

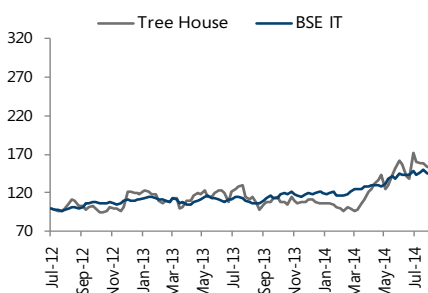
## Result Update - Q1FY15

### Buy

Reco	Maintained
CMP	₹ 380
Target Price	₹ 438
Upside Potential	15%

#### Price Performance

52 wk Hi/Lo	408/214
All time Hi/Lo	408/104
6 mnth Average Vol	53272
Stock Beta	0.59



#### Valuation

	FY14	FY15P	FY16P
P/E (x)	32.0	21.9	16.4
P/BV (x)	3.1	2.9	2.5
ROCE (%)	17.3	22.8	28.1
RONW (%)	10.8	14.8	16.7

#### Peer Valuation (FY16P, Bloomberg)

	NIIT	MT Edu
PE	10.5	13.2
EV/EBITDA	9.1	6.9

#### Equity Data

Market Cap. (₹ bln)	14
Face value (₹)	10
No of shares o/s (mln)	37

	Jun'13	Jun'14	Δ%
Promoters	27.75	32.29	16.36
DFI's	10.87	7.98	-26.59
FII's	1.28	7.13	457.03
Public	60.10	52.60	-12.48

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## Tree House Education & Accessories Ltd.

### Robust operational performance...

Tree House reported inline revenue growth for Q1FY15 and EBITDA and net profit came way ahead of our expectations. Owing to addition of 15 pre-schools in Q1FY15, the top-line surged by 31.9% y-o-y to ₹539 mln, which is in line with our estimate of ₹ 532 mln. EBITDA Margin expanded by whopping 600bps y-o-y to 61.7%, aided by less than expected employee costs. Net profit was stronger than expected on back of better operating performance. 15 preschools were added during the quarter taking total number of pre schools to 505. Self operated schools stood at 403 constituting 79.8% of total schools. Number of self operated schools recorded ~29% y-o-y growth. Company is seeing good traction in enrollments in admission for academic year 2013-2014 which has started. Services to 21 K-12 schools are provided which remain same as last quarter. We continue to remain positive as traction in same self operated schools increases and new school addition in tier-2 cities also witness stronger growth with relatively lower operational costs due to lower rentals. This will improve the cash flows as well as better ROEs going ahead. Tree House with its low earnings risk and quality business model can certainly be a long term Buy.

**Revenue growth inline:** Revenue growth at 31.9% y-o-y was largely inline with our expectation led by seasonality and addition of 15 pre-schools into the system. Growth in number of self operated schools remains strong at ~29% y-o-y. Company added 15 new pre-schools during the quarter with 13 being self operated and 2 being franchise. Total number of pre-schools stand at 505 with 403 being self operated schools constituting 79.8% of total schools, same as last quarter. We expect strong traction in H1 and higher school addition in H2 which will continue to add growth.

**EBITDA Margin boosted by decline in employee costs:** EBITDA margin expanded by 600bps y-o-y and ~850 bps q-o-q to 61.7% as employee costs as percentage of sales declined to 9.3% from 13.2% in Q4FY14. Company did internal restructuring of employees and witnessed net reduction of 68 teachers during the quarter. Other admin expenses also came in less than expected and stood at 6.4% as percentage to sales (7.7% in Q4FY14). We believe THEAS will be able to maintain margins in 55-60% for FY15P/FY16P.

