Tree House Education & Accessories

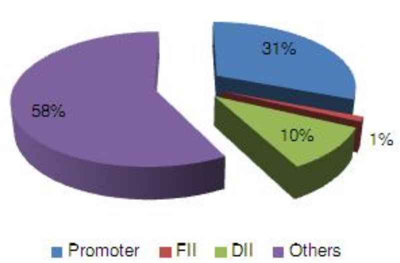
March 14, 2014

BUY	
CMP*	Rs222
Target Price	Rs276
Stock Info	
Sector	Education
Market Cap (Rs cr)	822
52 Week High/Low	300/214
Avg. Daily Volume (3m, '000)	67
Avg. Daily Value (3m, cr)	1.6
Dividend Yield (%)	0.5
Sensex	21,775
Nifty	6,493
BSE Code	533540
NSE Code	TREEHOUSE

Stock Performance

(%)	THEAL	NIFTY
1-week	0.4	1.4
1-month	(1.2)	8.2
1-year	(12.7)	11.0

Shareholding Pattern (%)



Stock Price Chart

*Note: *CMP as on March 13, 2014*

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Nurturing growth

- **A Rs165bn Pre-school market opportunity:** Tree House Education & Accessories (THEAL) provides educational services in India and we believe it is set to benefit from the Pre-school industry CAGR of 20% over 2013-18E (as per CRISIL Research estimates). According to industry estimates, currently, the pre-school market in India is pegged at Rs66bn, accounting for 1.7% of total educational spend. Thus, THEAL has the best opportunity in India to increase its market share in the fast growing Pre-school segment owing to its strong brand equity. Notably, the company has been increasing its number of branches every year (self-operated branches + franchisees) by more than 75 every year to cater to the rising demand of pre-schools in the country. We expect this strong growth trend to continue in the coming years for THEAL on the back of rising awareness of early education and its benefits amongst parents, increasing urbanization and improving affordability standards of the population in general.
- **Expansion - a key revenue growth driver:** Growing geographic presence is expected to continue to support strong revenue growth for the company. In the past few years, the company has increased its number of pre-school branches at a rapid pace, which has increased from 12 in FY2007 to 444 in 3QFY2014 (self-operated branches + franchisees). However, at present, the company's branches are concentrated in Western India, which accounts for ~72% of all the branches and out of this 80% is concentrated in Mumbai. As a result, THEAL has now adopted a strategy whereby it is looking at expansion of pre-schools on a large scale across different regions (on an average 100 pre-schools every year). This move, we believe, is a positive step in terms of mitigating the risk of geographic concentration.
- **Reaping benefits from the K-12 segment:** THEAL has achieved forward integration through its foray into the K-12 segment that offers management services to K-12 schools. In this segment, the company provides educational services like customized learning resource materials, facilities/services for self-improvement through continuous training programmes, train the employees to effectively manage K-12 schools, etc. Strategically, THEAL has a strong presence in Western India in the pre-school segment, which complements its K-12 business, as the pre-school will act as a feeder stock to the K-12 schools. Moreover, K-12 segment has inherent advantages over the pre-school business model such as a stable revenue stream.

Outlook and Valuation

Considering the past track record of the company, its expansion plans and the opportunity at hand, we estimate THEAL to report Net Sales CAGR of ~32% over FY2013-16E to ~Rs260cr and Net Profit CAGR of ~30% during the same period. **At the CMP of Rs222, the stock trades at 14.0x and 11.3x its FY2015E and FY2016E EPS of Rs15.9 and Rs19.7 respectively. We initiate coverage on THEAL and based on 14x FY2016E EPS, we arrive at a Target Price of Rs276, indicating an upside of ~24% from the current levels. Thus, we recommend a Buy on THEAL.**

Risks to the view

- All the pre-schools are located currently in western region, mainly in Mumbai metropolitan (more than 80%). This is a geographical concentration risk.
- In this model, there are no entry barriers and hence, the company faces intense competition risk from other domestic players like Kidzee, Euro Kids etc.

Year End	Net Revenues		EBITDA		Net Profit (reported)		RoE	RoCE	EPS	Valuations (x)	
	(Rs cr)	% growth	(Rs cr)	% margin	(Rs cr)	% growth	%	%	(Rs)	P/E	EV/EBITDA
FY2013	114	47.9	62	54.1	33	53.6	9.7	11.8	9.0	24.8	13.6
FY2014E	160	40.2	88	55.2	45	36.8	11.8	16.0	12.3	18.1	9.8
FY2015E	208	30.2	112	53.8	59	29.7	13.4	18.2	15.9	14.0	7.7
FY2016E	260	24.8	138	53.0	73	23.8	14.5	19.8	19.7	11.3	6.2

As per CRISIL estimates, pre-school market is expected to witness a CAGR of 20% over CY2013-18E to Rs165bn

Investment Arguments

THEAL would benefit from Pre-school Industry CAGR of 20% over CY2013-18E

Tree House Education & Accessories (THEAL) provides educational services in India and we believe it is set to benefit from the Pre-school industry CAGR of 20% over CY2013-18E (as per CRISIL Research estimates). According to industry estimates, currently, the pre-school market in India is pegged at Rs66bn, accounting for 1.7% of total educational spend. The main drivers of this segment include swelling urbanization, increased women workforce, rising aspirations for quality education and increasing awareness about the importance of pre-schooling. Pre-schools, typically, cater to the age group of 1 year to 6 years, thus laying the foundation for formal education. Many of them also offer play group, nursery, junior kindergarten and senior kindergarten classes.

