Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Mid-Cap Pulse

A "Class" Apart!!!

MT Educare

Highlights

- Capturing the high growth potential of the coaching industry
- A de-risked model across education segments & geographies
- Asset light, negative WC, High returns

Kejal Mehta (kejalmehta@plindia.com)
+91-22-66322246

Contents

Company Report

July 08, 2013

MT Educare

Rating	**BUY**
Price	Rs96
Target Price	Rs130
Implied Upside	35.4%
Sensex	19,496
Nifty	5,868

(Prices as on July 07, 2013)

Trading data	
Market Cap. (Rs m)	3,796.6
Shares o/s (m)	39.5
3M Avg. Daily value (Rs m)	34

Major shareholders	
Promoters	42.88%
Foreign	5.16%
Domestic Inst.	4.31%
Public & Other	47.65%

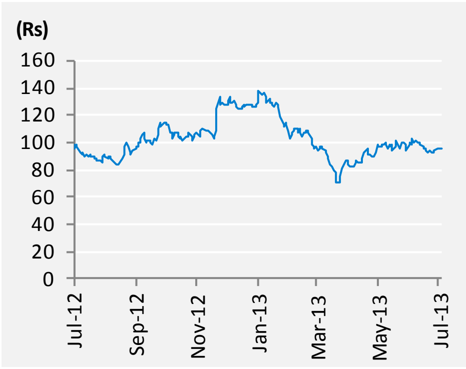
Stock Performance

(%)	1M	6M	12M
Absolute	(2.6)	(29.3)	(2.4)
Relative	(2.3)	(27.9)	(13.6)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2014	6.2	5.9	*5.0*
2015	8.1	NA	*NA*

Price Performance (RIC:MTED.BO, BB:MTEL IN)



Source: Bloomberg

- **Industry dynamics positive:** Besides an increase in household spend on education, the addressable market has increased substantially, with increasing options for secondary education. The coaching industry, which has grown at 13% CAGR from 2007-2011, is expected to pick-up pace to 17% CAGR by 2015.

- **De-risking through diversification:** From being focused on the school segment, MT Educare (MTEL) has diversified to Science & Commerce, Engineering & Medical entrance exams (including IIT) and exams for CA & MBA aspirants as well. Infact, the contribution from the school segment has dropped from above 50% in FY10 to 45% in FY13 and is expected to decline to 36% by FY15. This reduces MTEL's dependence on a particular segment and makes it resilient against changes in any one segment.

- **Asset-light, negative WC & a strong balance sheet:** As against education models which have not seen success on account of their asset-heavy models, MTEL has kept its business model asset-light by operating on the lease model. It has been operating on a negative WC as the advance from students exceeds their current assets, resulting in strong RoEs of >23%. The company has a balance sheet size of Rs.96bn as of FY13 of which ~40% is cash & cash equivalents. Its operational cash flow generation over FY14 and FY15 is likely to be above Rs1bn.

- **Operating leverage through increased utilizations:** With MTEL moving towards optimum utilizations of 70-75% from the current 50-55% margins are expected to strengthen by 200bps in two years.

- **Strong dividend payout policy:** In order to share the strong cash generation with shareholders, the company intends to maintain a dividend payout policy of 50%. Further with 10.8% of the shares being held by directors and the key management, the risk of top-level exits decreases.

- **Valuations:** MTEL currently trades at 15.5x FY14 and 11.9x FY15 on the basis of PER. We are valuing the company at 16xFY15 on account of its superior RoEs which translates to Rs130/share. We rate the stock '**BUY**'.

Key financials (Y/e March)	2012	2013	2014E	2015E
Revenues (Rs m)	1,306	1,573	2,145	2,617
Growth (%)	*24.1*	*20.5*	*36.4*	*22.0*
EBITDA (Rs m)	231	293	418	542
PAT (Rs m)	132	180	245	319
EPS (Rs)	3.8	4.6	6.2	8.1
Growth (%)	*56.5*	*21.3*	*35.8*	*30.3*
Net DPS (Rs)	—	2.0	2.5	3.0

Profitability & Valuation	2012	2013	2014E	2015E
EBITDA margin (%)	*17.7*	*18.6*	*19.5*	*20.7*
RoE (%)	*25.1*	*22.7*	*22.8*	*26.0*
RoCE (%)	*23.4*	*22.4*	*22.7*	*26.1*
EV / sales (x)	2.4	2.2	1.6	1.2
EV / EBITDA (x)	13.4	11.6	8.0	5.7
PE (x)	25.5	21.0	15.5	11.9
P / BV (x)	5.8	3.8	3.3	2.9
Net dividend yield (%)	—	*2.1*	*2.6*	*3.1*

Source: Company Data; PL Research

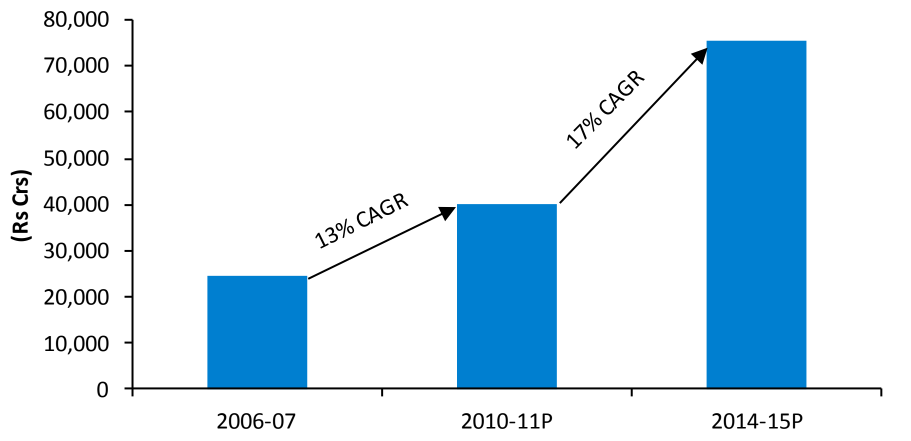
Investment Argument

Strong industry dynamics to aid company's growth

The Indian coaching industry is expected to witness strong growth, given the conducive macro factors surrounding it. The two key factors driving growth for the coaching industry are increased household spend on education, coupled with infra bottlenecks for formal education. The increased aspiration for higher education in Tier II and Tier III cities is another important factor driving growth for the sector. The coaching industry, which has grown at 13% CAGR from 2007-2011, is further expected to pick-up pace to 17% CAGR by 2015.

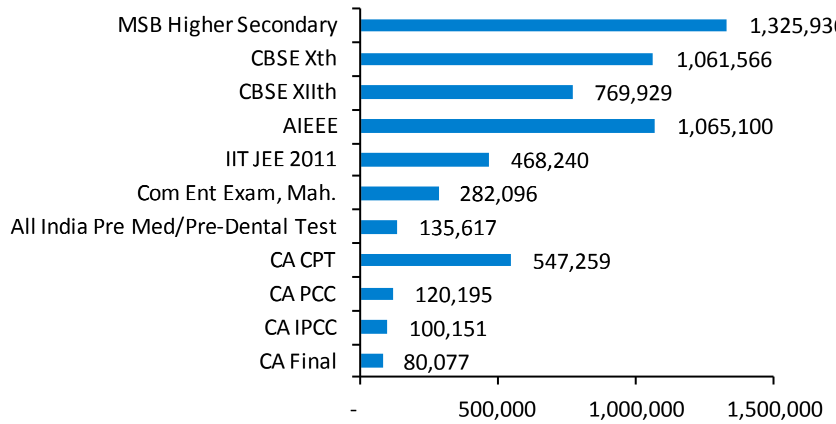
The addressable market has increased substantially, with the various options available for secondary education as well as the increase in number of entrance tests. Given the strong structural factors, the sector's growth is likely to be unilateral.

