

Tree House Education & Accessories Ltd

Bloomberg Code: THEAL IN

India Research - Stock Broking

BUY

House of Kids Education with Growth Accessories

Expansion strategy in Tier II & III cities is key

Tree House Education & Accessories Ltd (THEAL) is India's one of the largest pre-school operator, with strong position in Tier-I cities. THEAL has a dominant position in Maharashtra with 257 pre-schools, which is 40% of its total 612 pre-schools. In FY16E, the company is planning to open 150 pre-schools out of which 100 pre-schools will be opened in Delhi & National Capital Region (NCR) & Tier-I cities which will strengthen its position in the pre-school industry. Remaining 50 pre-schools will be opened in Tier II & III cities.

Day Care Services have competent edge

THEAL has 190 day care centers in operation and is planning to expand going forward. Tree House is operating its day care service utilizing its infrastructure of the pre-schools. THEAL has placed a good strategy with respect to the business of day care services for which it has entered into tie-ups with corporate employers in the sectors of IT, ITS, Banking and Consulting to provide services for their employees.

Valuation and Outlook

THEAL has consistent EBITDA margins and aggressive expansion plans in self-operated pre-schools, which makes them one of the largest player in the industry. We expect the company will be debt-free by FY17E and RoE is expected to be at 14.3% in FY17E compared to 11.8% in FY14. At CMP of Rs.394 per share, stock is presently trading at 15x FY17E EPS. We value the company at a PE multiple of 19x with the going forward for FY17E, we recommend the stock with a "BUY" at the target price of Rs.498, with an potential upside of 26%.

Key Risks

- New emerging techniques and methods of teaching from competitors.
- Government regulations on pre-school segment.
- Competition from unorganized sector.

Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	1143	1576	2075	2679	3451
EBITDA	618	892	1187	1544	2018
EBITDA Margin (%)	54.1	56.6	57.2	57.6	58.5
Adj. Net Profit	333	439	609	826	1108
EPS (Rs.)	9.3	11.8	14.4	19.5	26.2
RoE (%)	11.1	11.8	11.5	12.0	14.3
PE (x)	27.0	22.0	27.4	20.2	15.0

Source: Company, Karvy Research, *Represents multiples for FY13, FY14 & FY15 are based on historic market price

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Recommendation (Rs.)

CMP (as on Aug 14, 2015)	394
Target Price	498
Upside (%)	26

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	16689 / 257
52-wk High/Low (Rs.)	559 / 319
3M Avg. daily volume (mn)	0.1
Beta (x)	0.7
Sensex/Nifty	28067 / 8519
O/S Shares(mn)	42.3
Face Value (Rs.)	10.0

Shareholding Pattern (%)

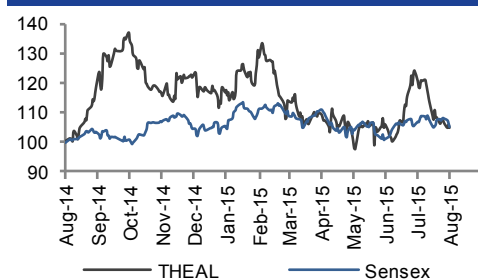
Promoters	29.8
FII	21.5
DII	3.5
Others	45.2

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(11)	8	(18)	5
Relative to Sensex	(11)	5	(15)	(2)

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Analyst Contact

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Company Financial Snapshot (Y/E Mar)
Profit & Loss (Rs. Mn)

	FY15	FY16E	FY17E
Net sales	2075	2679	3451
Optg. Exp	887	1135	1433
EBITDA	1187	1544	2018
Other Income	72	65	19
Depreciation	268	320	371
Interest	153	85	32
PBT	837	1204	1633
Tax	229	378	525
Adj. PAT	609	826	1108
Profit & Loss Ratios			
EBITDA margin (%)	57.2	57.6	58.5
Net margin (%)	29.3	30.8	32.1
P/E (x)	27.4	20.2	15.0
EV/EBITDA (x)	15.1	11.6	8.9
Dividend Yield %	0.5	0.6	0.6

Source: Company, Karvy Research

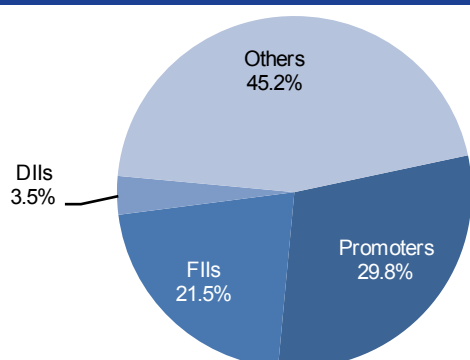
Balance sheet (Rs. Mn)

	FY15	FY16E	FY17E
Total Assets	8045	8319	8843
Net Fixed assets	3472	4146	4885
Current assets	2150	1801	1519
Other assets	2423	2372	2439
Total Liabilities	8045	8319	8843
Networth	6549	7264	8248
Long & Short Term Debt	1058	529	0
Current Liabilities	429	515	582
Other Liabilities	10	11	13

Balance Sheet Ratios

RoE (%)	11.5	12.0	14.3
RoCE (%)	17.2	17.8	21.2
Debt/Equity	0.2	0.1	0.0
Equity/Total Assets	0.8	0.9	0.9
P/BV (x)	2.5	2.3	2.0

Source: Company, Karvy Research

Exhibit 2: Shareholding Pattern (%)


Source: Company, Karvy Research

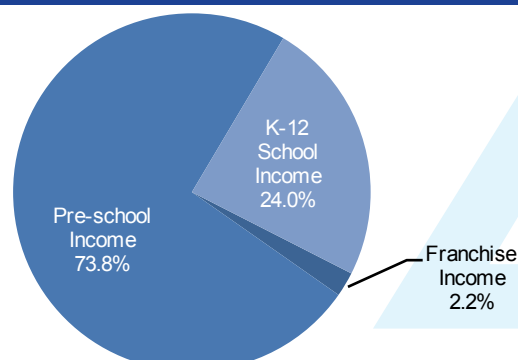
Company Background

Tree House Education & Accessories Ltd is one of the largest pre-schools operators in the education segment, which is incorporated in the year 2006 and having largest self-operated pre-school chain in India. At present, THEAL is having more than 640 schools and having presence in more than 90 cities in India as on Aug 05, 2015. Tree house is also having its presence in K-12 schools which were located in Maharashtra, Gujarat and Rajasthan. THEAL is offering services in Playgroup, Nursery, Junior KG, Senior KG, Day Care Services, Teacher Training Course, Summer Camp and Activity classes; and management services to K-12 schools. The company has a strong presence in Tier-I cities, especially in Mumbai, now THEAL is planning to expand its operations largely in Delhi, National Capital Region (NCR) and in Tier-II & Tier-III cities.

