

MT EDUCARE LTD

Initiating Coverage - BUY

Analyst

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Key Data	
Ticker (Bloomberg)	MTEL
NSE Code	MTEUCARE
BSE Code	534312
Sector	Training
Industry	Education
Face Value (₹)	10
Book Value per share (₹)	14
Dividend Yield (%)	1.7%
52 Week Range (₹)	67.1 - 142.4
Market Cap. (₹ mn.)	3,383

(In ₹ mn)	FY12	FY13	FY14E	FY15E
Net Sales	1,306	1,573	2,024	2,429
EBITDA	231	293	393	472
EBITDA Margin	17.7%	18.6%	19.4%	19.4%
EPS (₹)	3.2	4.5	5.8	6.9
EV/Sales	2.3	1.9	1.5	1.3
EV/EBITDA	13.2	10.4	7.8	6.5
P/E (x)	26.4	18.7	14.7	12.3

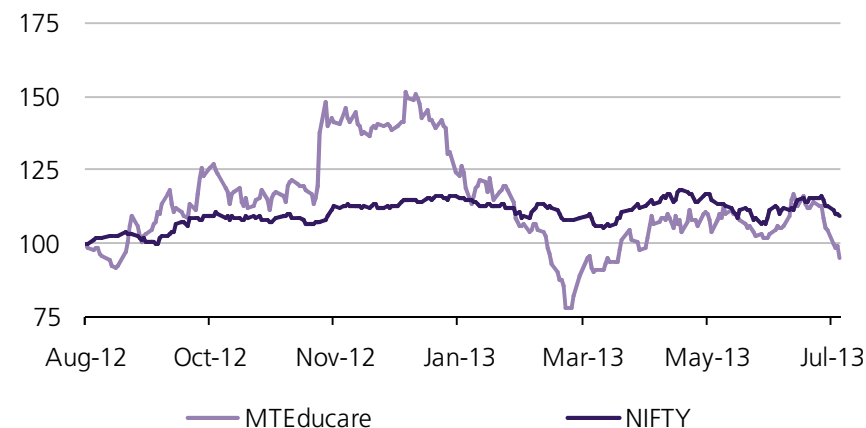
Price Performance	CY12*	YTD
Absolute	58.4%	-32.1%
Relative	45.5%	-29.1%

Shareholding Pattern

	Jun-13	Mar-13	Dec-12	Sep-12
Promoters	44.7%	42.9%	42.9%	42.9%
FII	11.3%	5.2%	6.0%	4.4%
DII	4.4%	4.3%	3.5%	3.3%
Bodies Corporate	5.2%	7.4%	7.1%	8.0%
Others	34.5%	40.2%	40.6%	41.4%
Total	100%	100%	100%	100%

Source: Company, Bloomberg, Destimoney Research
 *MTEL got listed on 12 Apr 2012

Relative Stock Performance (Aug'12=100)

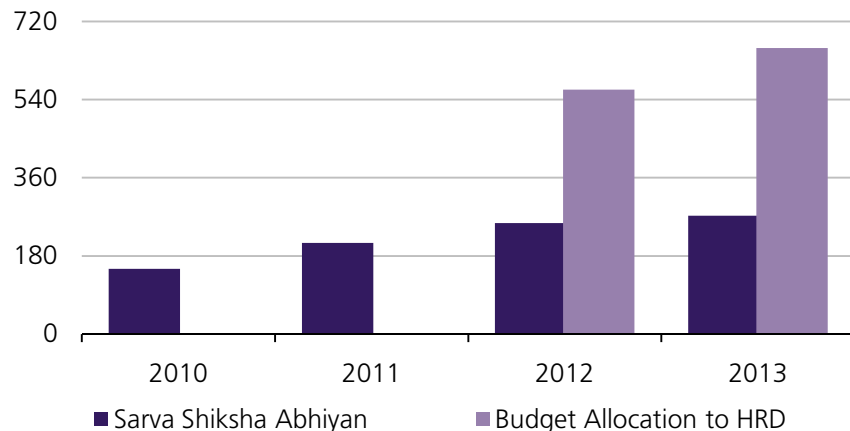


Cashing on the demographic dividend, intensified competition in academics

- ❑ MT Educare Ltd (MTEL) is primarily a Mumbai centric education support and coaching service provider in the higher secondary school and for students pursuing graduation degree in commerce and preparing for competitive education.
- ❑ Started in 1988 as Mahesh Tutorials by Mr. Mahesh Shetty, MTEL is a recognized organized player in ₹400 bn coaching market in India which is dominated by unorganized and fragmented players. The market is expected to grow at 17% CAGR between 2011-15 to ₹756 bn and has enough room for everyone to grow.
- ❑ MTEL has expanded its presence from being a pure Mumbai centric player to eight states including Maharashtra, Gujarat, Karnataka, Tamilnadu catering to over 70828 students in FY13.
- ❑ Recent acquisition of Lakshya, an IIT entrance coaching institute is expected to help MTEL consolidate its position in the Science vertical which also offers scalability being extremely relevant at national level exams.
- ❑ Key growth drivers for MTEL are its operating leverage, price inelasticity of demand, low cost operation, sticky faculty, well known brand in Maharashtra, negative working capital, debt free balance sheet, ample cash for funding organic growth. Currently operating at about 50% operating leverage the company can scale up the operation without any significant capital expenditure.
- ❑ Considering the positive correlation between admission into premier institution and better employment prospects, the competition among the candidates appearing has intensified. Also, increasing discontent with public schooling has led to Parents' relying on private tutoring to prepare their ward for such intensified competition.
- ❑ We expect MTEL to be one of the key beneficiaries of the current trend towards organized tutoring. We initiate coverage on MT EDUCARE LTD with a **BUY** rating and a target price of **₹102** per share.

