

MT Educare Ltd. : "SUBSCRIBE"

27th March, 2012

MT Educare is a diversified player in the education system providing coaching class services to secondary, higher secondary, commerce and competitive exams. Mr Mahesh R. Shetty had started his own coaching classes in 1988 under the brand name Mahesh tutorials. In 2006, he decided to transform this into a corporate entity and named it "MT Educare Ltd". Over the last 24 years, the Company along with its geographic expansion has also broadened its product portfolio through various acquisitions. Today, MT Educare is one of the largest coaching service providers in Mumbai; as of January 31, 2012 it has 188 centers in 110 locations across Maharashtra, Karnataka, Gujarat and Tamilnadu. The Company has 757 faculty members across all its Coaching Centers and it coached 58,300 students during FY11.

At the upper band of the issue price, MT Educare is valued at 14.4x - 6MFY12 Annualized EPS/share of Rs. 5.56/- at upper end of the price band. With due consideration to factors like a) well recognized brand and expertise in the business of education support and coaching, b) organized and diversified player in the education support and coaching services sector, c) large pool of faculty members, d) corporatized structure and experienced management team, we believe the stock is attractive as compared to its peers in the "Education" space. Its immediate peer Career Point is available at a discount. However, we believe the premium is justified as MT Educare is a diversified player in terms of offering various courses under one umbrella, recognized brand and it enjoying higher Fixed Assets Turnover. We recommend investors to "SUBSCRIBE" the issue for listing gains. In addition, Investors with a long term view may also "SUBSCRIBE" the issue.

Issue date	Mar 27 – 29, 2012
Issue size	Rs. 990 mn at upper end of the price band
FV	Rs.10
Price Band	Rs. 70-80 per share
Bid size	80 shares
Issue structure	QIB: 50% Non – Institutional: 15% Retail: 35%
Type of issue	Offer for sale: 8 mn shares Fresh Issue: Rs. 350 mn
Equity shares post issue	35.17 mn
Post issue market capitalization	Rs. 2,813 mn at upper price band
Book Running Lead Managers	Enam Securities Pvt. Ltd.
IPO Grading	Grade 4/5 by CRISIL indicating above average fundamentals
Registrar to the issue	Link Intime India Pvt. Ltd.

#### Financial summary (Consolidated)

Y/e 31 Mar (Rs. cr)	Sep 11	FY11	FY10*	FY09*
Total income	71.7	105.0	83.2	72.7
EBITDA	15.9	18.7	12.9	8.35
EBITDA Margin (%)	22.2	17.8	15.5	11.5
PBT	14.0	12.8	7.38	3.16
Reported PAT	9.62	8.11	5.2	2.6
PAT margin (%)	13.4	7.7	6.3	3.6
Equity Capital	35.17	34.35	1.04	0.17
Reserves	21.45	13.26	40.10	35.66
Networth	56.62	47.61	41.14	35.83
RoNW (%)	16.9	17.0	12.6	7.3

Source: RHP, Ajcon Research, Note: FY10 and FY09 are Standalone numbers

Shareholding Pattern (%)	Post Issue
Promoters	43
Helix Investment and Co.	5.3
Public & Others	51.7
Total	100

#### ABOUT THE COMPANY

MT Educare, promoted by Mr. Mahesh Shetty, provides educational coaching services for classes 9 and 10 (State Board, CBSE, and ICSE), classes 11 and 12, Graduation (Commerce), preparatory/ entrance tests (Engineering, Medical and MBA) and professional courses such as Chartered Accountancy. The Company has evolved from a local coaching player operating from few centers under the partnership structure to a corporate; the partners were

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inducted into the company with key responsibilities and also given ESOPs. Along with geographic expansion, the company has also broadened its product portfolio through various acquisitions. Today MT Educare is one of the largest coaching service providers in Mumbai; as of January 31, 2012 it has 188 centers in 110 locations across Maharashtra, Karnataka, Gujarat and Tamilnadu. As of January 31, 2012, the Company has 757 faculty members across all our Coaching Centers. It has coached 58,300 students during FY11. The Company runs the coaching classes under the brand name "**Mahesh Tutorials**" which is owned by the Company.

