

## CL Educate Limited

### Preparing for the big Test

CL Educate Ltd (CLEL) is a diversified and integrated technology-enabled provider of education products, services and content with presence across the education value chain. It focuses on learners of multiple age groups and caters to the various segments of the education industry like test preparation & training services, publishing & content development, marketing & sales services for corporates, vocational training, integrated solutions to educational institutions & universities and K-12 education. As on September 30, 2016, the company had 151 test-prep centers spread over 87 cities in India, 8 K-12 schools spread across 6 cities & 28 vocational training centers and offices.

**Positives:** (1) CLEL has Pan-India presence for its integrated education products, services and content; (2) Well-recognized brand Career Launcher with reputed courses focuses on aptitude-based test preparation; (3) Asset-light, technology-enabled business model; (4) Professionally qualified, experienced and entrepreneurial management team.

**Investment concerns:** (1) CLEL's overall financial performance has not been very impressive over the last 4-5 years. Profits have been low and fluctuating, which does not give a significant quality to business; (2) More than 45% of the company's revenue comes from institutional businesses like corporate training, vocational training under Government schemes and advisory & research incubation services to educational institutions/ universities, which has resulted into stretched working capital cycle (increased from 89 days in FY2013 to 130 days in FY2016); (3) K12 vertical under Indus World Schools has nearly 60% of company's capital deployed, which has resulted in lower profitability and return ratios.

**Outlook and Valuation:** In terms of valuations, the pre-issue P/E works out to 23.2x its annualised 1HFY2017 earnings (at the upper end of the issue price band), which is higher compared to its peers, (MT Educare is trading at 8.9x its annualised 1HFY2017 earnings). Also, CLEL's EV/sales multiple at 2.1x, works out to be at premium to MT Educare's 1.2x. On EV/EBITDA front too, CLEL's issue appears to be unattractive 15.1x v/s. MT Educare's 5.4x. Moreover, as compared to its peers the margins and ROE profile of CLEL does not appear to be attractive. The company's business is working capital intensive which coupled with expensive valuations may not provide a significant upside to the investor. **Hence, we recommend neutral rating on the issue.**

#### Key Financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016	1HFY17
<b>Net Sales</b>	<b>219</b>	<b>274</b>	<b>283</b>	<b>153</b>
% chg	9.9	25.1	3.3	-
<b>Net Profit</b>	<b>16</b>	<b>21</b>	<b>22</b>	<b>13</b>
% chg	9.0	31.0	2.2	-
OPM (%)	11.5	13.5	12.7	13.9
<b>EPS (₹)</b>	<b>13.5</b>	<b>17.7</b>	<b>18.1</b>	<b>10.8</b>
P/E (x)	37.2	28.4	27.8	-
P/BV (x)	4.0	2.9	2.5	-
RoE (%)	10.7	10.1	8.9	-
RoCE (%)	9.4	11.0	8.8	-
EV/Sales (x)	3.0	2.3	2.3	-
EV/EBITDA (x)	25.8	17.3	18.0	-