Cash Flow (Rs. Mn)

	FY15	FY16E	FY17E
PBT	837	1204	1633
Depreciation	268	320	371
Interest (net)	153	85	32
Tax	(290)	(343)	(528)
Changes in WC	(537)	(40)	(160)
Others	(65)	(68)	(12)
CF from Operations	366	1158	1337
Capex	(988)	(993)	(1111)
Investment	0	0	0
Others	72	55	20
CF from Investing	(916)	(938)	(1092)
Change in Equity	2030	0	0
Change in Debt	232	(529)	(529)
Dividends & Interest	(206)	(167)	(124)
CF from Financing	2056	(696)	(654)
Change in Cash	1506	(477)	(409)

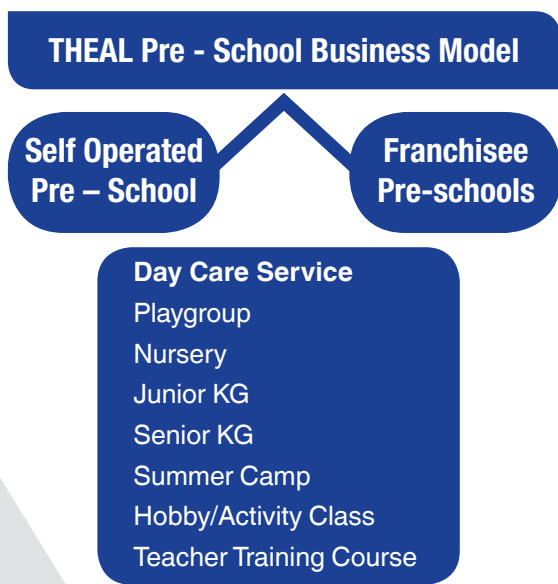
Source: Company, Karvy Research

Exhibit 3: Revenue Segment (%)


Source: Company, Karvy Research

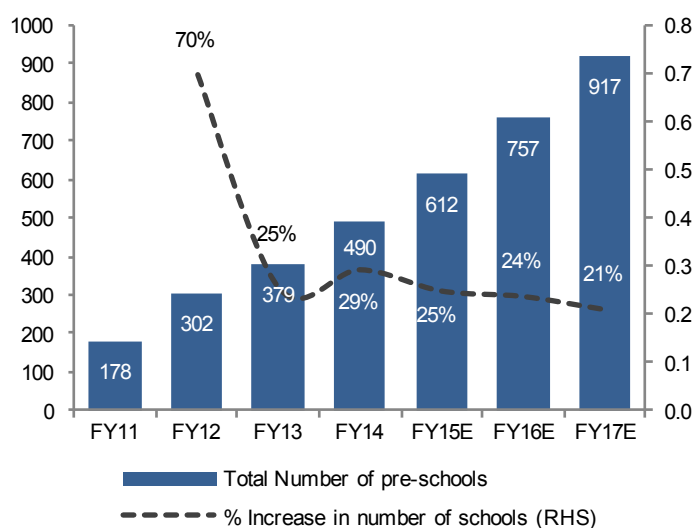
Expansion strategy in Tier II & III cities is key for THEAL

Tree House Education & Accessories Ltd (THEAL) is India's one of the largest pre-school operator, with strong position in Tier-I cities. THEAL has a dominant position in Maharashtra with 257 pre-schools, which is 40% of its total 612 pre-schools. In FY16E, the company is planning to open 150 pre-schools out of which 100 pre-schools will be opened in Delhi & National Capital Region (NCR) & Tier I cities which will strengthen its position in the pre-school industry. THEAL has its operations in 612 centers and has 21 teacher training centers, present in 88 cities across India as on March 31, 2015 out of which 505 centers were self-operated which comes to 82.5% of the total number of pre-schools, the rest are operated by franchisees. Generally, pre-school runs in two shifts per day and each has two hours of duration. We expect the company is going to maintain growth rate in the expansion of its total number of pre-schools, with that by the end of FY17E total number of schools will come to a little over 900 pre-schools with the growth rate of more than 21%. With regards to the company's plan, the number of self-operated pre-schools is likely to reach 803 by the end of FY17E at a growth rate of 24%. Total percentage of self operated schools to franchise models will improve to 87.5% in FY17E from 82.5% in FY15. Tree House acquired the whole pre-school business of Global Champs in September 2012. Under the brand of Global champs, they are providing low cost quality pre-primary education in 6 centers across India.



