MT Educare

Coaching a success story

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 a competitive edge over competition and erect a strong entry barrier for 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 growth to accelerate; to grow at 21% CAGR over FY2014-17E: We expect MT Educare to report a healthy top-line growth, ie ~21% CAGR over FY2014-17E, on the back of strong growth in its wide offerings and segments. Going forward (a) we expect the company to report higher growth in the Science segment on back of strong growth in pre-university (PU) college business which provides test preparatory coaching for Engineering & Medical entrance examination students. 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 College. This partnership provides MT Educare direct access of 33,500 students, which is 42% of MT Educare's students in FY2015 which will likely generate additional revenue for the company going forward. Apart from this, Lakshya business too is expected to witness healthy growth under the Science vertical (b) 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 towards education. 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 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 estimate MT Educare to report net sales CAGR of ~21% to ~₹355cr and net profit CAGR of ~19% over FY2014-17E. **At the CMP, MT Educare trades at a P/E of 12.6x FY2017E. We initiate with a Buy and target price of ₹141 (16x FY2017E EPS), indicating an upside of ~27%.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015E	FY2016E	FY2017E
Net sales	202	235	275	355
% chg	*28.3*	*16.4*	*17.1*	*29.3*
Net profit	21	29	29	35
% chg	*16.5*	*39.1*	*0.6*	*19.3*
EBITDA margin (%)	21.0	21.0	18.3	17.3
EPS (₹)	**5.3**	**7.4**	**7.4**	**8.8**
P/E (x)	21.0	15.1	15.0	12.6
P/BV (x)	3.9	3.4	3.0	2.7
RoE (%)	18.8	22.5	20.2	21.1
RoCE (%)	26.4	30.1	25.2	28.2
EV/Sales (x)	2.1	1.8	1.5	1.1
EV/EBITDA (x)	9.9	8.6	8.2	6.5

Source: Company, Angel Research, Note: CMP as of April 16, 2015

BUY

CMP	₹111
Target Price	₹141
Investment Period	12 Months

Stock Info

Sector	Education
Market Cap (₹ cr)	440
Net Debt (₹ cr)	(20)
Beta	0.8
52 Week High / Low	155 / 85
Avg. Daily Volume	27,109
Face Value (₹)	10
BSE Sensex	28,666
Nifty	8,707
Reuters Code	MTED.BO
Bloomberg Code	MTEL@IN

Shareholding Pattern (%)

Promoters	42.8
MF / Banks / Indian FIs	1.7
FII / NRIs / OCBs	23.0
Indian Public / Others	32.5

Abs. (%)	3m	1yr	3yr
Sensex	2.6	28.1	67.9
MT Educare	(6.7)	27.0	17.0

3-year price chart

Source: Company, Angel Research

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Investment Arguments

To benefit from Indian coaching industry's CAGR of 17% over FY2011-15E

*Rising disposable incomes, increasing household spend on education, infrastructural bottlenecks for formal education and higher private sector participation would aid in sustaining the growth momentum*

The Indian coaching industry has evolved from a small classroom with few students into sizable classrooms with higher number of students where supplementary education is imparted through state-of-the-art hi-tech classrooms. According to CRISIL estimates, the Indian coaching industry is expected to clock 17% CAGR (over FY2011-15E) from ₹40,187cr to ₹75,629cr. This growth would primarily be driven by rising disposable incomes, increasing household spend on education, infrastructural bottlenecks for formal education and also higher private sector participation.

Exhibit 1: Indian coaching industry – on a growth trajectory
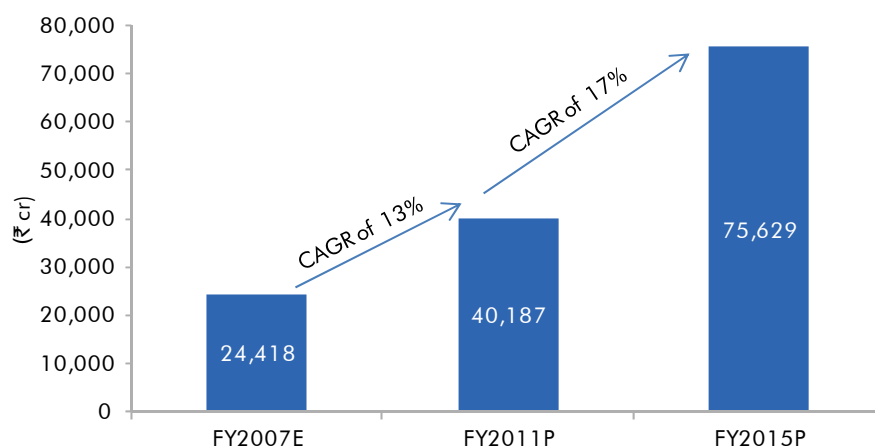

