

# Tree House Education & Accessories Ltd

## Tree House

Result review

Rating: **Maintain HOLD**

Current Price: Rs380

Target Price: Rs 402

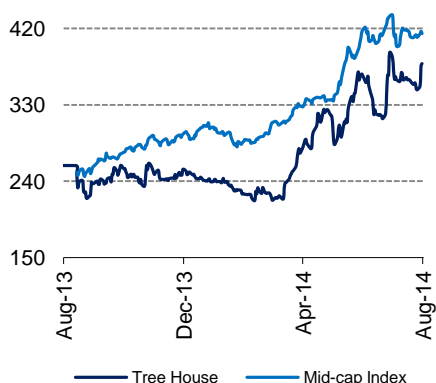
### Stock Data

Sensex / Nifty	25,666/7,673
52-week high/low (Rs)	409/214
O/S shares (mn)	33
Mkt Cap Rs (bn)	14.2
Avg Daily Vol (mn)	0.11
Bloomberg Code	THEAL IN
Reuters Code	TREEHOUSE.BO

### Shareholding (%)

Jun-14

Promoters	32.2
FII's	7.2
DII's	7.9
Public	52.7



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## COST CONTROL MEASURES PROVIDES SHARP INCREASE IN EARNINGS

### Strong revenue growth; earnings surge YoY

Tree School Education and Accessories (THEAL) reported revenue growth of 32%YoY to Rs539mn which was above our expectation. EBIDTA margin surged 600bpsYoY to 61.7% on the back of lower center operating and administrative expense and also due to expansion in tier-2 cities. PAT grew 31%YoY to 160mn despite higher interest and depreciation cost. EPS was at Rs 4.6.

### Steady traction in center addition

THEAL added 15 new centers in the quarter taking the total center count to 505 across India. Ratio of self operated centers remained 79.8% and this is expected to remain in a narrow range of 77-79% in the near term. Number of self operated centers is 403 as compared to 386 last quarter.

### Expansion in tier-2 and also tier-3 cities

The company maintains its stance of deriving growth from non-metro cities as they provide a huge opportunity. It continues its strong focus towards non-metros as they command a higher operating margin as compared to tier-1 cities. THEAL has launched its centers in four new cities, which is Kozhikode, Ajmer, Bikaner and Gorakhpur; it is now present in 67 cities in India..

### K-12 business continues to remain strong

THEAL continues to provide school management services to 24 K-12 schools across 3 states in India; out of these, the company has changed its terms of service agreement for 6 schools in Sikar from exclusive to non-exclusive need based services.

**Outlook – THEAL plans to open ~125 new centers in FY15 which will be again driven by expansion in smaller cities. Global champs has also picked up as its biggest center was inaugurated this quarter at Dharavi in Mumbai. EBIDTA margin witnessed a huge positive surprise this quarter as centers in tier-2 cities become mature. We expect a dip in margin towards the end of the year post which it will stabilize for a few years; higher income from K-12 will also continue to support operating margin**

**We roll over to FY16 for providing valuation to Tree House. We maintain our HOLD recommendation on the stock with a revised target price of Rs 402 based on 21x FY16E earnings.**

Y/E Mar (Rs. Mn)	FY13	FY14	FY15E	FY16E
Net Sales	1,143	1,576	1,908	2,233
EBITDA	618	892	1,019	1,176
Net Profit	333	439	541	666
EPS (Rs)	9.6	12.6	15.5	19.1
EPS (growth)	53.8	31.8	23.2	23.2
PER (x)	40.7	31.0	25.2	20.4
EV/Sales (x)	12.2	8.8	7.1	5.9
EV/EBITDA (x)	22.5	15.6	13.3	11.3
ROCE (%)	13.7	15.8	17.7	20.1

## Quarterly snapshot

(Rs mn, except EPS)	Q1FY14	Q4FY14	Q1FY15	QoQ	YoY
Revenues	409	357.5	539.1	51%	32%
EBITDA	227.8	189.9	332.8	75%	46%
EBITDA Margin (%)	55.7%	53.1%	61.7%	861 bps	599 bps
Pre Tax Income	184	120	242	101%	31%
Tax	6	4	8	105%	33%
Tax Rate	3%	3%	3%	5 bps	4 bps
PAT	123	80	161	100%	31%
EPS (Rs)	3.5	2.3	4.6	100%	30%

