



PCG Research | India | 23 April 2014

Bhavya Gandhi (+9122 6602 5292)
(bhavya.gandhi@cimb.com)

MT Educare Ltd

Education

Management Meet Note | BUY

CMP Rs. 93 | Target Price Rs. 110

Investment done to start yielding....

We met the management of MT Educare following are the key take away:

About the company: MT Educare (MT), started with one center in Mulund, Mumbai and one product by offering coaching classes for Std. Xth of Maharashtra State Board. It has expanded significantly since then through organic and inorganic routes. It has expanded its reach to 138 locations and inorganically broadened its product portfolio by introducing new products by acquiring/ offering partnership to the existing players instead of starting on its own. MT Educare is engaged in support and coaching services for students of secondary & higher secondary school and graduation degree in commerce. It also prepares students for various competitive examinations such as chartered accountancy, MBA (through its subsidiary CPLPL), CFP, JEE Mains conducted by CBSE and JEE advance conducted by IIT. The company has 25 years of experience in coaching sector, under the brand name “Mahesh Tutorials”. The company has a faculty of ~1100+ members across coaching centers. In addition to the academic growth for faculty members, it entrusts the faculty members with opportunity to grow within the organization by taking up administrative and business development roles for different coaching centers, which encourages the faculty to retain.

Geographical diversification: MT has spread across 7 states in 138 locations in from being a purely Mumbai based played back in FY07. MT keeps its model asset light by having its entire asset on lease only. It has been selective in introducing courses across geographies. It has only CA courses in TN, only commerce courses in Gujarat and only engineering courses in Karnataka.

Diversify services- to provide full value chain: MT provides coaching services to students across diverse fields right from Std. Vth to XIIth, entrance test preparatory courses (engineering, medical & MBA) and CA. Focusing on National level examinations (such as engineering, CA, MBA, medical tests, etc) which has uniform language and curriculum on Pan India basis. MT 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.

School division: The management is in the view that the segment still has potential to grow better than industry in the home market Mumbai. The growth is predominately on account of increasingly focusing on CBSE & ICSE business verticals. The revenue of School segment can grow by 7-8% CAGR for next 2-3 years.

BUY

MT IN | CMP Rs 93.

Target Rs 110 (+18%)

Company Data

O/S Shares (mn) :	39.78
Market Cap (Rsbn) :	3.54
52 - Wk Hi/Lo (Rs) :	110/ 66
Liquidity 3m (Rs mn) :	3.9
Face Value (Rs) :	10

Share Holding Pattern (%)

Promoters :	45.34
FII / NRI :	16.14
FI / MF :	3.90
Non Promoter Corp. Holdings :	3.85
Public & Others :	30.77

Price Performance (%)

	1mth	3mth	1yr
ABS	4.8	(3.9)	(7.8)
REL TO BSE	(2.8)	(8.3)	(20.7)