Exhibit 1: India's pre-school market to double by CY2018

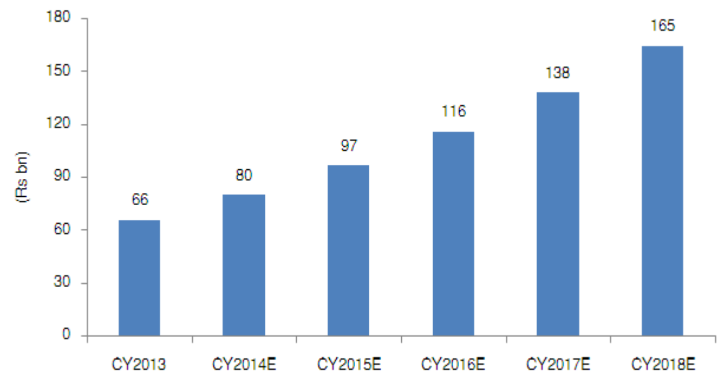
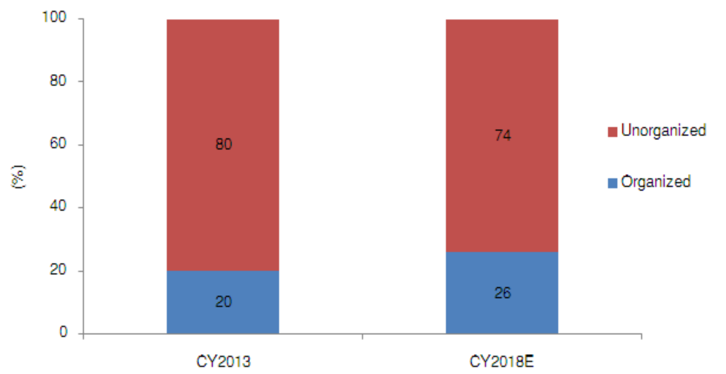


Exhibit 2: Structure of pre-school market in India



Source: CRISIL Research

Thus, THEAL has the best opportunity in India to increase its market share in the fast growing Pre-school segment owing to its strong brand equity. Notably, the company has been increasing its number of branches every year (self-operated branches + franchisees) by more than 75 every year to cater to the rising demand of pre-schools in the country. We expect this strong growth trend to continue in the coming years for THEAL on the back of rising awareness of early education and its benefits amongst parents, increasing urbanization and improving affordability standards of the population in general.

Increasing urbanization and rising average disposable income to boost the demand for pre-schools in India

Rising Disposable Income, Increasing Urbanization and Low Penetration to boost the Indian Pre-school market

Over the past few years, pre-schools have gained popularity in India. Drivers identified include huge untapped market that provides ample opportunity for pre-schools to flourish. According to Mckinsey Global Institute (MGI), average disposable income is expected to surge to Rs1.9lakhs in CY2015E and Rs3.2lakhs in CY2030E, which imparts strong growth visibility for the education market. Further, urban population is expected to grow from 340mn in CY2008 to 590mn in CY2030E, which would act as a strong driver for this sector. The middle class segment in India has always given impetus to education. Thus, pre-school market is expected to grow at a healthy rate in the future.

Exhibit 3: Rising avg. disposable income fueling demand

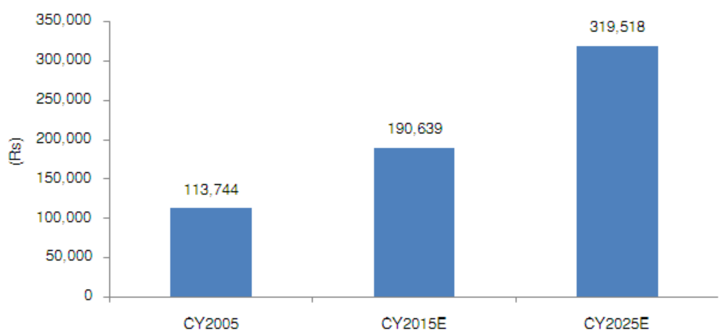
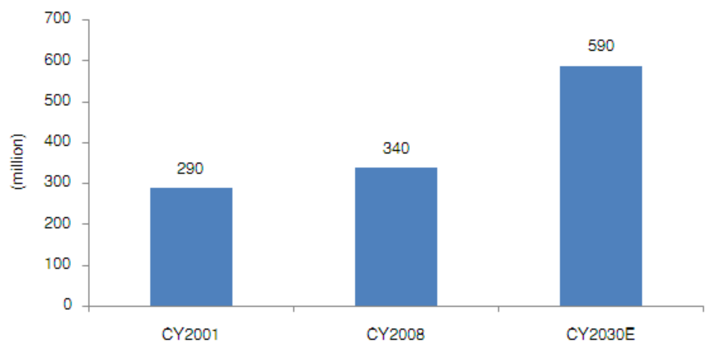


Exhibit 4: Demand driven by increasing urbanization



Source: McKinsey Global Institute (MGI), Company, RSec Research

Revenue model: In the pre-school business segment, the company has adopted two models (1) self-operated and (2) franchisee model.

Self-operated: In this segment, the company is able to maintain quality, hygiene and safety control across its pre-schools, which are necessary for company's growth. Under this model, the company owns the property on leave and license basis for a period of three years to five years.

Exhibit 5 : Self-operated Pre-school model

	Amount
Total fees per center (Students 100 * Rs40,000/student)	40,00,000
Extra-curricular activities	5,00,000
Total (A)	**45,00,000**
Expenditure	
Rent	6,00,000
Teacher cost	4,20,000
One center head	1,50,000
Maids, Security Cost, Utilities	2,05,000
Consumables/event/miscellaneous expenses	2,00,000
Total (B)	**15,75,000**
Center Level Profit (A-B)	**29,25,000**
Operating Margin (%)	65
Fixed Asset	45,00,000
Security Deposit (Owner)	5,00,000
Total Assets	**50,00,000**
RoCE (%)	58.5

Source: Company, RSec Research (Excld. depreciation cost)

Franchisee model: Through this model, the company expands its operations and extends its brand name through franchise, in lieu of which, it is paid a one-time franchise fee and a royalty fee. The royalty fees, which is based on the total fee generated by the school in a year, can range anywhere between 10-20% (depending on the location). In the franchise model, most pre-schools have a minimum built-up area requirement of 1,000-2,500 sq ft. Franchising enables the company in not only sharing of expenses, but also knowledge, experience, brand image, and technical expertise. Majority of large pre-school chains have adopted the franchise route for rapid growth.