In India, declining dependency ratio is a demographic dividend and education for all is an enabler to unlock this potential

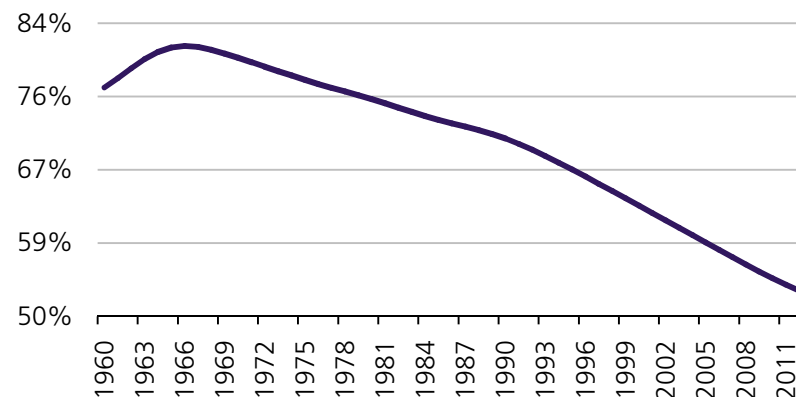
Budgetary Allocation (in ₹ Bn)



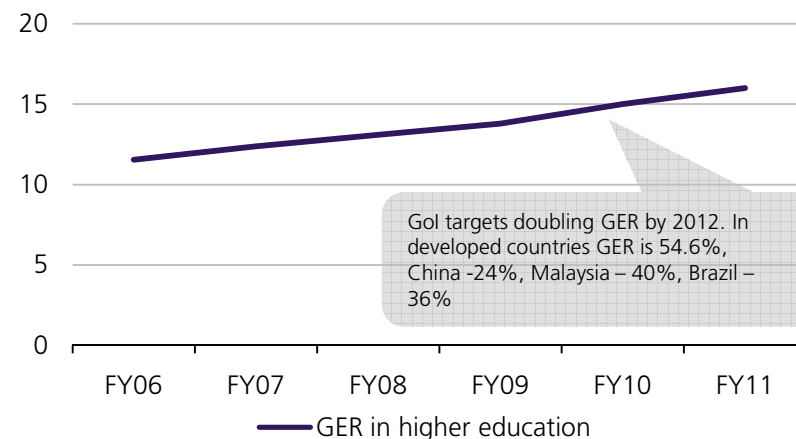
- Government has strong focus on education sector although we still lag w.r.t. global averages in percentage of budgetary allocation to education.
- There is observed to be a strong correlation between endowment of skilled labour and its ability to generate higher level of GDP.
- Education for all continues to remain a priority concern for govt, there has been sharp 17% rise in budgetary allocation to human resource development in last budget.

Source: World Bank, Union Budget, ICRIER, MHRD annual report

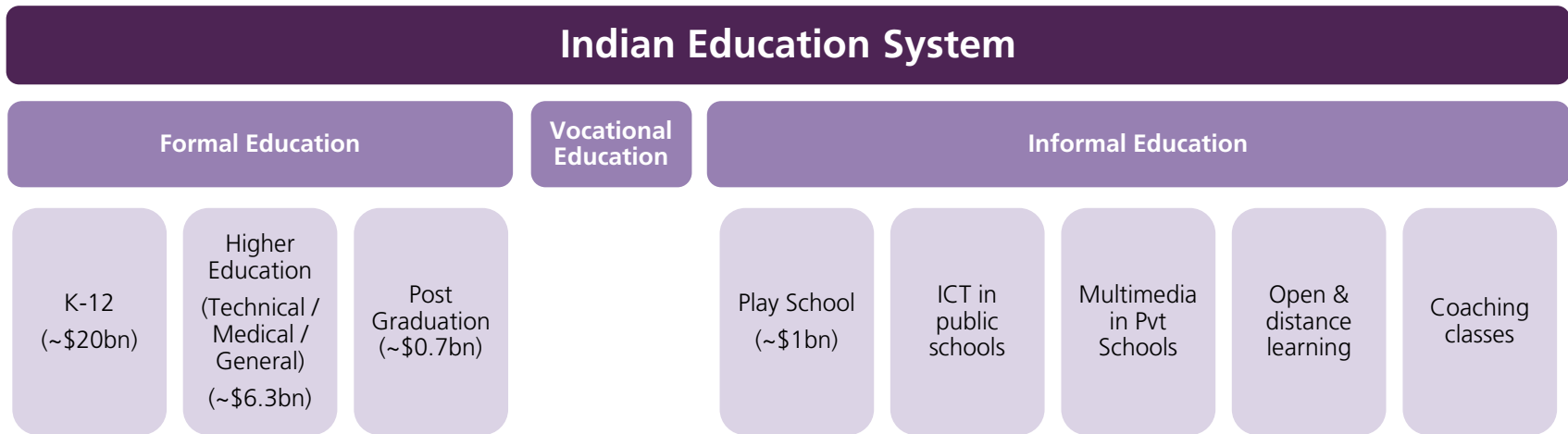
Dependency ratio (dependents as % of working age population) is expected to decline further going forward



Gross Enrolment Ratio (GER) in Higher Education

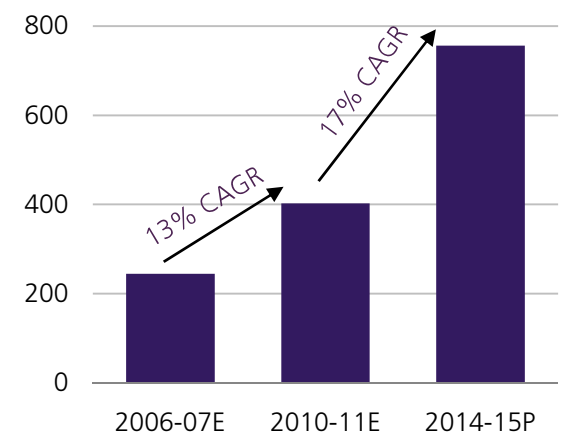


Being low in capital intensity, private coaching has attracted high entrepreneurial interest which has led to handsome growth in the past...