Key Financial Summary

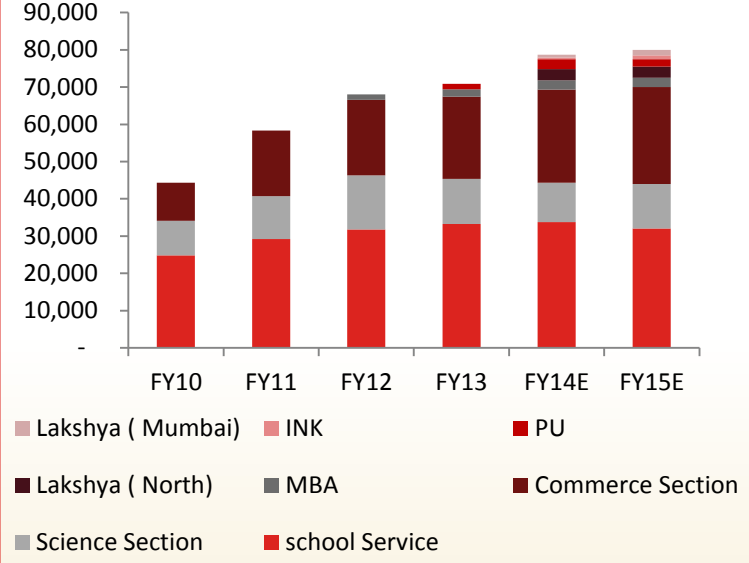
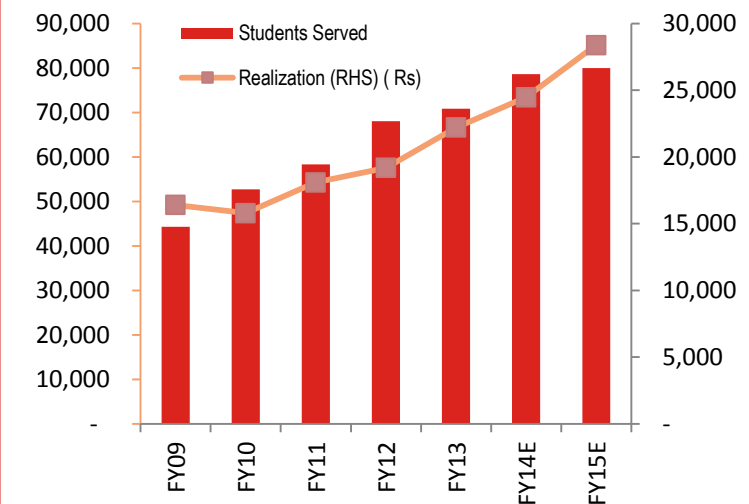
	FY13A	FY14E	FY15E
Net Sales	1,573	1,969	2,305
Ebidta	293	382	426
Net Profit	180	182	211
EPS, Rs	4.5	4.5	5.4
PER, X	17.8	17.6	14.7
EV/EBIDTA, x	9.4	6.7	5.6
EV/Net Sales, x	1.8	1.3	1.0
ROCE, %	17.6	15.8	16.5

Investment done to start yielding....

Private tuition by adding INK Model: INK model uses internet as a two 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; MT has set up 24 terminals which are capable of serving 6,000 students at any given point of time. Management is targeting 1000-1500 admissions in the FY15E of INK. We believe, MT had created a strong base in IXth and Xth section of school segment and now the INK model will emerge as growth driver for the school section.

Karnataka PU (Owned College): MT has built a 4 storey (75,000 sq ft) PU College at Mangalore, Karnataka and has commenced operations in March 2013. This is an owned property of the company. MT also is in the process of constructing a hostel (10 storey structure) capable of accommodating a total of 1,000 students; 4 floors have been constructed in and commissioned. The total planned capex for both the properties is Rs 600mn of which company has spent Rs 520mn. The total students served for the FY14E is 1,350 in Owned PU College and nearly 350 students in hostel. The company is not planning for any further capex in owned property.

Karnataka PU (College Tie-ups): MT enters into college tie ups with PU colleges in karnataka, whereby it provides test preparatory coaching and management consultancy services. The MT has to share 15% of revenue with the infrastructure owner for utilizing the college infrastructure. Currently, MT has 9 operational colleges tie ups (Bangalore, Hubli, Tumkur, Udupi, Mangalore, Gulbarga, Mysore, Davangere and Belgaum) and is servicing 1350+ students. MT earns revenue through two streams coaching fees and management consultancy fees. MT is targeting to 30 college tieups by 2017-18