Exhibit 6: THEAL - Franchisee revenue model

One time franchise fee	
Tier 1	Rs35,00,000 -40,00,000
Tier 2	Rs15,00,000 -20,00,000
Tier 3	Rs7,00,000 -10,00,000
Royalty (%)	15-20
Kits	Rs500 per student

Source: Company, RSec Research

Exhibit 7: THEAL - Revenue Drivers

	FY2012	FY2013	FY2014E	FY2015E	FY2016E
			Pre-schools		
SOS (Self-operated pre-schools)	240	300	370	439	504
Average revenue per centre (Rs)	28,33,333	31,33,333	35,14,409	39,08,023	42,98,825
yoy growth (%)		*10.6*	*12.2*	*11.2*	*10.0*
Revenue (Rs cr)	**68.0**	**94.0**	**130.0**	**171.6**	**216.7**
yoy growth (%)		*38.2*	*38.3*	*31.9*	*26.3*
Franchisee (Franchised pre-schools)	62	79	109	109	109
Average revenue per centre (Rs)	161,290	253,165	329,114	417,975	501,570
yoy growth (%)		*57.0*	*30.0*	*27.0*	*20.0*
Revenue (Rs cr)	**1.0**	**2.0**	**3.6**	**4.6**	**5.5**
yoy growth (%)		*100.0*	*79.4*	*27.0*	*20.0*
One time Franchisee fees (Rs cr)		**6.0**	**8.4**	**7.3**	**6.0**
			Brainworks Learning (Pre-schools)		
Franchisee (Franchised pre-schools)				25	50
Revenue (Rs cr)				**0.8**	**2.0**
yoy growth (%)					*150.0*
Average revenue per centre (Rs)				*320,000*	400,000
yoy growth (%)					*25.0*

Source: Company, RSec Research

Swelling urbanization, increased women workforce, rising average disposable income, growing aspirations for quality education and increasing awareness about the importance of pre-schooling, would fuel growth for the industry

THEAL intends to increase on an average 100 pre-schools (owned branches + franchisees) every year

We believe that robust demand, strong brand image, quality staff, good infrastructure and expansion would help the company to enhance its market share. Thus, going forward, we expect THEAL to clock ~32% CAGR in Net Sales over FY2013-16E to Rs260cr (Rs114cr in FY2013).

Growing geographic presence to boost revenue growth

In the past few years, the company has increased its number of pre-school branches at a rapid pace, which has increased from 12 in FY2007 to 444 in 3QFY2014 (self-operated branches + franchisees). However, at present, the company's branches are concentrated in Western India, which accounts for ~72% of all the branches and out of this 80% is concentrated in Mumbai. As a result, THEAL has now adopted a strategy whereby it is looking at expansion of pre-schools on a large scale across different regions (on an average 100 pre-schools every year). This move, we believe, is a positive step in terms of mitigating the risk of geographic concentration.

Further, the company has also ventured into the K-12 segment and currently provides educational services to 24 K-12 schools. As per management guidance, the company plans to increase 4 more K-12 schools by FY2016.

Exhibit 8: Expected Pre-school expansion trend for THEAL

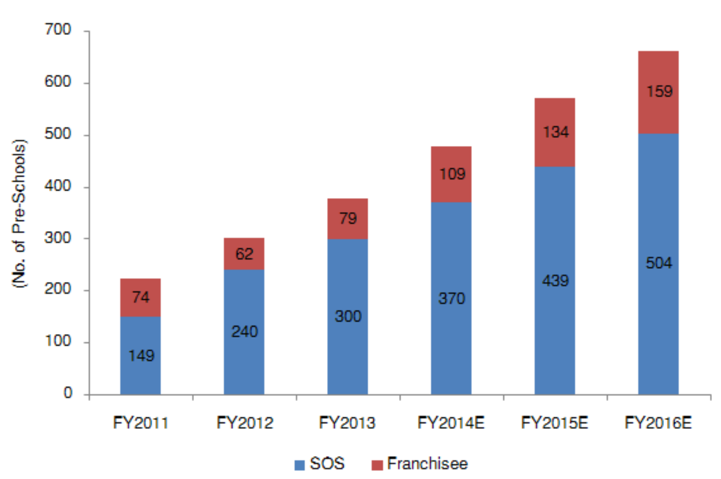
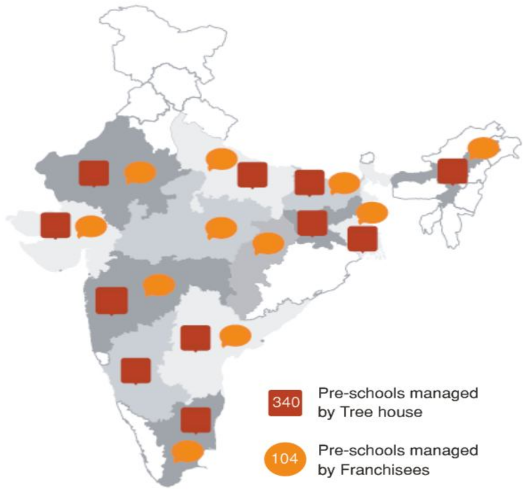


Exhibit 9: THEAL's geographic Presence



Source: Company, RSec Research

Strong brand value

In a short span, the company has been able to build a strong brand image with high re-call value in the organized pre-school segment to become the largest self-operated pre-school chain in the country. To sustain its brand image, the company keeps a check on not just the quality of education but also infrastructure. Apart from maintaining a common infrastructure for all pre-schools, it also conducts regular audits and works in close liaison with franchisee owners.

Going forward, we expect ~44% CAGR in Net Sales over FY2013-16E to Rs21cr for K-12 segment

Foray into K-12 segment would aid revenue growth

In FY2010, THEAL achieved forward integration through its foray into K-12 segment with an investment of ~Rs240cr that offers management services to K-12 schools. Investment of Rs240cr includes (1) business commercial rights for ~Rs25cr to operate 12 schools for the next 30 years (2) invested ~Rs96cr in land & building and (3) security deposit of ~Rs11cr to the trusts to operate schools, etc.