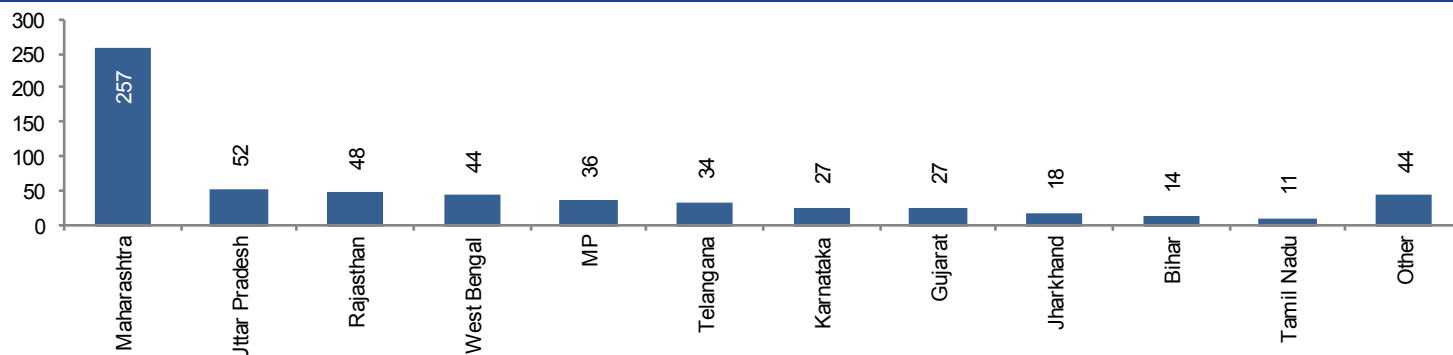
Source: Company, Karvy Research

Exhibit 4: Expansion Trend in Pre-schools for THEAL



Source: Company, Karvy Research

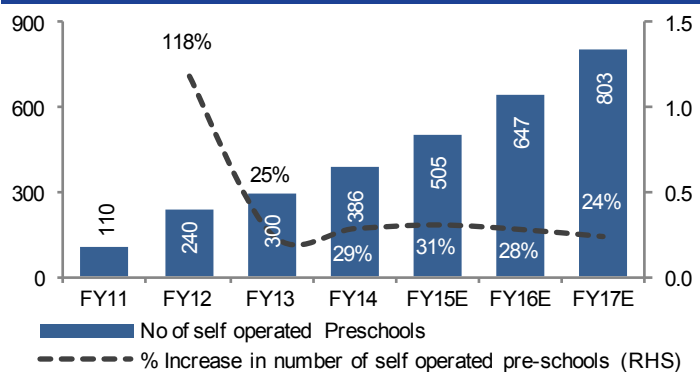
Exhibit 5: PAN India Presence of THEAL



Source: Company, Karvy Research

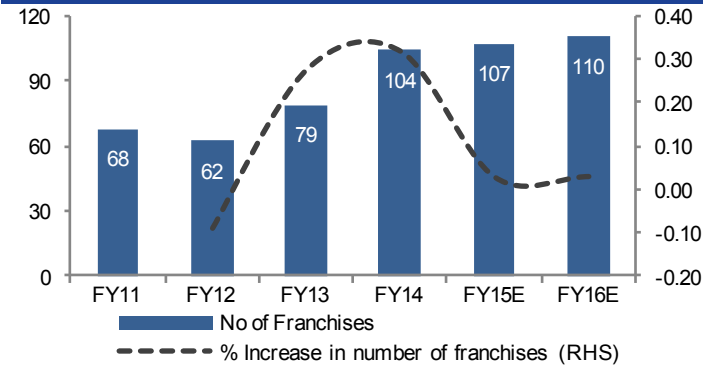
THEAL is targeting to open 150 pre-schools every year to gain the momentum with the industry growth in education sector. And the company is in traction of maintaining its self-operated pre-schools efficiently and effectively, we expect the same would be continued going forward. THEAL has more than 82% of self-operated schools out of the total number of schools and company is in opinion that the brand building and effective management will happen only with the self-operated pre-schools, so we expect the ratio of self-operated pre-schools will improve in the near future. All the self-operated pre-schools were maintained in the properties which are obtained on lease basis, generally for a period of three years to five years and the major expenses incurring to maintain the pre-schools are rent and employee benefit expenses which comprise 17% and 11% of the total revenue respectively. Stream of revenue from franchisee model is one-time upfront fees and an annual service fee. Till now THEAL has established majority of its self-operated schools in metropolitan cities and entering into agreement with the franchisee in the non-metro cities. We expect the growth rate of franchisees will be at 3-4% only, with that total number of Franchisees is expected to reach 115 schools by the end of FY17E.

Exhibit 6: Growth in Self-Operated Pre-schools



Source: Company, Karvy Research

Exhibit 7: Growth in Number of Franchisee Pre-schools



Source: Company, Karvy Research

Exhibit 8: Structure of Organized Pre-school Operators in India

Pre-Schools Name	Number of schools	Average Fee	Teacher to Student Ratio	Presence in number of cities
Tree House	612	Rs.40000-50000	1:14	88
Kid Zee	1500	Rs.25000-35000	1:10	550
Kangaroo Kids	100	Rs.30000-40000	1:7	30
Hello Kids	More than 350	Rs.25000-40000	1:10	More than 130 Cities
Shemrock	More than 425	Rs.30000-45000	1:10	More than 120 Cities
Podar Jumbo Kids	85 Educational Institutions	Rs.30000-40000	1:11	More than 220 locations
Euro Kids	More than 880	Rs.30000-40000	1:15	331 Towns
Time Kids	More than 160	Rs.25000-40000		More than 40 Cities
Bachpan	More than 1000	Rs.15000	1:12	More than 450 Cities
Little Millennium	More than 250		1:10	More than 65 Cities

Source: Company, Karvy Research

The company has EBITDA margins of 33% in FY10 but now the same was improved to 57% in FY15 and we expect the margins to reach 58% for the FY17E. Out of the total revenue, income from pre-schools (early childhood education) has been increasing from 63% in FY11 to 78% in FY15. The company is making more margins in its self-operated pre-school business rather than franchisee model where the company will only be able to get royalty and other ancillary incomes.

Exhibit 9: Business Model of THEAL

Offerings	Age Group	Focus Area
Day Care Service	1 ½ years onwards	An opportunity to grow in an enriching environment which boosts their self esteem and makes them ready for the future.
Playgroup	1 ½ - 2½ years	Communicating with others, Building cognitive power, Making new friends, Nurturing creativity
Nursery	2 ½ - 3½ years	
Junior KG	3 ½ - 4½ years	To equip children with the right skills to facilitate smooth transition to formal school
Senior KG	4 ½ - 5½ years	Guiding children towards entering the higher classes by introducing new themes and concepts
Summer Camp	2 ½ - 8 years	To help children discover and explore nature through creative art, craft, culture and sports
Hobby/Activity Class	3 - 8 years	Art and drawing, Craft, Dramatics, Dance, Skills development through project work, Culture development activities
Teacher Training Course	18 years onwards	To create qualified and certified pre-school teachers, for women only

Source: Company, Karvy Research

Day Care Services have competent edge

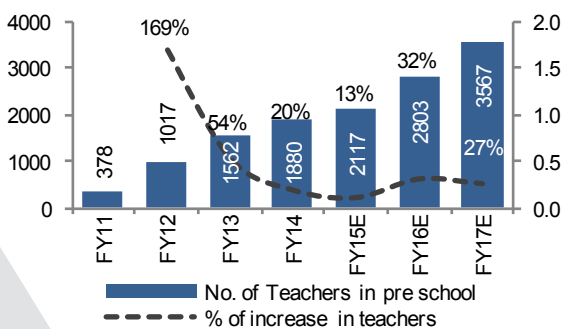
Tree House education has launched day care services in Mumbai from 2008, now the company is expanding its day care services, till now THEAL has 190 day care centers in operation. Tree House is operating its day care service in the infrastructure of the pre-schools only post pre-school hours, so the company may not be required to incur any additional costs with regards to rent and maintenance. In day care services, the company is providing services like indoor and outdoor play, music time, rhyme time & story time. THEAL has placed a good strategy with respect to the business of day care services it has entered into tie-ups with corporate employers in the sectors of IT, ITS, Banking and Consulting to provide services for their employees. We expect robust growth in revenues under this segment. Rate of increase in number of young Indian working couple will boost the day care services.

Pre-School expansion through funds raised in QIP issue

To support the expansion strategy THEAL has raised funds through Qualified Institutional Placement (QIP) route, total funds raised through the issue is about Rs.2000mn on December 2014 out of which net proceeds come to more than Rs.1890mn. THEAL concluded the issue with the allotment of 45,45,454 equity share at the issue price of Rs.440/- per equity share. The key investors in this QIP are Macquarie Asia, Mondrian Emerging market small cap fund, Japan Trustee Services Bank LTD and Swedbank Robur Global Emerging markets. As per the company's note, the proceeds of the issue will be utilized to accelerate the expansion of pre-school network across the country mainly in Delhi and NCR area and to reduce the debt part to make the company debt free.

More interaction with healthy Teacher - Student ratio

Exhibit 10: Growth in number of Teachers in THEAL



Student performance drops when the teacher – student ratio increases, a lower-student ratio encourages greater participation. While in the case of pre-schools, teacher – student ratio has more impact, parents need more attention towards their kids because of the safety of kids and other various reasons. Tree House has maintained a consistent teacher - student ratio of 1:14 which is in line with the industry. THEAL had 378 teachers by the end of FY11 and now the total teacher's strength increased to 2117 as on March 31, 2015 and total staff strength as on that day stood at 2219. Teacher's strength increased at the CAGR of more than 53% over FY11-15 and THEAL has a ratio of 5:1 with respect to teacher – pre-school.