Source: CRISIL Research

According to Mckinsey Global Institute (MGI), average disposable income is expected to surge to ₹1.9lakh in CY2015E and ₹3.2lakh in CY2030E, which imparts strong growth visibility for the education market. Further, as per National Sample Survey Office (NSSO), average spending on education in India for urban household has moved upward from ₹322 per month in FY2005 to ₹1,035 per month in FY2012, and for rural household it has escalated from ₹88 per month in FY2005 to ₹293 per month in FY2012. Also, the Indian household budget share of education has risen from 2% to 7% between FY1994 and FY2012. Interestingly, education has witnessed one of the fastest growth rates among different expenditure heads in Indian households. Going forward, we believe that average household spending on education would elevate further owing to the rising aspirations for quality education, which would act as a strong driver for this sector.

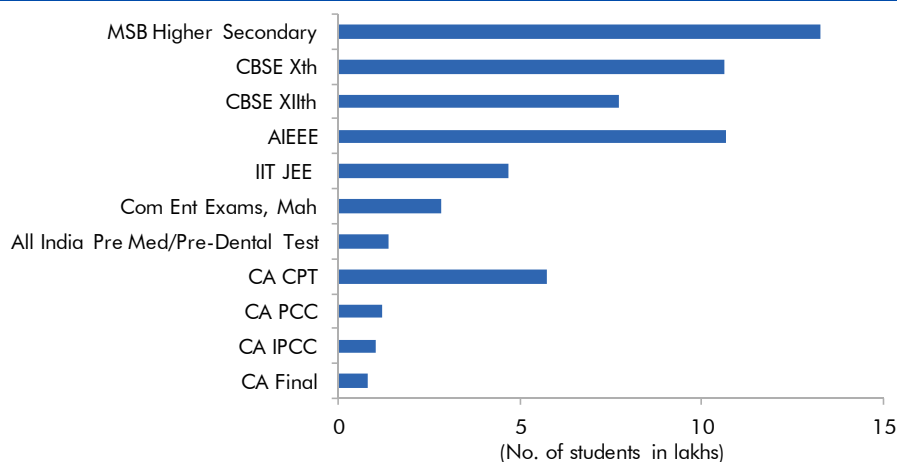**Exhibit 2: Rising avg. disposable income fuelling demand**
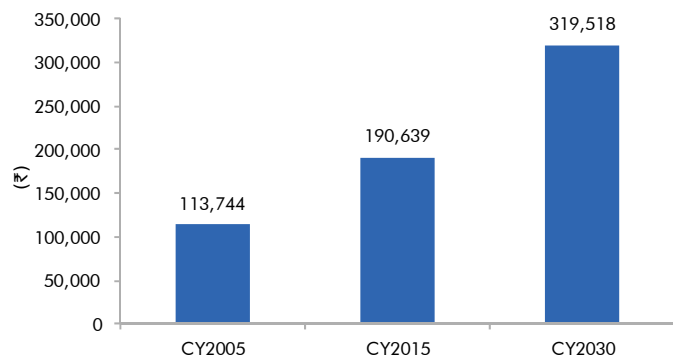
Source: McKinsey Global Institute (MGI), Angel Research

Exhibit 3: Average household spending on education
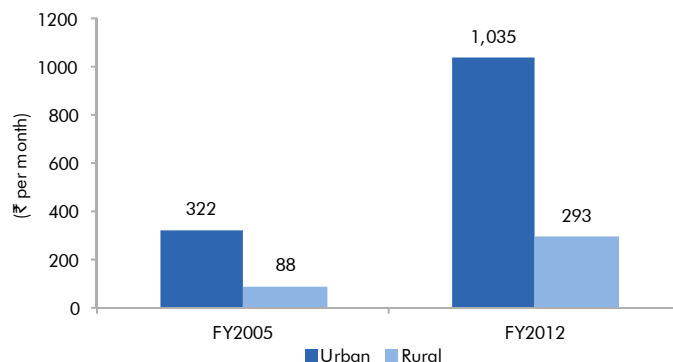
Source: NSSO, Angel Research