Exhibit 10: K-12 to improve RoCE going forward

	FY2013	FY2014E	FY2015E	FY2016E
Revenue (Rs cr)	7.0	11.0	16.0	21.0
Total Capacity	50,000	50,000	50,000	50,000
No of students	5,000	8,000	11,500	15,000
Capacity Utilization (%)	10	16	23	30
Total Assets invested	240	240	240	240
RoCE (%)	3	5	7	9

Source: Company, RSec Research (Excld. depreciation cost)

Currently, the company holds about Rs96cr towards four K-12 properties on the balance sheet. The company plans to sell these over the next 2-3 financial years, which will reduce balance sheet size by about 17-18% and thereby significantly improve return ratios. Further, THEAL has provided a security deposit of Rs11cr to the trusts of 12 schools to build schools, which it is scheduled to recover over the next 6-7 years. This will also improve the return ratios of the company. Hence, out of total investment of Rs240cr, about Rs107cr is expected to be recovered, which would be utilized to repay THEAL's debt going forward. This will not have a negative impact on earnings potential of K-12 segment, as the company will continue to hold school management servicing rights of the 24 schools.

Exhibit 11: Expansion trend of K-12 schools

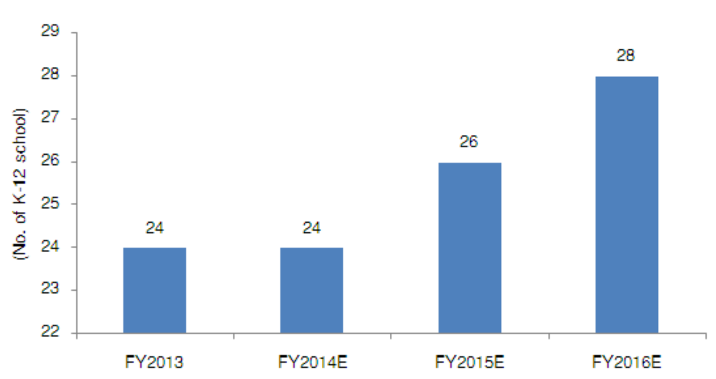
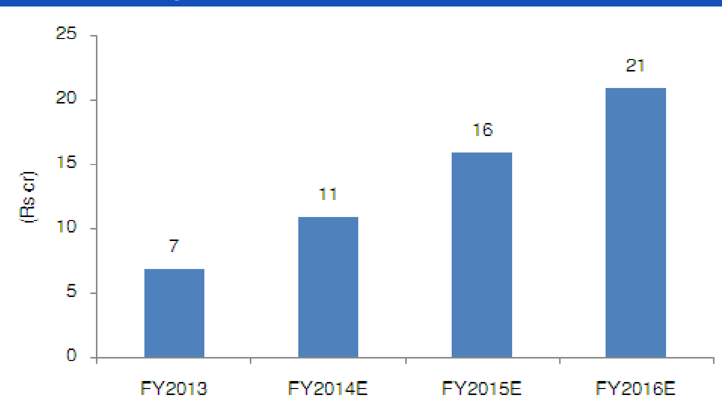


Exhibit 12: Expected revenue from K-12 schools



Source: Company, RSec Research

K-12 segment contributes ~6% to the company's revenue. In FY2013, this segment reported Rs7cr in revenues. Going forward, we expect this segment to witness ~44% CAGR in Net Sales over FY2013-16E to Rs21cr.

'Brainworks Learning' acquisition to support inorganic growth for THEAL

Recently, Tree House Education & Accessories Ltd acquired the brand and assets of 'Brainworks Learning', a national chain of pre-schools run by Brainworks Learning Systems Pvt Ltd, in an all-cash deal worth Rs5cr. The acquisition will be cash accretive from the first year and Brainworks business will pay back the total amount invested over the next 36 months.

As per the management, this acquisition would add to the earnings from the first year and will help THEAL to expand its presence in new geographies and thereby increase its penetration. We believe that as Brainworks business absorbs the Tree House method of education, curriculum and functioning, each of its centres will see significant improvement across all their operating parameters.

Apart from this, the company has several benefits:

(1) For opening new self-operated centre, the company requires an upfront investment of around Rs45,00,000. Through this acquisition, the company has acquired 13 self-operated centres and 51 franchisees at the cost of Rs5cr, which leads to significant savings for the company.

(2) Further, the company plans to expand their franchisee model under the brand name of Brainworks Learning instead of THEAL brand going forward, which would spread the brand image risk.

Exhibit 13: Brainworks – a gainful acquisition

Upfront capex required per self-operated centre	45,00,000
Average size of pre-school	2,500 sq feet
THEAL acquired 13 self-operated centres	13
Total cost for 13 centres	5,85,00,000
Company invested total amount in Brainworks Learning	5,00,00,000
Total cost saving	**85,00,000**

Source: Company, RSec Research

Overview of the company: Founded in 2008, Brainworks has been following a franchise model for its expansion. Its centres are located in Delhi-NCR, Punjab, Uttar Pradesh, Uttaranchal, Uttarakhand, Jammu & Kashmir, Gujarat, Maharashtra, Goa, Karnataka, Andhra Pradesh and Tamil Nadu. Brainworks has 64 centres (13 self-operated + 51 franchisees) operating under its brand.