Source: Company, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

## NEUTRAL

Issue Open: March 20, 2017

Issue Close: March 22, 2017

#### Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹12.0cr

Offer for Sale: 0.3cr Shares

Fresh issue: \*\*₹109cr

Post Eq. Paid up Capital: ₹14.2cr

Issue size (amount): \*₹238cr - \*\*239cr

Price Band: ₹500-502

Lot Size: 29 shares and in multiple thereafter

Post-issue implied mkt. cap: \*₹708cr - \*\*₹711cr

Promoters holding Pre-Issue: 64.7%

Promoters holding Post-Issue: 47.9%

\*Calculated on lower price band

\*\* Calculated on upper price band

#### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

#### Post Issue Shareholding Pattern

Promoters	47.9%
Others	52.1%

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## Company background

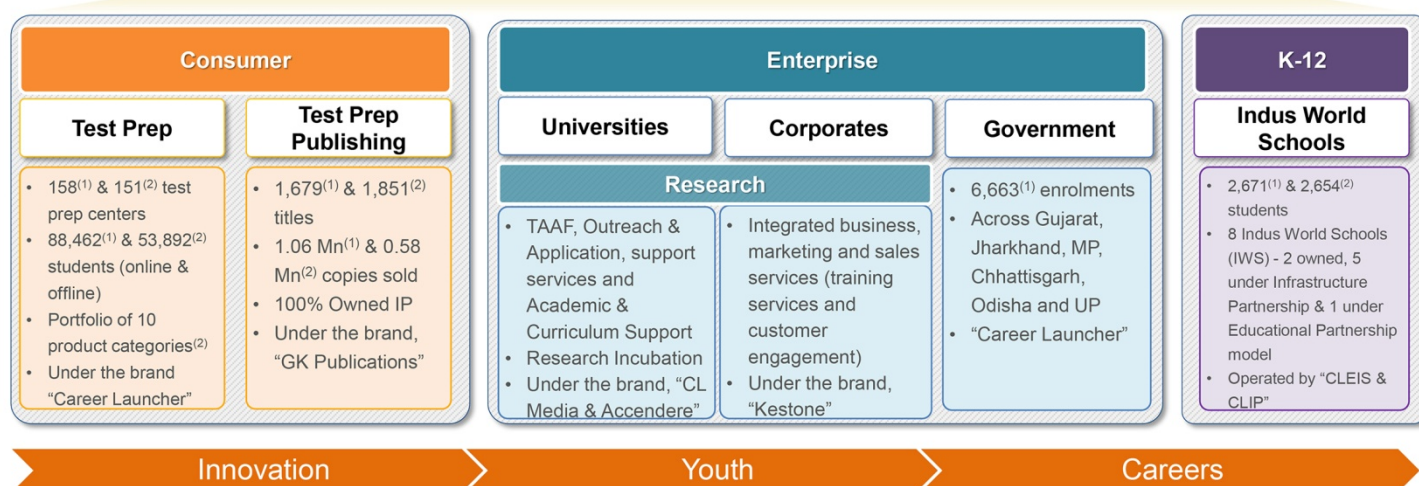
Incorporated in 1996, CL Educate Ltd is engaged in providing various educational products and services. They operate through two segments i.e. Education & Training Programme (including sales of Study Material) and Vocational Training.

The Company's Education & Training Program (including sales of Study Material) segment includes coaching for higher education entrances. The Company's Vocational training segment includes specific projects undertaken by the company (including government projects).

CL Educate offers test preparation courses and services under the Career Launcher brand, publishing and content development services under the brand GK Publications and event management, marketing support, customer engagement, and managed manpower and training services under the Keystone brand name.

They also provide integrated solutions to educational institutions and universities, including business advisory and outreach support services under the CL Media brand, as well as research incubation and support services under the brand Accendere. In addition, the company operates K-12 schools under the Indus World School brand name. As on September 30, 2016, they had 151 test-prep centers spread over 87 cities in India, 8 K-12 schools spread across 6 cities & 28 vocational training centers and offices.

### Exhibit 1: Diversified & Integrated Player with Strong Brand Equity and Presence Across the Education Value Chain



Source: Company, Angel Research

## Issue details

The company is raising ~₹109cr through a fresh issue of equity shares in the price band of ₹500-502. The fresh issue will constitute ~15% of the post-issue paid-up equity share capital of the company, assuming the issue is subscribed at the upper end of the price band. The company is offering 0.5cr shares that are being sold by the promoter group and other shareholders.