Exhibit 4: Huge market opportunity No. of students appearing in various exam

(No. of students in lakhs)

Source: Source: Websites of JEE, IIT Delhi, AIEEE, MHRD, Annual report of ICAI, Maharashtra Directorate of Medical Education and Research

Thus, we believe MT Educare has the leverage to expand its market share given its strong brand equity and extensive reach (138 locations in 9MFY2015; aiming at an addition of 10 locations on an average every year). Further, the company has diversified its product portfolio (viz. School, Science, and Commerce streams, JEE Advanced and Mains for engineering, NEET for medical, CPT/IPCC/CA Final for commerce, and CAT/CMAT for MBA aspirants), which would further aid to capture the rising demand of the coaching industry in India.

Mitigating the business risk by geographical and product expansion

In the past few years, the company has expanded its geographical presence from 31 locations in Mumbai in FY2007 to 138 locations in 9MFY2015 spread across 7 states/union territories that include Maharashtra, Karnataka, Tamil Nadu, Gujarat, Punjab, Haryana and Chandigarh. As a result, the number of centres has also significantly risen from 80 in FY2008 to 239 in 9MFY2015.

The company has undertaken a strategic move to open centres in each region based on their business growth prospects, higher demand and student preferences

Interestingly, the company's centres are currently concentrated in Mumbai, which accounts for ~66% of the overall number of centres. However, MT Educare has taken this as a cue and has embarked upon a geographical expansion plan across India (aiming at an addition of 10 locations on an average every year). This move, we believe, is a positive step in terms of mitigating the risk of geographic concentration. Notably, the company has undertaken a strategic move to open centres in each region based on their business growth prospects, higher demand and student preferences. For example, MT Educare has launched exclusive CA courses in Tamil Nadu, Engineering in Karnataka etc.

Exhibit 5: Geographical Reach in FY2007

31 Locations

Source: Company, Angel Research

**Exhibit 6: Geographical Reach in 9MFY2015**

138 Locations

Source: Company, Angel Research

It has introduced new business segments and products (launched Robomate in FY2014) which are expected to contribute to revenue, going ahead

Further, MT Educare is strengthening its business model by diversifying into various business segments through acquisitions, JVs, entry in new product categories etc. The company acquired a 51% stake each in Chitale's Personalised Learning Pvt Ltd in FY2011 and Lakshya in FY2012, which contribute ~1.5% and ~6%, respectively, to its revenue. Student enrollments towards MBA, Engineering, and Medical entrance exams preparation have increased significantly. Additionally, the company has introduced new business segments and products (launched Robomate in FY2014), which are expected to contribute to revenue, going ahead. Further, the company has entered into a partnership with SGES which is expected to contribute significantly to revenue (10-12% of total MT Educare's revenue) in FY2017. Also, the company is executing government educational projects which are expected to contribute by 8-10% to the company's total revenues, going forward.

Exhibit 7: Favorable revenue mix with new business segments
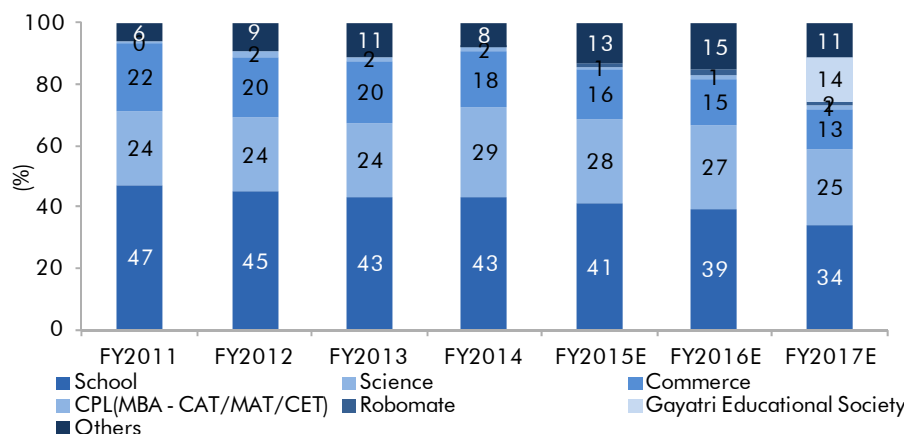
Source: Company, Angel Research