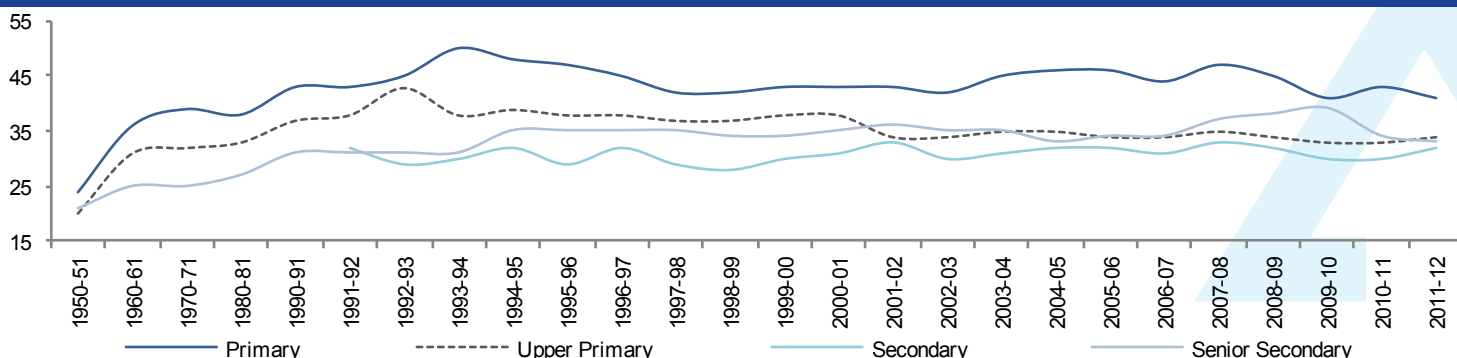
Source: Company, Karvy Research

Exhibit 11: Teacher-Child Ratios Used for Best Practices

Age Category	Age Range	Class Strength									
		6	8	10	12	14	16	18	20	22	24
Infant	1 ½ years onwards	1:3	1:4								
Toddler / Two	1 - 2 ½ years	1:3	1:4	1:4	1:4						
Preschool	1 ½ - 3 years		1:4	1:5	1:6						
	2 ½ - 4 years				1:6	1:7	1:8	1:9			
	4 - 5 years						1:8	1:9	1:10		
Kinder - garden	Enrolled in any public or private kindergarten						1:8	1:9	1:10	1:11	1:12

Source: Naeyc.org, Karvy Research

Exhibit 12: Trend in Teacher-Student Ratio in India



Source: www.data.gov.in, Karvy Research

Well established infrastructure and business model in K-12 schools

As a model of diversification, THEAL entered into the segment of K-12 schools in November 2008 and now the company has its operations in 24 schools which are located in Maharashtra, Gujarat and Rajasthan, where it has strong presence in pre-schools segment. Under this segment, revenue generated from Service/Consultancy fee based on admissions of number of students in the K-12 schools. These educational complexes will include classrooms, living accommodation for students, library, computer, laboratory and primary health centre along with indoor and outdoor recreation. To provide such services THEAL needs to enter into long-term service agreement with the educational trust/society which operates K-12 schools, general term of service agreement comes to 30 years for which THEAL required to pay one time fixed fee to the educational trust/society towards such exclusive rights. The fee paid by the company is recognized as an intangible asset and capitalized as 'Business Commercial Rights'. Apart from the consultancy fee, THEAL is also receiving Lease rental income from its educational infrastructure provided to the trusts/societies. Out of the 24 K-12 schools THEAL owns 4 infrastructure facilities (Land & Buildings) and 1 infrastructure with Joint Venture company in which THEAL has 50% stake. The company took forward steps to monetize these fixed assets owned by them to convert the business into asset-light model and has signed MoU for sale of 2 properties which are located in vadodara. Out of the 2 properties, THEAL recently concluded the sale of one property and executed the sale deed for a total consideration of Rs.171mn. THEAL is planning to sell the remaining properties also in next couple of years and will continue with providing services to these institutions by taking these properties in lease back method.

K-12 School Operations

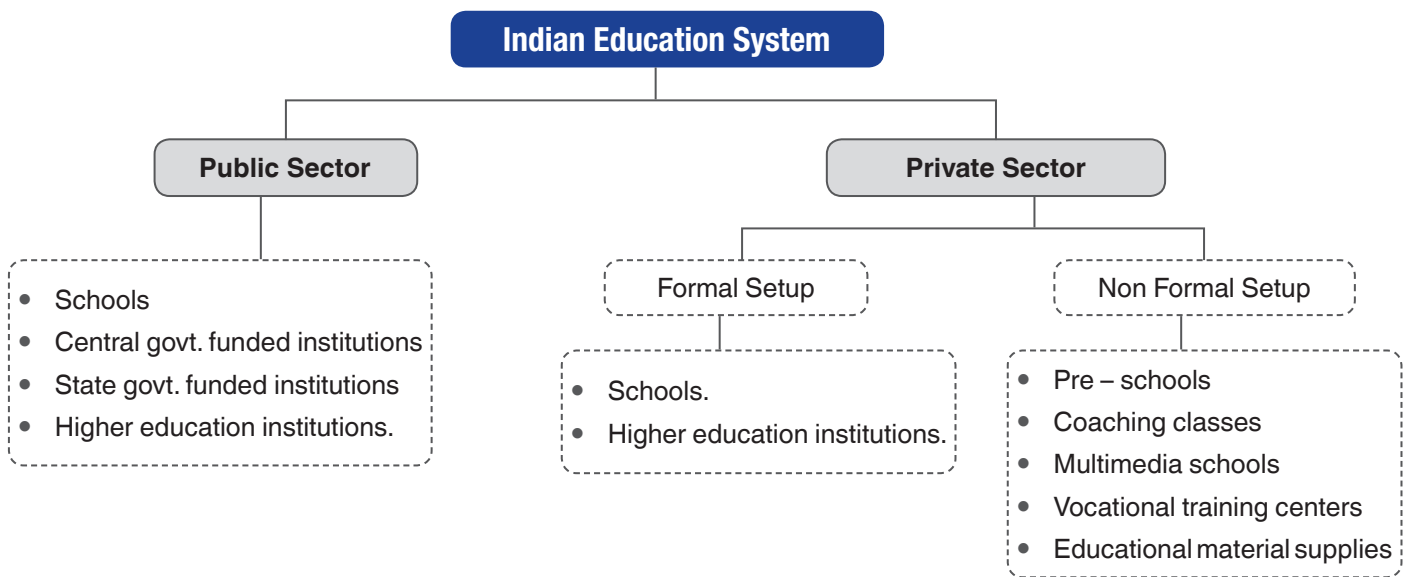
- Customized Learning Resource Materials, which strive to make Audio Visual aids function as an integral part of the education program, are developed in-house. This helps to promote student involvement and enriches the experiences of the teachers by creating a concrete and result oriented curriculum.
- We also offer facilities/services for self-improvement through continuous training programs.

The company provides the following educational services to school operators

- Providing curriculum and teaching aids, including literary, artistic and musical works, used in imparting education.
- Offering facilities or services for improvement in the educational standards.
- Supplying different methods to impart education.
- Ensure optimum utilization of the infrastructural and educational resources of the K-12 school.
- Training the employees for effective management of the K-12 school.
- Organizing unique extra-curricular activities for students.
- Applying holistic approach towards education by amending the methodology adopted by the K-12 school.
- Ensure optimum services from the employees of K-12 school.

THEAL is not planning any additions in the number of K-12 schools. THEAL has capacity of 47000 seats compiling all the K-12 schools and approx 16000 seats were occupied till now with the capacity utilization of 34%. So the company is of the view to increase the capacity utilization rather than total number of schools, which will strengthen the business model of K-12 schools. THEAL has more investment portion in the K-12 school assets which consist Business Commercial Rights, Land & Buildings, Deposits to K-12 schools. We expect that ~40% of the total security deposits made with K-12 schools will revert back to the company in the next four years, and the same was being considered in the projections of FY16E and FY17E.

