

## Tree House Education & Accessories

### Focus on expansion and debt reduction

**Expansion plan for pre-schools to drive growth:** Tree House Education & Accessories (THEAL) is expected to continue to post revenue growth on the back of its growing geographic presence. In the past few years, the company has increased its number of pre-school branches at a rapid pace, ie from 302 in FY2012 to 647 in 1QFY2016 (self-operated branches + franchisees). At present, the company's branches are concentrated in Maharashtra, with the region accounting for ~40% of its branches. THEAL is now looking at expansion of pre-schools on a large scale and across different regions, with particular focus on the Delhi & NCR region. The company would be adding 150 pre-schools in FY2016. This move, we believe, is a positive step in terms of mitigating the risk of geographic concentration.

**Day care centers to trigger growth & profitability:** THEAL has expanded its day-care foot print to 190 centers, with it receiving an encouraging response in this segment. The Management believes that this service will contribute significantly to the company's top-line and bottom-line, going ahead. THEAL has entered into tie-ups with large corporates in the IT, ITES, banking and consulting space to provide day-care services for their employees.

**Focus on monetization of K-12 School assets:** The company is providing school management services to 24 K-12 schools in 3 states in India. The company is now focusing on monetizing its investments in K-12 school premises and moving towards an asset-light model while it would continue to provide educational services in this segment. The company owned 5 setups (land & building) including 1 in collaboration with a joint venture (JV) partner; THEAL has a 50% stake in the JV. Of these, the company has sold 1 school property for ~₹17cr; for another property, it has signed a MOU for sale of its land and building in Vadodara for a consideration of ₹52.5cr.

**Payment of debt:** Currently the company is more focused on expansion and debt reduction. The company has raised ₹200cr through a QIP to fund its expansion plans. Further, it would be selling its K-12 school property, and would utilize its free cash flows to offset debt. The company expects to be virtually debt free within two years.

**Outlook and Valuation:** We continue to remain positive on the stock, as we believe THEAL will continue to register robust growth going ahead. The growth would come on the back of consistent expansion of pre-schools and repayment of debt which would boost earnings. We expect the company to report a CAGR of ~26% in the top-line and ~32% in the bottom-line over FY2015-17E. **We recommend a Buy rating on the stock, with a target price of ₹449.**

#### Key Financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2016E
<b>Net Sales</b>	<b>158</b>	<b>207</b>	<b>262</b>	<b>332</b>
% chg	37.9	31.6	26.2	26.7
<b>Net Profit</b>	<b>44</b>	<b>61</b>	<b>75</b>	<b>105</b>
% chg	31.8	38.6	23.7	40.1
OPM (%)	56.6	57.2	57.2	57.5
<b>EPS (₹)</b>	<b>10.4</b>	<b>14.4</b>	<b>17.8</b>	<b>24.9</b>
P/E (x)	36.1	26.1	21.1	15.0
P/BV (x)	4.0	2.4	2.2	1.9
RoE (%)	11.0	9.3	10.3	12.7
RoCE (%)	14.9	12.0	13.6	16.6
EV/Sales (x)	10.4	7.3	6.0	4.8
EV/EBITDA (x)	18.5	12.8	10.5	8.3

Source: Company, Angel Research; Note: CMP as of August 25, 2015

## BUY

CMP	₹375
Target Price	₹449

Investment Period	12 Months
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#### Stock Info

Sector	Educational Services
Market Cap (₹ cr)	1,692
Net Debt	(66.8)
Beta	0.8
52 Week High / Low	548 / 340
Avg. Daily Volume	22,774
Face Value (₹)	10
BSE Sensex	26,032
Nifty	7,881
Reuters Code	THEA.BO
Bloomberg Code	THEAL.IN

#### Shareholding Pattern (%)

Promoters	29.8
MF / Banks / Indian FIs	3.5
FII / NRIs / OCBs	21.5
Indian Public / Others	45.2