Exhibit 8: Acquisitions and Product expansions aiding diversification of business model

| Company/ Business segments	Years	Description	Specialization	Total revenue contribution
Chitale's Personalised Learning Private Ltd.	FY2011	Acquisition of 51% stake	MBA entrance examination including CAT,CET, XAT, NMAT, SNAP, etc and International exams like GRE and GMAT	More than 1.5%
Lakshya	FY2013	Acquisition of 51% stake	IIT and Medical entrance examinations	More than 6%
PU College	FY2013	Entery into new geography	Engineering & Medical entrance examinations	More than 6%
Robomate	FY2014	Introduction of new products	Educational application with recorded lectures of faculties and multimedia content for concept learning, easy revision	Likely to contribute decent amount
Shri Gayatri Educational Society	FY2015	Partnership agreement	Engineering & Medical entrance examinations and Commerce	Contribute significant revenue

Source: Company, Angel Research Source: Company, Angel Research

Asset light business model; negligible debt with higher turnover ratio

The company has been successful in maintaining a debt-free balance sheet with a rapid growth in number of centres

MT Educare follows an asset light business model by leasing/renting all its coaching centres. This, in turn, reduces capex requirements and generates higher return ratios. Subsequently, it has been successful in maintaining almost debt-free balance sheet with a rapid growth in number of centres. Recently the company has sold its Mangalore Pre-University (PU) campus for about ₹55cr and leaseback deal entails continuation of MT Educare's operating and management rights in the premises for 30 years with an initial 15-year lock-in period. This will again lead to an asset light model (2-3 years back the company had spent money to construct PU campus). Furthermore, for its core coaching business, it receives fees in advance (due to the nature of business), which results in a negative working capital. However, going forward, the company is likely to see pressure on working capital due to execution of government projects. Hence, we believe that MT Educare would be able to optimize its resources and focus on brand building and product diversification initiatives, which, in turn, would improve its business, going forward.

Exhibit 9: Increasing asset turnover ratio of MT Educare
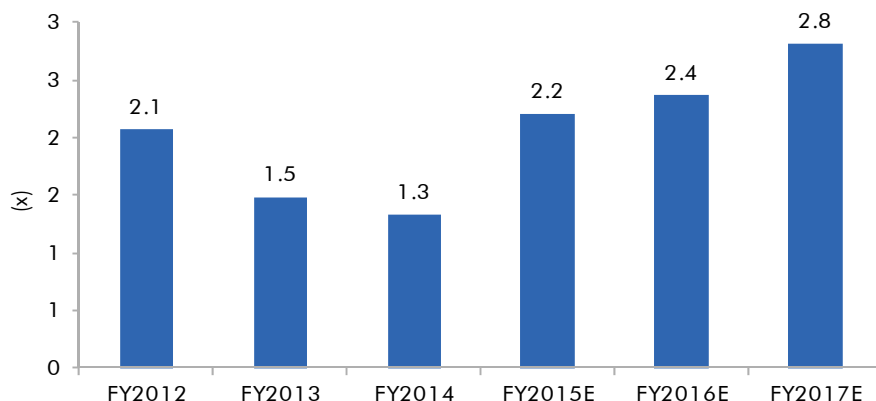
Source: Company, Angel Research

High brand recall and quality teaching through innovative technology impart competitive edge

With high quality teaching staff, and with the company being a front-runner in the use of innovative and strong brand value, the company draws a competitive edge over its peers

The coaching business is not capital intensive, which results in higher competition in various segments. Interestingly, MT Educare is facing competition as a whole given that it caters to all streams viz, School, Commerce – CA, Science, MBA Engineering and Medical (entrance exams). Also, since its centres are concentrated in Mumbai (accounting for ~66% of the overall centres and contributing more than 80% to the total revenue), it faces competition. Nonetheless, with high quality teaching staff (company offers good salary; attrition rate is less than 10%), and with the company being a front-runner in the use of innovative technologies (like electronic commerce portal, browser-based content delivery, gesture based technology, fllipped platform etc.) and with the strong brand value, the company draws a competitive edge over its peers.

