

*Incorporated in 2003 as a proprietorship firm – M/S Tree House, today the company operates the largest number of self-operated pre-schools in India. (Source: CRISIL Report - December 2010). As of June 15, 2011, it has 223 pre-schools under the brand name of "Tree House" across 33 cities (as per municipal limits) in India. As of June 15, 2011, of its 223 pre-schools, 149 are operated by the Company, or self-operated, and the rest are operated through its franchisees. As of March 31, 2011, the self-operated pre-schools served more than 5,000 students, which do not include the students at its franchisee operated pre-schools, primarily in the age group of 1.5 to 6 years. In recent years, it has branched into providing educational services to K-12 schools and as of March 31, 2011, it provides such services to 12 schools which has over 5,000 students, in four cities in India.*

*With due consideration to the factors like a) competition from existing players in the listed space, b) pre school industry having low entry barriers, c) major part of IPO proceeds to be spent on K-12 business where there are already established players with dominant market share, d) premium valuations in terms of its scale of business and e) poor secondary market conditions, we believe that the stock would be available at a discount on listing. We recommend investors to "AVOID" the issue.*

#### Financial summary

Y/e 31 Mar (Rs. mn)	FY09	FY10	FY11
Net Sales	102.7	213.8	392.4
Operating profit	20.7	70.2	169.1
OPM (%)	20	33	43
Profit after tax	5.1	25.9	91.9
PAT Margin (%)	5	12.1	23.4
EPS	0.15	0.77	2.73
RoE(%)	1.1	3.7	7.5
Networth	440.13	697.7	1,226.45
Equity Capital	150.41	174.17	240.19
Face value (Rs.)	10	10	10
Book value per share (Rs.)	29	40	51

Source: RHP, Ajcon Research, EPS calculated on post issue equity

#### Peer Analysis

Company	CMP/Issue Price (Rs.)	EPS	P/E(x)	Book Value(Rs.)*	P/BV(x)	RoE(%)
<b>Tree House Education and Accessories Ltd.</b>	<b>135-153</b>	<b>2.73</b>	<b>48- 55</b>	<b>74.64**</b>	<b>2.05</b>	<b>7.50</b>
Educomp	275	40.96	7	170.14	6.7	23.9
Everonn	525	44.71	12	280.21	1.9	13.7
Zee Learn	19.6	0.19	103	5.3	3.7	2.8
Aptech	124.3	1.63	76	53.87	2.3	3
Career Point	286.05	16.82	17	150.65	1.9	10
Core Projects	295	11.98	25	88.94	3.3	12.7

Issue date	10 <sup>th</sup> August, 2011- 12 <sup>th</sup> August, 2011	
Issue size	Rs. 1,289.8 mn at upper end of the price band	
FV	Rs.10	
Price Band	Rs. 135 -153 per share	
Discount	Rs. 6 for retail investors	
Fresh issue	8.43 mn equity shares	
Issue structure	50% - QIBs 35% - Retail 15% - Non Institutional Bidders	
Lot size	40 shares	
Equity shares prior to issue (mn)	25.28	
Equity shares post issue (mn)	33.71	
Post issue market capitalization	Rs. 5,517.6 mn at upper price band	
IPO Grading	CRISIL grade of 3 indicating average fundamentals	
Book Running Lead Managers	JM Financial, Motilal Oswal	
Registrar to the issue	Link Intime	
Shareholding (%)	Pre Issue	Post Issue
Promoters	39.47	29.60
Others	56.75	58.82
Public	3.78	11.58
Total	100	100

Source: Ajcon Research, \*FY11 Book value, \*\* post issue book value, CMP as on 9<sup>th</sup> August, 2011

## OBJECTS OF THE ISSUE

Particulars	Amount (Rs. in mn)
Expansion of Pre school business	412.9
Office space acquisition	110.4
Procurement of exclusivity rights to provide educational services	156.0
Education complexes in Rajasthan and Gujarat	400.5
Loan repayment	285.9
General Corporate purposes	-

Source: RHP

## KEY MILESTONES

Year	Particulars
2003	Setup its first preschool in Mumbai
2006	Additional six more pre schools
2007	Acquired proprietorship firm M/s Tree House
2008	Launched preschool teacher training programme
2009	Roped Matrix Partners India Investment Holdings, LLC as an investor with investment of Rs. 350 mn Ventured in K-12 schools segment by providing educational services Started day care centres under the name ' Muskaan'
2010	Private Equity investment worth Rs. 150 mn made by Matrix Partners Investment Holding, LLC
2011	Further investment made by FC VI Venture (Mauritius) Ltd worth Rs. 310 mn and Rs. 90 mn from Matrix Partners Investment Holding, LLC.