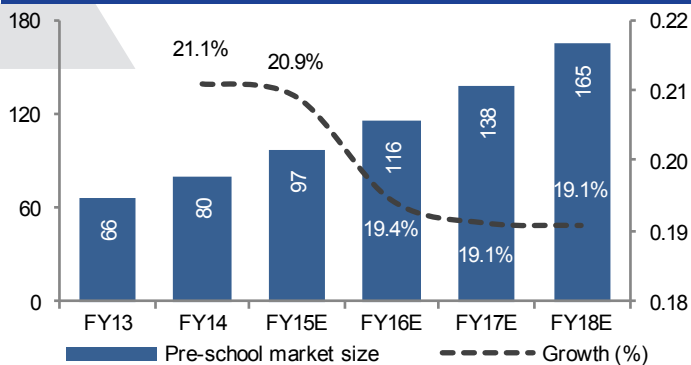
Industry Education System



Source: IBEF, Karvy Research

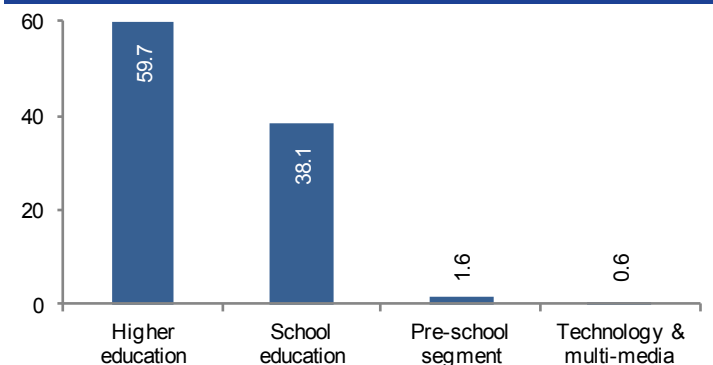
Indian education sector is on its robust growth track driven by factors such as penetration rate, gap between demand and supply, increasing rate of working women, drastic change in urbanization, raising awareness and other factors. India is one of the largest education sectors in the world which has 700 universities, more than 1.8Mn schools, more than 35,000 higher education institutes and 40 Mn seats in vocational training centers. India is also third largest in terms of education enrollment with over 20Mn enrollments per year. The private education sector which was valued at US\$ 50 Bn in 2008 is estimated to reach US\$ 115 Bn by 2015. The schooling segment in India is estimated to reach US\$ 144 Bn by 2020 from US\$ 44 Bn in 2011. Whereas higher education sector in India is expected to increase to US\$37.8 Bn by 2020 from US\$10.1 Bn in 2010. Pre-school segment in India is expected to grow from Rs.66 Bn in 2013 to Rs.164 Bn in 2018E at a CAGR of 23 percent. With growing awareness among Tier-II and Tier-III cities, penetration rate for the pre-school segment is expected to rise to 25 per cent by 2015.

Exhibit 13: Pre-school industry in India (Rs. Bn)



Source: Company, Karvy Research

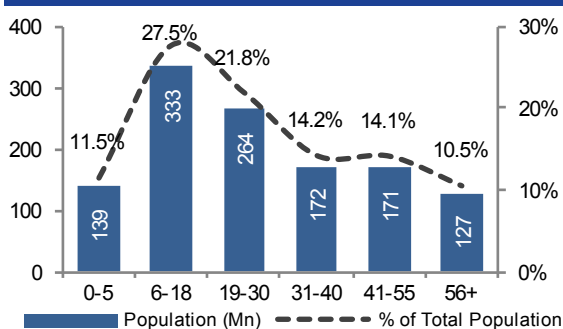
Exhibit 14: Education Sector break-up (%)



Source: Global Exhibition on service, Karvy Research

Opportunity in educational Sector

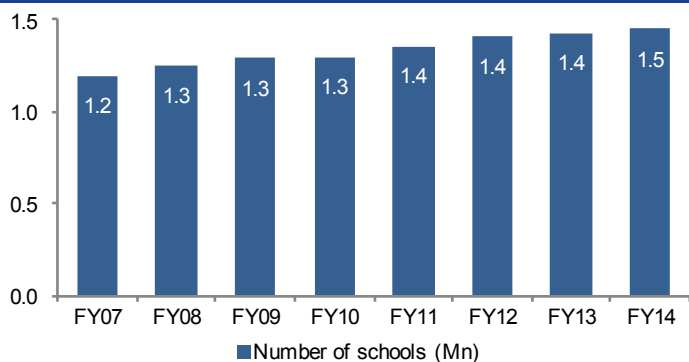
Exhibit 15: Age wise Population Segment



Source: Censusindia, Karvy Research

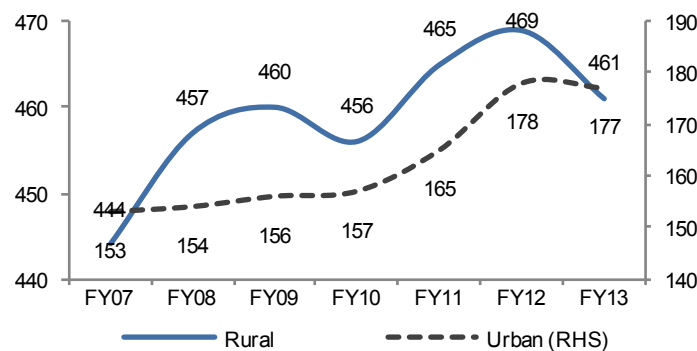
India is one of the largest populated country in the world with more than 1.2 bn people. Out of that, more than 11% segment comes in the age group of 0-5 years and more than 27% segment comes in the age group of 6-18 years who are associated directly with the education sector. Increase in number of population in the age group segment of 0-5 years will drive the demand for pre-school education. In the urban areas, per capita school density increased from 153 in the FY07 to 177 in the FY13, where as in the case of rural areas per capita school density increase from 444 in the FY07 to 461 in the FY13. In the case of Tier-II and Tier-III cities which are coming under rural area, there will be huge growth opportunity in the education sector on the basis of improvement in penetration rate.