Exhibit 1: Market Size – Classroom-based coaching industry



Source: CRISIL

Exhibit 2: 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

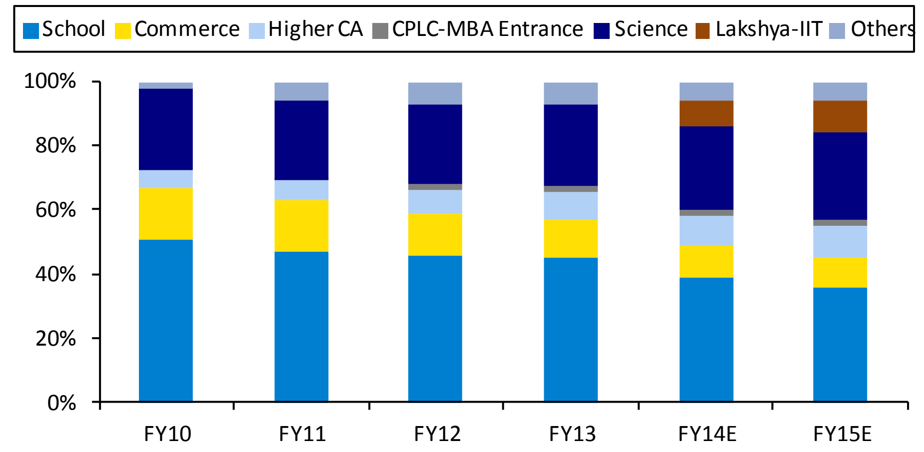
Based on the segments that MTEL is present in, the market potential works out to ~Rs125bn, whereas, going by its current turnover, the company has scratched <1.5% of this potential. Hence, the scope is tremendous.

De-risking the model through diversification

MTEL is present across several coaching segments which include not only School, Commerce and Science streams but also sub-segments like Higher CA and test preps for IIT and MBA through the acquisition of ***Lakshya*** and ***Chitale's Personalized Learning (****CPLC)*. Infact, the contribution from the school segment, which was above 50% in FY10, has dropped to 45% in FY13 and is likely to come down further to 36% by FY15 since the focus has shifted considerably to both CA coaching and IIT test prep and is getting stronger by the day.

This also reduces the dependence on any one segment and the model gets more resilient against the sudden changes that might come in any segment. Besides, the diversification to higher and specialized education shall also help strengthen company margins.

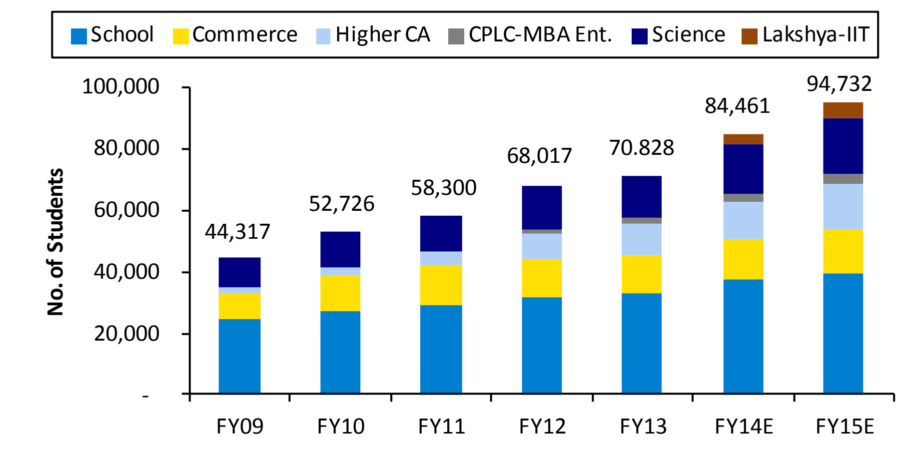
Exhibit 3: Revenue contribution from the School segment declining



Source: Company Data, PL Research

MTEL's student base has been growing strongly from 44.3k students in FY09 to 70.8k students in FY13 which translates at a CAGR growth of 12% for the period during which the student base for the school has grown at a CAGR of 8%, while the other segments have grown at 18%.

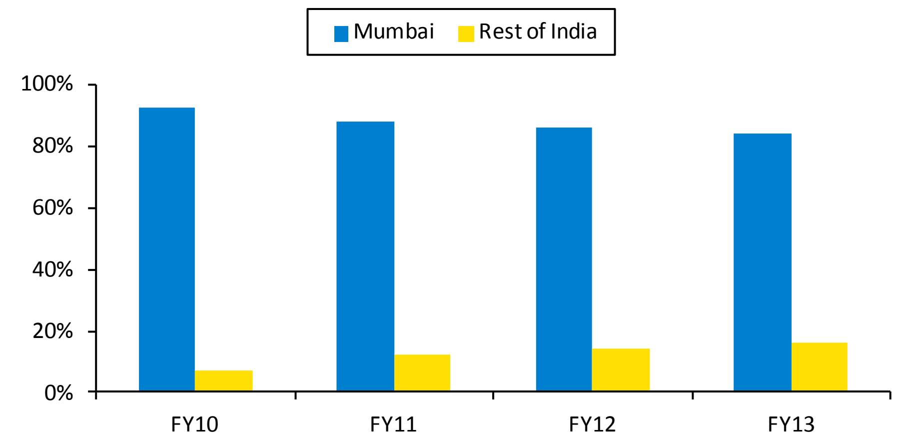
Exhibit 4: Strongly growing student base



Source: Company Data, PL Research

The company is also focusing on geographical diversification as MTEL's focus, which has been predominantly on Mumbai, is now slowly diversifying to other cities with an aim to reduce geographical concentration. The company is now present in 8 states and operates across 33 locations in Rest of Maharashtra, Tamil Nadu, Gujarat, Karnataka, Punjab, Haryana, Chandigarh and Delhi. The revenue contribution from Mumbai, which used to be 93% in FY10, has reduced to 84% in FY13.

Exhibit 5: Reducing revenue contribution from Mumbai



Source: Company Data, PL Research

Increase in utilizations to improve efficiencies

A standard MTEL location is~1500sq.ft with four classrooms running a total of 24 batches. Since a batch can accommodate up to 50 students, the total capacity of a location is ~1200 students. At maturity, an optimum fill rate stands at 80% which translates to 960 students/centre.

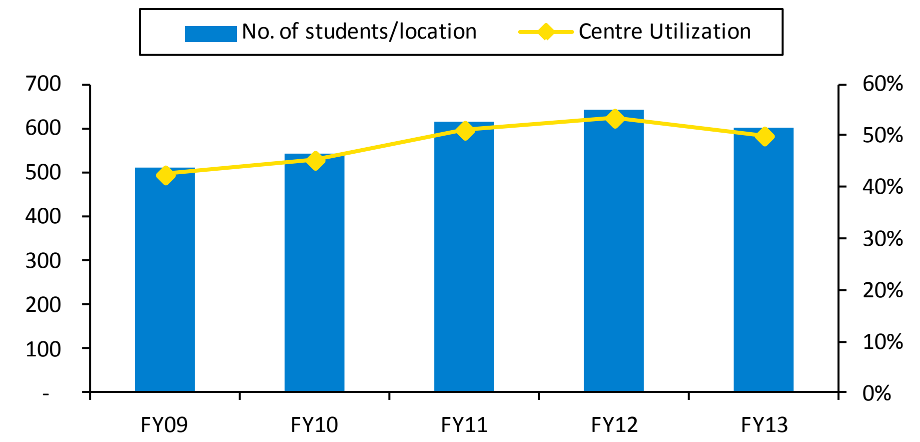
Currently, the number of students per location stands at 600 which translate to 50% utilization. Thereby, the increase in utilizations shall help improve efficiencies and thereby, EBITDA margins.

