

# MT Educare (MTEL IN)

Revolutionizing coaching through digital technology

INDIA | Education | Management meet update

23 October 2015

MT Educare, founded in 1988 by Mahesh Shetty (current Chairman and Managing Director), is one of the leading companies in the Indian education sector. It caters to students from 9<sup>th</sup> grade to the 12<sup>th</sup> grade in science/commerce streams, for engineering, medical and MBA entrance exams, and for chartered accountancy exams. The company operates in 136 locations across 10 states in India (major presence in Mumbai), has 2,500+ employees including 1,200+ faculty members — it serviced 82,000+ students in FY15. The company extensively uses digital content (developed in house) to provide a differentiated and holistic experience to students to excel in academics. Our key takeaways from the management meet are:

**Demographic dividend to benefit coaching industry and MT Educare to benefit disproportionately:** The Indian coaching industry is valued at Rs 760bn and posted a CAGR of 15% in FY06-15. Because of its presence across verticals, strong brand equity, and use of high-end digital technology in coaching, MT is poised to surpass the industry's growth rate. As per the management, the Indian education sector provides a target market of 10mn students and the company is looking at ways to leverage its digital technology platform (thorough school tie-ups/franchisee model and expertise in traditional coaching) to tap this opportunity in the medium term.

**Digital platform Robomate to revolutionise the coaching industry irreversibly:** The company is one of the few players in the industry to use information technology in coaching, and has the most comprehensive product among peers to create an entire classroom experience digitally. Using *Robomate*, students can access digital content related to their syllabus (such as videos, explanations, test questions, and performance monitoring), which helps the company to provide a better and holistic experience to students than its peers. Most of its peers only leverage on 'star' teachers, while MT Educare leverages on 'teachers + technology' — this differentiates it and helps it to mitigate the risks associated with teacher attrition. While *Robomate* can be accessed online by all students (except CA students), the company also distributes tablets to students enrolled for 9-10<sup>th</sup>/11-12<sup>th</sup> grade combo batches (25,000 tabs in FY16). The management plans to distribute tablets in more courses in FY17 after evaluating the financial impact and success. After studying the digital-technology platform, we believe that the product is very user-friendly and can potentially add tremendous value to students by helping in concept comprehension, concept testing, scheduling, and performance monitoring.

**Multiple growth areas will help minimize risks to growth:** The company intends to grow through a four pronged strategy – (1) Nationwide growth in coaching for entrance and professional exams, (2) diversification into other geographies such as North/South India for school/science/commerce sections for 9-12<sup>th</sup> grade, (3) leveraging *Robomate* to tie-up with franchisees in new geographies and also to increase non-coaching revenues through direct sale of digital content, and (4) partnering with colleges in Karnataka/Andhra Pradesh/Telangana under the pre-university model where the company offers test preparation in college campuses. This, we believe, will help the company to diversify growth risks across geographies, formats, and education streams

**Sharing ownership and success has helped retain top talent:** Currently ~10% of stock is owned by top management excluding promoter (~53% including promoter) — attributed to Mr Shetty's philosophy of sharing company ownership with top performers and retaining top talent/management after acquisitions. This has helped the company to scale up to its current size in an otherwise heavily fragmented industry, says the management.

**Operational parameters satisfactory:** MT Educare has an asset turnover of 2.7, working capital days of -7, and RoE of 20.5% for FY15. Negative working capital, satisfactory RoE, and high asset turnover along with nil debt make the business model attractive.

**Valuations:** The stock trades at 22x FY15 adj. earnings vs. peers Tree House/Career Point trading at 19x/20x FY15 reported earnings.