### Exhibit 2: Pre and Post-IPO shareholding pattern

	No. of shares (Pre-issue)	(%)	No. of shares (Post-issue)	(%)
Promoters	77,55,376	65%	67,81,376	48%
Others	42,27,783	35%	73,81,902	52%
	1,19,83,159	100%	1,41,63,278	100%

Source: RHP, Angel Research; Note: Calculated on upper price band

## Objects of the offer

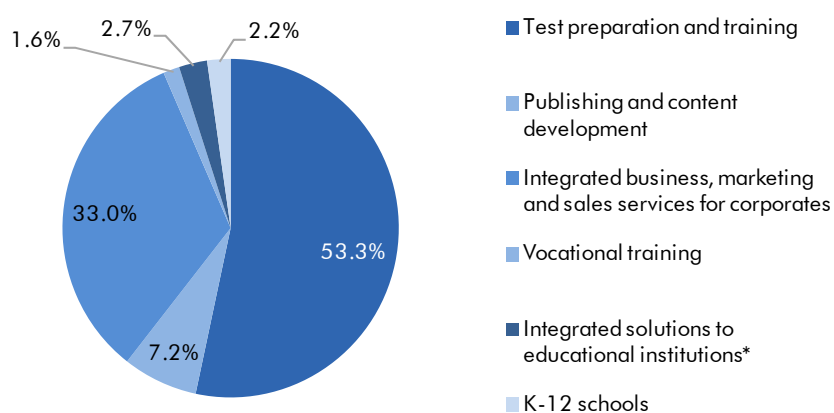
- Company will deploy fund of ~₹53cr towards Working Capital requirement
- Pre-payment of outstanding debt of ~₹19cr
- Company to allocate ~₹20cr towards acquisitions and other strategic initiatives
- General corporate purpose

## Investment Rationale

### Diversified revenue mix

CLEL has diversified operations across various business segments spanning the education value chain, across age groups, which includes services like Test preparation & training, Publishing and content development, integrated business, marketing and sales services for corporate, Vocational training, integrated solutions to educational institutions and K-12 schools. The company's more than ~50% revenue comes from Test preparation & training and balance from other segments.

#### Exhibit 3: Revenue break-up for 1HFY17



Source: Company, Angel Research

### Strong brand equity and wide presence

We believe that Career Launcher is a well-recognized brand in the education sector, particularly in aptitude-based test prep courses for MBA, Banking & SSC, Law test prep, etc. As on September 30, 2016, the company had 151 test-prep centers spread over 87 cities in India, 8 K-12 schools spread across 6 cities & 28 vocational training centers and offices.

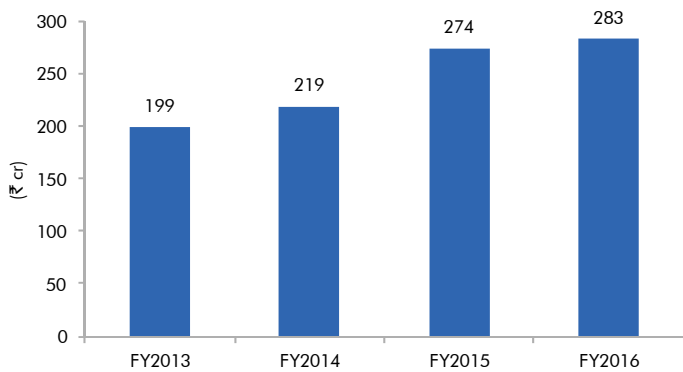
### Asset-light with technology-enabled business model

In order to ensure pan-India presence in test prep business, CLEL has adopted, asset-light, scalable and less capital-intensive business partnership model to operate test prep centers, in addition to its own test prep centers. As on September 30, 2016, company had a network of 151 test prep centers in 87 cities across India, with 45 owned and leased model test prep centers (of which three were temporary Smart Career Centers) and 106 test prep centers operating under a partnership model.

### Track record of weak financial performance

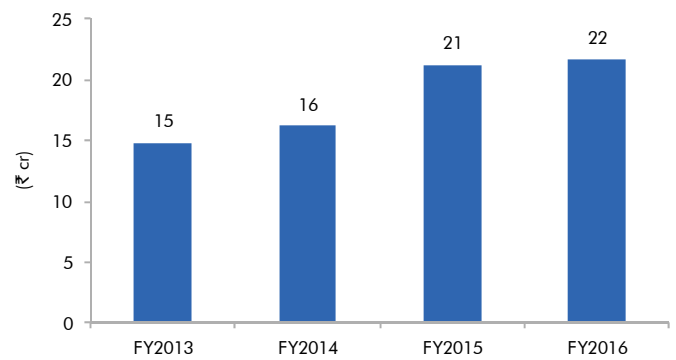
CLEL, with ~12% CAGR in revenue, has underperformed its closest peer MT Educare, which reported ~22% CAGR in revenues over FY2013-16. In profitability too, CLEL, with ~13% CAGR in PAT over FY2013-16, has underperformed as compared to MT Educare (~21% CAGR in PAT over FY2013-16). CLEL's financial performance has remained unimpressive over the last 4-5 years both on top-line and bottom-line fronts, which does not provide a significant quality to business.