Exhibit 16: Total Number of Schools



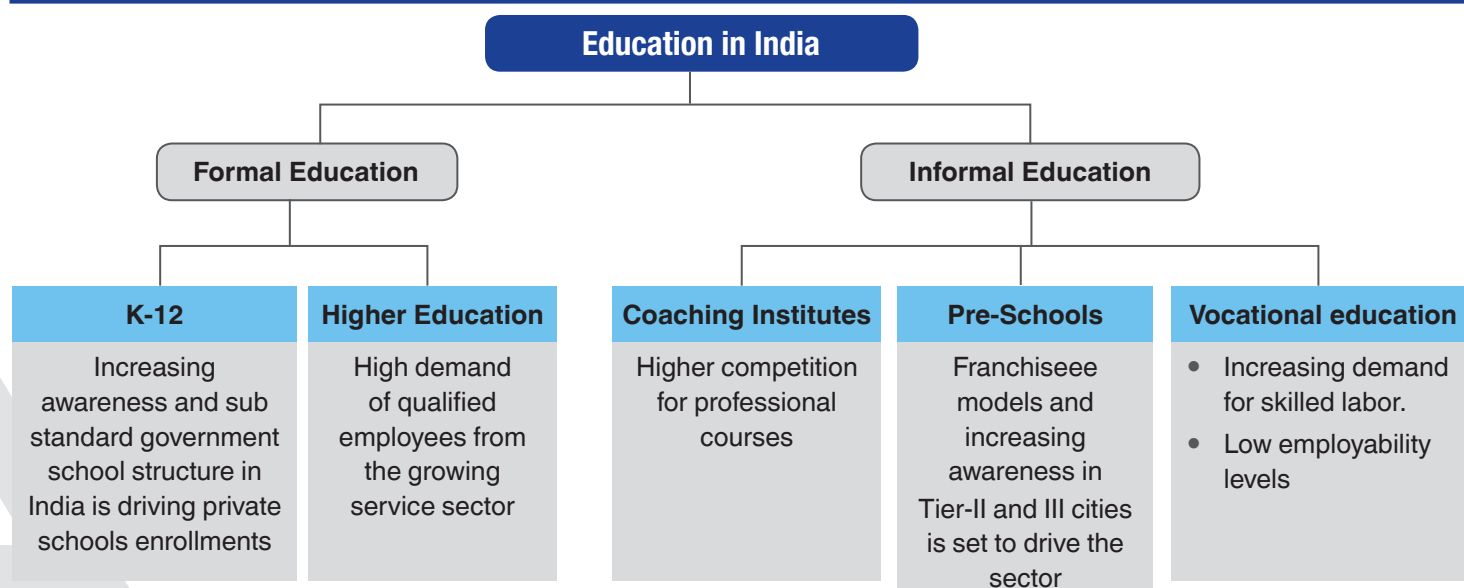
Source: Elementary education, Karvy Research

Exhibit 17: Rural and Urban Per Capita School Density



Source: Technopak Analysis, Karvy Research

Key driver for the Indian education industry



Source: IBEF, Karvy Research

As per Ministry of Statistics and Program Implementation (MoSPI) data, Indian consumer spending on educational & leisure was US\$ 71 bn in 2010 and is expected to reach US\$ 296 bn by the end of 2020 at CAGR of 15.3% over FY10-20E. Raising awareness of the consumer is the source for increase in the spending on education, which will produce more scope in this segment. Tree House is already well positioned in the market in the segment of self-operated pre-schools to capture the advantage of average increase in consumer spending on the education sector.

Exhibit 18: Indian Consumer Spending Trend

Category	Spending in \$ bn		CAGR growth rate	% Segment Share in Spending	
	2010	2020		2010	2020
Food	328	895	10.6	33.1	25.0
Housing & Consumer Durables	186	752	15.0	18.8	21.0
Transportation & Communication	168	664	14.7	17.0	18.5
Education & Leisure	71	296	15.3	7.2	8.3
Clothes & Footwear	59	225	14.3	6.0	6.3
Health	49	183	14.1	4.9	5.1
Others	129	570	16.0	13.0	15.9

Source: Euro Monitor, National Sample Survey Office, Karvy Research

Exhibit 19: India population & urbanization trend

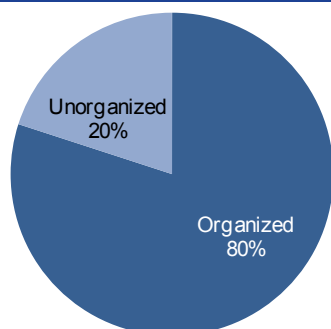
Year	Population (mn)	Urban (mn)	Urban (%)
2010	1206	373	31
2020	1353	471	35
2030	1476	583	39
2040	1566	701	45
2050	1620	814	50

Source: Company, Karvy Research

of the world's total urban population India accounted for more than 10% which comes to 410mn next to China with 758mn. India has the largest rural population (857mn), followed by China (635mn). India, China and Nigeria together are predicted to account for 37% of the projected growth of the world's urban population between 2014 and 2050 which is nearly 2.5 Bn people in the urban population by 2050. Between 2014 and 2050, Indian projected urban occupants will grow by 404mn, followed by China with 292 Mns.

Increase in working women is also one of the driving factors for pre-school education. The number of women working is estimated to increase fourfold to an estimated 45-50 mn in the age group of 20-40 years in urban India by 2020. Female economy is expected to grow at rapid pace in India which is expected to be one of the major factors behind growth of pre-school education sector. By 2020, working women population will reach 158 mn and earn US\$900 bn with per capita income of US\$5792 compared to 134 mn working women with earnings US\$280 bn and per capita income of \$2089 in 2010. Increasing trend of urbanization is also one of the drivers for the education sector. According to United Nations New York 2014, out

Exhibit 20: Organized Vs Unorganized



Source: Company, Karvy Research

Organized pre-school expected to grow at CAGR of 26% to reach Rs. 42.7 bn in FY18 from Rs.13.3 bn in FY13. THEAL is in a significant position in the market to capture the benefit of growth in the pre-school segment and the self-operated business model will also help the company to grow at the rate of market growth. Company will be able to capture more market share with its expansion strategy implementing in the areas of Delhi, National Capital Region (NCR) and Tier-II & Tier-III cities.

Exhibit 21: Business Assumptions

Y/E Mar (Rs. Mn)	FY14	FY15E	FY16E	FY17E	Comments
India Business (Standalone)					
Revenue	1576	2075	2679	3451	Expansion of self-operated pre-schools will be the driver for consistent growth in revenue.
Revenue Growth (%)	37.9	31.6	29.1	28.8	
EBITDA	892	1187	1544	2018	Consistent EBITDA margins with the expectations of improvement of margins after break even point.
EBITDA Margins (%)	56.6	57.2	57.6	58.5	
PAT (normalized)	439	609	826	1108	Reduction in finance cost will improve the PAT margins, as THEAL is planning to convert as debt-free company.
EPS	11.8	14.4	19.5	26.2	
Net CFO	(379)	1506	(477)	(409)	Cash inflow with QIP and realisation of security deposits given to K-12 schools will help the company in capex and to pay off its debt portion.
Net Debt	718	(556)	(608)	(728)	
Free Cash Flow	(648)	(622)	164	225	

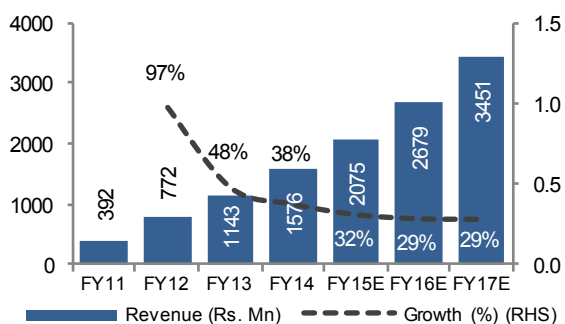
Source: Company, Karvy Research

Exhibit 22: Karvy vs Consensus

	Karvy	Consensus	Divergence (%)	Comments
Revenues (Rs. Mn)				
FY16E	2679	2699	(0.7)	
FY17E	3451	3499	(1.4)	
EBITDA (Rs. Mn)				
FY16E	1544	1533	0.7	
FY17E	2018	2007	0.5	
EPS (Rs.)				
FY16E	19.5	17.3	11.7	We expect that the company will pay off its whole debt portion in next 2 years. With that, finance cost is going to be reduced.
FY17E	26.2	23.0	12.2	