Exhibit 6: Standard Business Model of a Centre

Avg. Size of each location (m sq.ft)	1500
No. of Classrooms	4
No. of Batches/Classroom	6
Total no. of Batches	24
Avg. No of students/batch	50
Total no. of students/location	1200
Optimum Fill rate	80%
Optimum No. of Students	960
Margins without corporate expenses at optimum utilization	30-35%
Break-even in year (@ 35% utilization)	2
Optimum Utilization in year	5
Corporate Expenses	8%

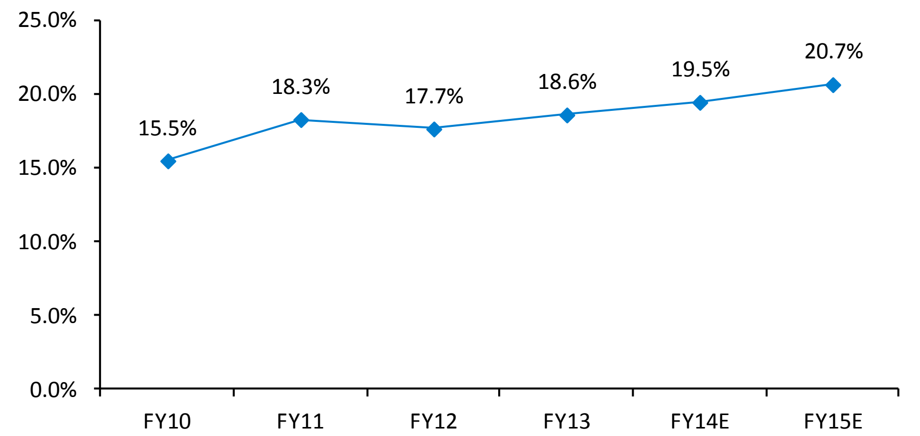
Source: Company Data, PL Research

Exhibit 7: Centre Utilization



Source: Company Data, PL Research

Exhibit 8: Margins likely to improve with better utilizations



Source: Company Data, PL Research

Asset light + Negative WC = Strong return ratios

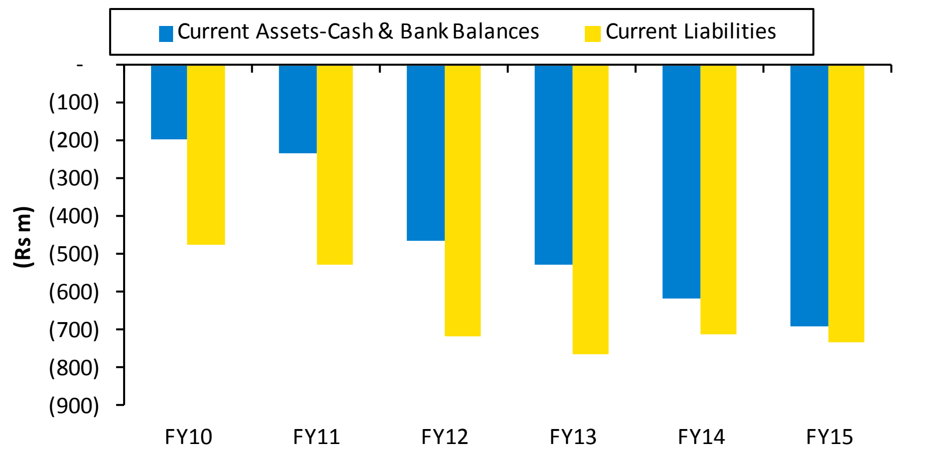
Since MTEL takes all their centres on lease, they have been able to keep the model extremely asset-light. It only incurs ~Rs3.5m/location, of which again, majority gets spent on equipment that can be transferred. Besides, the company has been operating on a negative working capital as the advance from students exceeds their debtors + loans & advances. On account of the same, the company's return ratios have been extremely healthy.

From FY13 onwards, however, return ratios are likely to be slightly subdued, with the capex being incurred on the Mangalore college. Strong growth in revenues over time will compensate the drop in returns in the short run.

The company's operational cash flow generation over FY14 and FY15 is likely to be above Rs1bn.

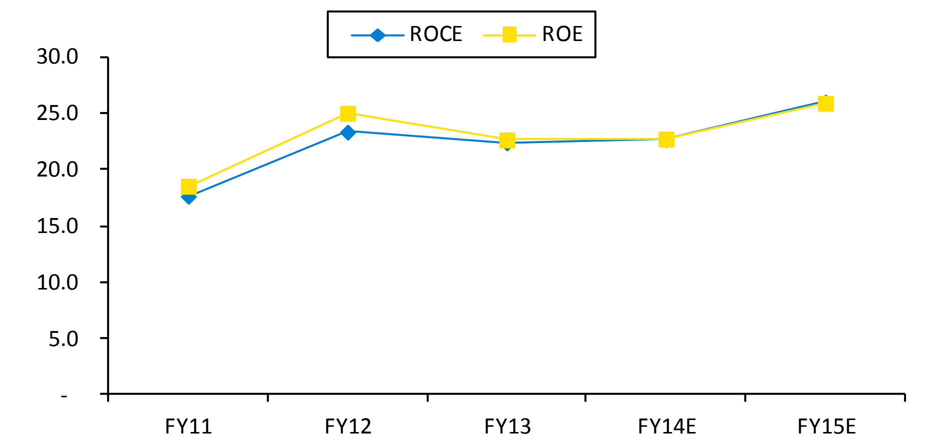
The company's asset-light model is the key to its success as against various other models that have failed in the education sector on account of over-investments in schools and universities.

Exhibit 9: Operating on negative working capital



Source: Company Data, PL Research

Exhibit 10: Healthy return ratios



Source: Company Data, PL Research

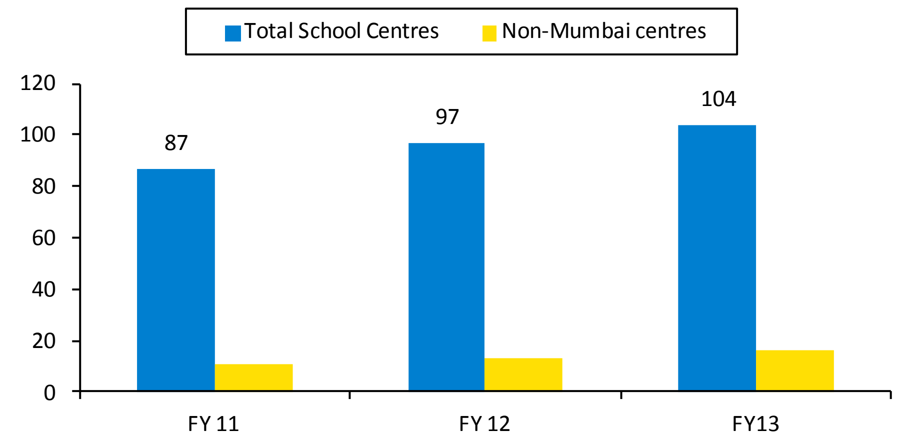
All-round growth strategy

School Division

Increasing geographical presence

Of the 104 centres for the school division, 88 are currently located in Mumbai. Besides Mumbai, the company also has its presence in Pune and Kolhapur and is looking at expanding its presence in cities like Aurangabad, Nashik and Aurangabad. Further, it is also increasing its focus on the ICSE and CBSE division in order to expand its school offering to other states in India. The company's student base has increased from 24.8K students in FY09 to 33.2K students in FY13 which is a CAGR of 8%.