**Exhibit 4: Historical revenue trend**



Source: Company, Angel Research

**Exhibit 5: Historical PAT trend**



Source: Company, Angel Research

## Outlook and Valuation

In terms of valuations, the pre-issue P/E works out to 23.2x its annualised 1HFY2017 earnings (at the upper end of the issue price band), which is higher compared to its peers, (MT Educare is trading at 8.9x its annualised 1HFY2017 earnings). Also, CLEL's EV/sales multiple at 2.1x, works out to be at premium to MT Educare's 1.2x. On EV/EBITDA front too, CLEL's issue appears to be unattractive 15.1x v/s. MT Educare's 5.4x. Moreover, as compared to its peers the margins and ROE profile of CLEL does not appear to be attractive. The company's business is working capital intensive which coupled with expensive valuations may not provide a significant upside to the investor. **Hence, we recommend neutral rating on the issue.**

## Key risks

1. If the company is able to attract more students for its Test preparatory business, which contributes a significant portion to its operating revenues, it will pose an upside risk to our view.
2. Any favorable changes in the market dynamics of Test preparatory business and Vocational Training business will hold an upside risk to our estimates.
3. If the company is able to successfully execute its competitive growth strategies, it will pose an upside risk to our view.
4. The company has put up for sale the properties of K-12 business segment, if it is able to sell these, it will pose an upside risk to our estimates.

**Income Statement**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	1HFY17
<b>Total operating income</b>	<b>199</b>	<b>219</b>	<b>274</b>	<b>283</b>	<b>153</b>
% chg	20.0	9.9	25.1	3.3	-
<b>Total Expenditure</b>	<b>188</b>	<b>194</b>	<b>237</b>	<b>247</b>	<b>132</b>
Raw Material	6	7	11	12	5
Cost of services	69	78	106	118	73
Personnel	67	69	75	63	28
Others Expenses	45	40	46	54	26
<b>EBITDA</b>	<b>11</b>	<b>25</b>	<b>37</b>	<b>36</b>	<b>21</b>
% chg	(12.5)	126.7	46.7	(2.3)	-
(% of Net Sales)	5.6	11.5	13.5	12.7	13.9
Depreciation & Amortisation	6	5	8	9	4
<b>EBIT</b>	<b>5</b>	<b>20</b>	<b>29</b>	<b>27.0</b>	<b>18</b>
% chg	(32.1)	258.7	48.2	(7.2)	-
(% of Net Sales)	2.7	9.0	10.6	9.5	11.6
Interest & other Charges	10	9	9	10	5
Other Income	23	11	12	14	8
(% of PBT)	125.0	54.4	39.9	45.5	36.7
Exceptional Items	-	1	2	-	-
<b>Recurring PBT</b>	<b>19</b>	<b>20</b>	<b>29</b>	<b>31</b>	<b>21</b>
% chg		9.9	42.0	6.5	-
Tax	4	4	8	9	8
<b>PAT (reported)</b>	<b>15</b>	<b>16</b>	<b>21</b>	<b>22</b>	<b>13</b>
% chg		9.0	31.0	2.2	-
(% of Net Sales)	7.5	7.4	7.8	7.7	8.4
<b>Basic &amp; Fully Diluted EPS (₹)</b>	<b>12.4</b>	<b>13.5</b>	<b>17.7</b>	<b>18.1</b>	<b>10.8</b>
% chg		9.0	31.0	2.2	-