Source: Bloomberg, Karvy Research

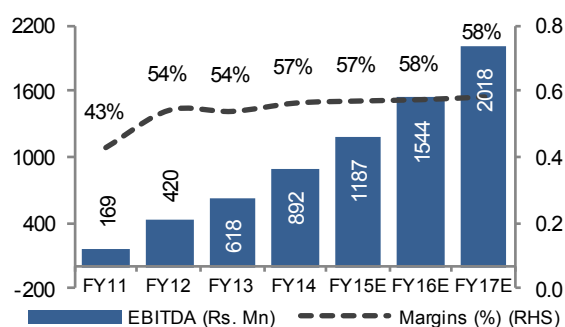
Exhibit 23: Revenue Growth



Source: Company, Karvy Research

THEAL registered revenue growth rate of 38% in FY14, on the back of revenue from pre-school education and from K-12. Revenue from pre-school education comes to 75-82% of the total revenues and we expect the share of the pre-school education will be continued for the further years also. Revenues were grown at a CAGR of 73% for FY09-14 and we expect revenues will grow at a CAGR of 29% over FY15-17E.

Exhibit 24: EBITDA Margins to improve

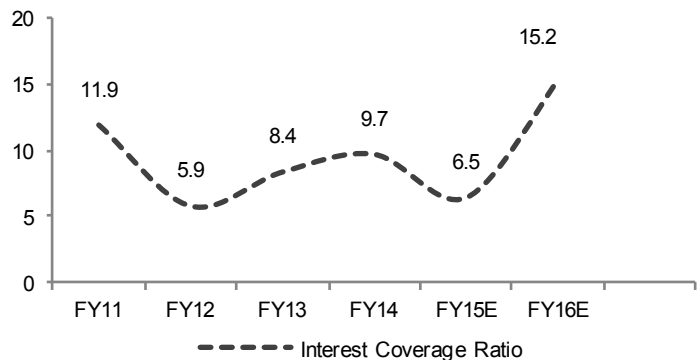


Source: Company, Karvy Research

THEAL has a consistent growth rate in its EBITDA margins every year. EBITDA margins increased to more than 56% in the FY14 from the level of 43% in the FY11. EBITDA margins were improvised at a CAGR of 112% over FY09-14. We expect the EBITDA margin to reach 58.5% by the end of FY17E. EBITDA will rise at a CAGR of 30% for FY15-17E.

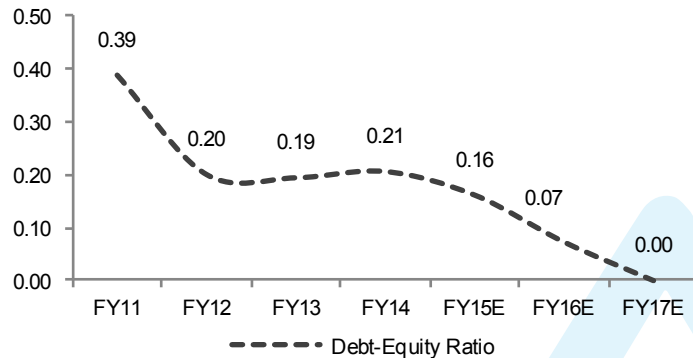
THEAL is planning the company to be debt-free as we expect the company to pay off its whole debt portion going forward. And we expect the debt portion will be cleared off with the fund raised through QIP and with the realizations of security deposit made to K-12 school institutions. The company's interest coverage ratio stood at 5.9 times in the FY12 which was increased to 9.7 in the FY14. The company has debt-equity ratio at 0.39 times by the end of FY11 which was recovered to 0.21 times by the end of FY14. We expect that debt-equity ratio will be zero by the end of FY17E as the company is expected to pay-off its whole debt portion going forward.

Exhibit 25: Strengthening Interest Coverage Ratio



Source: Company, Karvy Research

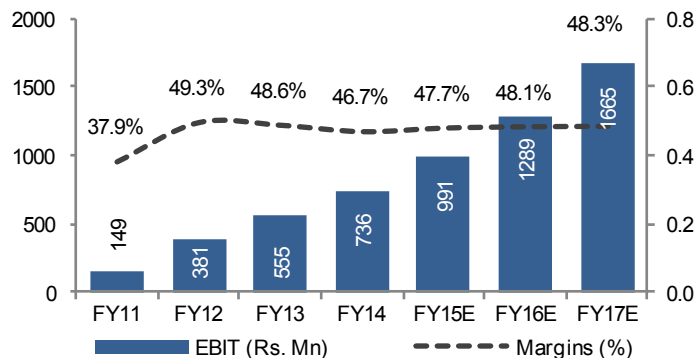
Exhibit 26: Debt-Equity Ratio



Source: Company, Karvy Research

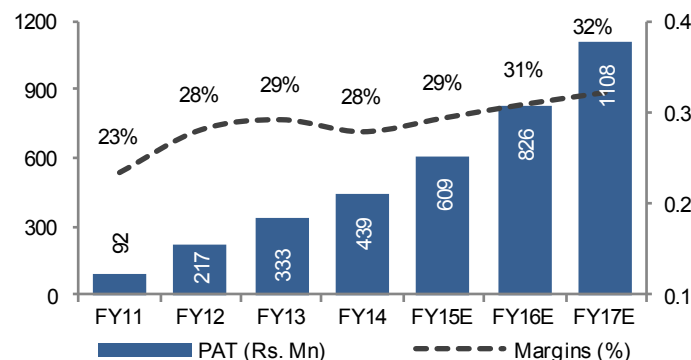
THEAL is consistent with its EBIT margins and PAT margins. We expect the margins to arrive at 48.3% and 32% respectively by the end of FY17E, which were at 46.7% and 28% by the end of FY14. EBIT is backed up by the growing revenue and PAT is backed up by the reduction in the finance cost with the repayment of debt portion. EBIT and PAT were increased at a CAGR of 164% and 144% respectively for the period FY09-14 and we expect EBIT and PAT will grow at a CAGR of 30% and 35% respectively over FY15-17E.

Exhibit 27: EBIT Margins



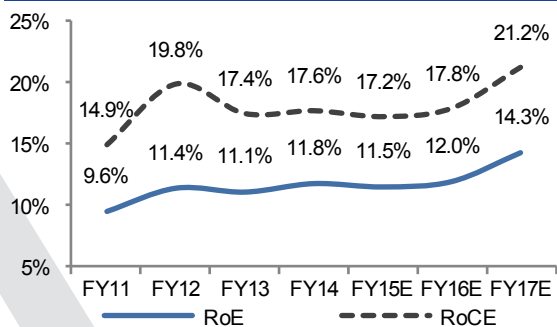
Source: Company, Karvy Research

Exhibit 28: PAT Margins



Source: Company, Karvy Research

Exhibit 29: RoE and RoCE



Source: Company, Karvy Research

We expect the RoE and RoCE to reach 14.3% and 21.2% respectively by the end of FY17E. RoE and RoCE were improved to 11.8% and 17.6% respectively by the end of FY14 which were at the level of 9.6% and 14.9% respectively by the end of FY11. RoE will be improved on the back of increasing PAT margins resulted with the reduction of finance cost.