During the year, MT Educare launched a technology enabled unique Learning Management System to strengthen its core business offerings and to create a strong entry barrier. For FY2016, MT Educare is providing Samsung tablets with LMS software to its students (tablets provided to 12,000 students across secondary and higher secondary levels). However, due to this expense towards offering tablets, the company's margins will be impacted in FY2016. But this facility is only for an initial period to penetrate the market. The company later on will be levying a charge on the tablets extended to students to cover its expense. So the company would witness margins return to normal levels, FY2017 onwards.

Exhibit 10: Unique Learning Management System (LMS) model

Tied with Samsung tab (with audio video content)

↓

Students prepare and write the test

↓

Test gets uploaded and reviewed by the teacher

↓

Test results can be viewed by parent on their mobile phone

Source: Company, Angel Research

Exhibit 11: Key competitors in Mumbai

	Competitors	Since	Founder	Presence	Centres	Course offered
School section	Nayak tutorials	2000	Mr. Manoj S. Nayak	Across Mumbai, Maharashtra and Gujarat	64	Students of Class VIII, IX & X English, Semi-English and Marathi mediums for S. S. C. Board and for C. B. S. E. and I. C. S. E. Boards
	Airhant Academy			Mumbai - Dahisar to Andheri	13	School - VIII-IX-SSC Science -XI, XII-NEET/JEE(MAIN) Commerce - FYJC,SYJC - CPT/CSFP
	Sinhal Classes	1981	Prof. O. P. Sinhal	Across Mumbai	14	SSC, CBSE, ICSE, HSC Boards, JEE , NEET examinations. NEET
Science section	Kalra Shukla	1993	Prof. M. H. Kalra and Prof. R. D. Shukla	Across Mumbai and Pune	17	SSC (all boards), HSC and CET, Zenith-AIEEE
	Vidyalankar	1960	Mr C. S. Deshpande	Across Mumbai, Maharashtra, Gujarat and Bhopal	30	Pre-Engineering Courses - BIT-SAT,Foundation Course Std. VIII, IX & X,IIT JEE (Main +Advanced),Junior Science College,NTSE,Std. XI, XII + JEE Main / Medical entrance exam Engineering Courses - B.Sc. (IT),Degree Engineering,Diploma Engineering Post Graduate Courses - CAT / CET,GATE
	Brilliance	1990	Mr. Harish Mishra	Across Mumbai	28	XI (Sci.), XII (Sci.) & MHT-CET
IIT Entrance	IITians PACE	2000	Mr Praveen Tyagi	Across India and Dubai	37	IIT JEE, AIIMS, AFMC, CAT, GMAT, GRE, SAT etc
	Ideal 21st century		Mr Vivek Sharma & Prof. Jagdish Walavalkar	Mumbai,Kota,Hyderabad	33	JEE-Main and Advanced , AIIMS/NEET, MHT-CET
	Rao IIT Academy	1993	Dr.B.V.Rao	Mumbai, Gujarat, Rajasthan, Hubli	13	JEE - Main, Advanced,AIPMT,KVPY,NTSE
Commerce/ CA Section	J K Shah	1981	Prof. J. K. Shah	Mumbai,Ahmedabad, Rajkot, Bengaluru, Hyderabad, Jaipur,Sikar	18	Commerce (XI and XII), TYB C.com, CA,CS,CWA
	Ideal	1987	Prof. Jagdish Walavalkar	Across India	74	School,scince,commerce - CA,CS, CWA, MBA - CAT/ CMAT,CAT
	Professional Academy	1998	Mr Prasad Sivaramakrishnan	Mumbai,Kolkata,Hyderaba, Andhra Pradesh	12	CA
	Prime Vision					
MBA Entrance	TIME	1992	Mr Manek N. Daruvala	Across India	236	CAT, JEE MAIN, ADVANCED, GATE, CMAT, GRE, GMAT, CLAT, Bank PO
	IMS	1991	Prof. Nagesh Raghunath Rane	Across India	62	CAT,MH-CET,CMAT, GMAT, GRE,TOEFL

Source: Company, Angel Research

Strategic moves adopted for each segment to trigger growth ahead

### Schools: ~11% CAGR in Net Revenue over FY2014-17E

MT Educare offers coaching to students of standards IX and X across all boards, namely the State Board (Maharashtra, Gujarat and Karnataka), CBSE and ICSE. Though its centres are predominantly based in the Mumbai metropolitan region, it has now expanded across Maharashtra, Gujarat, Tamil Nadu, Karnataka, Punjab, Chandigarh and Haryana.