## Not Rated

CMP RS 144

### COMPANY DATA

O/S SHARES (MN) :	40
MARKET CAP (RSBN) :	5.7
MARKET CAP (USDBN) :	0.1
52 - WK HI/LO (RS) :	150 / 96
LIQUIDITY 3M (USDMN) :	0.4
PAR VALUE (RS) :	10

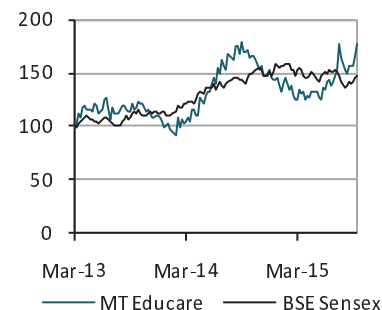
### SHARE HOLDING PATTERN, %

	Jun 15	Mar 15	Dec 14
PROMOTERS :	42.8	42.8	42.8
FII / NRI :	32.5	31.7	31.0
FI / MF :	1.3	1.7	1.7
NON PRO :	19.4	19.5	16.7
PUBLIC & OTHERS :	14.7	14.8	15.9

### PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	9.3	26.0	3.5
REL TO BSE	5.1	29.2	0.8

### PRICE VS. SENSEX



Source: Phillip Capital India Research

