIT examination Pattern

- 3 exams are now given equal importance; 12th Board, JEE Mains & JEE Advanced. Thus, now a student needs to equally focus on 12th Board exams as well as JEE preparations.
- AIEEE has been scrapped from this year. Under the new system, only the top 1,50,000 students based on JEE Mains score will be allowed to appear for the JEE Advanced exam for admission into IITs.
- Each State has been given equal prominence. IIT admissions will be based on the JEE Advanced scores provided the student is in the "top 20 percentile of EACH STATE" based on Std. XII results.
- Thus MTEL+ LAKSHYA combo provides the right mix to prospective students who can receive expert coaching for 12th from MTEL & proficient training for JEE from Lakshya.



## Growth plans for Lakshya (North)

- Lakshya has ambitious plans to shed its single state focus and venture into newer territories such as Haryana, Himachal Pradesh, J&K and UP.
- Lakshya also intends to further consolidate its strong position in Punjab by opening centres in new cities as well as expand the sizes of its current centres.
- For all expansion that Lakshya undertakes in North India; MTEL will be entitled to 51% share in rev & profits.
- Lakshya has already serviced over 2,200 students in FY2013 and is targeting to scale over 3,000 students by 2015.

## Growth plans for Lakshya (West & South)

- MTEL is initially launching Lakshya in Mumbai across 7 centers and has received encouraging response from aspirants.
- MTEL is currently expanding across Karnataka targeting XIth and XIIth science aspirants via its PU college model. These very science students could well turn out to be potential Lakshya targets once MTEL launches it in Karnataka in the coming 2 years. Thus, the company is currently laying a strong foundation which will aid Lakshya's growth in Southern India.
- MTEL will only share a minimal royalty with Lakshya entrepreneurs for using its brand in expanding this business in Western and Southern States of India.

## Outlook

- Lakshya has been a fitting acquisition and has aided MTEL to further consolidate its position in Science section .
- The change in national level entrance exams has turned out to be a boon for MTEL and has taken some steam out of region specific coaching players. We believe, MTEL and Lakshya will provide students with the perfect combo coaching for XIIth and JEE preparatory examinations.
- We expect Lakshya (North + South) to report revenues of Rs 22 cr in FY14 and Rs 30 cr in FY15.
- Lakshya will not only be revenue accretive for MTEL, but will also aid in margin expansion. We believe this line of business is capable of earning 25-30% EBITDA margin (once this business attains larger student base and expands across States) as compared to the current consolidated EBITDA of 18% earned by MTEL as on FY12.

## Diverse courses offered under UVA model

- Students can be a part of UVA for a period of 3 years (basic graduation period) where UVA prepares them to do well in post graduate entrance tests like CAT / CET / GMAT, etc., under the CPLC programme for MBA / MMS.
- SEED (Skill Enhancement & Employability/ Entrepreneurial Devlpmt.) trains students in vocational skill building which incl courses like CFP, DBF, BPO, Sales, Retail, Marketing, etc., for the first 6 months & then assist students placements in the remaining 30 months of the 3-year period.
- Life Enrichment & Advancement Prog. (LEAP) mentors & motivates students (with regular counseling workshops).
- TO-BE prog.(Transform through Outbound & Behavioral Education) provides experiential learning through adventure act. at off-sites strengthening team-building & leadership skills.

## UVA model will be EBITDA accretive for MTEL

Particulars	UVA model	Classroom Model
Revenue sharing	15%	0
Rent paid	0	15%
Electricity	0	4%
Marketing and others	1-2%	5-6%
<b>Total Cost to MTEL</b>	<b>16-17%</b>	<b>24-25%</b>

*All other costs remaining more or less the same*

Source: Company, Axis Securities Ltd

## UVA model:- University, Vocational & Affiliated (UVA) education

- MTEL is targeting college tie-ups via UVA model targeting Commerce and Science students with a diverse range of courses.
- It's a win-win situation for both the colleges & MTEL. Colleges earn extra revenue for providing their infrastructure facilities during non academic time slot (post routine college lecture timings) to MTEL. Thus, MTEL shares 15% of the fees received with the colleges.
- MTEL is able to target a huge cluster of students without spending too much on advertisements and promotions. Fees charged by MTEL remain the same whether a student opts for Centre tuitions or college tuitions via UVA model.
- MTEL already has been successful in tying up with few colleges which includes some prominent names like the Bunts Sangha college (MTEL will provide tuitions for Commerce, CA & MBA aspirants) and 3 other colleges in Mumbai (for Science and Commerce tuitions).