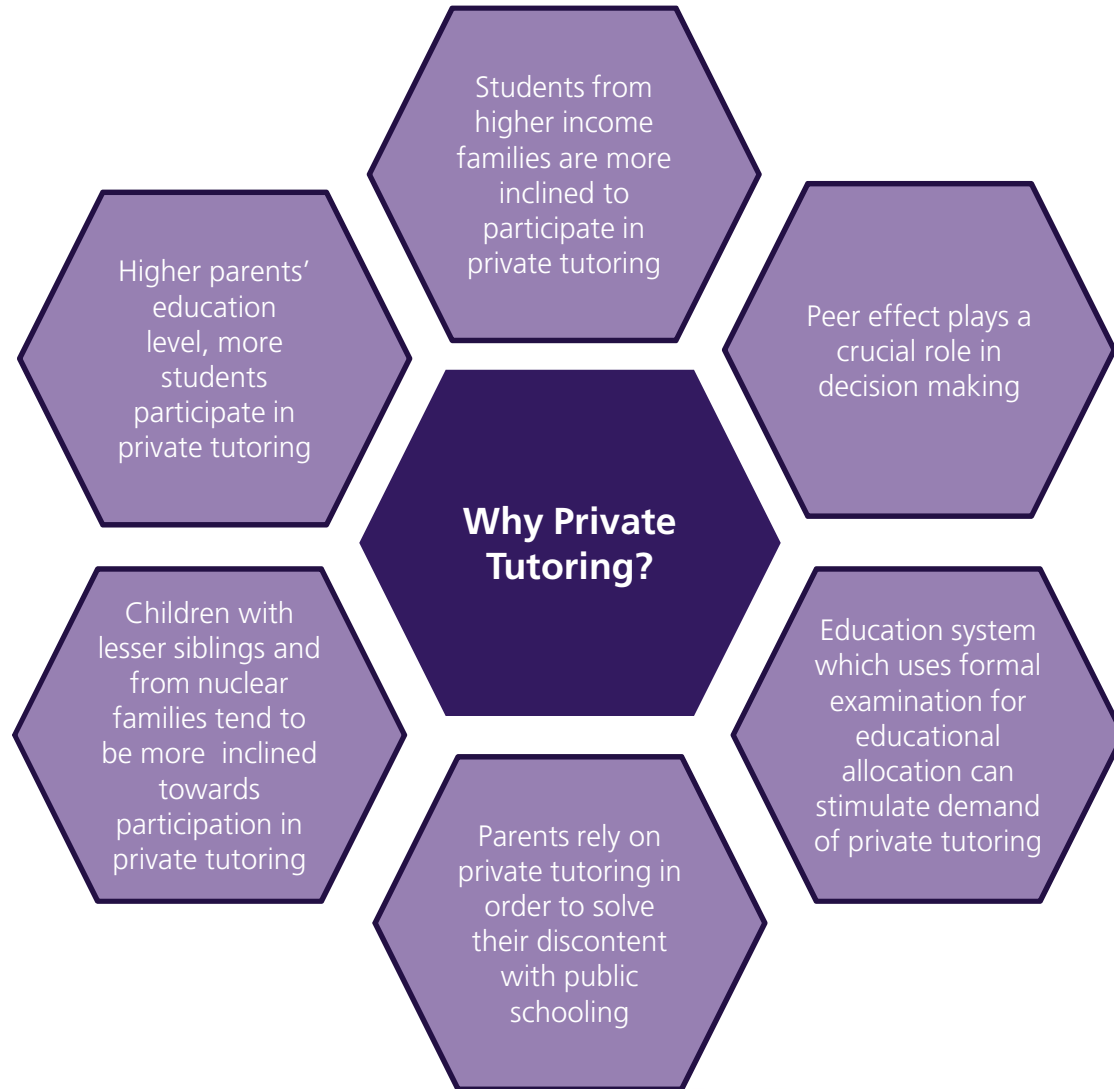


- ❑ Private education sector is estimated to reach ₹6900 bn by 2018.
- ❑ Coaching Industry is expected to grow at 17% CAGR between 2011-2015.
- ❑ Four types of coaching methodologies:
 - ❑ Integrated classroom programs
 - ❑ Technology-aided (virtual class)
 - ❑ Portal-based learning
 - ❑ Distance learning

Coaching Industry (in Rs. Bn)



Source: DRHP, Industry Data



Source: Destimoney Reserach

Tutoring is largely invisible, extremely fragmented and unregulated market

Organized players face heavy competition from unorganized players

What unorganized players lack vis-à-vis organized players

- ❑ Low visibility
- ❑ Scaling up is a concern
- ❑ Access to capital is difficult
- ❑ Dependence on “superstar” faculty
- ❑ May not be able to charge 12 months advance fee, hence working capital gets stretched

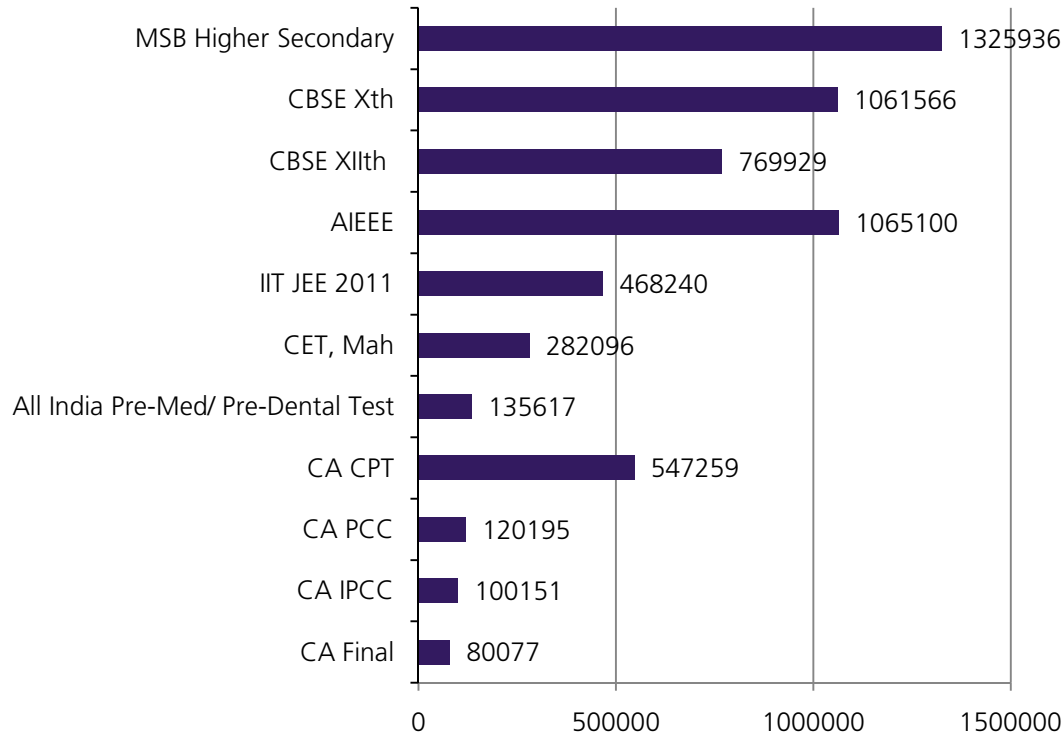
Advantages of unorganized players vis-à-vis organized players