It provides results focused education support and coaching services. The main sections of students to whom the Company offers its services are as follows:

- (i) **School Section:** The School Section consists of IXth and Xth standard students for (i) state board examinations conducted by the state education boards of Maharashtra, Gujarat and Karnataka; (ii) board examinations conducted by the CBSE; and (iii) board examinations conducted by ICSE;
- (ii) **Science Section:** The Science Section consists of XIth and XIIth standard students in science and for engineering and medical CETs conducted by the Maharashtra and Karnataka State Governments; and
- (iii) **Commerce Section:** The Commerce Section consists of (i) XIth and XIIth standard students in commerce and CPT conducted by ICAI; (ii) undergraduate students pursuing their bachelor's degree in commerce; and (iii) CA IPCC and CA Final examinations conducted by ICAI.

In 2007, the company managed to get a PE investor named Helix Investments which invested around Rs. 32 crores with a stake of ~29%. However, having stayed invested with MT Educare for about 4.5 years, it now wants to dilute its stake and offer 80,00,000 shares for sale in this IPO. Post dilution, Helix will hold 5.3 % stake in MT Educare.

## OBJECTS OF THE ISSUE

The issue consists of fresh issue by MT Educare and Offer for sale by the selling shareholder (Helix Investments). The net proceeds from the fresh issue (Rs 35 crs) would be utilised for (a) Part financing the cost of construction of a pre-university college campus (PUC) in Mangalore, Karnataka (b) Establishing new coaching centres at new locations (c) General corporate purpose.

## KEY POSITIVES

### ***Well recognised brand and experience in the business of education support and coaching***

The Company has established itself as an education support and coaching services provider and has been able to achieve a competitive position in Maharashtra. It operates in the states of Maharashtra, Tamil Nadu, Karnataka and Gujarat, through its Coaching centres at various locations. Its wholly owned subsidiary, MTESPL, has entered into a joint venture agreement with HT Education Limited to set up HTLCL to provide classroom based (non digital) coaching services under the brand "*Study Mate – Powered by MT Educare*" in northern and eastern states of India. HTLCL has recently started providing coaching services at six locations in New Delhi and Gurgaon for secondary and higher secondary students appearing for examinations under the CBSE curriculum.

Its Promoter, Mahesh R. Shetty, who is also the Chairman and Managing Director has been associated with providing coaching services under the brand "*Mahesh Tutorials*" since 1988 and has over 27 years of experience in this sector. The Company has been able to deepen its brand recognition and improve its brand recall through continuous marketing and advertising campaigns undertaken by it. The management believes that its brand recognition has been instrumental in increasing the number of Students Served, which has grown from 44,317 students in Fiscal 2009 to 58,471 in Fiscal 2011. Additionally, the Company had 1,472 Student Served through 28 Coaching Centres in eight locations operated through the franchisee arrangements in Fiscal 2011. It has also benefited from a proven track record of high student performances over the years. For the academic year 2010, it

had 2,686 students who secured 90% and above in the Xth standard examination conducted by Maharashtra State Board of Secondary and Higher Secondary Education out of 13,394 of its Students Serviced to appear for these examinations. 15 of its students secured ranks in the top 50 successful candidates in the CA IPCC and nine of its students secured ranks in the top 50 successful candidates in the CA Final examinations held in May 2010. It has been able to attain the confidence of the parents and students in receiving services from the Company, which is evident from the number of Students Serviced.

### ***Organised and diversified player in the education support and coaching services sector***

The Company is one of the leading coaching services providers in Maharashtra, with primary operations in Mumbai with 138 Coaching Centres in 85 locations as on May 15, 2011. The Company believes that its knowledge of the Mumbai market and the Maharashtra education system, including the various examinations and syllabi, assists them in developing appropriate teaching methodologies to address the changing student requirements. It also believes that Mumbai's position as the commercial capital of India, new and increasing employment avenues, together with the demographics of the Mumbai population, with a high-income and an expanding segment of young population, provide a substantial market for its services and for further expansion. It believes that its concentration and network of Coaching Centres across Mumbai acts as a barrier for new players to compete with it. It provides coaching for competitive examination for admissions to universities offering masters in business administration degrees through its subsidiary, CPLPL, which operates in four locations. Additionally, it has recently started operations at six locations in New Delhi and Gurgaon under the brand "*Study Mate – Powered by MT Educare*" through HT Learning Centres Limited, which is a joint venture of wholly owned subsidiary, MTESPL with HT Education Limited. The Company, through its Dubai branch, MT Management Solution, also provides management consultancy services to a coaching center in Dubai which includes providing coaching and administrative support services for secondary and higher secondary school curriculum of various education boards. Further, it provides coaching services across academic levels, starting from School Section which consists of IXth and Xth standard, Science Section and Commerce Sections for XIth and XIIth standard including competitive examinations such as CET conducted by state governments and CPT conducted by ICAI. It also coaches undergraduate students pursuing their Bachelor's degree in commerce and students preparing for various chartered accountancy examinations. The diversified nature of its business with its presence in various states and varied range of Courses has enabled the Company to be involved across the academic life of its students. This has also helped the Company to be more competitive as compared to the unorganized players, who are usually area specific and localised, with their services are restricted to a few specific subjects.