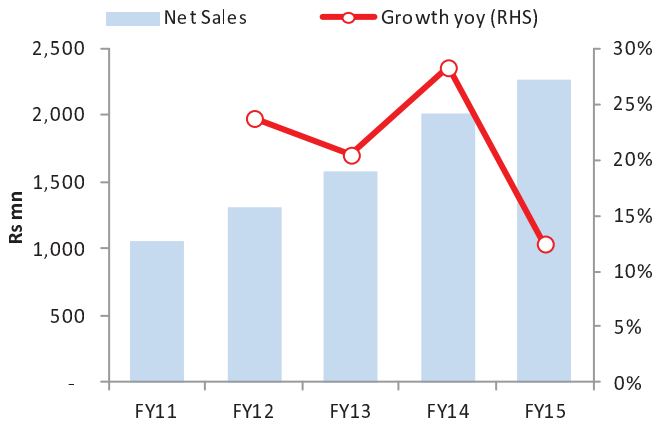
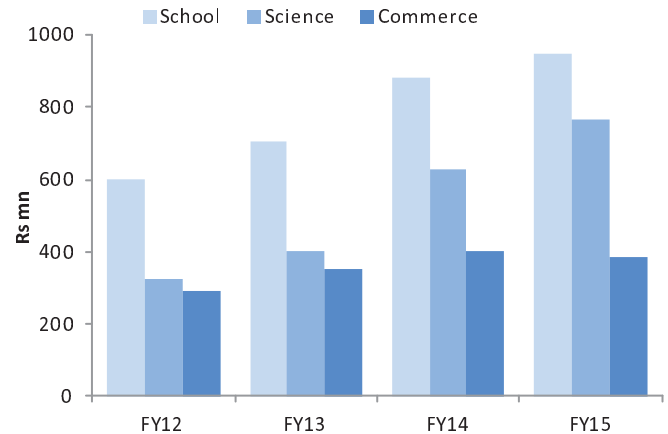
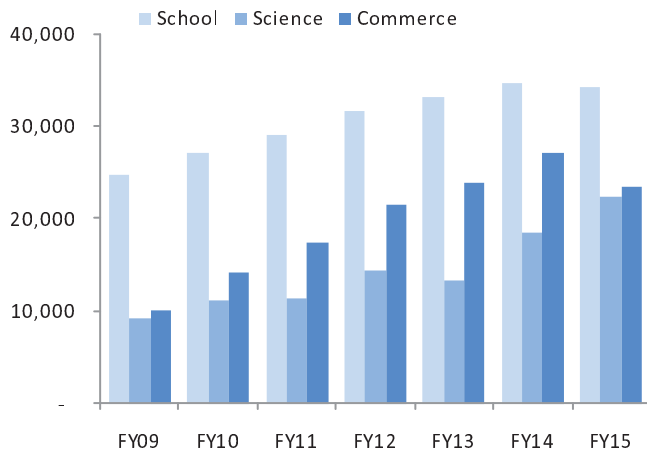
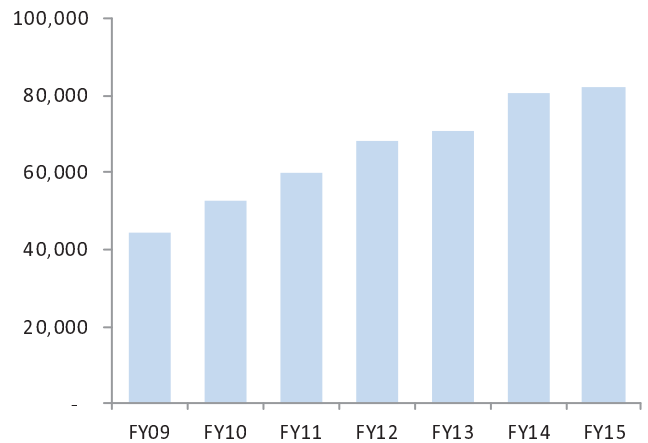
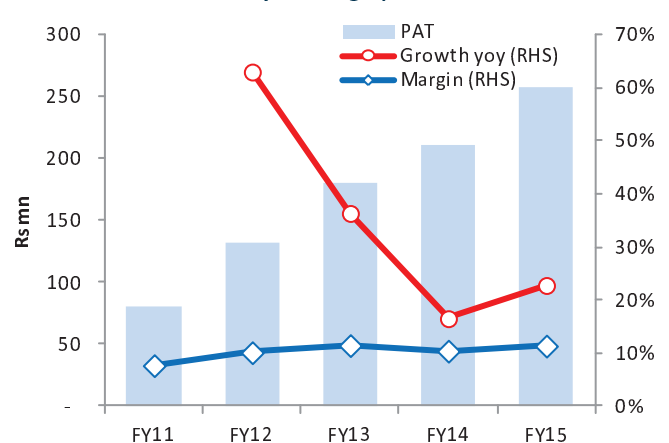
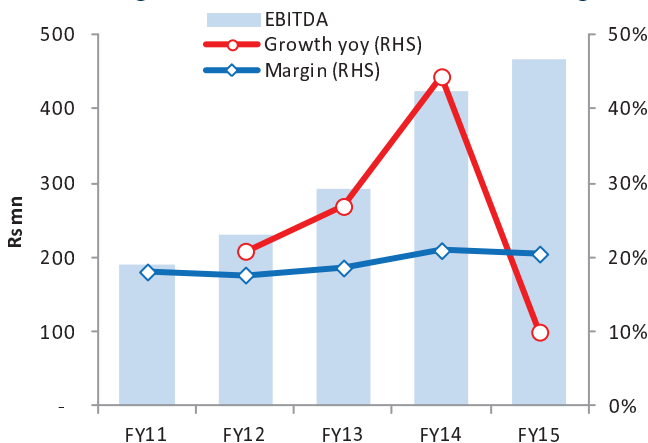
### KEY FINANCIALS

Rs mn	FY13	FY14	FY15
Net Sales	1,573	2,018	2,270
EBIDTA	293	423	466
Adjusted Profit	180	210	258
Adj. EPS, Rs	4.6	5.3	6.5
PER, x	31.6	27.3	22.2
EV/EBIDTA, x	18.1	13.1	12.1
P/BV, x	3.4	2.7	2.5
ROE, %	17.8	18.8	20.5

Source: PhillipCapital India Research Est.