Exhibit 11: Increasing number of Non-Mumbai centres for School division



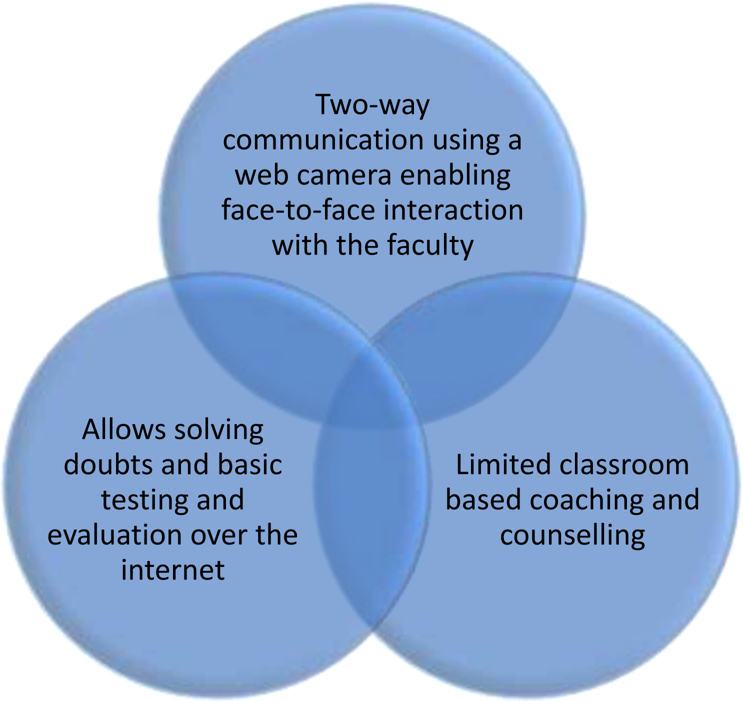
Source: Company Data, PL Research

The INK Model - Catching them young!!

MTEL is deepening its focus on the school segment by now targeting V-VIII standard students through their newly launched 'INK' model which is a web-based tutoring model. The idea is to target a rapidly growing market as well as to bring students under MT Educare at a younger age which increases the probability of these students taking up MT Educare coaching for XI-Xth as well.

This model has been launched for the academic year 2013-14 for the State Board, ICSE and CBSE board and the company is initially targeting ~1500-2000 students in the first year of operations. Being a web-based model, the average fees are likely to be lower than their standard classroom model.

Exhibit 12: About the 'INK' Model



Source: Company Data, PL Research

Science Division

Change in IIT exam structure to provide impetus to Science division

In the academic year 2012-13, structure for the IIT entrance exam underwent a huge change because of which the Std. XII exam gained importance. As per the new rules, 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 and the student has to mandatorily be in the top 20 percentile of each state based on the Std. XII exam score. The erstwhile system had a single IIT entrance exam for admission to the IITs.

Further, admissions to non-IIT engineering institutes will be based on a combined score of Std. XII and JEE Mains. On account of this change, which has increased the importance of the Std. XII state exam, MT Educare's Science division shall get a huge impetus.

Exhibit 13: The new structure for IIT entrance

Jee Mains

- 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

Standard XII state exam

- Student has to be in the top 20 percentile of each state

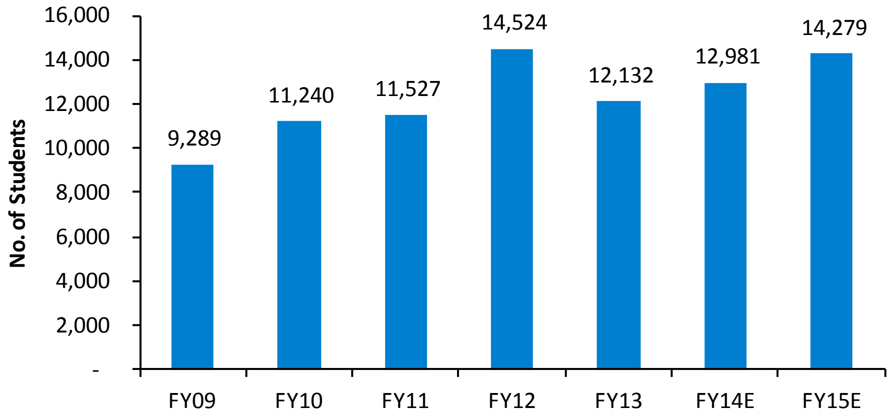
Jee Advanced

- To appear for Jee Advanced, the student has to comply with the above two conditions

Source: Company Data, PL Research

Lack of clarity on this structure proved to be negative for the company's Science division in FY13. However, it is likely to witness a sharp revival, going forward, given the clarity in the exam structure.

Exhibit 14: Uncertainty in exam structure led to a drop in science student count in FY13



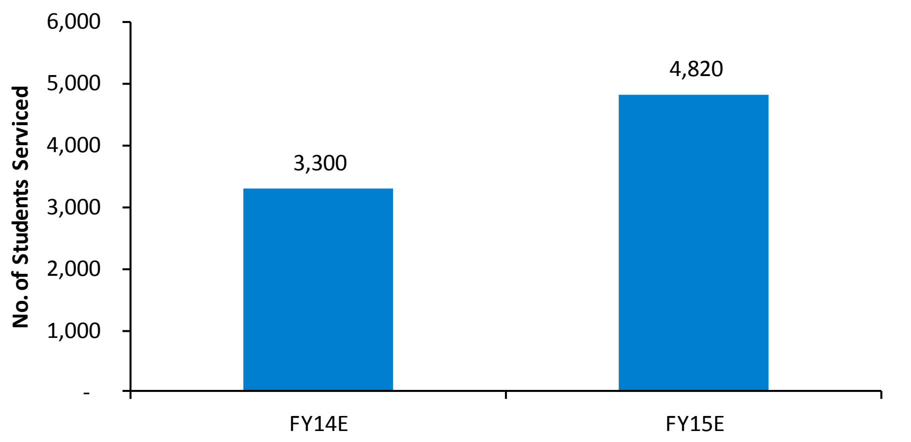
Source: Company Data, PL Research

<u>Acquisition of 'Lakshya' to help capture IIT market</u>

In order to make an entry into the IIT entrance exam market, MTEL acquired 51% stake in Lakshya Forum for Competitions Pvt. Ltd (Lakshya), a leading North India IIT, Engineering and Medical Entrance teaching institute in April 2013. MTEL has paid an advance consideration for this acquisition; however, the final consideration will be decided on certain milestones achieved by Lakshya. The total consideration will be paid by MTEL over a period of next two years Besides, MTEL has an option to buy 100% stake in Lakshya up to June 30, 2018.

Lakshya provides coaching to students appearing for IIT and Medical entrance examinations and is one of the leading test prep institutes in North India catering to a student base of over 2200+ with faculty strength of 40 teachers. Lakshya has its centres in Patiala, Bathinda, Chandigarh and Panchkula. Further, Lakshya is planning to expand in North Indian states of Punjab, Haryana, J&K, Himachal Pradesh and UP. MTEL is also launching JEE Advanced (IIT Entrance Exam) in Mumbai under the brand 'Lakshya to establish itself as a serious player within the IIT segment in Mumbai. The potential of the IIT market is increasing steeply with increase in the number of seats as well as increased aspirations and awareness.