**Net profit strong:** Net profit was stronger than expected at ₹ 161mln aided by better operational performance.

**Outlook and Valuation:** Tree House has strong presence primarily led by self operated model which are witnessing good traction. Existing schools are growing at good rate with higher enrollments and better margins. As new schools also ramp up slowly, ROEs will improve and so will the cash flows. We remain positive on the stock with a long term view. Given the growth opportunities in the pre-school segment and consistent expansion by THEAL, we expect the top-line and net profit to grow at a CAGR of 32% and 39% to ₹2747 mln and ₹ 862 mln, respectively in FY16P. We maintain 'Buy' with DCF base target price of ₹ 438.

#### Summary Financials

₹ in Mln	FY13	FY14	FY15P	FY16P
Net Sales	1143	1576	2199	2747
OPBDIT	618	892	1293	1619
Net Profit	333	441	646	862
EPS	9.3	11.9	17.4	23.2
Networth	3434	4074	4354	5161
Debt	667	826	626	426
Fixed Assets	1727	2441	2800	2520
Net Current Assets	407	217	264	972

## Exhibit 1: Q1FY15 Performance Highlights

## Tree House Education and Accessories Limited

(₹ in mln)	Q1FY15	Q1FY14	% chg Y-o-Y	Q4FY14	% chg Q-o-Q
<b>Net sales</b>	<b>539</b>	<b>409</b>	<b>31.9</b>	<b>358</b>	<b>50.8</b>
Total Expenditure	206	181	14.0	168	23.1
<b>EBITDA</b>	<b>333</b>	<b>228</b>	<b>46.1</b>	<b>190</b>	<b>75.3</b>
EBITDA Margin (%)	61.7	55.7	600bps	53.1	860bps
Depreciation	60	38	56.8	44	35.5
Interest	32	16	95.1	25	27.0
Other Income	2	11	-86.6	0	
<b>PBT</b>	<b>242</b>	<b>184</b>	<b>31.5</b>	<b>121</b>	<b>101.2</b>
Tax	82	61	33.2	40	104.5
<b>PAT</b>	<b>161</b>	<b>123</b>	<b>30.6</b>	<b>81</b>	<b>99.5</b>
Adjusted EPS (₹)	4.25	3.42	24.3	2.17	96.3

## Other Key Highlights

- Company added 15 pre-schools during the quarter taking total number of pre-schools to 505. Total self operated centers stood at 403 constituting 79.8% of the total schools.
- Growth in number of self operated centers was recorded at 29% y-o-y. Pre-schools opening up in tier-2 cities is giving benefits on the operational level with lower rental costs.
- Pre-schools started in 4 new cities during the quarter (Kozhikode, Ajmer, Bikaner and Gorakhpur), making total cities presence to 67.
- THEAS is providing school management services to 24 K-12 schools in 3 states, same as that of last quarter.
- Total staff strength is 1897 and teacher strength is 1812. Net reduction of 68 teachers happened during the quarter because company did internal restructuring of employees and endeavors to improve productivity of the overall staff.
- It inaugurated one of the biggest Global Champs center inside Dharavi, Mumbai.

## Financial Summary

## Profit &amp; Loss

Particulars (₹ in mln)	FY12	FY13	FY14	FY15P	FY16P
<b>Net Sales</b>	<b>772</b>	<b>1143</b>	<b>1576</b>	<b>2199</b>	<b>2747</b>
Total Expenditure	352	525	684	906	1128
<b>EBITDA</b>	<b>421</b>	<b>618</b>	<b>892</b>	<b>1293</b>	<b>1619</b>
EBITDA Margin (%)	54.5	54.1	56.6	58.8	58.9
Depreciation	78	134	170	253	276
EBIT	343	484	723	1040	1343
Interest cost	65	66	76	82	59
Other income	39	71	13	10	8
Extraordinary Items	0	0	0	0	0
<b>PBT</b>	<b>316</b>	<b>489</b>	<b>660</b>	<b>967</b>	<b>1292</b>
Tax	99	155	219	321	429
<b>PAT</b>	<b>217</b>	<b>333</b>	<b>441</b>	<b>646</b>	<b>862</b>
PAT Margin %	28	29	28	29	31
Adjusted EPS	6.4	9.3	11.9	17.4	23.2
Sales Growth %	97	48	38	40	25
EBITDA Growth %	149	47	44	45	25
PAT Growth %	136	54	32	47	34