Source: Company; IFIN Research

## Financials- Consolidated

### Income Statement

Year end 31 Mar (Rs mn)	FY13	FY14	FY15E	FY16E
<b>Net sales</b>	<b>1,143</b>	<b>1,576</b>	<b>1,908</b>	<b>2,233</b>
<i>growth (%)</i>	<i>48.0</i>	<i>37.9</i>	<i>21.0</i>	<i>17.0</i>
<b>Gross profit</b>	<b>708</b>	<b>1,007</b>	<b>1,147</b>	<b>1,317</b>
Other operating charges	9	11	13	14
<b>EBITDA</b>	<b>618</b>	<b>892</b>	<b>1,019</b>	<b>1,176</b>
<i>growth (%)</i>	<i>47.1</i>	<i>44.4</i>	<i>14.2</i>	<i>15.4</i>
Depreciation	134	170	204	236
Other income	71	13	30	90
<b>EBIT</b>	<b>55</b>	<b>74</b>	<b>84</b>	<b>103</b>
Interest paid	66	76	44	44
<b>Pre-tax profit (before E/o items)</b>	<b>489</b>	<b>660</b>	<b>801</b>	<b>986</b>
Tax Provision	155	221	260	320
E/o loss / (Income)	4	0	0	0
<b>Net profit</b>	<b>333</b>	<b>439</b>	<b>541</b>	<b>666</b>
<b>Adjusted net profit</b>	<b>333</b>	<b>439</b>	<b>541</b>	<b>666</b>
<i>growth (%)</i>	<i>53.8</i>	<i>31.8</i>	<i>23.2</i>	<i>23.2</i>
<b>Diluted EPS (Rs)</b>	<b>9.6</b>	<b>12.6</b>	<b>15.5</b>	<b>19.1</b>
<i>Diluted EPS Growth (%)</i>	<i>53.8</i>	<i>31.8</i>	<i>23.2</i>	<i>23.2</i>

Source: Company; IFIN Research

### Balance Sheet

Year end 31 Mar (Rs mn)	FY12	FY13	FY14E	FY15E
Equity Share capital	337	368	368	368
Reserves & surplus	2,227	3,003	3,348	4,042
<b>Shareholders' funds</b>	<b>2,564</b>	<b>3,371</b>	<b>3,716</b>	<b>4,410</b>
Minorities interests	0	0	0	0
Total Debt	514	664	587	344
<b>Capital Employed</b>	<b>3,078</b>	<b>4,035</b>	<b>4,303</b>	<b>4,754</b>
Net fixed assets	1,566	1,473	1,450	1,854
Net Current Assets (excl Cash & Cash eq.)	973	1,817	2,215	2,443
Cash & Cash Eq.	477	298	262	351
Investments	62	203	206	189
Net Deferred Tax Assets	0	0	0	0
<b>Total assets</b>	<b>3,078</b>	<b>4,036</b>	<b>4,303</b>	<b>4,754</b>

Source: Company; IFIN Research

### Cash Flow Statement

Year end 31 Mar (Rs mn)	FY13	FY14	FY15E	FY16E
Pre-tax profit	489	660	801	986
Depreciation	134	170	204	236
Total tax paid	(155)	(221)	(260)	(320)
Chg in working capital	(1,094)	(398)	(41)	608
Other operating activities	18	66	15	(45)
<b>Cash flow from operations (a)</b>	<b>(609)</b>	<b>277</b>	<b>718</b>	<b>1,464</b>
Capital expenditure	(284)	(70)	(348)	(353)
Chg in investments	108	(3)	(170)	(531)
Other investing activities	23	0	11	47
<b>Cash flow from investing (b)</b>	<b>(153)</b>	<b>(73)</b>	<b>(507)</b>	<b>(836)</b>
<b>Free cash flow (a+b)</b>	<b>(76)</b>	<b>20</b>	<b>21</b>	<b>63</b>
Equity raised/(repaid)	676	0	0	0
Debt raised/(repaid)	150	(80)	(250)	0
Change in Minorities Interest	(66)	(76)	(44)	(44)
Dividend (incl. tax)	(45)	(50)	(80)	(42)
Other financing activities	0	0	0	0
<b>Cash flow from financing (c)</b>	<b>715</b>	<b>(206)</b>	<b>(374)</b>	<b>(86)</b>

Source: Company; IFIN Research

### Key ratios

Year end 31 Mar	FY13	FY14	FY15E	FY16E
OPM (%)	54.1	56.6	53.4	52.7
Net margin (%)	29.2	27.9	28.4	29.8
Dividend Payout (%)	13.5	11.4	14.8	0.0
Net debt/Equity (x)	0.2	0.2	0.1	0.1
Current ratio (x)	1.1	1.1	1.1	1.1
Interest coverage ratio (x)	8.4	<b>9.7</b>	<b>19.3</b>	<b>23.5</b>
ROCE (%)	13.7	15.8	17.7	20.1
RoE (%)	11.2	12.4	13.3	14.6
EV/Net sales (x)	12.2	8.8	7.1	5.9
EV/EBITDA (x)	22.5	15.6	13.3	11.3
PER (x)	40.7	31.0	25.2	20.4
Price/Book (x)	4.0	3.7	3.1	2.9

Source: Company; IFIN Research

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### Key ratings:

Rating	Market Cap >= Rs 100 bn	Market Cap < Rs 100 bn
BUY (B)	> 15%	> 20%
Hold (H)	5-15%	10-20%
SELL (S)	< 5%	< 8%
Not Rated (NR)	Not initiated coverage on the stock	

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