

MT Educare

Performance Highlights

Quarterly Data

(₹ cr)	2QFY16	2QFY15	% yoy	1QFY16	% qoq
Revenue	83	66	26.4	75	10.8
EBITDA	22.4	19	19.2	10	119.7
Margin (%)	27.0	28.6	(163bp)	13.6	1,337bp
Adj. PAT	14	11	21.2	6	124.3

Source: Company, Angel Research

For 2QFY2016, MT Educare reported results above our estimates. The company's top-line growth was strong mainly due to firm growth in Robomate product sales as well as Government Projects segment. However, the core coaching business was subdued during the quarter. On the operating front, the company saw pressure due to increase in other costs. However, higher other income and a lower tax expense boosted the company's overall profitability.

Strong growth in Robomate product sales and Government Projects segment boost overall consolidated top-line: For the quarter, MT Educare registered a double-digit growth in its top-line, ie of 26% yoy to ~₹83cr, on back of strong growth in Robomate product sales (at ₹17.6cr) as well as in the Government Projects segment. However, the core coaching business was subdued during the quarter.

PAT grew ~21% yoy: Despite of operating margin pressure, which was on account of higher other costs, MT Educare posted a net profit growth of ~21% yoy to ~₹14cr, owing to strong revenue growth, higher other income and lower taxes.

Outlook and valuation: We expect MT Educare to report a strong top-line and bottom-line growth in the coming financial years (FY2016E and FY2017E) on back of healthy growth in coaching business (school, science and commerce). This would be owing to its strong brand image and with it implementing innovative teaching technologies. Further, we expect additional revenue growth from execution of government projects, Robomate product, and tie up with Shri Gayatri Educational Society (SGES) in Hyderabad which has a model similar to pre-university (PU) colleges. **Hence, we recommend a Buy rating on the stock with a target price of ₹169.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net sales	202	227	286	366
% chg	28.3	12.5	25.8	28.1
Net profit	21	30	31	37
% chg	16.5	22.9	18.9	21.3
EBITDA margin (%)	21.0	20.5	18.3	17.7
EPS (₹)	5.3	7.5	7.7	9.4
P/E (x)	25.4	17.9	17.3	14.3
P/BV (x)	4.8	4.1	3.6	3.2
RoE (%)	18.8	22.9	21.0	22.2
RoCE (%)	26.4	28.0	26.4	29.8
EV/Sales (x)	2.5	2.3	1.8	1.4
EV/EBITDA (x)	12.1	11.2	9.7	7.7

Source: Company, Angel Research, Note: CMP as of November 6, 2015

BUY

CMP	₹134
Target Price	₹169

Investment Period	12 months
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Stock Info

Sector	Education
Market Cap (₹ cr)	534
Net Debt (₹ cr)	-10
Beta	0.8
52 Week High / Low	150 / 96
Avg. Daily Volume	41,942
Face Value (₹)	10
BSE Sensex	26,265
Nifty	7,954
Reuters Code	MTED.BO
Bloomberg Code	MTEL@IN

Shareholding Pattern (%)

Promoters	42.8
MF / Banks / Indian Fls	1.1
FII / NRIs / OCBs	23.8
Indian Public / Others	32.3

Abs. (%)	3m	1yr	3yr
Sensex	(7.2)	(5.9)	40.0
MT Educare	12.8	(0.7)	26.8

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Consolidated quarterly performance