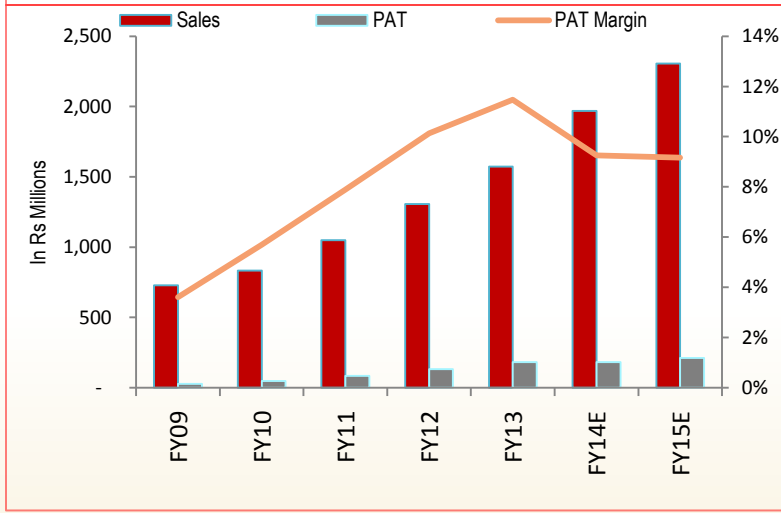
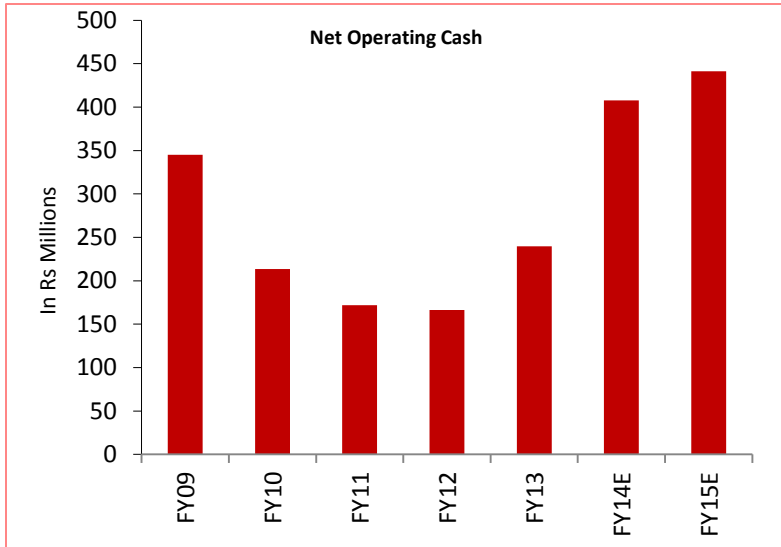


Investment done to start yielding....

Lakshya acquisition- on expansion mode: In Nov 2012, MT acquired 51% stake in north India based IIT entrance teaching institute, Lakshya. The consideration is dependent on predefined milestones to be achieved by Lakshya and is expected to be in the order of `250-300 mn. The agreement gives MT an option to buy 100% stake in Lakshya up to Jun 2018. Lakshya was founded in 2006 in Patiala by four IIT graduates. It currently operates 4 centers in Punjab and Haryana. It serviced over 2200 students in FY13. Lakshya’s makes a topline in the range of ~100-115mn with about 6.5-7% PAT margin. MT is targeting top line of ~150-160 mn by FY15 at 18%-20% operating margin. The total student served under Lakshya for FY14E is estimated to be 3700 student of which 700 students served for Mumbai.

Robomate – Content application: Robomate is one of the several ways to meet MT’s long term goal of 'Anytime & Anywhere Education'. Students can access study material using apps on tablets and desktops / laptops in the form of recorded lectures (Audio & Video), notes and test series. The company is ready to launch the product for the next academic year starting from April 14. The company has already signed a distribution and marketing agreement with Chetana Publication. The management is very positive about the product and its scalability.

Financial: We believe that with the initiative and investment done by company in last 2-3 years on diversify product offering will start yielding, so we expect company revenue to grow at a CAGR of 20% for FY13-15E with a same set of EBITA growth. We have not factored in the revenue from Robomate in our estimate. At CMP of Rs 93 company is trading PE of 17x and 14x and EV/EBITA of 6.6x and 5.3x for FY14E and FY15E respectively. We believe that there is a scope of higher operating leverage, so we believe that with an increase in enrollment the operating efficiency to improve faster which led to higher profit growth. Higher revenue growth with relatively lower increase in fixed overheads such as rent cost and corporate overheads will lead to a rise in EBIDTA margin. We give our positive outlook on the company for a time frame of 12-18 month with a target of Rs 100 per share, represent a PE of 24x and 20x for FY14E and FY 15E respectively, which is justified with higher return ratio. Further company have policy to maintain dividend payout of 50%.