- ❑ Competitive Pricing
- ❑ Monthly fee payment facility
- ❑ Personalized attention
- ❑ Flexible
- ❑ A-la-carte offering

MTEL's has created a brand for itself in school teaching, which is targeted towards enabling students to clear basic threshold. Recently by adding specialized courses, it is building on the above foundation.

As competition has intensified across courses, scale, faculty retention, updated content delivery and brand has become a differentiating criteria

No. of students appearing in various examinations

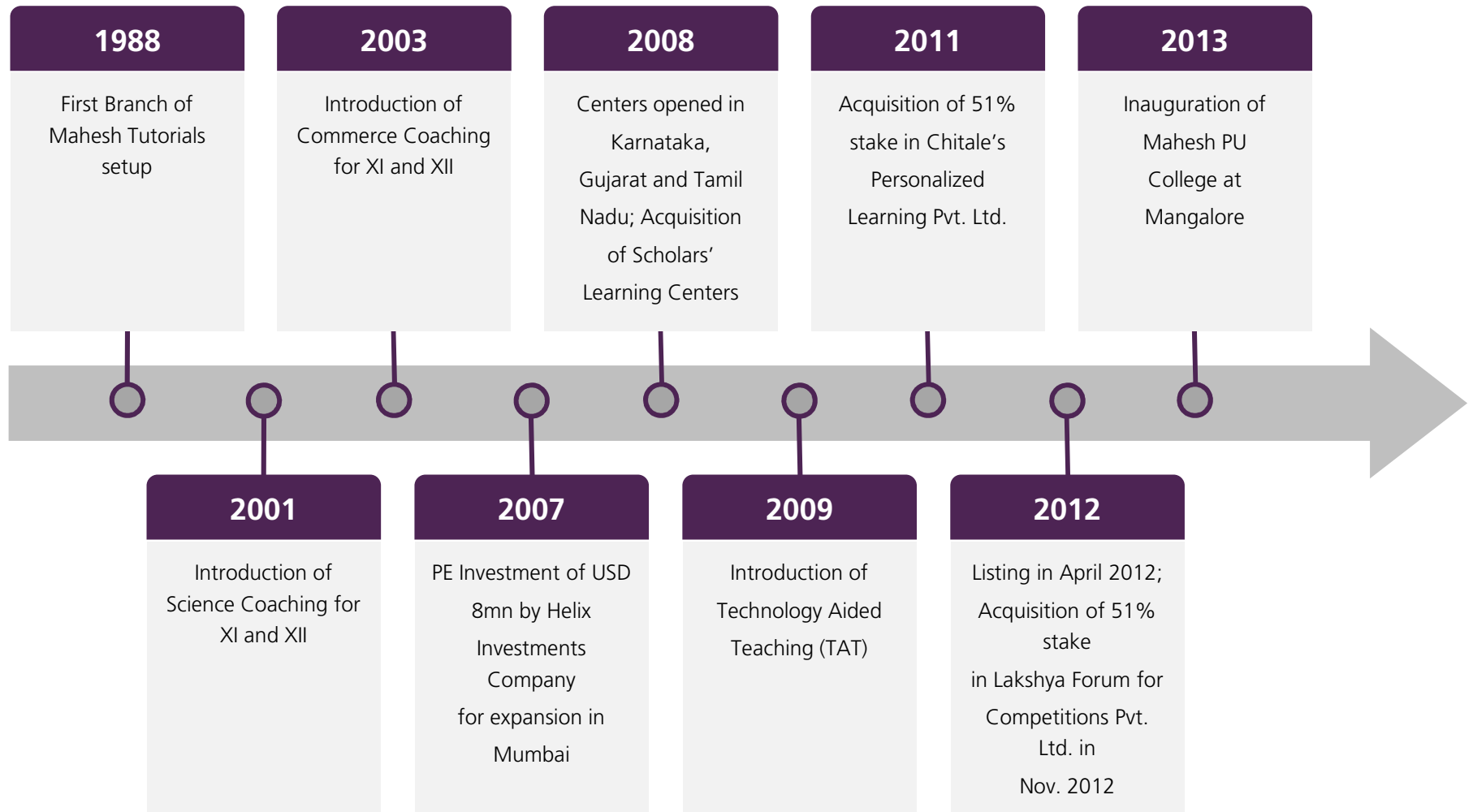


- Addressable market for MTEL is about ₹125 bn
- Nearly 49000 seats across 16 IITs, 31 NITs and 10 IIITs
- Observed 10%-30% pass percentage in CA final

Source: Company, Media Reports

- Traditionally the credibility of a coaching center is spread by word of mouth. Massively spread tutoring centers (incl. individual teachers) demands investment in brand building as well.

MTEL is an experienced campaigner in the education support and coaching space...