Abs.(%)	3m	1yr	3yr
Sensex	(5.8)	(1.5)	46.4
THEAL	0.8	6.6	54.4

#### 3 year daily price chart



Source: Company, Angel Research

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**Profit & Loss**

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
<b>Total operating income</b>	<b>77</b>	<b>114</b>	<b>158</b>	<b>207</b>	<b>262</b>	<b>332</b>
% chg	96.8	48.0	37.9	31.6	26.2	26.7
<b>Total Expenditure</b>	<b>35</b>	<b>52</b>	<b>68</b>	<b>89</b>	<b>112</b>	<b>141</b>
Personnel Expenses	10	13	17	24	31	40
Others Expenses	26	39	51	65	81	101
<b>EBITDA</b>	<b>42</b>	<b>62</b>	<b>89</b>	<b>119</b>	<b>150</b>	<b>191</b>
% chg	148.4	47.2	44.4	33.0	26.1	27.3
(% of Net Sales)	54.4	54.1	56.6	57.2	57.2	57.5
Depreciation & Amortisation	8	13	17	27	38	46
<b>EBIT</b>	<b>34</b>	<b>48</b>	<b>72</b>	<b>92</b>	<b>111</b>	<b>145</b>
% chg		41.6	49.2	27.2	21.1	30.3
(% of Net Sales)	44.3	42.4	45.8	44.3	42.5	43.7
Interest & other Charges	7	7	8	15	15	8
Other Income	4	7	1	7	8	10
(% of PBT)	12.3	14.4	2.0	8.5	7.7	6.8
Share in profit of Associates	-	-	-	-	-	-
<b>Recurring PBT</b>	<b>32</b>	<b>49</b>	<b>66</b>	<b>84</b>	<b>105</b>	<b>147</b>
% chg		54.7	35.1	26.8	24.9	40.1
Prior Period & Extraord. Exp./ (Inc.)	-	-	-	-	-	-
<b>PBT (reported)</b>	<b>32</b>	<b>49</b>	<b>66</b>	<b>84</b>	<b>105</b>	<b>147</b>
Tax	10	16	22	23	29	41
(% of PBT)	31.4	31.8	33.5	27.3	28.0	28.0
<b>PAT (reported)</b>	<b>22</b>	<b>33</b>	<b>44</b>	<b>61</b>	<b>75</b>	<b>105</b>
<b>ADJ. PAT</b>	<b>22</b>	<b>33</b>	<b>44</b>	<b>61</b>	<b>75</b>	<b>105</b>
% chg		53.9	31.8	38.6	23.7	40.1
(% of Net Sales)	28.1	29.2	27.9	29.3	28.8	31.8
<b>Basic EPS (₹)</b>	<b>5.1</b>	<b>7.9</b>	<b>10.4</b>	<b>14.4</b>	<b>17.8</b>	<b>24.9</b>
<b>Fully Diluted EPS (₹)</b>	<b>5.1</b>	<b>7.9</b>	<b>10.4</b>	<b>14.4</b>	<b>17.8</b>	<b>24.9</b>
% chg	135.7	53.9	31.8	38.6	23.7	40.1

**Balance sheet**

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	34	36	37	42	42	42
Equity Share Warrants	-	10	3	-	-	-
Reserves & Surplus	223	297	360	615	688	789
<b>Shareholders Funds</b>	<b>256</b>	<b>343</b>	<b>401</b>	<b>657</b>	<b>730</b>	<b>832</b>
Total Loans	51	67	83	106	90	40
Deferred Tax Liability	3	5	5	5	5	5
<b>Total Liabilities</b>	<b>311</b>	<b>415</b>	<b>489</b>	<b>768</b>	<b>825</b>	<b>877</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	154	185	293	393	493	593
Less: Acc. Depreciation	17	30	46	73	112	157
<b>Net Block</b>	<b>137</b>	<b>155</b>	<b>247</b>	<b>320</b>	<b>382</b>	<b>436</b>
Capital Work-in-Progress	20	40	28	28	28	28
<b>Investments</b>	<b>31</b>	<b>10</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>
Current Assets	149	240	240	462	471	488
Inventories	4	5	6	7	9	11
Sundry Debtors	6	7	29	39	49	64
Cash	48	49	11	161	91	33
Loans & Advances	7	10	7	10	13	17
Other Assets	85	169	187	244	309	365
Current liabilities	25	30	38	54	67	88
<b>Net Current Assets</b>	<b>123</b>	<b>210</b>	<b>202</b>	<b>408</b>	<b>403</b>	<b>401</b>
<b>Deferred Tax Asset</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Mis. Exp. not written off	-	-	-	-	-	-
<b>Total Assets</b>	<b>311</b>	<b>415</b>	<b>489</b>	<b>768</b>	<b>825</b>	<b>877</b>