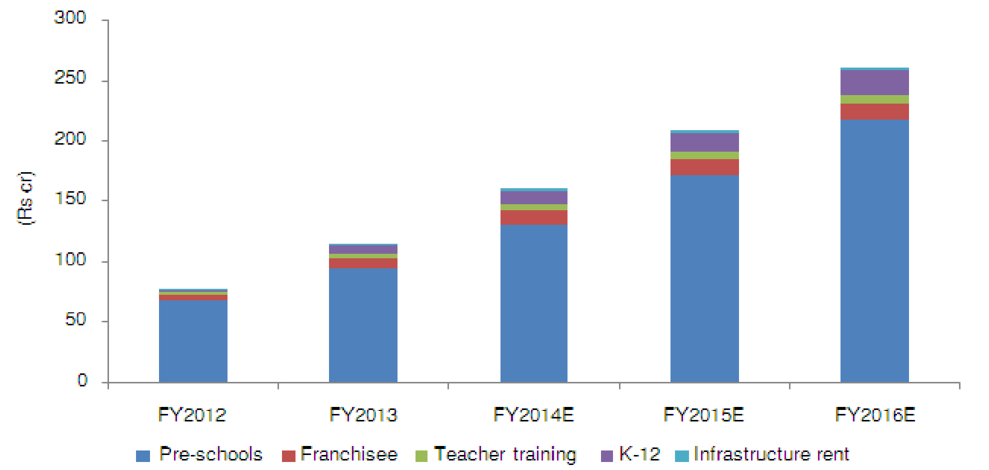
Financial Analysis

Top-line expected to clock a CAGR of 32% over FY2013-16E

We expect THEAL to register decent revenue CAGR of ~32% over FY2013-16E

THEAL reported revenue CAGR of 71% over FY20011-13, driven primarily by rapid expansion in the pre-school and the K-12 segments. Going forward, we expect the company to register a healthy top-line CAGR of 32% over FY2013-16E supported by continuous expansion plan of pre-schools, strong brand value and also increasing preference tilting towards branded education segment.

Exhibit 14: Revenue trend



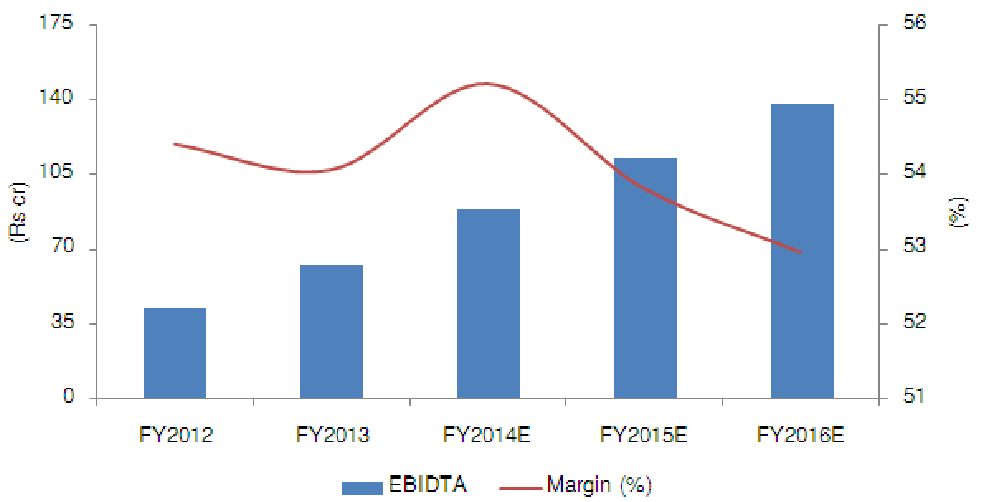
Source: Company, RSec Research

EBITDA to witness a CAGR of 31% over FY2013-16E

We assume THEAL to report operating margins of 53.8% and 53.0% in FY2015E and FY2016E respectively

On the back of a robust estimated top-line of 32% CAGR, the company's EBITDA is expected to witness a CAGR of 31% over FY2013-16E, from Rs62cr in FY2013 to Rs138cr in FY2016E. The EBITDA margin is expected to stabilize at ~53-54% over FY2013-16E.