Source: Company

...and has stable revenue streams which allow MTEL to expand reach and embrace newer technology enabled teaching pedagogy

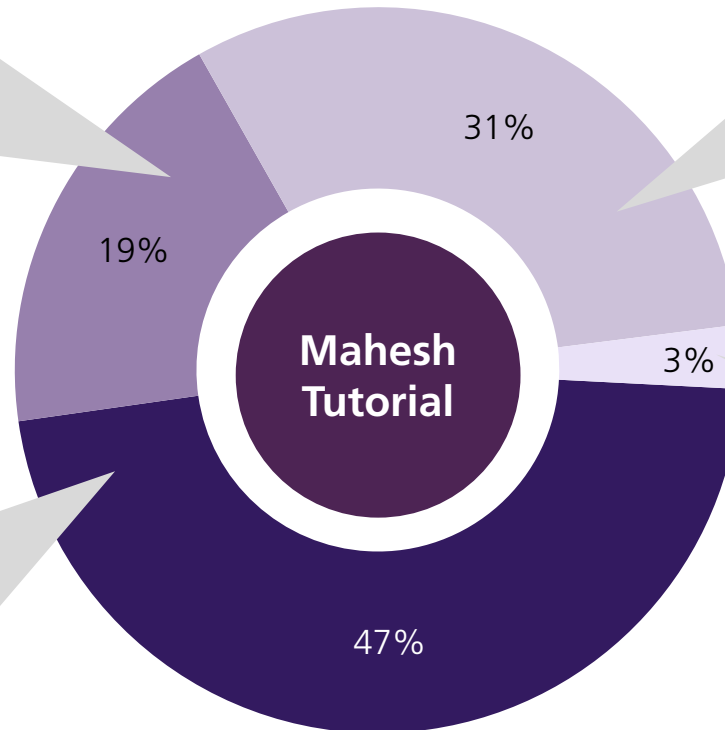
XI & XII standard, Test Prep for engg. & medical (JEE Mains, JEE advanced)

Key competitors:

Karla Classes, Brilliant Tutorials, Ideal Classes

Revenue Contribution in FY13 (₹1573 mn)

■ School ■ Science ■ Commerce ■ CPLC



XI & XII standard, CA-IPCC, CA Final, CA-CPT, CS Entrance, BCom (UVA)

Key competitors:

JK Shah Classes (Mah), Gurukripa (Chennai) and Prime Academy (Chennai)

Mah, Guj, Kar State Board, CBSE, ICSE, INK (V to VIII)

Key competitors:

Sinhal Classes (ICSE), Vidyalankar, Chate Classes, Ideal Classes

Coaching for MBA Entrance i.e. CAT, CMAT, Coaching service in Dubai, Govt. Programs

Key competitors:

IMS, TIME, Career Launcher, Career Forum

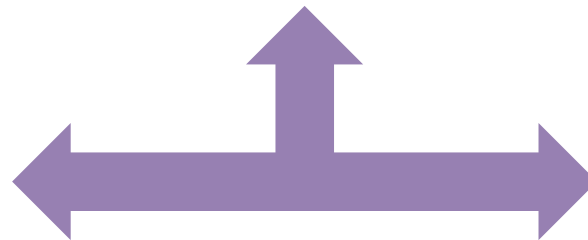
Source: Company

Concentration in Mumbai is both a boon and a bane for MTEL

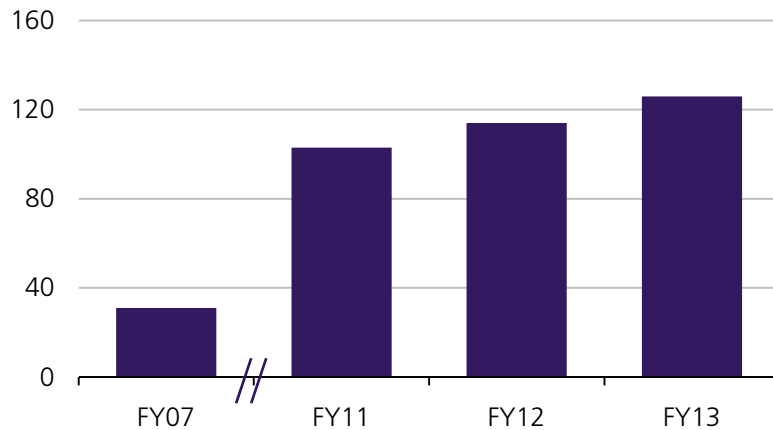
With existence of host of higher education colleges in and around Mumbai, students remain associated with a particular service provider for more years, hence providing more revenue visibility.

Higher disposable income being financial capital hence demand is even more price inelastic. Although faculty retention becomes more challenging with a sea of avenues open for them.

Maharashtra is one of the faster growing market with over 11.5% CAGR expected between 2011-2015. Although higher rentals keeps rapid expansion under check. MTEL's network provides it a high patronage thereby acting as an entry barrier for new entrant.



Growing no. of locations



Source: Company

- ❑ MTEL has spread across 8 states in 126 locations in FY13 from being a purely Mumbai based played back in FY07.
- ❑ MTEL keeps its model asset light by having all its 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.