# Op. Leverage will Kick in With Higher Cap. Utilization

## MTEL will hereon focus on improving capacity utilization

### Model Of a Matured Location

Location Size (in sq.ft.)	1,500
Average number of classrooms per location	4
No. of batches	24
Student seat Turn	6
Average number of students per batch	60
Peak students/location	1,440
Optimum Fill Rate (assumption)	75%

<b>Optimum students/location</b>	<b>1,080</b>
<b>Current students/location</b>	<b>636</b>
<b>Capacity utilization on peak fill rate</b>	<b>44%</b>
<b>Current Number of Students/batch</b>	<b>26</b>
<b>Capacity utilization/batch</b>	<b>44%</b>

Optimum batches/location	18
Optimum students/location	1,080
<b>No.Of Locations</b>	<b>107</b>

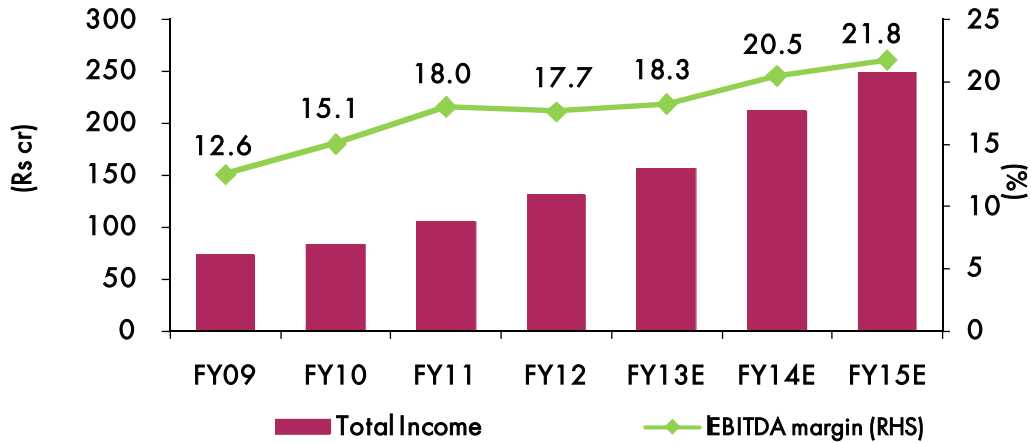
**Optimum total student base possible** 115,560

Current no. of total students 68,017

- From being a single centre coaching institute in early 2000 to currently servicing students from 207 centres; MTEL has expanded its business at a brisk pace over the last 5 years.
- However, MTEL along-with its expansion plans is now equally focusing on improving its average capacity utilization rate going forward.
- As per the current location count, number of students catered to and potential peak fill rate; we have ascertained that MTEL is currently running @ 44% average utilization rate. Thus, there is enough scope for MTEL to scale its operations with the asset base created over the last decade.
- **Advantages:-**
  - With higher average utilization per location MTEL will succeed in earning incremental revenue with no additional cost.
  - Operating leverage will kick in, resultant which margins will expand and returns ratios will improve going forward.