Source: RHP

## BUSINESS MODEL

In its pre-schools business, it offers standardized services and innovative teaching methodologies. Under its umbrella, the company offers playschool and nursery facilities, vacation camps, mother-toddler classes, hobby classes, day care facilities and teacher training course at our pre-schools. Of all the courses and facilities offered by the company at its pre-schools, a few including mother toddler classes and teacher training course are only available at select pre-schools. As of March 31, 2011, it has a team of more than 370 teachers at its self operated pre-schools.

It provides continuous training to all its preschool teachers on teaching methodologies and early child care, to keep abreast with the changes in teaching methods and student needs. The pre-schools are largely concentrated in the states of Maharashtra, Gujarat, Karnataka, Rajasthan and Andhra Pradesh.

For its franchisee operated pre-schools, it receives a onetime upfront consultancy fee and a service fee monthly, quarterly or annually from the franchisees for the use of its brand and teaching methodologies.

In FY11, out its total revenue, 94.08% revenue came from self-operated pre-schools whereas from the franchisee-operated pre-schools it was at 5.92%.

Tree House also provides a wide variety of educational services to K-12 schools which include, designing curriculum and providing teaching aids, supplying methods for imparting education, organizing extra-curricular activities for students and teacher training. The company generates revenue by way of service or consultancy fees which is usually based on, (i) per child admitted to the school, for services forming part of service agreement; and (ii) lumpsum basis for services beyond the scope of service agreement. It intends to provide educational services to

additional seven K-12 schools, based in Jaipur, Jhunjhunu, Vadodara, Pune and such other cities that will be identified by the K-12 school operators, by FY13. For such purpose, it has entered into supplemental agreements with certain K-12 school operators to provide educational services to four K-12 schools. In FY11, its revenue from providing educational services to K-12 schools was Rs. 104.74 million.

For its project schools, it has entered into supplemental agreements with certain K-12 school operators for grant of exclusivity rights as below:

(Rs. in mn)

Name of the trust	Location of project school	Date of the supplemental agreement	Amount deployed as on February 17, 2011	Amount to be financed from Net Proceeds	Amount deployed from the date of filing of the DRHP to June 30, 2011	Amount to be utilized from July 1, 2011 to March 31, 2012
Bhartiya Vidhya Mandir Samiti	Jhunjhunu	September, 29, 2010	5.98	94.02	2.5	91.52
Vidya Bharti Sansthan	Jaipur	June 10, 2010	108	12	-	12
Mira Education Trust	Vadodara	January 1, 2011	-	50	-	50
		<b>Total</b>	<b>113.98</b>	<b>156.02</b>	<b>2.5</b>	<b>153.5</b>

## KEY POSITIVES

### Focus on self-operated pre-schools

Its business model is focussed on operations primarily through self-operated pre-schools. As of June 15, 2011, it has 223 pre-schools under the brand name of "Tree House", of which 149 are self-operated which represents 66.82% of its pre-schools. The company principally opens self-operated pre-schools in metro cities within India. According to CRISIL research, company-owned model of pre-schools have certain key advantages over the franchisee model. The company-owned model helps a company to maintain quality, hygiene and safety control. (Source: CRISIL Report - December 2010) Further, a higher percentage of self-operated pre-schools help us in introducing newer teaching aids and planning the infrastructure of its pre-schools.

### Brand awareness and geographical presence

The company has been successful in establishing "Tree House" as a brand. Its first pre-school was set up in 2003 which served 51 students and as of June 15, 2011, it has grown to 223 pre-schools, out of which 149 self-operated pre-schools. As of March 31, 2011, 110 self-operated pre-schools served more than 5,000 students.

### Scalable business model

The company's business model is scalable as it has expanded its presence from one city in 2003 to 33 cities (as per municipal limits) in 2011. The number of students in the self-operated pre-schools increased from 51 in 2003 to 5,355 students as of March 31, 2011. In a similar manner, the number of teachers at its self-operated pre-schools increased to 378 as of March 31, 2011 from four in 2003. Towards this end, the company follows a standard design and architecture across its pre-schools. Further, it follows a central procurement process for furniture, toys and teaching aids. Its model of centrally procuring all the material for its pre-schools assists in economizing the costs. The uniformity adopted by the company in running its pre-schools aids in making its business scalable.

## KEY NEGATIVES

The company faces challenges in relation to operating majority of its self-operated pre-schools from rented properties. Further, it is dependent on four school operators for its business of providing educational services.

It faces competition from organized players who may have greater brand recall, larger financial and other resources than it has, and from unorganized players in the market at almost every location of its pre-school.

For research related queries contact Mr. Akash Jain at [ajconresearch@ajcon.net](mailto:ajconresearch@ajcon.net)

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