### ***Large pool of faculty members***

With 701 faculty members as on May 15, 2011, the Company has access to a large number of qualified and experienced faculty members, who contribute significantly to its success and growth. The Company's faculty members are typically graduates in science, commerce and arts subjects. Of these, 266 faculty members are postgraduates or professionals such as chartered accountants and company secretary or who have obtained educational degrees such as such as bachelor of education and have an average teaching experience of over six years. The Company conducts continuous training programmes including refresher guidance programmes for its faculty members throughout the year on teaching subjects as well as personality development, attitude development and soft skills such as presentation and communication skills, leadership skills and time management. These training sessions also involve training on teaching methodologies, teaching skills and communication skills in order to equip its faculty members to adapt and reciprocate to students' changing needs in the competitive environment and changing examination trends, academic syllabus and increasing career options. The faculty training sessions help it in attaining and maintaining quality across its faculty team thereby enabling it to maintain a large pool of faculty members which in turn gives it an advantage over other tutorial service providers who rely on one or a few renowned teachers. Further, the Company operates through a faculty empowerment model, wherein the Company's faculty members are provided a role in the business and rewarded for their contribution in the growth. In addition to academic growth for the faculty members through training sessions, it also entrusts its faculty

members with the opportunity to grow within the organization by taking up administrative and business development roles, such as centre coordinators, centre heads and zonal heads, on the basis of their experience and association with the Company. Some of its faculty members also participate in the “steering committees” which focus on operations and admissions of the students in its Courses and liaise between the management and the centre heads or centre co-ordinators. The Company believes that the broadening of the scope of work provides greater job satisfaction and increased remuneration thereby aiding it in retaining its faculty members. Further, an independent trust, the MT Associate Trust, settled by its Promoter, has been set up, to which the Company has issued 6,80,966 Equity Shares for the exclusive purpose of transfer of these Equity Shares to its faculty members on the recommendations of the Company. The Company believes that this initiative will increase the sense of ownership of the faculty members towards the Company. Further, the large pool of 701 faculty members enables it to allocate multiple faculty members for each subject, thereby preventing dependence on any one or a few faculty members and ensure minimal disruptions in its operations for a particular subject due to absence of faculty members for illness or other reasons. The large pool of faculty members has enabled it to plan for contingencies and deliver quality at all times.

### PEER COMPARISON

MT Educare has a diversified portfolio in the coaching education segment as compared to its closest peer Career Point which concentrates on IIT coaching. There is a huge disparity in the EBIDTA margins of both the companies. While Career Point operates at a EBIDTA margin of 35% (FY11), MT Educare’s margin’s waver ~18%. For MT Educare, the capacity utilization of its fixed assets is ~45% which gives immense potential for the margins to improve. MT Educare operates on the asset light business model where it does not require high capex or working capital to cater to its expansion plans. The company has already made its expansion of centres from 80 in FY08 to 188 in Jan’12. Going forward, the expansion in near future will be limited.

Particulars (H1FY12) Rs. in cr.	MT Educare	Career Point
Revenues	71.7	36.6
EBITDA	15.9	10.4
EBITDA (%)	22	28
PAT	9.6	11.5
EV/EBITDA	9.4	16.5
Fixed Assets Turnover	4.7	1.3

Source: Ajcon Research

### RISK AND CONCERNS

The coaching classes industry is highly competitive and has a very low entry barrier

Any drastic change in the government regulation with respect to examinations would prove to be a setback. For eg. The Ministry of Human resource and CBSE board have made CBSE exams optional for 10th standard students from 2010-11. Moreover, 48.5% of revenues for MT Educare come from the school segment.

Risk of geographic concentration as 142 out of 188 coaching centres are located in Mumbai

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