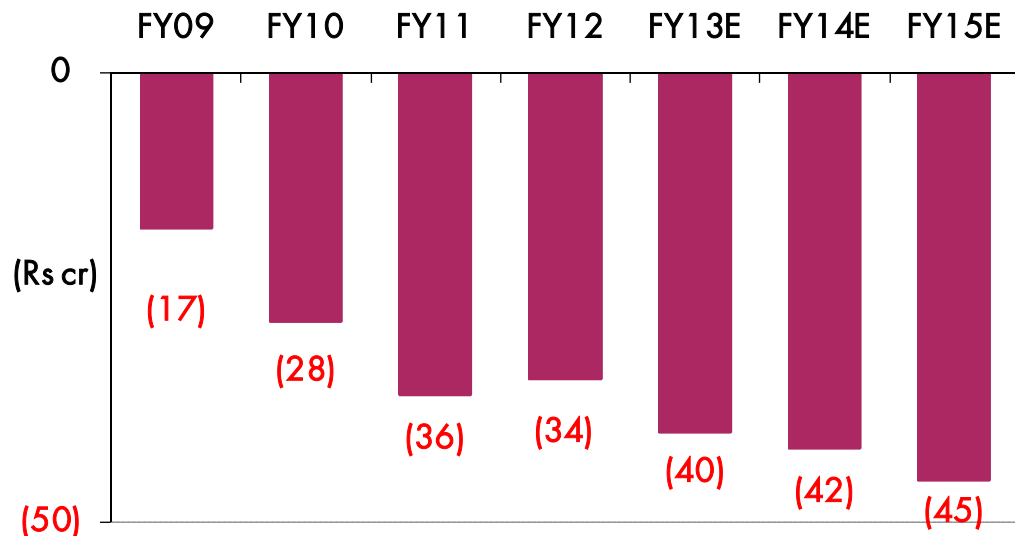
# Triple Delight: Asset Light Model, Zero Debt & - ve w/Cap

## Total income and EBITDA margin

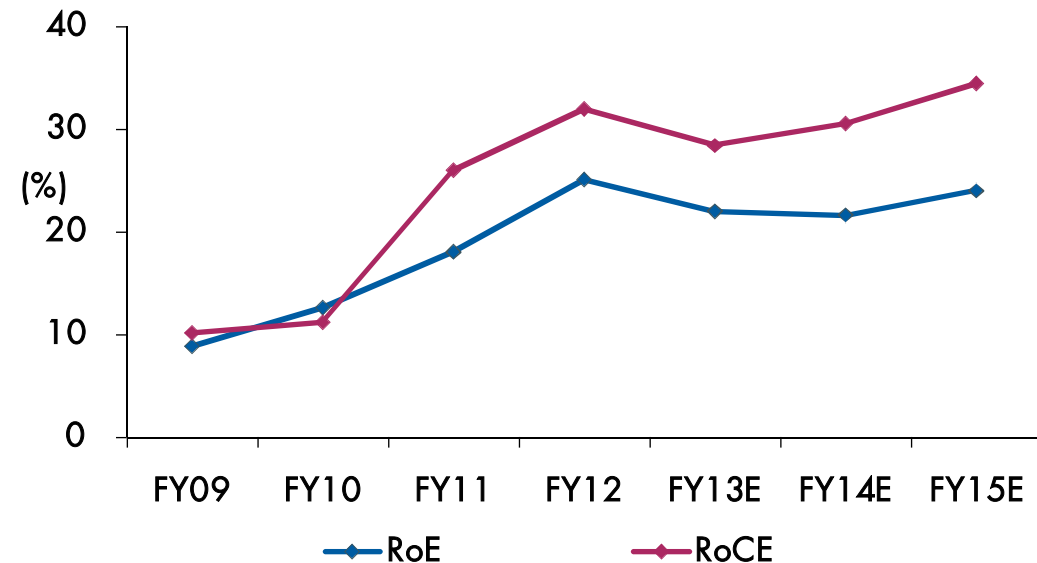


- MTEL focuses on following an asset light model by leasing/renting all of its coaching centres. This move aids in quicker scalability as limited capex is required and thus MTEL has remained debt free despite the significant expansion it has undertaken over last decade.
- Total income is expected to grow at CAGR of 26.3%, EBIDTA at CAGR of 37.9% and PAT at CAGR of 29.5% over the FY13E-FY15E.
- As company receives fees in advance and is part of service industry; they operate negative working capital. Thus, with low capex requirement and negative working capital, MTEL is expected to throw a lot of cash going forward and report stellar return ratios.