Going forward, we expect ~11% CAGR in Net Revenue over FY2014-17E to ₹121cr

Growth strategy adopted by MT Educare for school segments
- The company's unique product "Robomate" with entire content in digital form developed by in-house faculties, has been already launched for this academic season and has received a good response from students. Flipped classroom teaching methodology with tablets, to be implemented from the academic year FY2016, will differentiate MT Educare from other coaching classes and provide a technology edge to MT Educare in the teaching field.

- Expansion in Maharashtra, outside Mumbai, in cities like Pune and Kolhapur and also focus on increasing capacity utilisation of exisiting centres.

- Tie up with local coaching classes in tier-III and tier-IV towns in Rest of Maharashtra for sale of Robomate to their students and providing TAT and teacher training.

- Focus on developing the CBSE & ICSE business verticals as a pillar of strength to enable rapid scalability of operations in the school segment across all states in India.

Exhibit 12: No. of students serviced during the year
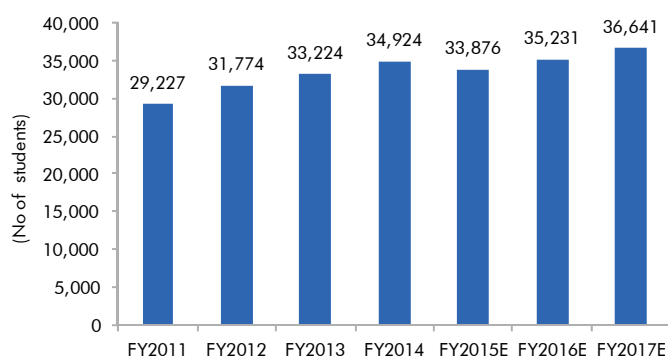
Source: Company, Angel Research

Exhibit 13: Expected revenue from the School section
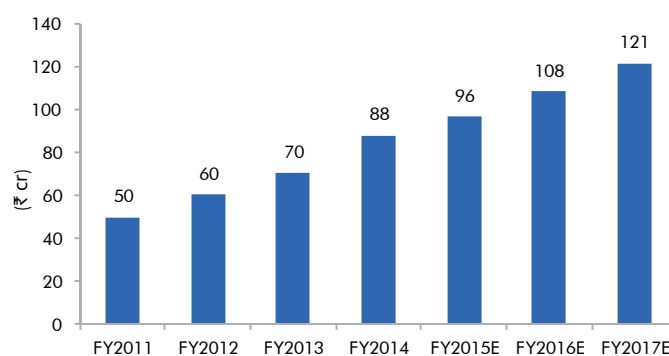
Source: Company, Angel Research

This segment contributes ~43% to the company's total revenue, which grew by ~11% to ₹76cr in 9MFY2015 from ₹69cr in 9MFY2014. Going forward, we expect ~11% CAGR in Net Revenue over FY2014-17E to ₹121cr owing to the increase in number of students and an improvement in average realization.

Science: ~14% CAGR in Net Revenue over FY2014-17E

*Going ahead, we expect ~14% CAGR in Net Revenue over FY2014-17E to ₹88cr*

MT Educare offers science coaching to students of standard XI and XII. It also provides test preparatory for the engineering and medical entrance examinations (JEE Mains and JEE Advanced, NEET). It has now expanded its presence across Maharashtra and Karnataka. This geography contributes ~34% to the company's total revenue, which grew by ~16% to ₹59cr in 9MFY2015 from ₹50cr in 9MFY2014. Going ahead, we expect ~14% CAGR in Net Revenue over FY2014-17E to ₹88cr owing to the growing number of students (~10% CAGR over FY2014-17E due to growth in standard XI-XII and common entrance test for medical and engineering students) and an improvement in average realization.