Exhibit 30: Company Snapshot (Ratings)

	Low				High
	1	2	3	4	5
Quality of Earnings			✓		
Domestic Sales				✓	
Exports	✓				
Net Debt/Equity				✓	
Working Capital Requirement			✓		
Quality of Management				✓	
Depth of Management				✓	
Promoter			✓		
Corporate Governance			✓		

Source: Company, Karvy Research

Valuation & Outlook

THEAL has consistent EBITDA margins and aggressive expansion plans in self-operated pre-schools, which makes them one of the largest player in the industry. We expect the company will be debt-free by FY17E and RoE is expected to be at 14.3% in FY17E compared to 11.8% in FY14. At CMP of Rs.394 per share, stock is presently trading at 15x FY17E EPS. We value the company at a PE multiple of 19x with the going forward for FY17E, we recommend the stock with a **“BUY”** at the target price of Rs.498, with an potential upside of 26%.

Exhibit 31: PE Band



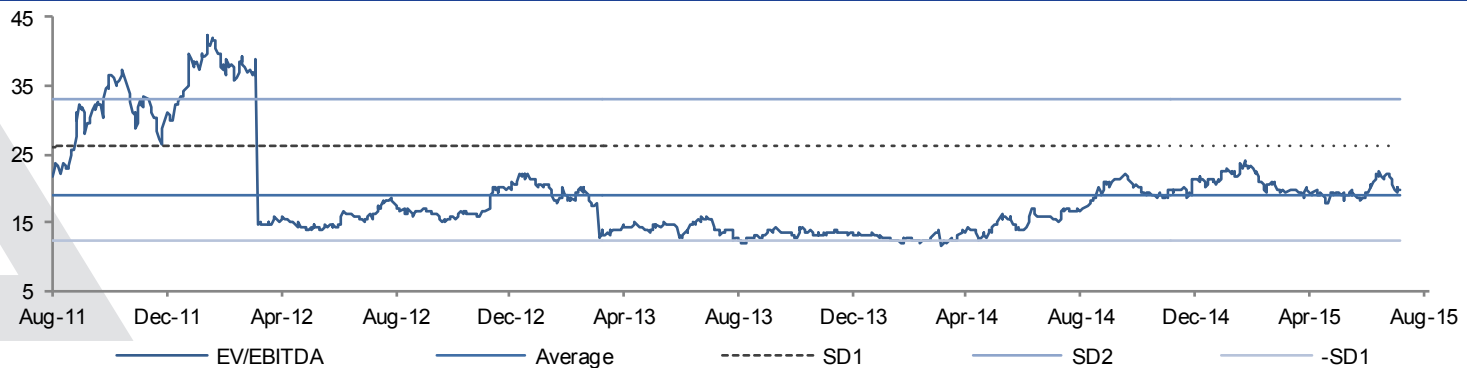
Source: Company, Karvy Research

Exhibit: 32 PB Band



Source: Company, Karvy Research

Exhibit 33: EV/EBITDA



Source: Company, Karvy Research

Key Risks

- New emerging techniques and methods of teaching from competitors.
- The Government of India introduces regulations for pre-school segment may impose restrictions on the company.
- Competition from unorganized sector.

Financials

Exhibit 34: Income Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Revenues	1143	1576	2075	2679	3451
Growth (%)	48.0	37.9	31.6	29.1	28.8
Operating Expenses	525	684	887	1135	1433
EBITDA	618	892	1187	1544	2018
Growth (%)	47.1	44.3	33.1	30.1	30.7
Depreciation & Amortization	134	170	268	320	371
Other Income	71	13	72	65	19
EBIT	555	736	990	1289	1665
Interest Expenses	66	76	153	85	32
PBT	489	660	837	1204	1633
Tax	155	221	229	378	525
Adjusted PAT	333	439	609	826	1108
Growth (%)	53.9	31.7	38.6	35.7	34.2

Source: Company, Karvy Research

Exhibit 35: Balance Sheet

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Cash & Bank Balances	487	108	1614	1137	728
Sundry Debtors	69	290	430	524	648
Inventory	46	56	52	65	67
Loans & Advances	1766	1945	2362	2323	2392
Investments	0	0	0	0	0
Gross Block	1684	2638	3478	4203	4994
Net Block	1550	2468	3210	3883	4623
CWIP	398	285	262	262	262
Miscellaneous	128	115	115	124	123
Total Assets	4444	5267	8045	8319	8843
Current Liabilities & Provisions	674	696	1076	839	582
Long Term Debt	290	507	411	206	0
Other Liabilities	47	55	10	11	13
Total Liabilities	1011	1259	1496	1055	595
Shareholders Equity	360	372	423	423	423
Reserves & Surplus	3074	3637	6126	6841	7825
Total Networth	3434	4009	6549	7264	8248
Total Networth & Liabilities	4444	5267	8045	8319	8843

Source: Company, Karvy Research

Exhibit 36: Cash Flow Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
PBT	489	660	837	1204	1633
Depreciation	134	170	268	320	371
Interest (net)	66	76	153	85	32
Tax Paid	(176)	(189)	(290)	(343)	(528)
Inc/dec in Net WC	(583)	(352)	(537)	(40)	(160)
Other Income	(68)	(13)	(66)	(69)	(13)
Other non cash items	0	1	0	1	1
Cash flow from operating activities	(139)	352	366	1158	1337
Inc/dec in capital expenditure	(754)	(1001)	(988)	(993)	(1111)
Inc/dec in investments	236	(15)	2	0	0
Others	24	42	69	55	20
Cash flow from investing activities	(494)	(974)	(916)	(938)	(1092)
Inc/dec in borrowings	153	159	232	(529)	(529)
Issuance of equity	589	201	2030	0	0
Dividend paid	(34)	(45)	(56)	(85)	(95)
Interest paid	(65)	(73)	(151)	(83)	(29)
Others	0	0	0	0	0
Cash flow from financing activities	643	242	2056	(696)	(654)
Net change in cash	10	(379)	1506	(477)	(409)

Source: Company, Karvy Research

Exhibit 37: Key Ratios

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EBITDA Margin (%)	54.1	56.6	57.2	57.6	58.5
EBIT Margin (%)	48.6	46.7	47.7	48.1	48.3
Net Profit Margin (%)	29.2	27.9	29.3	30.8	32.1
Dividend Payout ratio	13.5	12.7	13.9	11.5	9.5
Debt/Equity	0.19	0.21	0.16	0.07	0.00
RoE (%)	11.1	11.8	11.5	12.0	14.3
RoCE (%)	17.4	17.6	17.2	17.8	21.2

Source: Company, Karvy Research

Exhibit 38: Valuation Parameters

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EPS (Rs.)	9.3	11.8	14.4	19.5	26.2
DPS (Rs.)	1.3	1.5	2.0	2.3	2.5
BV (Rs.)	95.5	107.8	154.8	171.7	195.0
PE (x)	27.0	22.0	27.4	20.2	15.0
P/BV (x)	2.6	2.4	2.5	2.3	2.0
EV/EBITDA (x)	13.1	11.6	15.1	11.6	8.9
EV/Sales (x)	7.1	6.6	8.6	6.7	5.2

Source: Company, Karvy Research; *Represents multiples for FY13, FY14 & FY15 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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