## Negative working capital (In Rs cr)

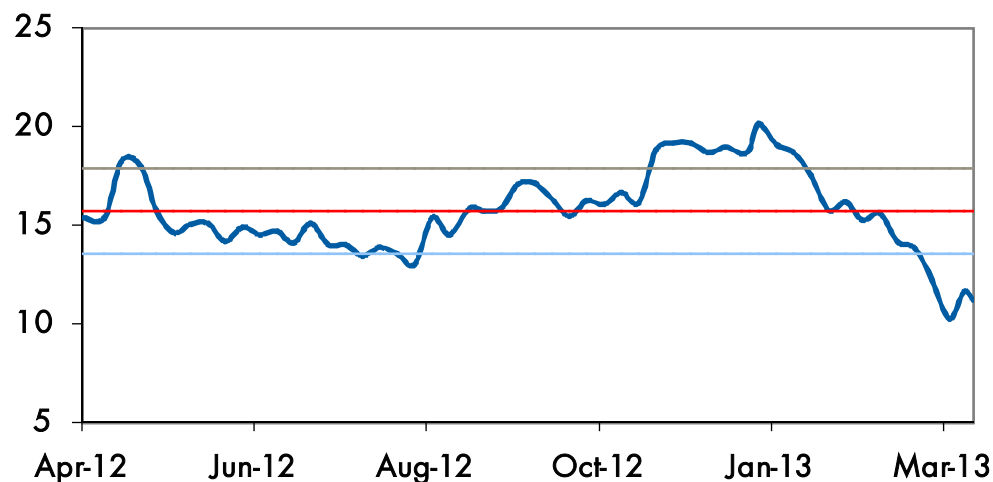


## Improving Return Ratios



Source: Company, Axis Securities Ltd

## MTEL:- 12 month forward P/E



## Valuation

- We estimate MTEL to post total income at a CAGR of 26% and bottom-line at 30% over FY13E-FY15E.
- Highly scalable business model.
- Asset light business model, zero debt with negative working capital will command premium multiples.
- Healthy return ratios with ROE's over 20% and ROCE over 30% expected during FY13E - FY15E.
- 50% stated dividend payout policy.
- We value MTEL at 15x FY15E earnings & arrive at a price target of Rs 111 giving an upside of 26% over CMP of Rs 88.

## Peer comparison

Company	M-cap	Total Income				PAT				EPS (Rs)				P/E (x)				RoE (%)			
	(Rs cr)	FY11	FY12	FY13E	FY14E	FY11	FY12	FY13E	FY14E	FY11	FY12	FY13E	FY14E	FY11	FY12	FY13E	FY14E	FY11	FY12	FY13E	FY14E
MT Educare	316	106	131	156	209	8.1	13.2	17.5	24.0	2.36	3.78	4.44	6.08	-	-	19.7	13.4	18.1	25.1	22.1	22.0
Tree House	834	38	75	117	169	9	22	33	51	3.8	6.3	9.4	14.7	-	-	24.7	15.8	9.6	11.4	10.7	13.7
Career Point	201	79	80	83	103	23	30	28	33	14.3	13.1	14.3	18.0	23.4	14.2	7.7	6.2	11.7	10.6	8.2	8.8

Source: Bloomberg, Axis Securities Ltd

## Risks

- Dependence on single region: MTEL is significantly dependent on Mumbai region (75% of total centre concentration). Any structural change in State's education system or unfavorable regulatory actions poses a risk to the company.

- Low entry barriers and highly unorganized industry: Coaching industry is low capital intensive business and has thus attracted huge interest from entrepreneurs and professionals. Moreover, the industry is highly unorganized and is marred with innumerable players which pose intense competition to organized players like MTEL.

- Threat of new competition from in-house tutors (establish new coaching classes) will persist as MTEL grows across verticals and regions. Such competition can marginally impact MTEL's growth trajectory going forward.

## Mitigating measures taken by MTEL

- MTEL is progressively increasing its presence across newer geographies like Karnataka, Gujarat, Punjab, Tamil Nadu, Delhi, amongst others. Thus, going forward regional dependence on Mumbai is expected to reduce significantly.

- MTEL has been successful in creating brand awareness & has strong brand recall for Mahesh Tutorials. Moreover, scientific coaching methods are followed whereby students are not only given result oriented coaching but focus is given to their holistic development. Use of technology and revolutionary coaching methods are giving MTEL an edge over unorganized players. The industry is also seeing a lot of consolidation and MTEL has been partner in same trend with its acquisitions of Chitale and Lakshya.

- MTEL does not follow "STAR teacher" concept, thereby reducing threat of stemming competition from in-house tutors. MTEL follows the policy of deploying several tutors for a single Standard as well as each subject. Moreover, MTEL also keep its teaching staff highly motivated with regular training, ESOP's, incentives as well as managerial roles within the organization. For instance many of the current top Management personnel are ex-MTEL tutors.