Y/E March (₹ cr)	2QFY16	2QFY15	% yoy	1QFY16	% qoq	FY2015	FY2014	% chg
Net Sales	83	66	26.4	75	10.8	227	202	12.5
Consumption of RM	1	0	447.2	0	64.4	1	0	79.2
(% of Sales)	0.7	0.2		0.5		0.3	0.2	
Staff Costs	9	8	15.6	9	7.0	29	29	3.2
(% of Sales)	11.0	12.0		11.4		13.0	14.2	
Operating Expense	51	39	30.9	56	(8.9)	150	131	15.1
(% of Sales)	61.3	59.2		74.5		66.2	64.7	
Total Expenditure	61	47	29.3	65	(6.4)	180	159	13.1
Operating Profit	22	19	19.2	10	119.7	47	42	10.0
OPM (%)	27.0	28.6		13.6		20.5	21.0	
Interest	1	1	(32.9)	0	69.9	4	0	
Depreciation	4	3	6.1	4	4.5	9	13	(30.6)
Other Income	2.21	1.69	31.0	2.16	2.6	7	2	196.5
PBT	20	16	26.0	8	140.0	41	32	27.7
(% of Sales)	24.5	24.6		11.3		17.9	15.8	
Provision for Taxation	7	6	23.0	2	187.7	12	11	4.8
(% of PBT)	34.3	35.1		28.6		28.7	34.9	
Minority Interest	-0	(1)		0		(1)	0	
Reported PAT	14	11	21.2	6	124.3	30	21	41.4
PATM	16.3	17.0		8.1		13.1	10.4	
Deprecation related adj.				0		4	0	
Adj. PAT	14	11	21.2	6	124.3	26	21	22.9

Source: Company, Angel Research

Top-line driven by Robomate product sales and execution of Government Projects

For 2QFY2016, MT Educare registered a double-digit growth in its top-line, ie of 26% yoy to ~₹83cr, on back of strong growth in Robomate product sales (at ₹17.6cr) as well as in the Government Projects segment. However, the core coaching business was subdued during the quarter.

Going forward, we expect the company to continue to report healthy growth in the Coaching business on back of its strong brand and with it adopting an innovative teaching technology. Further, the company’s revenue from government projects is also likely to increase, going forward, considering healthy orders in hand and also owing to increase in education spends by the government.

Exhibit 2: Top-line growth trend

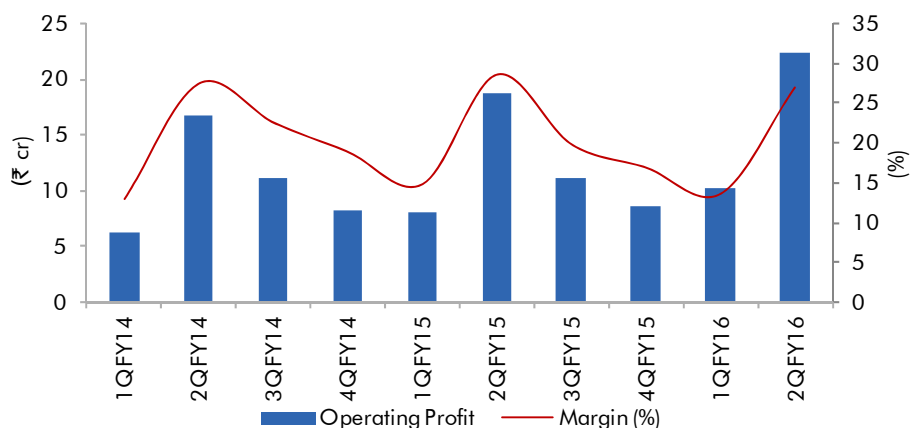


Source: Company, Angel Research

Operating margin contracts due to higher other expenses

The company reported an operating profit of ~₹22cr in 2QFY2016, up ~19% yoy. The operating margin contracted by a significant 163bp yoy on account of higher other operating expenses (up 211bp yoy as a percentage of sales).