Exhibit 15: Operating profit and margin trend



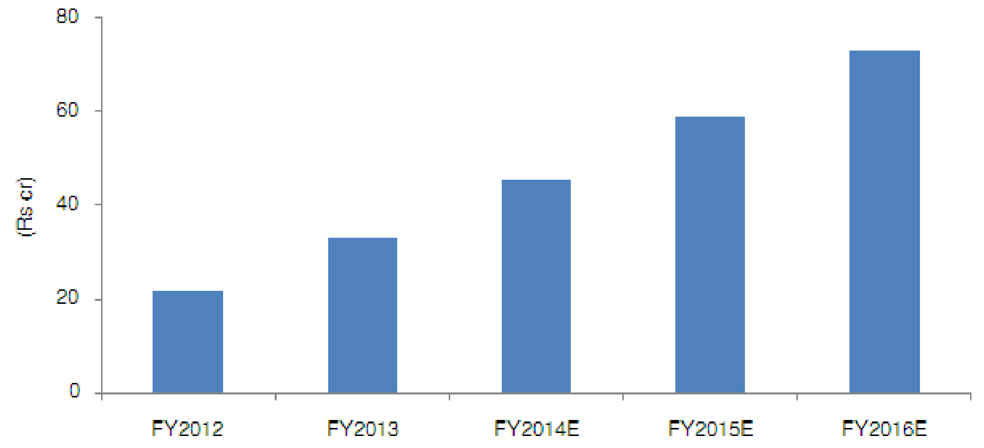
Source: Company, RSec Research

We expect ~30% CAGR in Net Profit over FY2013-16E

Set to report a healthy Net Profit growth

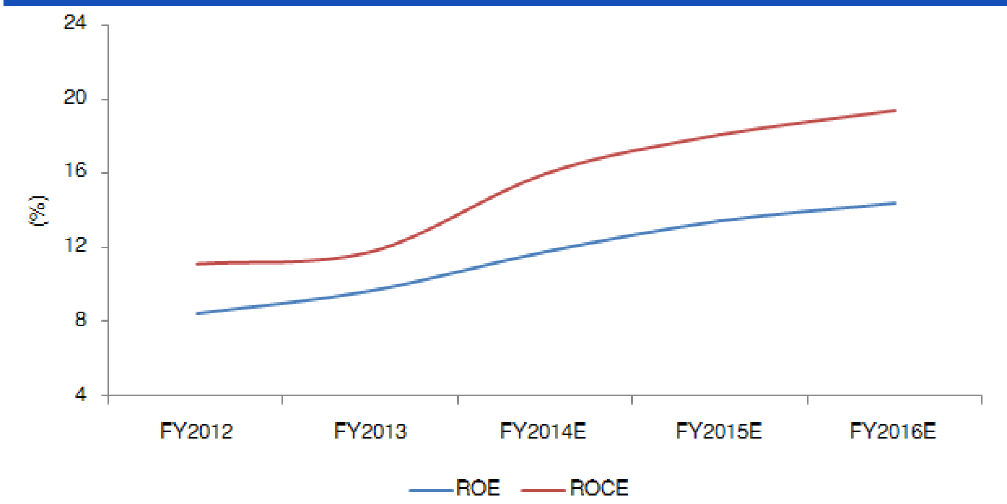
We expect 30% CAGR in Net Profit over FY2013-16E due to strong revenue growth and stable operating margin which would drive earnings.

Exhibit 16: Net Profit trend



Source: Company, RSec Research

Exhibit 17: Return ratios trend (ROCE & ROE)



Source: Company, RSec Research

Analyzing the 3QFY2014 performance

Exhibit 18: Quarterly performance

(Rs cr)	3QFY14	3QFY13	%yoy	2QFY14	%qoq	9MFY14	9MFY13	%yoy
Net Sales	**39.7**	**29.1**	***36.7***	**41.3**	***(3.8)***	**121.9**	**84.9**	***43.6***
Employee Costs	4.4	3.5	*27.0*	4.7	*(6.2)*	12.7	9.9	*27.7*
(percentage of sales)	*11.0*	*11.9*		*11.3*		*10.4*	*11.7*	
Other Expenses	10.8	9.3	*16.2*	13.7	*(21.0)*	39.0	27.3	*42.6*
(percentage of sales)	*27.2*	*32.0*		*33.2*		*32.0*	*32.2*	
Total Expenditure	**15.2**	**12.8**	***19.1***	**18.4**	***(17.2)***	**51.7**	**37.3**	***38.6***
(percentage of sales)	*38.3*	*43.9*		*44.5*		*42.4*	*43.9*	
EBIDTA	**24.5**	**16.3**	***50.4***	**22.9**	***7.0***	**70.2**	**47.6**	***47.5***
Margin (%)	*61.7*	*56.1*		*55.5*		*57.6*	*56.1*	
Finance Cost	2.0	2.2	*(10.1)*	1.5	*33.3*	5.1	5.4	*(6.8)*
Depreciation	4.5	3.4	*30.9*	4.3	*4.2*	12.5	9.7	*28.7*
Exceptional items	-	-		-		-	-	
EBIT	**18.1**	**10.7**	***68.9***	**17.2**	***5.4***	**52.6**	**32.4**	***62.2***
Margin (%)	*45.6*	*36.9*		*41.6*		*43.2*	*38.2*	
Other income	0.0	1.3	*(99.2)*	0.2	*(95.2)*	1.3	5.4	*(75.1)*
PBT	**18.1**	**12.0**	***50.7***	**17.4**	***4.2***	**54.0**	**37.8**	***42.7***
Tax	6.0	4.0	*51.5*	5.9	*1.7*	18.1	11.8	*53.0*
Effective tax rate (%)	33.3	33.1		34.1		33.5	31.3	
PAT (reported)	**12.1**	**8.1**	***50.3***	**11.5**	***5.5***	**35.9**	**26.0**	***38.0***
NPM %	*30.5*	*27.7*		*27.8*		*29.4*	*30.6*	
EPS (Rs)	**3.3**	**2.2**	***50.3***	**3.1**	**5.5**	**9.7**	**7.0**	***38.0***

Source: Company, RSec Research

Robust Revenue growth: THEAL's Net Sales for 3QFY2014 grew ~37% yoy to ~Rs40cr (~Rs29cr in 3QFY2013). The increase in top-line on yoy basis was due to strong growth across segments i.e. Pre-school, K-12 school, etc.

OPM expanded by 564bp yoy: The company reported EBITDA of ~Rs25cr in 3QFY2014 and witnessed ~50% growth on a yoy basis. EBITDA margins expanded significantly by 564bp yoy on lower employee costs (down 84bp yoy) and lower other expenditure (down 479bp yoy).

Net Profit increased by ~50%: Net Profit for 3QFY2014 surged ~50% yoy to ~Rs12cr owing to higher revenue growth and improvement in operating performance.

Company background

Tree House Education & Accessories Ltd is one of the leading providers of educational services in India. The company operates the largest number of self-operated pre-schools in India. They have schools under the brand name of 'Tree House' across 57 cities in India. It is known for qualified and experienced teachers, standardized curriculum and quality education. Tree House has 444 pre-school centres as on 31st December, 2013. The Company is also present in the K-12 school segment, especially at locations having a strong pre-school presence. There are total 24 operational K-12 schools where Tree House offers school management services.

The Company's strong pillars are its teaching methods, teacher-student ratio, in-house teacher training, supervisors and quality control team to monitor services, and competent designed curriculum. Tree House offers a wide range of courses for different age group of children from play group, nursery, junior KG, senior KG, mother toddler, activity classes, teacher training and summer camps.