INK Model – a new offering for standard V to VIII students

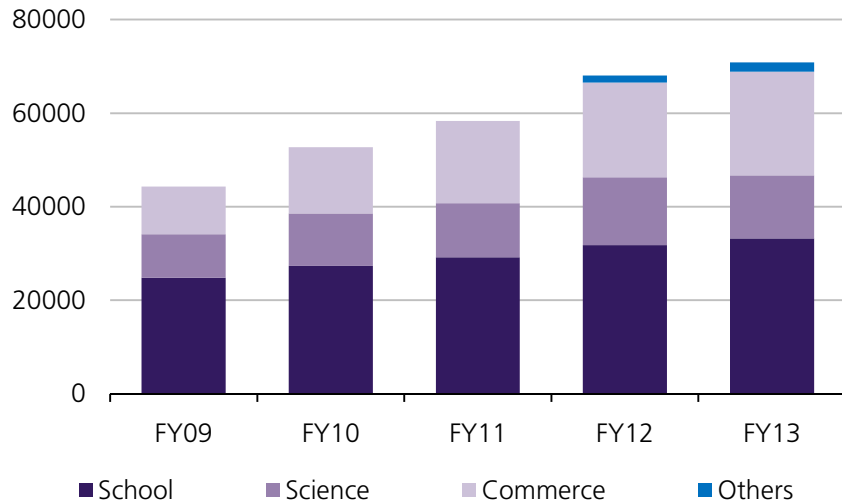
- ❑ INK model is an online tutoring program in which a small batch of students login to a live session from their home and take lessons. It's a two way interactive tutoring which is expected to expand MTEL's reach to other cities at much faster pace.
- ❑ The company will offer all subjects for Maharashtra, ICSE and CBSE board under this model.
- ❑ Although a revolutionary addition to the schema of offering for MTEL, this is expected to compete against a slightly different but free lesson content provider like Coursera and Udacity.



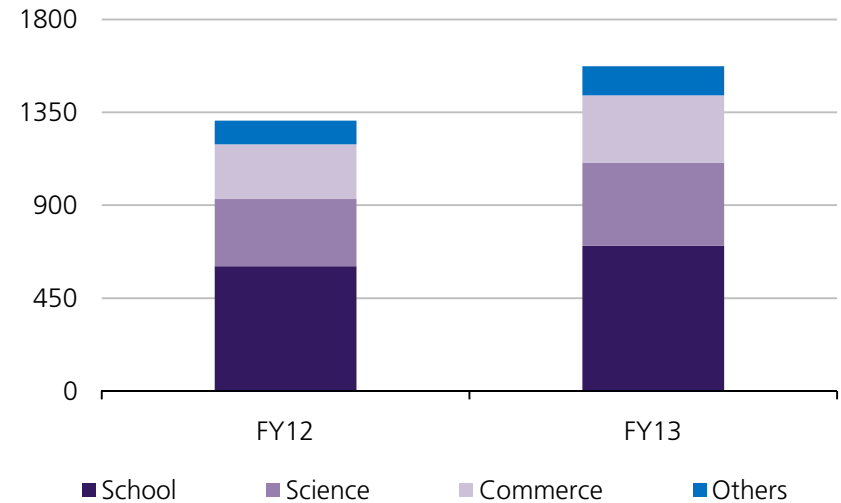
Source: Company

Revenue growth for MTEL is hinged on incremental enrolments across segments

Number of students across verticals



Revenue across segments (₹ mn)



Source: DRHP, Company

- ❑ The company serviced 70,828 students in FY13, increased at 12.4% CAGR since FY09.
- ❑ Management indicated that MTEL has successfully taken 8%-10% hike in fees for the last few years on regular basis, reflecting the price inelasticity of the demand.
- ❑ Market trends moving towards IX-X combo is a good sign for MTEL. Admission in IX-X combo courses has grown 3x to 6000 in FY13 vis-à-vis FY09.

Lakshya acquisition seemingly completes the offering basket for MTEL

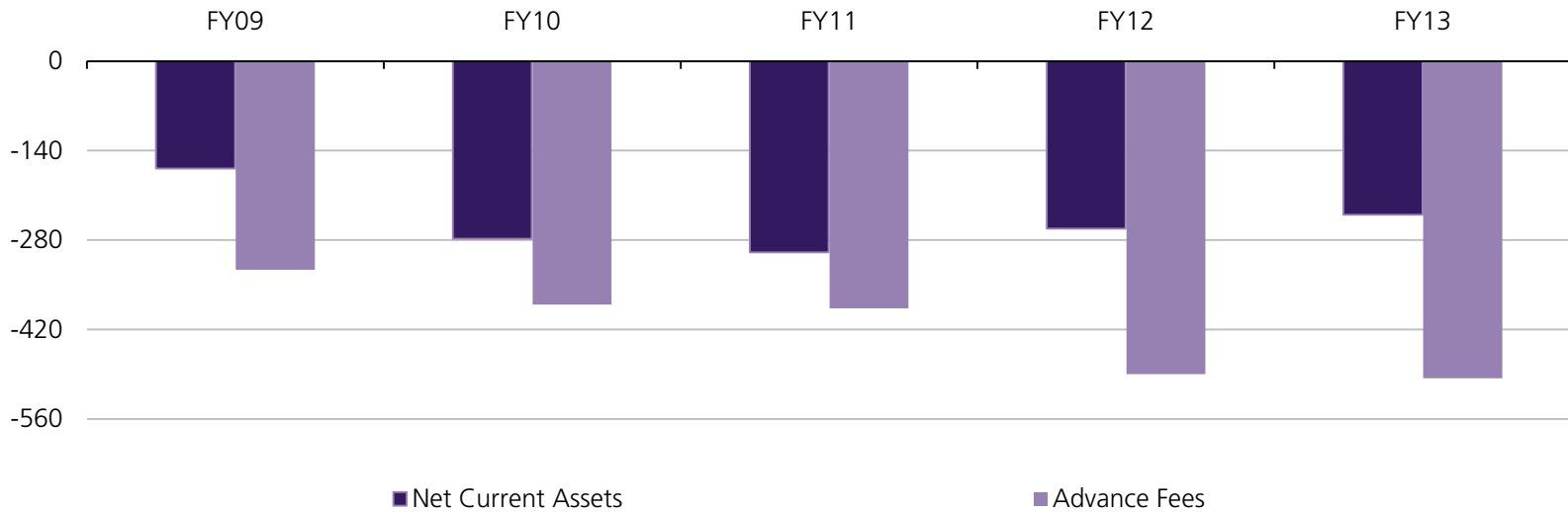
- ❑ In Nov 2012, MTEL acquired 51% stake in north India based IIT entrance teaching institute, Lakshya. The consideration is dependent on predefined milestones to be achieved by Lakshya and is expected to be in the order of ₹250-300 mn. The agreement gives MTEL an option to buy 100% stake in Lakshya up to June 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 ₹120-130 mn with about 10% PAT. MTEL is targeting topline of ₹300-350 mn by FY15 at 18%-20% operating margin.
- ❑ This acquisition is in line with the recent changes in the JEE pattern. MTEL's nimbleness is visible in promptness in which it enhanced its course material offering at its centers supplemented with content from Lakshya. MTEL has provided sufficient visibility to brand Lakshya on its supplementary content, showing signs of nurturing a symbiotic partnership and clearly recognizing the importance of Lakshya in its portfolio.
- ❑ We expect this acquisition to be margin accretive substantially and help MTEL to consolidate its offering further in the science business vertical.