Exhibit 15: New addition to the Science Division through the Lakshya Acquisition



Source: Company Data, PL Research

'Karnataka PU Model' - Deviating from the asset-light model

MTEL made its inroads into Karnataka through the Pre-University (PU) College Tie-up Model which is the prevalent model in the state of Karnataka. In this model, every college ties up with a coaching institute that provides the students test prep coaching for Engineering & Medical entrance examinations in college premises after college hours. MTEL had four such tie-ups with a student base of ~1370 students in FY13 where MTEL would provide two broad services:

a. Test-prep coaching to students post college hours

b. Management services to the college which includes:

- Content for Std. XI and Std. XII
- Sourcing of teachers and teacher training
- Time-table management
- Academic MIS

In lieu for the services provided, MTEL earns revenues under two categories:

a. Test Prep Fees - 15% of these are paid back to college trust

b. College Management Fees - paid to MTEL by the college on a per student basis

Further, deviating from its standard asset-light model across all business segments, MTEL has invested in setting up a college in the city of Mangalore which will have a capacity of 3000 students and a hostel facility to accommodate 1000 students. This college is expected to be operational from June 2013. The reason to set up this college is to help the company establish itself as a serious player in Karnataka and spur future tie-ups with colleges.

The total investment in the college and hostel put together is estimated at Rs580m, of which, Rs380m has already been spent up to March 2013. The revenue model for the Mangalore College includes:

a. Test Prep Fee

b. College Rent

c. Hostel Rent

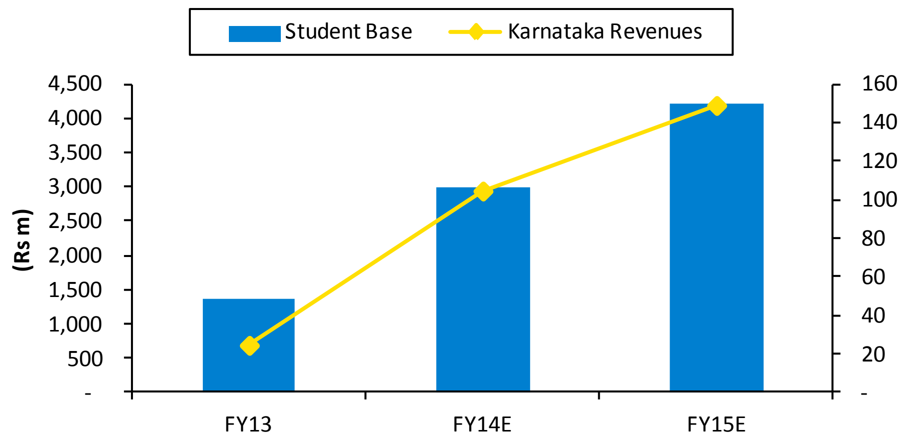
d. College Management Fee

e. Hostel Management Fee

MTEL expects to have a student base at the Mangalore campus of 1500 in Year 1, starting June 2013, growing to 2200 in Year 2.

In Karnataka, MTEL, for FY14 has 9 tie-ups - Mangalore, Udipi, Tumkur, Hubli, Bengaluru, Davangere, Belgaum, Mysore and Gulbarga.

Exhibit 16: Strong growth in 'Karnataka PU' students & Revenues



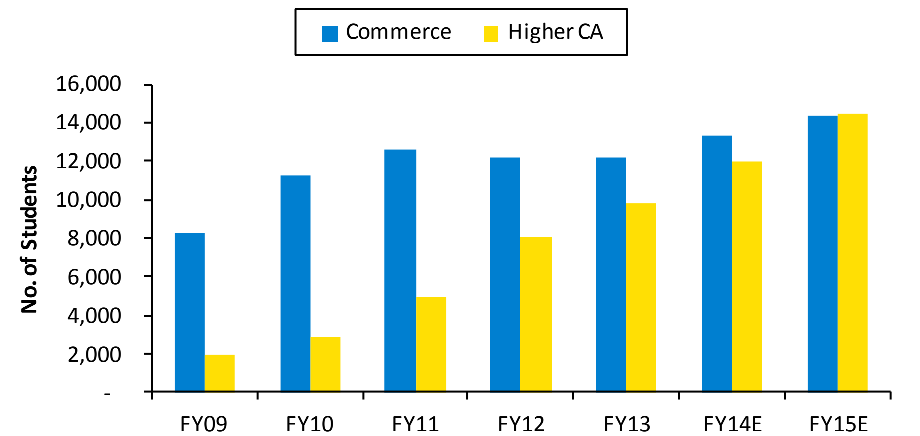
Source: Company Data, PL Research

Commerce

Rapid growth in CA division, increasing geographical presence

Within the commerce segment, MTEL is strongly targeting the CA segment by expanding its reach across the country. Besides, the commerce division, students appearing for CA exams are being targeted in a separate division. In South India, Chennai has been the focus area which has witnessed strong growth. Besides, new centres have also been started in Rajkot, Ahmedabad and Delhi. Since FY10, the number of students serviced in the CA division has tripled and are further expected to grow rapidly. The number of CA centres has also multiplied.

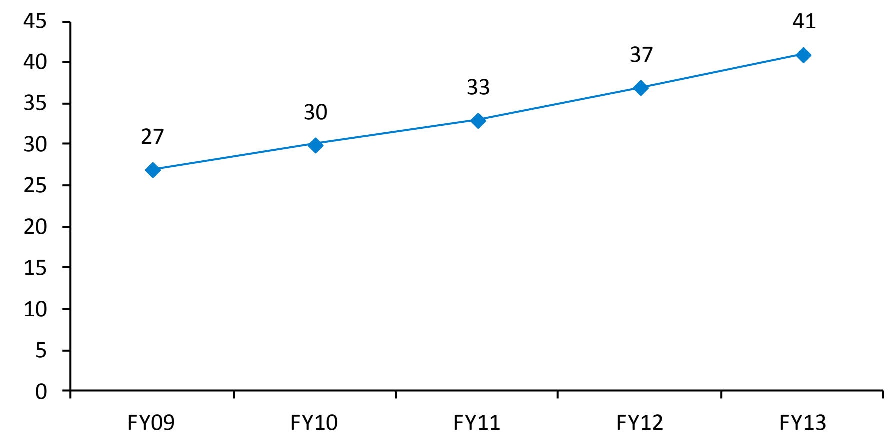
Exhibit 17: Rapidly growing CA student base



Source: Company Data, PL Research

The geographical concentration of the Commerce division, which has mainly been Mumbai, is now being extended to other cities as well. The company has planned to open centres in Ahmadabad, Pune as well as some cities of Northern India. This is likely to have a positive impact on the overall student count of the Commerce division.