Exhibit 19: Business model

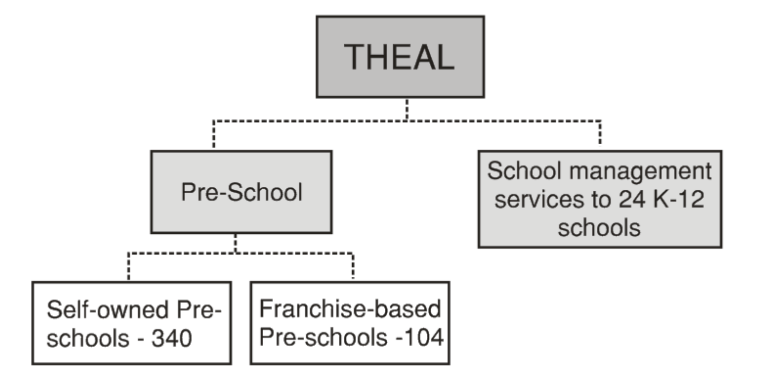
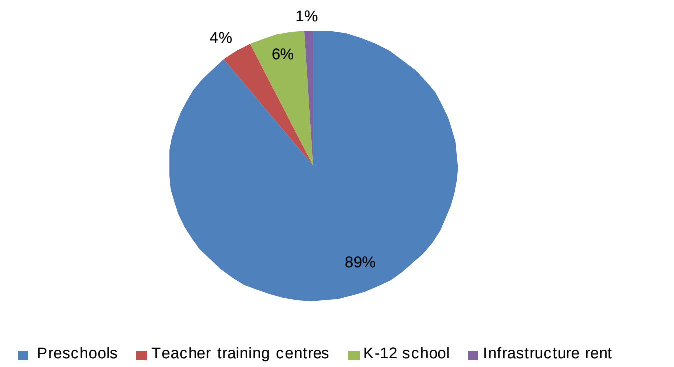


Exhibit 20: Segment-wise revenue break-up (FY2013)



Source: Company, RSec Research

Exhibit 21: Business segment of THEAL

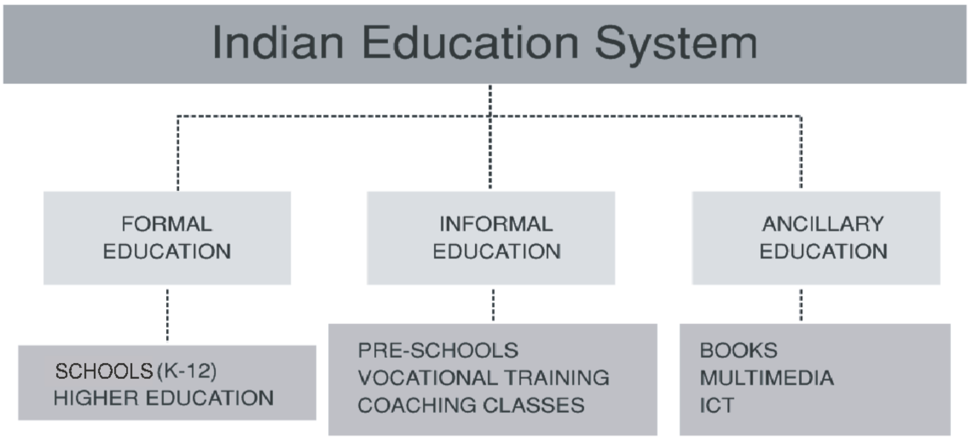
Name of the course	Age group
Playgroup Playgroup is the first step in pre-school and we are committed to make this very first transition away from home easy and natural for the children.	1 year to 2 years
Nursery Nursery is a smooth transition to formal school and it prepares the children for a lifetime of learning in a nurturing environment.	2 years to 3 years
Junior KG Junior KG prepares children as they get older, and helps them explore and communicate in class settings.	3 years to 4 years
Senior KG Senior KG prepares children for formal education. It helps them develop interpersonal skills, making them increasingly independent. It also helps them be ready to face new challenges and experience a new life ahead.	4 years to 5 years
Hobby/Activity Class We offer hobby/activity classes at select centres.	3 years to 8 years
Teacher Training Course	18 Year Onwards
Day Care Services	3 years onwards

Source: Company, RSec Research

Indian Education Sector

Indian education sector is the third largest in the world. It has an extensive network of more than 1.3 million schools and 30,000 higher education institutes. The sector comprises of two groups i.e., core group and non-core group. The core group comprises schools and higher education whereas non-core counterpart comprises pre-schools, vocational training and coaching classes. The Indian education sector grew by 15% yoy in 2013. The market is currently worth US$85bn and it is expected to reach US$110bn by 2015. According to the FY2013-14 budget, the Government has allocated Rs65,867cr towards the sector, which is 17% more than the previous year.

Exhibit 22: Structure of the Indian education system



Source: Company, RSec Research

Formal education – This includes K-12 and higher education and is provided in school or institution, which helps in getting a degree or diploma certificate.

Informal education – In this segment, learning takes place parallel to the learning in school. It can be provided by enrolling children in private institutions where they can learn extracurricular activities like dance, drama, music, sports and others.

Ancillary education –At present, it is valued at US$15bn and is expected to reach US$40bn by 2020 at a CAGR of 15%. There are various products and services whose objectives are to improve the learning experience and provide advanced academic outcomes.

Outlook and Valuation

In view of the company's pan-India expansion plan, formidable brand equity and huge untapped market, we anticipate the company to achieve growth along expected levels. On the margins front, the company is likely to witness marginal pressure due to intense competition, higher employee cost and other expenditure. However, THEAL is increasing its focus on K-12 school management services (contributes ~6% revenue currently), which will support revenue growth and improved margins going forward.

Considering the past track record of the company, its expansion plans and the opportunity at hand, we estimate THEAL to report Net Sales CAGR of ~32% over FY2013-16E to ~Rs260cr and Net Profit CAGR of ~30% during the same period. **At the CMP of Rs222, the stock trades at 14.0x and 11.3x its FY2015E and FY2016E EPS of Rs15.9 and Rs19.7 respectively. We initiate coverage on THEAL and based on 14x FY2016E EPS, we arrive at a Target Price of Rs276, indicating an upside of ~24% from the current levels. Thus, we recommend a Buy on THEAL.**

Exhibit 23: Peer comparison

Peer comparison	CMP	Mkt Cap (Rs cr)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoE (%)		
			FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E
THEAL	222	822	12.3	15.9	19.7	18.1	14.0	11.3	9.8	7.7	6.2	11.8	13.4	14.5
MT Educare	83	328	6.2	8.1	10.1	13.3	10.2	8.2	8.7	6.2	4.7	22.8	24.2	26.1
Career Point	74	134	18.3	21.3	23.9	4.0	3.5	3.1	1.3	0.8	0.5	8.8	9.5	10.7