Newly added models appear promising and will help to consolidate brand MTEL

- ❑ **Under the science division** MTEL has launched a Private University (PU) in Mangalore (Karnataka). The facility will address a total of 3000 students. It also has a hostel facility of 1000 students.
- ❑ In a standard PU College Model, MT Educare Ltd. operates on a revenue sharing basis with the respective college trust.
- ❑ Under this Mangalore PU, MTEL will receive revenue from the following streams
 - Test preparation fee : Coaching for engineering and medical entrance examination after college hours. Every college student will be a student enrolled with MTEL.
 - College rent
 - Hostel rent
 - College management fee: Content for std XI & XII, Sourcing of teachers and teacher training, time table management, academic MIS.
 - Hostel management fee
- ❑ The company intends to add 9 such colleges in FY14 across Karnataka at Mangalore, Udipi, Tumkur, Hubli, Bengaluru, Davangere, Belgaum, Mysore and Gulbarga.
- ❑ It also proposes to expand the network to 30 colleges in next 4 years.
- ❑ **In the commerce vertical**, MTEL launched University, Vocational and Affiliated (UVA) program with focus of creating employable graduates who will pay fees by taking up relevant assignments while studying.
- ❑ Currently MTEL have a tie-up with Bunts Sangha College, Mumbai to provide coaching to B.Com students along with UVA courses, CA-IPCC or MBA Test Prep. It plans on expanding MTEL footprint via college tie-up mode.
- ❑ The company also intends to expand **Chitale's Personalized Learning Pvt Ltd.** (CPLC) which offers CAT, GRE, GMAT, CMAT coaching to other locations outside Mumbai. MTEL acquired 51% stake in CPLC in 2011.

Organized setup and brand recognition helps MTEL to charge fees in advance thereby helping it work on negative working capital

Negative working capital helps company to manage resources better (in ₹ mn)

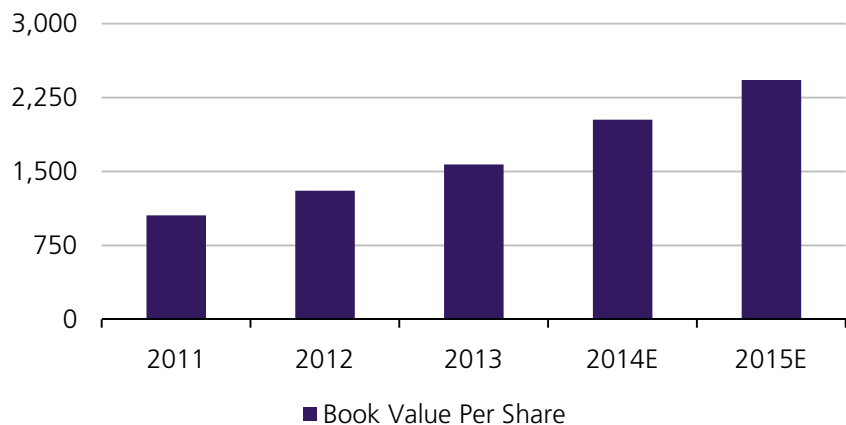


Source: Company

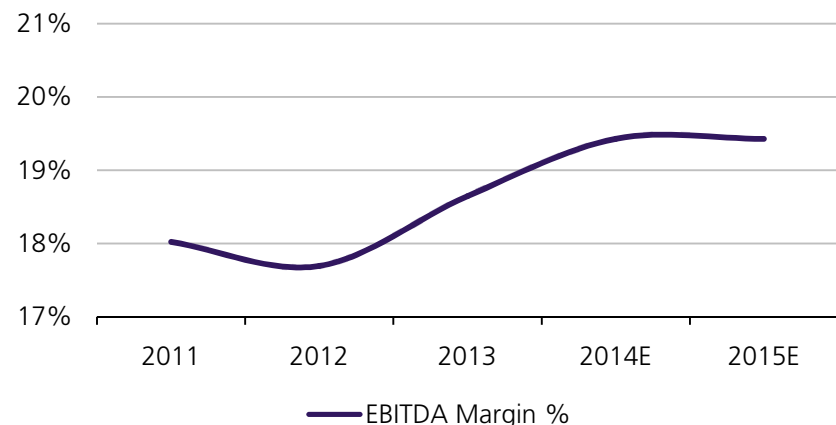
□ In FY13, advance fee accounted for 115 days of operations.

Debt free balance sheet, ample cash reserves and high operating leverage are expected to improve key ratios going forward