Financials

Income Statement	FY11	FY12	FY13A	FY14E	FY15E	Balance Sheet	FY11	FY12	FY13A	FY14E	FY15E
Net Income	1,048	1,306	1,573	1,969	2,305	Equity capital	344	352	395	395	395
Direct Expenses	551	698	816	1,020	1,216	Reserves	134	219	616	743	909
Personnel cost	135	179	220	249	298	Net worth	477	571	1,012	1,138	1,304
Selling & Other	173	198	243	318	366	Total debt	45	-	-	-	-
Op profit	189	231	293	382	426	Deferred tax	(31)	(41)	(41)	(30)	(17)
OPM(%)	18.1	17.7	18.6	19.4	18.5	Minority Interest	-	1	(2)	(4)	-
Other income	26	40	47	32	55	Total liabilities	491	531	969	1,104	1,287
Depreciation	83	78	86	138	160	Fixed assets	332	477	794	816	886
Interest	1	-	-	-	-	Investments	248	140	174	176	167
PBT	131	192	254	276	321	Current Assets (exl cash)	168	447	527	432	482
Tax	48	64	76	97	106	Cash & Eq	204	176	242	435	605
PAT	83	128	178	180	215	Current Liability	461	709	767	754	854
Adj PAT	83	132	180	182	211	Net current assets	(89)	(86)	2	113	234
NPM(%)	7.9	10.1	11.5	9.3	9.2	Total assets	491	531	969	1,104	1,287

Financials

Cash flow	FY11	FY12	FY13A	FY14E	FY15E	Ratios	FY11	FY12	FY13A	FY14E	FY15E
PAT & extra ord. Items	83	128	178	180	215	Growth (%)					
Add: depn. & oth. Exp.	74	69	84	147	176	Income Growth	26	25	21	25	17
Cash flow from op.	156	198	262	326	391	EBIDTA Growth	50	52	22	27	30
Net chg in w/c, tax, int.	16	(31)	(22)	82	50	PAT Growth	74	55	39	1	20
Net cash flow from op.	172	166	240	408	441	Per share data (Rs.)					
Capital expenditure	55	223	402	160	230	Adj EPS Stand	2.4	3.7	4.5	4.5	5.4
Sale/ purchase of inv	(60)	109	(34)	(2)	8	Book value	395	14	16	26	29
Net cash from inv.	(115)	(115)	(436)	(162)	(222)	Cash EPS	121	5	6	7	8
Issue of eq/loan/warr.	29	(59)	353	(10)	-	Valuation(x)					
Dividend paid	-	(21)	(90)	(43)	(49)	P/E	33	22	18	17	14
Net cash from financing	29	(80)	262	(53)	(49)	P/BV	6	5	3	3	2
Net chg in cash	86	(28)	(66)	193	170	EV/EBIDTA	12	11	9	7	6
Op. cash bal	119	204	176	242	435	Performance(%)					
Cl. Cash bal	204	176	242	435	605	ROCE	17	23	18	16	17

Disclosures and Disclaimers

CIMB Securities (India) Private Limited has two independent equity research groups: Institutional Equities, and Private Client Group. This report has been prepared by Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary at times with the views, estimates, rating, target price of the other equity research groups of CIMB Securities (India) Private Limited.

This report is issued by CIMB Securities (India) Private Limited which is regulated by SEBI. CIMB Securities (India) Private Limited. is a subsidiary of Singapore based CIMB Securities International Pte Limited. References to "CIMB" in this report shall mean CIMB Securities (India) Private Limited unless otherwise stated. This report is prepared and distributed by CIMB for information purposes only and neither the information contained herein nor any opinion expressed should be construed or deemed to be construed as solicitation or as offering advice for the purposes of the purchase or sale of any security, investment or derivatives. The information and opinions contained in the Report were considered by CIMB to be valid when published. The report also contains information provided to CIMB by third parties. The source of such information will usually be disclosed in the report. Whilst CIMB has taken all reasonable steps to ensure that this information is correct, CIMB does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and CIMB does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily an indication to future performance.