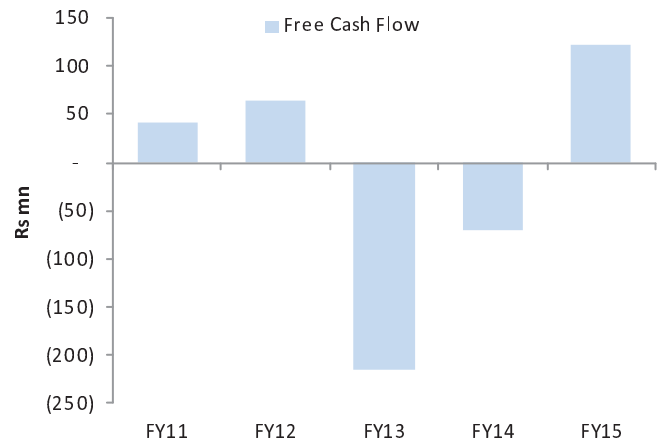
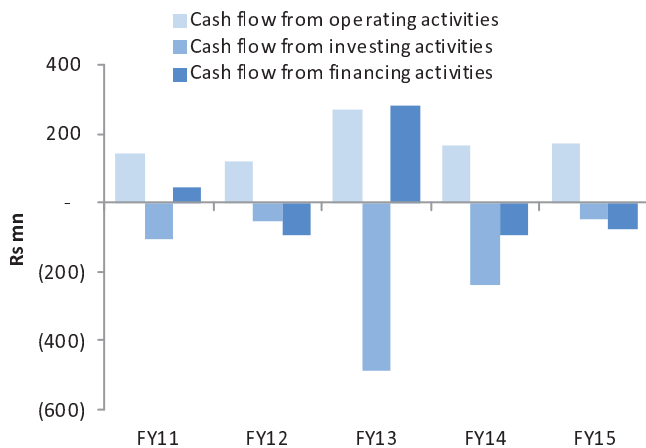
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**Total net sales saw 21% CAGR in FY11-15**

**Revenue from major business divisions**

**Student count for school, science and commerce divisions**

**Total student count**

**EBITDA/ PAT grew at 25%/34% CAGR in FY11-15, margins have consolidated and slowly inching upwards**


Source: Company, PhillipCapital India Research

With capital expenditure completed in FY13, free cash flow is seeing a positive trajectory



Source: Company, PhillipCapital India Research

Screenshots of video lectures in Robomate

**Theorem : Converse of B.P.T**

If a line divides two sides of a triangle in the same ratio, then the line is parallel to the third side.

Given :  $\frac{AD}{DB} = \frac{AE}{EC}$

To prove : line DE || side BC

Proof : [Indirect method]

Let us suppose that line DE is not parallel to side BC.

∴ we can draw a line DF parallel to side BC.

Here, we have a line and a point outside the line

So, there exist a line passing through the point and parallel to the given line

Source: Company

Module - 2

Based on Compounding of Ratios and Value of expres

Compounding of Ratios

If  $\frac{a}{b}$  and  $\frac{c}{d}$  are any 2 given ratios then

Compound ratio of a : b or Compound ratio of  $\frac{ac}{bd}$

e.g. Compound ratio of 3 : 4 and 5 : 7 is

$$= \frac{3}{4} \times \frac{5}{7} = \frac{15}{28}$$

Note : Ratios are compounded by multiplying the Fractions.

## Financials

### Income Statement

Y/E Mar, Rs mn	FY12	FY13	FY14	FY15
Net sales	1,306	1,573	2,018	2,270
Growth, %	24	20	28.3	12.5
Total income	1,306	1,573	2,018	2,270
Raw material expenses	0	-12	-4	-7
Employee expenses	-179	-219	-286	-295
Other Operating expenses	-896	-1,048	-1,305	-1,502
EBITDA (Core)	231	293	423	466
Growth, %	20.9	26.9	44.4	10.0
Margin, %	17.7	18.6	21.0	20.5
Depreciation	-78	-86	-128	-89
EBIT	153	207	295	377
Growth, %	41.5	35.6	42.3	27.7
Margin, %	11.7	13.2	14.6	16.6
Interest paid	0	0	0	-40
Pre-tax profit	192	254	319	407
Tax provided	-64	-76	-111	-117
Profit after tax	128	178	208	291
Others (Minorities, Associates)	4	2	3	7
Net Profit	132	180	210	297
Growth, %	63.0	36.4	16.5	41.3
Net Profit (adjusted)	132	180	210	258
Unadj. shares (m)	35	40	40	40
Wtd avg shares (m)	35	40	40	40