**Balance Sheet**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	1HFY17
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	10	10	12	12	12
Reserves & Surplus	124	141	198	230	244
<b>Shareholders Funds</b>	<b>134</b>	<b>151</b>	<b>209</b>	<b>242</b>	<b>256</b>
Minority Interest	28	29	1	-	-
Total Loans	54	58	56	63	58
Deferred Tax Liability	1	2	2	2	2
<b>Total Liabilities</b>	<b>217</b>	<b>239</b>	<b>268</b>	<b>307</b>	<b>315</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	<b>90</b>	<b>87</b>	<b>91</b>	<b>87</b>	<b>86</b>
Capital Work-in-Progress	1	1	1	1	1
Investments	2	2	2	2	2
Goodwill	16	20	20	33	33
Current Assets	172	192	228	266	290
Inventories	7	11	9	7	7
Sundry Debtors	54	65	87	119	127
Cash	12	11	19	16	12
Loans & Advances	65	75	81	91	94
Other Assets	35	31	32	33	49
Current liabilities	63	62	73	82	97
<b>Net Current Assets</b>	<b>109</b>	<b>131</b>	<b>155</b>	<b>184</b>	<b>193</b>
Deferred Tax Asset	0	0	0	1	1
Mis. Exp. not written off	-	-	-	-	-
<b>Total Assets</b>	<b>217</b>	<b>239</b>	<b>268</b>	<b>307</b>	<b>315</b>



### Cash Flow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	1HFY17
Profit before tax	19	20	29	31	21
Depreciation	6	5	8	9	4
Change in Working Capital	(20)	(17)	(17)	(32)	(16)
Interest / Dividend (Net)	0	0	0	0	0
Direct taxes paid	(3)	(6)	(7)	(9)	(3)
Others	5	6	8	6	1
<b>Cash Flow from Operations</b>	<b>6</b>	<b>10</b>	<b>20</b>	<b>5</b>	<b>6</b>
(Inc.)/ Dec. in Fixed Assets	3	(9)	(120)	(24)	(3)
(Inc.)/ Dec. in Investments	(7)	8	(5)	7	3
<b>Cash Flow from Investing</b>	<b>(5)</b>	<b>(1)</b>	<b>(124)</b>	<b>(17)</b>	<b>(0)</b>
Issue of Equity	(12)	(9)	(120)	(24)	(3)
Inc./(Dec.) in loans	22	(2)	(2)	(1)	7
Others	(9)	1	228	39	(13)
<b>Cash Flow from Financing</b>	<b>1</b>	<b>(9)</b>	<b>105</b>	<b>14</b>	<b>(9)</b>
Inc./(Dec.) in Cash	2	(1)	2	2	(3)
<b>Opening Cash balances</b>	<b>4</b>	<b>6</b>	<b>5</b>	<b>7</b>	<b>9</b>
<b>Closing Cash balances</b>	<b>6</b>	<b>5</b>	<b>7</b>	<b>9</b>	<b>6</b>

### Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	40.5	37.2	28.4	27.8
P/CEPS	29.4	27.8	20.8	19.6
P/BV	4.5	4.0	2.9	2.5
EV/Sales	3.2	3.0	2.3	2.3
EV/EBITDA	58.0	25.8	17.3	18.0
EV / Total Assets	3.0	2.7	2.4	2.1
<b>Per Share Data (₹)</b>				
EPS (Basic)	12.4	13.5	17.7	18.1
EPS (fully diluted)	12.4	13.5	17.7	18.1
Cash EPS	17.1	18.1	24.2	25.6
Book Value	111.9	126.1	174.7	202.2
<b>Returns (%)</b>				
ROCE	2.9	9.4	11.0	8.8
Angel ROIC (Pre-tax)	3.1	10.0	11.9	9.4
ROE	11.1	10.7	10.1	8.9
<b>Turnover ratios (x)</b>				
Inventory / Sales (days)	12	18	12	8
Receivables (days)	98	108	116	154
Payables (days)	22	28	27	32
WC cycle (ex-cash) (days)	89	97	101	130

Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

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