Exhibit 18: Commerce centre addition

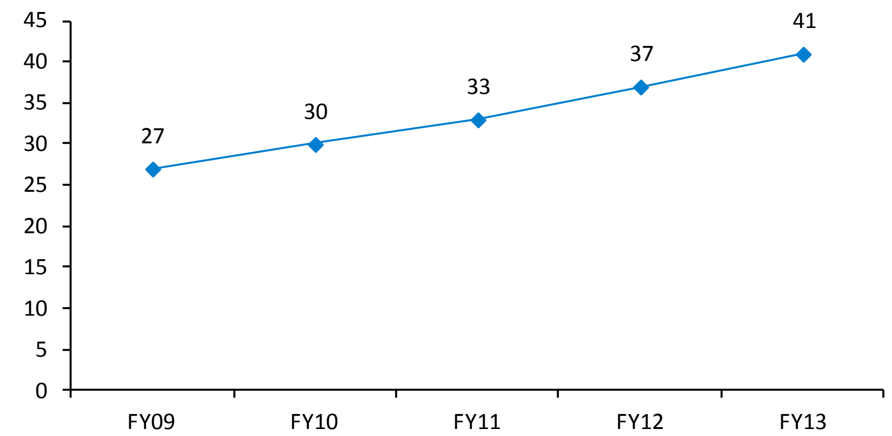


Source: Company Data, PL Research

Targeting MBA test prep

The number of *CPLC* centres has also increased from three in FY12 to seven in FY13. CPLC, offering test prep for MBA entrance exams, was acquired by MTEL (51% stake) in February 2011 for a consideration of Rs12m. From a student base of 1483 in FY12, the growth in FY13 has been 35% to 2005 students. With the number of centres more than doubling, we expect strong growth of 25%+ over the next two years.

Exhibit 19: Strong growth in MBA test prep students



Source: Company Data, PL Research

Digitizing content to bring down costs

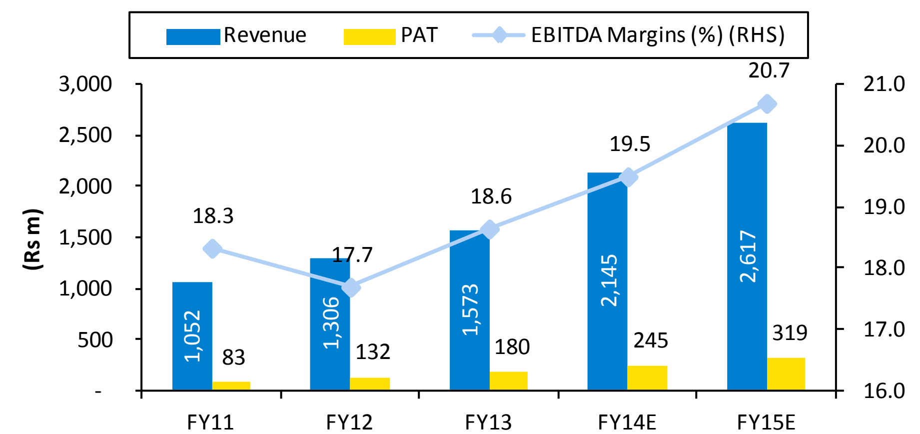
In order to bring in standardization in teaching, the company has digitized the content for its school division. This includes animating certain topics as well creating presentations for various topics. The company has spent Rs30-40m for this purpose. The three-fold advantage to this is standardization across centres, creation of a revenue stream by selling this digitized content for revision as well as reduction in the number of teaching hours which shall help in reducing faculty costs.

Financials & Valuations

Strong revenue growth, margin expansion to result in 33% PAT growth

A strong revenue growth expected over the next two years (36% in FY14 and 22% in FY15), coupled with margin expansion of 210bps over the same period, is likely to result in a PAT growth of 33% CAGR. The strong traction in revenues is expected on the back of increased focus on the Commerce & Science division, coupled with acquisition of *Lakshya* as well as strong contribution from the *Karnataka PU* model. On account of increased utilizations, margins are expected to firm up, resulting in strong growth at the bottom-line level.

Exhibit 20: A strong financial trajectory



Source: Company Data, PL Research

Valuations

Amongst MTEL's peer set, MTEL operates at premium RoEs. However, in terms of PER, it trades at a discount to *Treehouse Education*. MTEL currently trades at 15.5x FY14 and 11.9x FY15 on the basis of PER. We are valuing the company at 16x FY15 on account of its superior RoEs which translates to Rs130/share. We rate the stock '**BUY**'.

Exhibit 21: Peer Group Comparison

	M/Cap (Rs m)	Sales (Rs m)			EBITDA (Rs m)			EPS (Rs)			EV/EBITDA (x)			PE (x)			RoE (%)		
		FY13	FY14	FY15	FY13	FY14	FY15	FY13	FY14	FY15	FY13	FY14	FY15	FY13	FY14	FY15	FY13	FY14	FY15
MT Educare	3,799	1,573	2,145	2,617	293	418	542	4.6	6.2	8.1	11.6	8.0	5.7	21.0	15.5	11.9	22.7	22.8	26.0
Career Point	1,719	776	1,027	1,195	269	382	462	16.6	18.3	21.3	3.4	1.3	0.8	5.4	4.9	4.2	9.7	8.8	9.5
NIIT Ltd	3,442	9,608	10,389	11,569	514	841	1,052	1.6	3.7	4.7	7.2	3.2	2.4	11.6	5.0	3.9	4.9	8.2	10.7
Tree House	9,898	1,143	1,683	2,214	618	1,002	1,297	9.7	14.3	20.5	16.2	10.1	7.8	28.3	19.2	13.4	11.0	13.3	16.6

Source: Company Data, Bloomberg, PL Research

Concerns

Mitigating risks by eliminating the 'Star Teacher' concept

One of the biggest threats to a typical coaching class model is the attrition of 'star teachers'. In fact in most cases, institutes become famous on account of these popular teachers and loose sheen as soon they exit the institute. In order to mitigate this risk, MTEL has come up with a unique model, wherein, they make teachers 'topic experts' instead of 'subject experts' who teach their specialized topics across centres. This basically helps in bringing faculty attrition under control and reduces the dependence on these particular 'star teachers'.

Change in syllabus & systems

One of the key risks faced by the company is change in syllabus and systems. The recent change brought about for the IIT entrance exam which led to a drop in the number of students serviced under the science vertical FY13 is a very typical case. However, the diversification into different streams has led to this risk getting mitigated. Further, the digitized content that the company has introduced for the school vertical enables the company to make changes in teaching pattern across centres relatively easily.

Investment in the Mangalore University

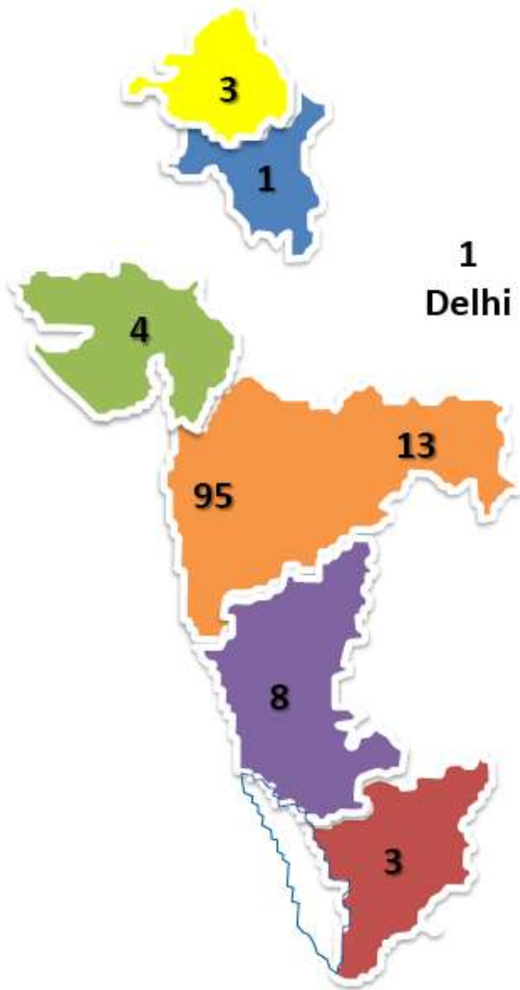
As against its original asset-light model, the company has invested in one university in Mangalore which entails significant capex. The reason for the investment is to create a foot-hold into the Karnataka market. Although, the management is clear that it shall not be undertaking any further asset-heavy investments, a deviation from this strategy remains a concern. Besides in a stable state return ratios on this model can be North of 20%.