Exhibit 14: No. of students serviced during the year
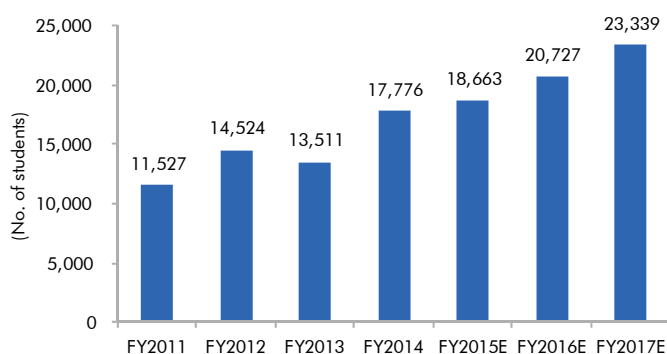
Source: Company, Angel Research

Exhibit 15: Expected revenue from the Science section
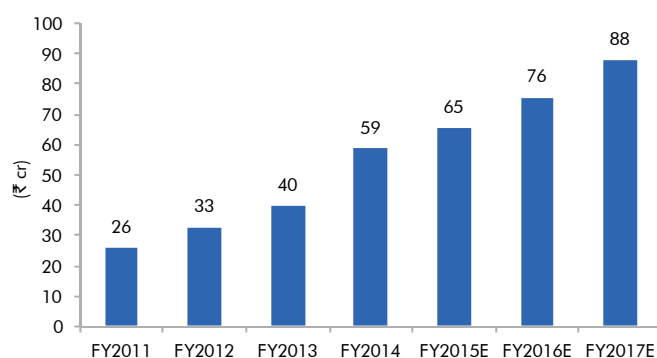
Source: Company, Angel Research

Notably, in 2HCY2012, the government altered the pattern for IIT examination:

■ For IIT admission, students need to score high in 12th Board, JEE Mains & JEE Advanced. Thus, the company now has to give equal importance to 12th Board exams as well as JEE preparations.

■ Under the new system, only top 1,50,000 students based on JEE Mains score will be allowed to appear for the JEE Advanced exam for admission into IIT.

■ Each State has been given equal importance. IIT admissions will be based on the JEE Advanced scores provided the student is in the Top 20 percentile of each state based on standard XII results.

■ Admissions to non-IIT engineering institutes will be based on a combined score of standard XII and JEE Mains.

■ With importance now being given to standard XII for admission in IIT/other engineering institutes and JEE Mains becoming a common engineering entrance exam across states, this new pattern would boost revenue for the Science section offered by MT Educare.

## Revamp in IIT examination pattern would enhance growth for Lakshya

MT Educare has forayed into the coaching domain for IIT aspirants with the acquisition of 51% stake in Lakshya, a leading North India-based IIT, engineering and medical teaching institute in FY2013 (with an option to acquire the balance stake by June 2018). It is a strategic move to capitalize on new IIT Entrance examination pattern, which has been introduced in the academic year 2013. The science tutorials are aligned to the new advanced IIT examination pattern. As a result, it encompasses end-to-end training – from Boards to entrance examinations like JEE Mains, JEE Advanced and Medical examinations.

Exhibit 16: Expected students for Lakshya
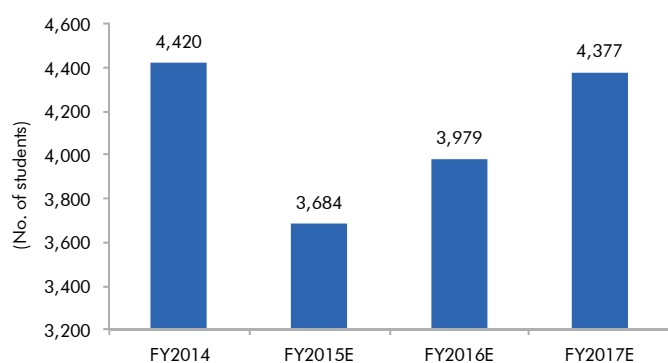
Source: Company, Angel Research

Exhibit 17: Expected revenue from Lakshya
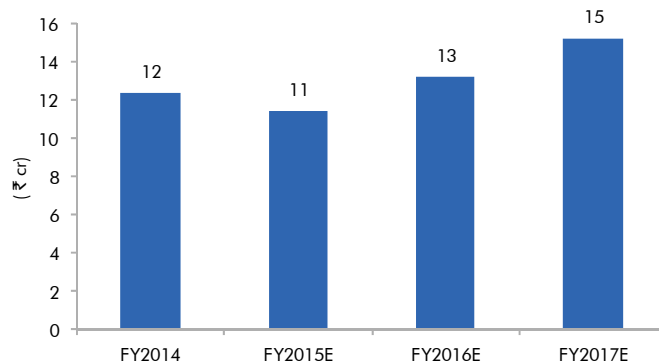
Source: Company, Angel Research