### Balance Sheet

Y/E Mar, Rs mn	FY12	FY13	FY14	FY15
Cash & bank	176	242	97	143
Debtors	64	100	89	208
Inventory	0	0	1	3
Loans & advances	260	122	191	206
Other current assets	0	1	9	10
Total current assets	608	619	500	571
Investments	172	323	204	778
Gross fixed assets	630	1,055	1,512	1,247
Less: Depreciation	-317	-384	-499	-582
Add: Capital WIP	164	122	65	42
Net fixed assets	477	794	1,078	707
Total assets	1,298	1,777	1,829	2,128
Current liabilities	528	511	431	471
Provisions	145	173	254	324
Total current liabilities	673	683	686	795
Non-current liabilities	53	84	30	71
Total liabilities	726	767	716	867
Paid-up capital	355	403	398	398
Reserves & surplus	216	609	721	859
Shareholders' equity	572	1,010	1,113	1,261
Total equity & liabilities	1,298	1,777	1,829	2,128

### Cash Flow

	FY12	FY13	FY14	FY15
Pre-tax profit	192	254	319	407
Depreciation	78	86	128	89
Chg in working capital	-66	37	-155	-197
Total tax paid	-68	-73	-109	-115
Cash flow from operating activities	121	270	167	170
Capital expenditure	-201	-434	-235	274
Chg in investments	0	-81	-60	-10
Cash flow from investing activities	-56	-485	-237	-47
Free cash flow	65	-215	-70	123
Equity raised/(repaid)	-24	347	2	0
Dividend (incl. tax)	-16	-67	-93	-87
Cash flow from financing activities	-96	280	-92	-77
Net chg in cash	-31	65	-162	45

### Valuation Ratios

	FY12	FY13	FY14	FY15
<b>Per Share data</b>				
Adj. EPS (INR)	3.8	4.6	5.3	6.5
Growth, %	59.2	21.3	15.9	22.8
Book NAV/share (INR)	16.2	25.6	28.1	31.6
FDEPS (INR)	3.8	4.6	5.3	6.5
CEPS (INR)	6.0	6.7	8.5	8.7
CFPS (INR)	2.7	8.5	2.8	3.5
<b>Return ratios</b>				
Return on assets (%)	10.6	11.6	11.5	14.0
Return on equity (%)	23.2	17.8	18.8	20.5
Return on capital employed (%)	17.8	17.5	15.6	18.2
<b>Turnover ratios</b>				
Asset turnover (x)	8.1	4.3	2.8	2.7
Sales/Total assets (x)	1.1	1.0	1.1	1.1
Sales/Net FA (x)	3.2	2.5	2.2	2.5
Working capital/Sales (x)	(0.2)	(0.2)	(0.1)	(0.0)
Working capital days	(56.7)	(66.5)	(25.7)	(7.1)
<b>Liquidity ratios</b>				
Current ratio (x)	1.2	1.2	1.2	1.2
Quick ratio (x)	1.2	1.2	1.2	1.2
Interest cover (x)				
Total debt/Equity (%)	-	-	-	3.9
Net debt/Equity (%)	(30.9)	(23.9)	(8.7)	(7.4)
<b>Valuation</b>				
PER (x)	38.3	31.6	27.3	22.2
Price/Book (x)	8.9	5.6	5.1	4.6
EV/Net sales (x)	3.7	3.4	2.7	2.5
EV/EBITDA (x)	20.7	18.1	13.1	12.1
EV/EBIT (x)	31.3	25.6	18.7	15.0

Source: Company, PhillipCapital India Research Estimates

## Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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