About the Company

Mahesh Tutorials is a 25-year old brand, with Mr. Mahesh Shetty providing coaching services under this brand since 1988. The company operates under three main business verticals - School, Science and Commerce. Currently, it has ventured into other verticals as well which includes Engineering and Medical entrance exam prep, IIT test prep, MBA entrance test prep as well as coaching for CA exams.

Though predominantly present in Mumbai currently, the company has spread across 8 states/UT including Maharashtra, Karnataka, Tamil Nadu, Gujarat, Punjab, Haryana, Chandigarh and Delhi. Infact, majority of the growth hereon is expected from extending its established model to new geographies. Its network consists of 128 coaching locations with 210 Centres. It has a student base of 70,000+ and employee + faculty strength of 2200+, of which, 1100+ are faculty members, 300 of which are post graduates.

Exhibit 22: Geographical presence



Source: Company Data, PL Research

The Management

MTEL has an experienced Board of Directors and Management Team:

Board of Directors

Mahesh Shetty *(Chairman and MD):* He has over 27 years of experience and holds a Bachelor's degree in Science from Mumbai University. He was awarded the '*Pride of the Nation Award*' by the All India Achievers Association in the year 2008.

Naarayanan Iyer *(Non-Executive Director):* He is a Non-Independent, Non-Executive Director of MTEL. He has been associated with the company since its incorporation. He holds a Bachelor's degree in Mechanical Engineering from the University of Madras. He has 23 years of experience in the education sector.

Chhaya Shastri *(Non-Executive Director):* She holds a Bachelor's degree in Dental sciences, a Bachelor's degree in Law and a Post Graduate degree in Management education from IIM, Calcutta. She has over 15 years of experience across various sectors.

Cyrus Driver (*Independent, Non-Executive Director):* He holds a Bachelor's degree in Engineering from IIT, Mumbai and a Post Graduate diploma in Management from IIM, Ahmedabad. He has 12 years of experience in private equity investing. He is the founder of the health food service "Calorie Care".

Drushti Desai (*Independent, Non-Executive Director):* She is a fellow chartered accountant from ICAI and holds a Bachelor's degree in Commerce from Sydenham College of Commerce and Economics, Mumbai. She has 14 years of experience. She is a partner of Bansi S. Mehta & Co., B. S. Mehta & Co., and BSM Associates, Chartered Accountants.

Yatin Samant, (*Independent, Non-Executive Director):* He holds a Bachelor's degree in Engineering from Veermata Jijabai Institute of Technology, Mumbai and a Master's degree in management studies from Jamnalal Bajaj Institute of Management Sciences, Mumbai. He has over 26 years of varied experience in sales, marketing, business development and general management across industries.

Uday Lajmi (*Independent, Non Executive Director):* He holds a Master's degree in Marketing Management from Mumbai University and a Doctorate degree in Physical Chemistry from the Institute of Technology, Mumbai. He has over 20 years of experience in various capacities in industry and academics. He is presently the Dean - Management education & Assistant Vice President (Training & Development) with Reliance Infrastructure.

Key Management

Anish Thakkar *(Business Head - Commerce Section):* He is a member of the Institute of Chartered Accountants of India. He joined MT Educare in 2003 and has over 16 years of experience.

Chandresh Fooria *(Business Head - Science Section):* He holds a Bachelor's degree in Science and a Post Graduate degree in Science (Electronics) from Mumbai University. He has over 18 years of experience in the field of teaching and administration and has been with the company since incorporation.

Sujeet Koyoot *(Business Head - Karnataka):* He holds a Bachelor's degree in Science and a Post Graduate degree in Science (Electronics) from Mumbai University. He has over 13 years of experience in the field of teaching and administration.

Murali Subramanian *(Business Head - Pune):* He holds a Bachelor's degree in Engineering (Electronics) from Mumbai University. He has over 14 years of experience and has been associated with the company since its inception.

Shrenik Kotecha *(Business Head - UVA):* He holds a Master's degree in Commerce from R.A. Podar College in Mumbai and has completed his MBA from D.Y.Patil College. He has special expertise in mentoring students, business networking and new business development.

Vipul Shah *(Business Head - Gujarat):* He holds a Bachelor's degree in Computer Engineering from the Mumbai University and has completed Masters in Marketing Management. He also looks after marketing at MTEL.

Mahtab Khan *(Business Head- CSR and INK):* He holds a bachelor's degree in Science and a Post Graduate degree in Science (Electronics) from Mumbai University. He has been associated with the company since incorporation.

Parag Chitale *(Business Head - MBA):* He is a MBA from Jamnalal Bajaj Institute of Management Studies. He is the Founder – Promoter of CPLPL.

Yagnesh Sanghrajka (*CFO*): He has over 18 years of experience, especially in the services sector, in financial strategy planning, investor relations, management information reporting and corporate finance. Before joining the company, he had worked with large corporate houses (Hinduja Group) and a leading PE firm. He handles Finance & Accounts, Investor relations and Acquisitions/Tie-ups.

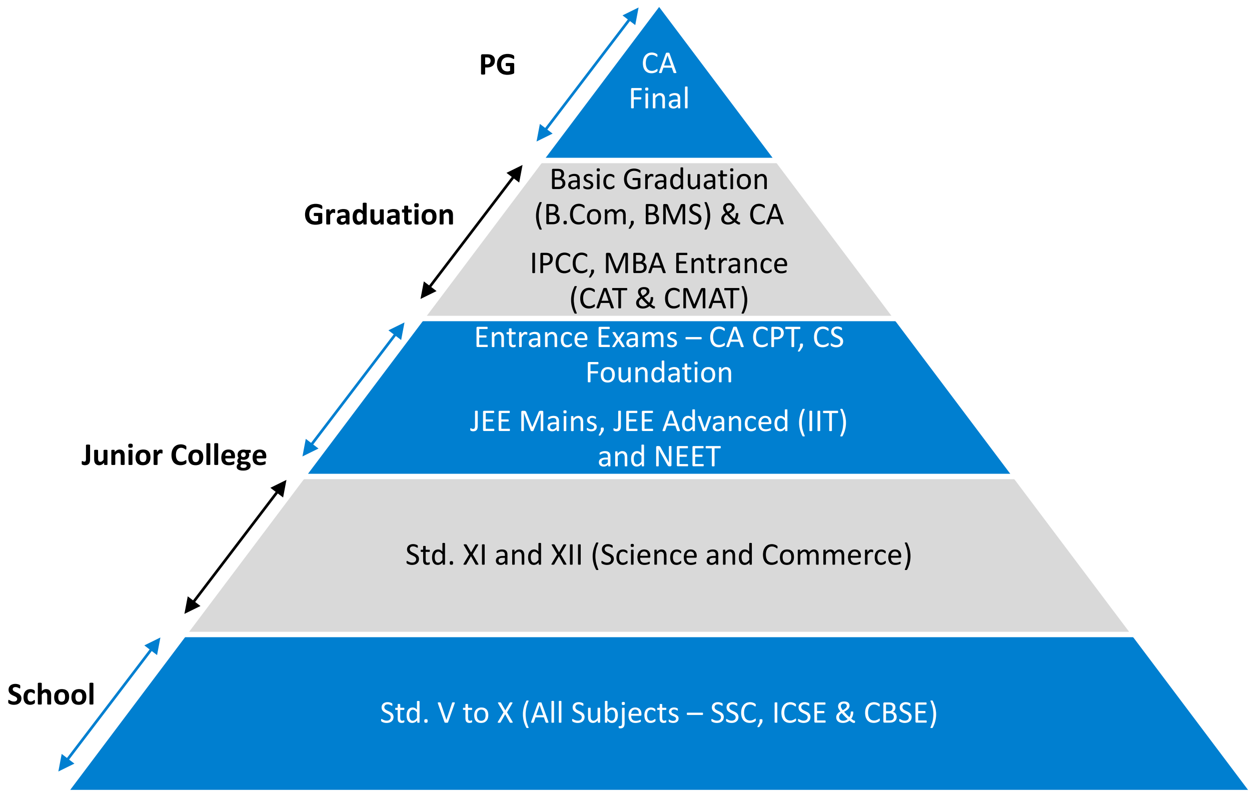
Ashwin Patel *(Company Secretary and Compliance Officer):* He is a member of the Institute of Company Secretaries in India and has a Bachelor's degree in Law from Mumbai University. He has over 20 years of experience and handles Secretarial and Legal function.