# Company Financials (Consolidated)

Profit & Loss					(Rs cr)
Y/E Mar	2011	2012	2013E	2014E	2015E
<b>Net sales</b>	103	127	156	211	249
Other operating income	3	3	0	0	0
<b>Total income</b>	106	131	156	211	249
Direct Cost	56	70	83	109	127
Employee Cost	14	18	21	28	32
Other Manufacturing Cost	11	13	15	19	22
Advt/Sales/Distrn O/H	7	7	8	11	13
<b>Operating Profit</b>	19	23	29	43	54
Other income	2	4	5	3	3
<b>PBIDT</b>	21	27	33	47	57
Depreciation	8	8	9	12	14
Interest	0	0	0	0	0
Other pretax	0	0	0	0	0
<b>Pre-tax profit</b>	13	19	24	35	44
Tax provision	5	6	7	10	13
(-) Minority Interests	(0)	(0)	(0)	1	2
Extraordinary items	0	0	0	0	0
<b>Reported PAT</b>	8	13	17	23	29
E/o income / (Expense)	0	0	0	0	0
<b>Adjusted PAT</b>	8	13	17	23	29

Source: Company, Axis Securities Ltd

Key Ratios					(%)
Y/E Mar	2011	2012	2013E	2014E	2015E
<b>Total income growth</b>	27%	24%	19%	35%	18%
<b>OPM</b>	18.0%	17.7%	18.3%	20.5%	21.8%
Oper. profit growth	52%	21.4%	23.5%	52.0%	25.1%
Direct costs/ Total income	52.6%	53.4%	53.4%	51.9%	51.0%
Overheads/Net sales	29.4%	28.9%	28.3%	27.6%	27.2%
Effective interest rate	0.0	0.0	0.0	0.0	0.0
Net wkg.cap / Net sales (x)	0.3	0.2	0.2	0.2	0.2
Total income / Gr block (x)	2.0	2.3	1.5	1.8	1.9
Debt / equity (x)	0.1	0.0	0.0	0.0	0.0
Effective tax rate	38	33	30	30	30
<b>RoE</b>	18.1	25.1	22.1	21.7	24.1
<b>RoCE</b>	26.1	32.0	28.5	30.6	34.5
<b>EPS (Rs.)**</b>	2.36	3.78	4.40	5.86	7.37
EPS Growth (%)	55%	60.2	16.4	33.1	25.9

# ...Company Financials (Consolidated)

<b>Balance Sheet</b>		<b>(Rs cr)</b>				
Y/E Mar	2011	2012	2013E	2014E	2015E	
<b>Total assets</b>	<b>57</b>	<b>63</b>	<b>106</b>	<b>119</b>	<b>135</b>	
Gross block	51	55	105	120	130	
Net fixed assets	30	28	70	73	69	
CWIP	1	15	0	0	0	
Investments	24	14	21	21	21	
Wkg. cap. (excl cash)	(36)	(34)	(40)	(42)	(46)	
Cash / Bank balance	21	18	34	46	69	
Others/Def tax assets	17	22	22	22	22	
<b>Capital employed</b>	<b>57</b>	<b>63</b>	<b>106</b>	<b>119</b>	<b>135</b>	
Equity capital	34	35	40	40	40	
Reserves	13	22	61	73	90	
Borrowings	5	0	0	0	0	
Others	5	6	6	6	6	

Source: Company, Axis Securities Ltd

<b>Cash Flow</b>		<b>(Rs cr)</b>				
Y/E Mar	2011	2012E	2013E	2014E	2015E	
<b>Sources</b>	<b>22</b>	<b>12</b>	<b>57</b>	<b>29</b>	<b>37</b>	
Cash profit	13	19	26	36	44	
(-) Dividends	0	1	8	10	10	
Retained earnings	13	17	18	26	34	
Issue of equity	0	1	35	0	0	
Borrowings	4	(5)	0	0	0	
Others	4	(1)	5	3	3	
<b>Applications</b>	<b>22</b>	<b>12</b>	<b>57</b>	<b>28</b>	<b>33</b>	
Capital expenditure	7	20	35	15	10	
Investments	6	(11)	7	0	0	
Net current assets	1	6	(1)	1	(0)	
Change in cash	9	(3)	45	12	28	



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