*Source: Bloomberg; RSec Research; Note: *CMP as on March 13, 2014*

Risks and concerns

- **Geographical concentration:** All the pre-schools are located in western region, mainly in Mumbai metropolitan (more than 80%). This is a geographical concentration risk for the company.
- **Threat from competitors:** In this model, lack of any significant entry barrier exposes the company to the risk of facing intense competition from other domestic players like Kidzee, Euro Kids, etc.
- **Regulations pertaining to business:** Operating pre-schools and providing educational services to K-12 schools are currently unregulated, but the government may introduce a regulatory framework in future that may have an adverse impact on the business.
- **Thriving unorganised segment:** A growing presence of unorganised segment might grab a share of the industry revenue pie.

Profit & Loss Statement

Y/E March (Rs cr)	FY2013	FY2014E	FY2015E	FY2016E
Net Sales	**114**	**160**	**208**	**260**
% chg	*47.9*	*40.2*	*30.2*	*24.8*
Total Expenditure	**52**	**72**	**96**	**122**
Personnel Expenses	13	17	24	31
Other Expenses	39	55	73	92
EBITDA	**62**	**88**	**112**	**138**
% chg	*47.0*	*43.2*	*26.9*	*22.9*
(% of Net Sales)	*54.1*	*55.2*	*53.8*	*53.0*
Depr. & Amortisation	13	15	18	22
EBIT	**48**	**73**	**94**	**116**
% chg	*41.4*	*50.8*	*28.6*	*23.5*
(% of Net Sales)	42.3	45.5	45.0	44.5
Interest	7	7	8	8
Other Income	7	3	3	3
PBT (recurring)	**49**	**68**	**89**	**110**
Tax	16	23	30	37
PAT ((reported)	**33**	**45**	**59**	**73**
% chg	*53.6*	*36.8*	*29.7*	*23.8*
(% of Net Sales)	*29.1*	*28.4*	*28.3*	*28.1*
Fully Diluted EPS (Rs)	**9.0**	**12.3**	**15.9**	**19.7**
% chg	*53.6*	*36.8*	*29.7*	*23.8*

Balance Sheet

Y/E March (Rs cr)	FY2013	FY2014E	FY2015E	FY2016E
SOURCES OF FUNDS				
Equity Share Capital	36	37	37	37
Reserves& Surplus	307	348	402	468
Shareholders Funds	**343**	**385**	**439**	**505**
Total Loans	67	70	75	80
Deferred Tax Liability	4	4	4	4
Total Liabilities	**414**	**460**	**518**	**590**
APPLICATION OF FUNDS				
Gross Block	185	225	260	290
Less: Acc. Depreciation	25	40	59	81
Net Block	**160**	**185**	**201**	**209**
Capital Work-in-Progress	35	37	40	42
Goodwill	0	0	0	0
Investments	10	10	10	10
Current Assets	240	281	363	455
Inventories	5	5	5	5
Cash	49	29	38	48
Sundry Debtors	7	9	10	11
Loans & Advances	177	234	304	382
Other current assets	3	4	6	8
Current liabilities	30	53	96	126
Net Current Assets	**210**	**228**	**267**	**329**
Deferred Tax Assets	0	0	0	0
Mis. Exp. not written off	-	-	-	-
Total Assets	**414**	**460**	**518**	**590**

Cash Flow Statement

Y/E March (Rs cr)	FY2013	FY2014E	FY2015E	FY2016E
Profit before tax	49	68	89	110
Depreciation	13	15	18	22
Change in Working Capital	(58)	(38)	(30)	(52)
Interest / Dividend (Net)	-	7	8	8
Direct taxes paid	(18)	(23)	(30)	(37)
Others	(0)	-	-	-
Cash Flow from Operations	**(14)**	**30**	**55**	**51**
(Inc.)/ Dec. in Fixed Assets	(79)	(40)	(35)	(30)
(Inc.)/ Dec. in Investments	29	(2)	(3)	(2)
Cash Flow from Investing	**(49)**	**(42)**	**(38)**	**(32)**
Issue of Equity	50	1	-	-
Inc./(Dec.) in loans	(2)	3	5	5
Dividend Paid (Incl. Tax)	(3)	(5)	(6)	(6)
Interest / Dividend (Net)	19	(7)	(8)	(8)
Cash Flow from Financing	**64**	**(7)**	**(8)**	**(10)**
Inc./(Dec.) in Cash	1	(19)	9	10
Opening Cash balances	**48**	**49**	**29**	**38**
Closing Cash balances	**49**	**29**	**38**	**48**

Key Ratios

Y/E March	FY2013	FY2014E	FY2015E	FY2016E
Valuation Ratio (x)				
P/E	24.8	18.1	14.0	11.3
P/CEPS	17.7	13.5	10.6	8.7
P/BV	2.4	2.1	1.9	1.6
Dividend yield (%)	0.5	0.6	0.7	0.8
EV/Sales	7.4	5.4	4.1	3.3
EV/EBITDA	13.6	9.8	7.7	6.2
EV / Total Assets	1.9	1.7	1.4	1.2
Per Share Data (Rs)				
EPS (Basic)	9.0	12.3	15.9	19.7
EPS (fully diluted)	9.0	12.3	15.9	19.7
Cash EPS	12.6	16.4	20.9	25.6
DPS	1.0	1.3	1.5	1.8
Book Value	92.5	103.8	118.2	136.1
Returns Ratios (%)				
RoCE	11.8	16.0	18.2	19.8
RoE	9.7	11.8	13.4	14.5
Turnover Ratios (x)				
Asset Turnover (Gross block)	0.7	0.8	0.9	1.1
Inventory (days)	15	10	8	6
Receivables (days)	22	20	17	16
Payables (days)	12	12	14	16
WCC (days)	25	18	11	6

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