Annexure

Company Milestones

1988	• Setting up the first branch of Mahesh Tutorials
2001	• Introduction of Science Coaching for XI and XII
2003	• Introduction of Commerce Coaching for XI and XII
2007	• PE Investment of US$8m by Helix Investments Company for expansion in Mumbai
2008	• Centres opened in Karnataka, Gujarat and Tamil Nadu • Acquisition of Scholars' Learning Centres
2009	• Introduction of Technology Aided Teaching (TAT)
2011	• Acquisition of 51% stake in Chitale's Personalised Learning Pvt. Ltd.
2012	• Listing in April 2012 • Acquisition of 51% stake in Lakshya Forum for Competitions Pvt. Ltd. in Nov. 2012

Capturing the entire value chain



Income Statement (Rs m)

Y/e March	2012	2013	2014E	2015E
Net Revenue	**1,306**	**1,573**	**2,145**	**2,617**
Raw Material Expenses	—	—	—	—
Gross Profit	1,306	1,573	2,145	2,617
Employee Cost	179	220	290	348
Other Expenses	896	1,059	1,437	1,727
EBITDA	**231**	**293**	**418**	**542**
Depr. & Amortization	78	86	119	138
Net Interest	—	—	1	1
Other Income	40	47	60	75
Profit before Tax	**192**	**254**	**359**	**478**
Total Tax	64	76	115	158
Profit after Tax	**128**	**178**	**244**	**320**
Ex-Od items / Min. Int.	(4)	(2)	(1)	1
Adj. PAT	**132**	**180**	**245**	**319**
Avg. Shares O/S (m)	**35.2**	**39.5**	**39.5**	**39.5**
EPS (Rs.)	**3.8**	**4.6**	**6.2**	**8.1**

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013	2014E	2015E
Shareholder's Funds	578	1,012	1,140	1,322
Total Debt	—	—	—	—
Other Liabilities	—	(2)	—	—
Total Liabilities	**578**	**1,010**	**1,140**	**1,322**
Net Fixed Assets	466	794	960	955
Goodwill	—	—	—	—
Investments	45	21	55	60
Net Current Assets	27	155	84	266
Cash & Equivalents	*279*	*395*	*439*	*722*
Other Current Assets	*467*	*527*	*544*	*564*
Current Liabilities	*719*	*767*	*900*	*1,020*
Other Assets	41	41	41	41
Total Assets	**578**	**1,010**	**1,140**	**1,322**

Cash Flow Abstract (Rs m)

Y/e March	2012	2013	2014E	2015E
C/F from Operations	165	252	478	559
C/F from Investing	(222)	(482)	(436)	(276)
C/F from Financing	(82)	348	—	—
Inc. / Dec. in Cash	(140)	118	43	283
Opening Cash	423	279	395	439
Closing Cash	284	397	438	722
FCFF	117	(201)	232	345
FCFE	72	(201)	232	345

Quarterly Financials (Rs m)

Y/e March	Q2FY13	Q3FY13	Q4FY13	Q1FY14 E
Net Revenue	**459**	**393**	**351**	**472**
EBITDA	**129**	**80**	**41**	**58**
% of revenue	*28.1*	*20.3*	*11.6*	*12.3*
Depr. & Amortization	18	22	25	22
Net Interest	—	—	—	—
Other Income	13	12	8	15
Profit before Tax	**125**	**69**	**24**	**51**
Total Tax	34	22	8	16
Profit after Tax	**90**	**47**	**17**	**34**
Adj. PAT	**90**	**47**	**17**	**34**

Key Financial Metrics

Y/e March	2012	2013	2014E	2015E
Growth				
Revenue (%)	24.1	20.5	36.4	22.0
EBITDA (%)	19.8	26.9	42.6	29.5
PAT (%)	60.2	36.4	35.8	30.3
EPS (%)	56.5	21.3	35.8	30.3
Profitability				
EBITDA Margin (%)	17.7	18.6	19.5	20.7
PAT Margin (%)	10.1	11.5	11.4	12.2
RoCE (%)	23.4	22.4	22.7	26.1
RoE (%)	25.1	22.7	22.8	26.0
Balance Sheet				
Net Debt : Equity	(0.5)	(0.4)	(0.4)	(0.5)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	25.5	21.0	15.5	11.9
P / B (x)	5.8	3.8	3.3	2.9
EV / EBITDA (x)	13.4	11.6	8.0	5.7
EV / Sales (x)	2.4	2.2	1.6	1.2
Earnings Quality				
Eff. Tax Rate	33.2	29.8	32.0	33.0
Other Inc / PBT	20.7	18.3	16.7	15.7
Eff. Depr. Rate (%)	12.7	8.0	9.0	9.0
FCFE / PAT	54.4	(111.5)	94.6	108.1

Source: Company Data, PL Research.

Key Operating Metrics

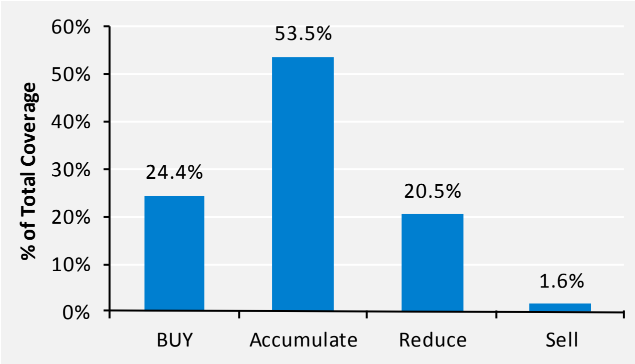
Y/e March	2012	2013	2014E	2015E
No of students serviced				
School	31,774	33,224	37,217	39,478
Science	14,524	13,511	19,281	23,299
Commerce	20,236	22,088	25,356	28,826
CPLC	1,483	2,005	2,607	3,128
Segmental revenue (Rs m)				
School	600	704	807	894
Science	326	401	713	938
Commerce	264	326	387	487
CPLC	25	27	37	48
Others	90	114	120	140

Source: Company Data, PL Research.

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Prabhudas Lilladher Pvt. Ltd.
3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review (UR)**	:	Rating likely to change shortly