## Balance Sheet

Particulars (₹ in mln)	FY12	FY13	FY14	FY15P	FY16P
<b>Sources of Funds</b>					
Share Capital	337	360	372	372	372
Reserves and Surplus	2227	2974	3669	3949	4756
<b>Networth</b>	<b>2564</b>	<b>3434</b>	<b>4074</b>	<b>4354</b>	<b>5161</b>
Secured Loans	514	667	826	626	426
Unsecured Loans	0	0	0	0	0
<b>Total Loans</b>	<b>514</b>	<b>667</b>	<b>826</b>	<b>626</b>	<b>426</b>
Deferred Tax Liability	33	44	51	51	51
<b>TOTAL</b>	<b>3114</b>	<b>4148</b>	<b>4956</b>	<b>5035</b>	<b>5642</b>

## Application of Funds

Net Fixed Assets	1331	1727	2441	2800	2520
Investment	62	100	115	100	100
Current Assets	889	703	528	750	1559
Current Liabilities	251	297	312	486	587
<b>Net Current Assets</b>	<b>637</b>	<b>407</b>	<b>217</b>	<b>264</b>	<b>972</b>
<b>TOTAL</b>	<b>3114</b>	<b>4148</b>	<b>4956</b>	<b>5035</b>	<b>5642</b>

**Cash Flows**

Particulars (₹ in mln)	FY12	FY13	FY14	FY15P	FY16P
Internal accruals	295	467	610	898	1139
(Inc)/Dec in Net Current Assets	(58)	200	(235)	(42)	(336)
Other Adjustments	(183)	(230)	27	58	0
<b>Cash flow from Operations</b>	<b>54</b>	<b>438</b>	<b>402</b>	<b>915</b>	<b>802</b>
Inc/(Dec) in Debt	48	153	159	-200	-200
Inc/(Dec) in Equity	292	40	12	0	0
<b>Cash flow from Financing</b>	<b>340</b>	<b>193</b>	<b>171</b>	<b>-200</b>	<b>-200</b>
Fixed Asset formation	121	530	883	612	175
Inc/(Dec) in Investment	35	38	15	-15	0
<b>Cash flow from Investment</b>	<b>156</b>	<b>568</b>	<b>898</b>	<b>597</b>	<b>175</b>
<b>Net Change in Cash</b>	<b>238</b>	<b>63</b>	<b>-324</b>	<b>118</b>	<b>427</b>

**Ratio**

Valuation Ratio	FY12	FY13	FY14	FY15P	FY16P
P/E	59.0	41.0	32.0	21.9	16.4
P/BV	5.0	3.7	3.1	2.9	2.5
EV/EBIDTA	30.4	20.9	15.0	10.2	7.7
EV/Sales	16.6	11.3	8.5	6.0	4.6
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1
Adj. EPS	6.4	9.3	11.9	17.4	23.2
DPS	1.0	1.3	1.3	1.3	1.3
Book Value	76.0	101.8	120.8	129.1	153.1
Adj. ROE (%)	8.5	9.7	10.8	14.8	16.7
Adj. ROCE (%)	17.2	16.5	17.3	22.8	28.1

**Solvency Ratio (x)**

Debt/Equity	0.2	0.2	0.2	0.1	0.1
Debt/EBITDA	1.2	1.1	0.9	0.5	0.3

**Turnover Ratio (x)**

Fixed Asset Turnover	0.6	0.7	0.8	0.8	1.0
Current Ratio	3.5	2.4	1.7	1.5	2.7
Inventory (days)	17.3	14.7	13.0	15.6	15.1
Debtors (days)	27	22	67	52	43

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Accumulate	5 to 15%
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Sell	< -5%
Not Rated	-

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