Exhibit 3: Operating profit and margin trend

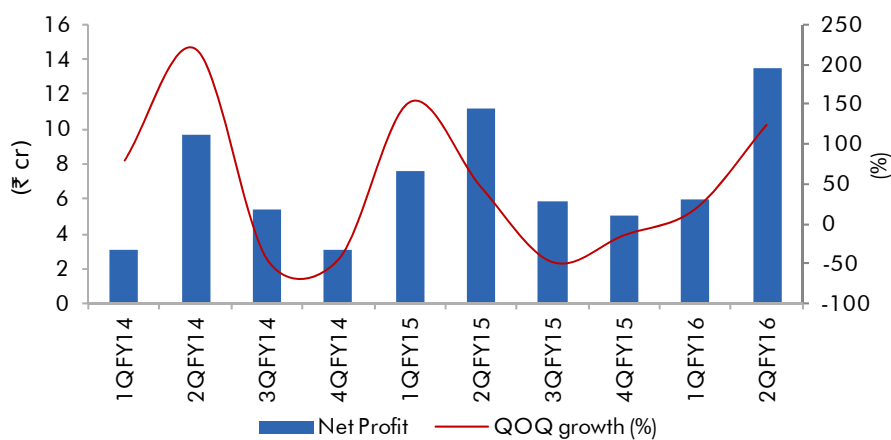


Source: Company, Angel Research

PAT grew ~21% despite operating margin contraction

Despite of pressure at the operating level, which was on account of higher other operating costs, MT Educare posted a net profit growth of ~21% yoy to ~₹14cr, owing to strong revenue growth, higher other income and lower taxes.

Exhibit 4: Net Profit and growth trend



Source: Company, Angel Research

Investment rationale

Strong brand and quality teaching with innovative technologies to drive growth

MT Educare has strong positioning in the secondary school and higher secondary school coaching business in Mumbai location. The city accounts for ~66% of the company's overall centers and contributes ~80% of the company's overall revenue. The company has introduced a technology, the unique Learning Management System (LMS), for strengthening its offering in its core business. Also, LMS will enable the company to have an edge over competition and erect a strong entry barrier for new entrants in the coaching business. Thus, in our view, the company is likely to grow at a healthy rate going forward on back of its strong brand image and with it implementing innovative teaching technologies.

Top-line to register 27% CAGR over FY2015-17E

We expect MT Educare to report a healthy top-line growth, ie of ~27% CAGR over FY2015-17E, on the back of strong growth in its wide offerings and segments. Going forward, we expect the company to report higher growth in the science segment on back of strong growth in the PU college business which provides test preparatory coaching for engineering and medical entrance examinations. During the year, MT Educare's PU college tie-ups rose to 19 from 14 earlier and the number is expected to go up to 30 colleges in the next two financial years. Further, the company has partnered with Shri Gayatri Educational Society (SGES) in Hyderabad which has a similar business model like PU colleges. This partnership provides MT Educare direct access of 33,500 students, which is 42% of MT Educare's students in FY2015. This will likely generate additional revenue for the company going forward. Apart from this, the 'Lakshya' business too is expected to witness healthy growth under the science vertical. Further, we also expect the company to report a strong growth in the CA segment in Tamil Nadu and Mumbai on the back of its strong brand and centre additions during the years.

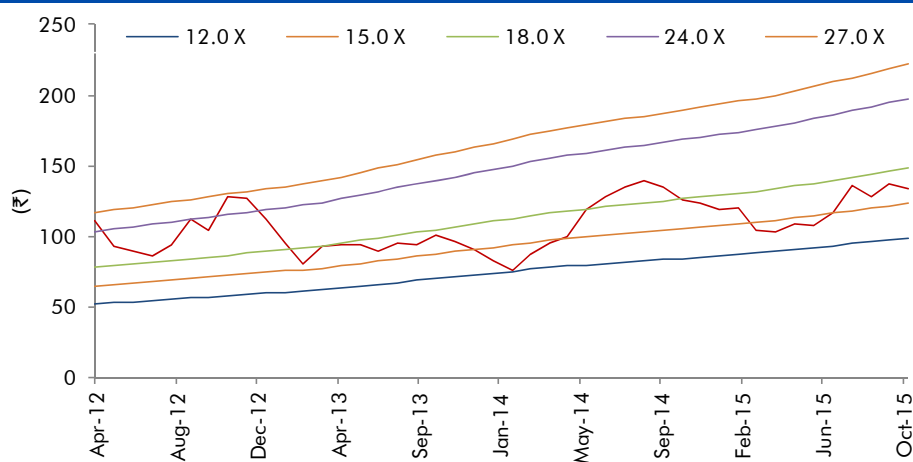
Higher spending government projects to boost company's revenue

The company is implementing projects for State level governments in the education domain. In this segment, MT Educare provides coaching for competitive exams like engineering, medical, CA etc to backward classes and poor students who can't afford coaching fees. These students' fees are funded by the government under educational spending. In the Budget FY2016, the Finance Minister has allocated ~₹69,075cr on education spending in FY2015-16. In our view, such government spending towards education will benefit MT Educare on back of its strong brand, and diversified geographical presence coupled with it adopting an innovative teaching technology. The company has already started getting a decent number of orders from governments. As of now, the company has an order book of ₹15-20cr in hand. We expect the company to be able to secure more orders from this segment.