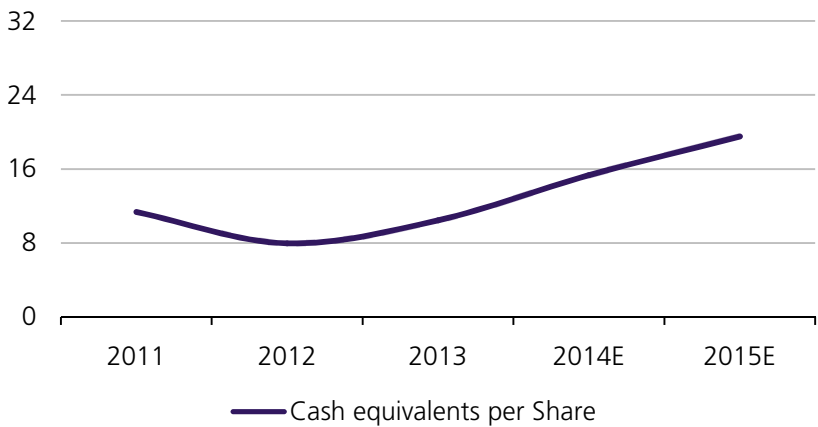
Sustainable revenue growth



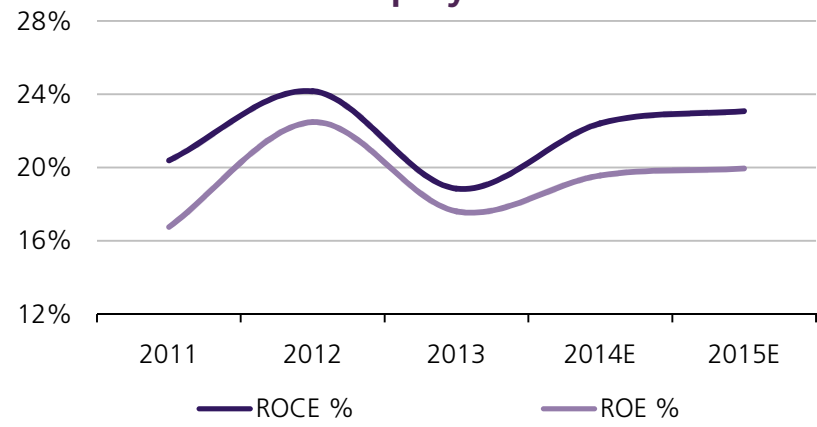
EBITDA Margin is expected to improve



...leading to improvement in cash per share



...return ratios are set to improve as cash gets deployed

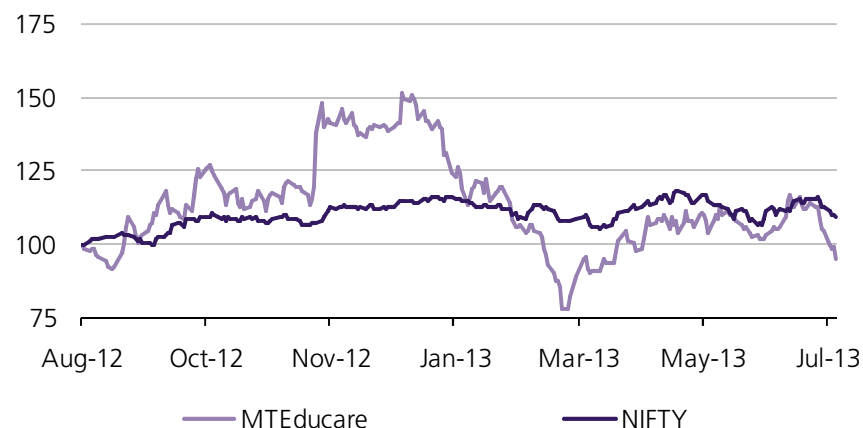


Source: Company, Destimoney Research

Recommendation

- ❑ Considering the positive correlation between admission into premier institution and better employment prospects, the competition among the candidates appearing has intensified.
- ❑ Also, increasing discontent with public schooling has led to Parents' relying on private tutoring to prepare their ward for such intensified competition. We expect MTEL to be one of the key beneficiaries of the current trend towards organized tutoring.
- ❑ The stock is trading at 14.7 and 12.3 times its FY14E and FY15E earnings.
- ❑ We initiate coverage on MT EDUCARE LTD with **BUY** rating and a target price of ₹102 per share.

Relative Stock Performance (Aug'12=100)



	FY12	FY13	FY14E	FY15E
EPS (₹)	3.2	4.5	5.8	6.9
CEPS (₹)	5.2	6.6	8.6	10.3
P/E (x)	26.4	18.7	14.7	12.3
P/B (x)	5.9	3.3	2.9	2.4
ROE	22.5%	17.6%	19.6%	19.9%
ROCE	24.2%	18.9%	22.4%	23.1%
EV/EBIDTA (x)	13.2	10.4	7.8	6.5

Source: Destimoney Research, Bloomberg

Financial Summary

(In ₹ mn)	FY12	FY13	FY14E	FY15E
Net Sales	1,306	1,573	2,024	2,429
Operating expense	1,075	1,280	1,631	1,957
EBIDTA	231	293	393	472
Depreciation	78	86	111	133
EBIT	153	207	283	339
Interest	0.5	-	-	-
EBT	152	207	283	339
Other Income	40	47	60	72
PBT	192	254	343	411
Tax	64	76	113	136
PAT	128	178	230	275
Margins				
Sales Growth %	23.8%	20.5%	28.7%	20.0%
Operating Margin %	17.7%	18.6%	19.4%	19.4%
Net Margin %	9.8%	11.3%	11.3%	11.3%

Source: Company, Destimoney Research

(In ₹ mn)	FY12	FY13	FY14E	FY15E
Liabilities				
Equity Share Capital	352	395	395	395
Reserves & Surplus	219	616	778	986
Deferred Tax Liability	53	84	84	84
Current Liabilities (CL)	666	677	859	1,017
Long Term Provisions	7	6	6	6
Minority Interst	1	(1)	(1)	(1)
Total	1,298	1,777	2,121	2,487
Assets				
Total Fixed Assets	690	1,158	1,245	1,387
Current Assets (CA)	608	619	876	1,100
Total	1,298	1,777	2,121	2,487

Key risks & challenges

- ❑ MTEL's heavy dependence on Mumbai region is a major risk. Structural or regulatory changes may impact company's role in the value chain. Currently, there no center or state legislation to regulate or restrict operations of a private coaching business.
- ❑ Replicating the success in other geographies will be a challenge. Also, language barrier in tutoring in other state boards is another visible hurdle for MTEL.
- ❑ Coaching industry not being cash intensive has very low entry barrier especially from unorganized market. High return ratios in the business is increasingly attracting private equity participation.
- ❑ Defection by the in-house teachers and starting a similar line of service is a constant worry. Also in case of digital education format, piracy remain a cause of concern.

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