**Cash flow**

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
Profit before tax	32	49	66	84	105	147
Depreciation	8	13	17	27	38	46
Change in Working Capital	(29)	(58)	(35)	(56)	(66)	(55)
Interest / Dividend (Net)	3	3	6	15	15	8
Direct taxes paid	(7)	(18)	(19)	(23)	(29)	(41)
Others	(0)	(3)	0	-	-	-
<b>Cash Flow from Operations</b>	<b>6</b>	<b>(14)</b>	<b>35</b>	<b>47</b>	<b>62</b>	<b>104</b>
(Inc.)/ Dec. in Fixed Assets	(73)	(71)	(96)	(100)	(100)	(100)
(Inc.)/ Dec. in Investments	(29)	21	(2)	-	-	-
<b>Cash Flow from Investing</b>	<b>(101)</b>	<b>(49)</b>	<b>(97)</b>	<b>(100)</b>	<b>(100)</b>	<b>(100)</b>
Issue of Equity	135	50	20	201	-	-
Inc./ (Dec.) in loans	-	-	-	20	(16)	(50)
Dividend Paid (Incl. Tax)	-	(3)	(4)	(2)	(2)	(4)
Interest / Dividend (Net)	(21)	17	9	(15)	(15)	(8)
<b>Cash Flow from Financing</b>	<b>114</b>	<b>64</b>	<b>24</b>	<b>203</b>	<b>(33)</b>	<b>(62)</b>
Inc./ (Dec.) in Cash	19	1	(38)	151	(71)	(58)
<b>Opening Cash balances</b>	<b>29</b>	<b>48</b>	<b>49</b>	<b>11</b>	<b>161</b>	<b>91</b>
<b>Closing Cash balances</b>	<b>48</b>	<b>49</b>	<b>11</b>	<b>161</b>	<b>91</b>	<b>33</b>

**Key Ratio**

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	73.3	47.6	36.1	26.1	21.1	15.0
P/CEPS	53.9	34.0	26.1	18.1	13.9	10.5
P/BV	6.2	4.6	4.0	2.4	2.2	1.9
Dividend yield (%)	0.2	0.3	0.4	0.5	0.7	1.0
EV/Sales	20.2	14.0	10.4	7.3	6.0	4.8
EV/EBITDA	37.1	25.8	18.5	12.8	10.5	8.3
EV / Total Assets	4.6	3.6	3.1	1.8	1.8	1.6
<b>Per Share Data (₹)</b>						
EPS (Basic)	5.1	7.9	10.4	14.4	17.8	24.9
EPS (fully diluted)	5.1	7.9	10.4	14.4	17.8	24.9
Cash EPS	7.0	11.0	14.4	20.7	26.9	35.7
DPS	0.8	1.1	1.3	2.0	2.5	3.7
Book Value	60.6	81.2	94.7	155.3	172.5	196.5
<b>Returns (%)</b>						
ROCE	11.1	11.8	14.9	12.0	13.6	16.6
Angel ROIC (Pre-tax)	14.9	13.8	15.7	15.6	15.5	17.5
ROE	8.4	9.7	11.0	9.3	10.3	12.7
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	0.6	0.7	0.6	0.6	0.7	0.8
Inventory / Sales (days)	17	15	13	13	12	12
Receivables (days)	27	22	67	68	69	70
Payables (days)	23	12	13	13	14	14
WC cycle (ex-cash) (days)	22	25	67	68	67	68

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Disclosure of Interest Statement	Tree House
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors*

<b>Ratings (Based on expected returns over 12 months investment period):</b>	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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