Outlook and valuation

We expect MT Educare to report a strong top-line and bottom-line growth in the coming financial years (FY2016E and FY2017E) on back of healthy growth in coaching business (school, science and commerce). This would be owing to its strong brand image and with it implementing innovative teaching technologies. Further, we expect additional revenue growth from execution of government projects, Robomate product, and tie-up with Shri Gayatri Educational Society (SGES) in Hyderabad which has a model similar to pre-university (PU) colleges. **Hence, we recommend a Buy rating on the stock with a target price of ₹169.**

Exhibit 5: One-year forward P/E band



Source: Company, Angel Research

Company Background

Mahesh Tutorials is a 25-year old brand, with Mr Mahesh Shetty providing coaching services under this brand since 1988. The company operates under three main business verticals - school, science and commerce. Currently, it has ventured into other verticals as well, which include engineering and medical entrance exam prep, IIT test prep, MBA entrance test prep as well as coaching for CA exams. Though predominantly present in Mumbai, the company has currently expanded its operations across 7 states/union territories including Maharashtra, Karnataka, Tamil Nadu, Gujarat, Punjab, Haryana and Chandigarh. In fact, a majority of the growth hereon is expected from extending its established model to new geographies. Its network consists of 138 coaching locations with 239 centres (points of sale). It has a student base of 80,829 (FY2015), employee and faculty strength of 2,200+ and 1,100+ respectively, of which 300+ faculty members are post graduates.

Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
Total operating income	131	157	202	227	286	366
% chg	23.8	20.5	28.3	12.5	25.8	28.1
Total Expenditure	107	128	159	180	233	301
Personnel Expenses	18	22	29	29	42	53
Others Expenses	90	106	131	151	191	248
EBITDA	23	29	42	47	52	65
% chg	21.6	26.9	44.4	10.0	12.2	23.9
(% of Net Sales)	17.7	18.6	21.0	20.5	18.3	17.7
Depreciation & Amortisation	8	9	13	9	12	13
EBIT	15	21	30	38	40	52
% chg	42.8	35.6	42.2	27.7	6.1	29.2
(% of Net Sales)	11.7	13.2	14.6	16.6	14.0	14.1
Interest & other Charges	0	-	0	4	2	2
Other Income	4	5	2	7	7	7
(% of PBT)	20.7	18.3	7.5	17.4	15.6	12.3
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	19	25	32	41	45	57
% chg	49.8	32.2	25.6	27.8	10.3	27.1
Prior Period & Extra. Exp./ (Inc.)	-	-	-	-	-	-
PBT (reported)	19	25	32	41	45	57
Tax	6	8	11	12	15	19
(% of PBT)	33.2	29.8	34.9	28.7	33.1	33.0
PAT (reported)	13	18	21	29	30	38
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	(0)	(0)	(0)	(1)	(1)	1
PAT after MI (reported)	13	18	21	30	31	37
Depreciation related adjustment	-	-	-	4	-	-
ADJ. PAT	13	18	21	26	31	37
% chg	62.9	36.4	16.5	22.9	18.9	21.3
(% of Net Sales)	10.1	11.5	10.4	11.4	10.8	10.2
Basic & diluted EPS (₹)	3.3	4.5	5.3	7.5	7.7	9.4
Adjusted EPS (₹)	3.3	4.5	5.3	6.5	7.7	9.4
% chg	62.9	36.4	16.5	22.9	18.9	21.3

Note: - the company has gained ~₹4cr (post tax) due to reversal of excess depreciation charged earlier with a change in the method of calculation from written down method to straight line method in FY15