This report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors must undertake independent analysis with their own legal, tax and financial advisors and reach their own regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. In no circumstances it be used or considered as an offer to sell or a solicitation of any offer to buy or sell the Securities mentioned in it. The information contained in the research reports may have been taken from trade and statistical services and other sources, which we believe are reliable. CIMB Securities (India) Private Limited. or any of its group/associate/affiliate companies do not guarantee that such information is accurate or complete and it should not be relied upon as such. Any opinions expressed reflect judgments at this date and are subject to change without notice

Important: These disclosures and disclaimers must be read in conjunction with the research report of which it forms part. Receipt and use of the research report is subject to all aspects of these disclosures and disclaimers. Additional information about the issuers and securities discussed in this research report is available on request.

Certifications: The research analyst(s) who prepared this research report hereby certifies that the views expressed in this research report accurately reflect the research analyst's personal views about all of the subject issuers and/or securities, that the analyst have no known conflict of interest and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific views or recommendations contained in this research report. The Research Analyst certifies that he /she or his / her family members does not own the stock(s) covered in this research report.

Independence: The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of CIMB India and they have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues, client feedback and competitive factors. Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed or proposed to be performed by CIMB India or its affiliates

Suitability and Risks: This research report is for informational purposes only and is not tailored to the specific investment objectives, financial situation or particular requirements of any individual recipient hereof. Certain securities may give rise to substantial risks and may not be suitable for certain investors. Each investor must make its own determination as to the appropriateness of any securities referred to in this research report based upon the legal, tax and accounting considerations applicable to such investor and its own investment objectives or strategy, its financial situation and its investing experience. The value of any security may be positively or adversely affected by changes in foreign exchange or interest rates, as well as by other financial, economic or political factors. Past performance is not necessarily indicative of future performance or results.

Sources, Completeness and Accuracy: The material herein is based upon information obtained from sources that CIMB and the research analyst believe to be reliable, but neither CIMB nor the research analyst represents or guarantees that the information contained herein is accurate or complete and it should not be relied upon as such. Opinions expressed herein are current opinions as of the date appearing on this material and are subject to change without notice. Furthermore, CIMB is under no obligation to update or keep the information current.

Copyright: The copyright in this research report belongs exclusively to CIMB. All rights are reserved. Any unauthorized use or disclosure is prohibited. No reprinting or reproduction, in whole or in part, is permitted without the CIMB prior consent, except that a recipient may reprint it for internal circulation only and only if it is reprinted in its entirety.

Caution: Risk of loss in trading in can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

Address :CIMB Securities (India) Private Limited 12th Floor, 1203, The Capital, Bandra Kurla Complex (BKC), Mumbai – 400051, (CIN No. U65923MH2012PTC237343)

Reports relating to a specific geographical area are produced by the corresponding CIMB entity as listed in the table below. The term "CIMB" shall denote, where appropriate, the relevant entity distributing or disseminating the report in the particular jurisdiction referenced below, or, in every other case, CIMB Group Holdings Berhad ("CIMBGH") and its affiliates, subsidiaries and related companies.

Country	CIMB Entity	Regulated by
Australia	CIMB Securities (Australia) Limited	Australian Securities & Investments Commission
Hong Kong	CIMB Securities Limited	Securities and Futures Commission Hong Kong
Indonesia	PT CIMB Securities Indonesia	Financial Services Authority of Indonesia
India	CIMB Securities (India) Private Limited	Securities and Exchange Board of India (SEBI)
Malaysia	CIMB Investment Bank Berhad	Securities Commission Malaysia
Singapore	CIMB Research Pte. Ltd.	Monetary Authority of Singapore
South Korea	CIMB Securities Limited, Korea Branch	Financial Services Commission and Financial Supervisory Service
Taiwan	CIMB Securities Limited, Taiwan Branch	Financial Supervisory Commission
Thailand	CIMB Securities (Thailand) Co. Ltd.	Securities and Exchange Commission Thailand