Consolidated Balance Sheet

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
SOURCES OF FUNDS						
Equity Share Capital	35	40	40	40	40	40
Reserves & Surplus	22	62	72	90	106	128
Shareholders Funds	57	101	112	130	146	168
Minority Interest	0	(0)	(1)	(1)	(1)	(1)
Total Loans	-	-	-	5	5	5
Deferred Tax Liability	-	0	-	-	-	-
Total Liabilities	57	101	111	134	150	172
APPLICATION OF FUNDS						
Gross Block	63	106	151	106	116	126
Less: Acc. Depreciation	32	38	50	58	71	84
Net Block	31	67	101	48	45	42
Capital Work-in-Progress	16	12	7	7	7	7
Investments	14	17	12	1	10	15
Current Assets	64	77	58	146	175	237
Inventories	-	0	0	0	0	0
Sundry Debtors	6	10	9	23	30	40
Cash	18	24	10	14	19	28
Loans & Advances	26	12	20	77	91	112
Other Assets	14	30	20	32	36	57
Current liabilities	73	77	72	72	91	133
Net Current Assets	(9)	0	(13)	74	84	104
Deferred Tax Asset	4	4	5	5	5	5
Total Assets	57	101	111	134	150	172

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
Profit before tax	19	25	32	41	45	57
Depreciation	8	9	13	9	12	13
Change in Working Capital	(7)	4	(16)	(83)	(5)	(11)
Interest / Dividend (Net)	(3)	(4)	(2)	4	2	2
Direct taxes paid	(7)	(7)	(11)	(12)	(15)	(19)
Others	2	1	1	-	-	-
Cash Flow from Operations	12	27	17	(41)	39	42
(Inc.)/ Dec. in Fixed Assets	(16)	(45)	(28)	45	(10)	(10)
(Inc.)/ Dec. in Investments	10	(3)	5	11	(9)	(5)
Cash Flow from Investing	(6)	(48)	(22)	56	(19)	(15)
Issue of Equity	1	35	0	-	-	-
Inc./ (Dec.) in loans	(5)	0	(0)	5	-	-
Dividend Paid (Incl. Tax)	(1)	(6)	(8)	(11)	(14)	(16)
Interest / Dividend (Net)	(4)	(1)	(1)	(4)	(2)	(2)
Cash Flow from Financing	(10)	28	(9)	(11)	(16)	(18)
Inc./ (Dec.) in Cash	(3)	7	(14)	4	5	9
Opening Cash balances	21	18	24	10	14	19
Closing Cash balances	18	24	10	14	19	28

Key Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratio (x)						
P/E (on FDEPS)	40.3	29.5	25.4	17.9	17.3	14.3
P/CEPS	25.8	20.2	15.9	14.0	12.6	10.4
P/BV	9.3	5.3	4.8	4.1	3.6	3.2
Dividend yield (%)	0.3	1.5	1.7	2.0	2.5	3.1
EV/Sales	3.8	3.1	2.5	2.3	1.8	1.4
EV/EBITDA	21.7	16.8	12.1	11.2	9.7	7.7
EV / Total Assets	3.9	2.8	2.8	2.5	2.1	1.6
Per Share Data (₹)						
EPS (Basic & fully diluted)	3.3	4.5	5.3	7.5	7.7	9.4
EPS (Adjusted)	3.3	4.5	5.3	7.5	7.7	9.4
Cash EPS	5.2	6.6	8.4	9.5	10.6	12.9
DPS	0.4	2.0	2.2	2.7	3.4	4.1
Book Value	14.4	25.4	28.1	32.6	36.7	42.2
Returns (%)						
ROCE	26.8	20.5	26.4	28.0	26.4	29.8
Angel ROIC (Pre-tax)	59.9	34.8	32.7	31.5	32.7	39.6
ROE	23.2	17.8	18.8	22.9	21.0	22.2
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.1	1.5	1.3	2.1	2.5	2.9
Inventory / Sales (days)	-	0	0	0	0	0
Receivables (days)	18	23	16	37	38	40
Payables (days)	9	13	13	13	13	13
WC cycle (ex-cash) (days)	9	10	3	24	25	27

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Disclosure of Interest Statement	MT Educare
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15%)