Currently, Lakshya operates from 6 locations in Punjab and Haryana

Currently, Lakshya operates from 6 locations in Punjab and Haryana and, going forward, it is planning to expand further in Punjab, Haryana, and in states like Jammu & Kashmir, Himachal Pradesh and Uttar Pradesh. Further, MT Eudcare has also launched JEE Advanced (IIT Entrance Exam) in Mumbai under Lakshya to improve its footprint in the IIT segment in this region. Besides, it is also planning to launch the course in Karnataka in the next two years. Thus, we believe that the company would benefit from this segment owing to an increase in number of seats as well as rising aspirations and awareness.

Pre-University Colleges in Karnataka would aid revenue growth

The Karnataka PU College Tie-up Model is one of the most important growth areas under the Science vertical for MT Educare. In this model, every college ties up with a coaching institute that provides test preparatory coaching for Engineering & Medical entrance examinations after college hours. In the current financial year, the company has 14 college tie-ups across Karnataka (Mangalore, Udipi, Tumkur, Hubli, Bengaluru, Davangere, Belgaum, Mysore and Gulbarga), with 4,000+ students. These follow two business models viz.: a) Tie-up model and b) Owned model.

Exhibit 18: Expected students for PU College
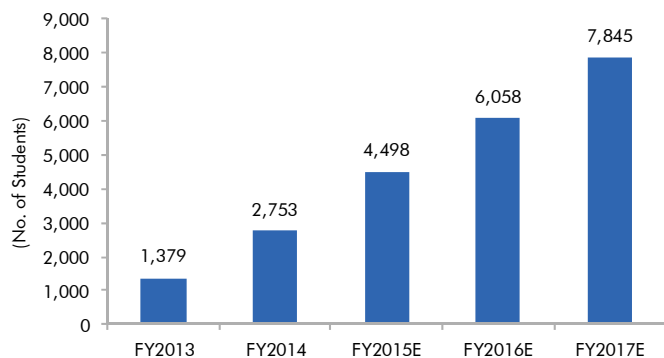
Source: Company, Angel Research

Exhibit 19: Expected revenue from PU College
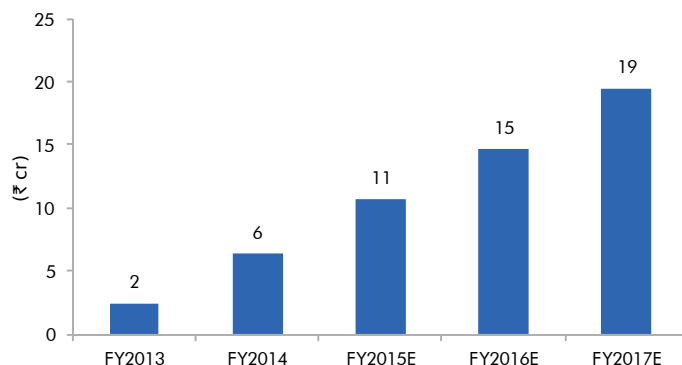
Source: Company, Angel Research

Tie-up Model:

■ Test preparatory coaching for engineering and medical entrance examinations after college hours; every college student is a student enrolled with MT Educare for test preparatory.

■ Management services provided viz. – Content for standard XI and XII, sourcing and training of teachers, time-table management and academic MIS.

Under this model, the revenue streams for company are test preparatory fees and college management fees.

Owned model:

Under this model, the revenue streams for company are test preparatory fees, college management fees, hostel management fees etc.

We opine that Karnataka has a good business opportunity for preparatory coaching for Engineering & Medical entrance examinations. Interestingly, during FY2015 the company has added 5 more PU colleges (taking the total to 19 PU college tie-ups) and is aiming 30 tie-ups in the next 2-3 years.

Further, MT Educare has sold its pre-university campus (consists of college attached with a hostel) for an amount in the range of ₹55cr (sold at cost price) to a buyer and leased it back for 30 years with operating and management right (lock-in period is 15 years for both buyer and seller). The property depreciation will become nil going forward and now the company has once again become asset light. The money realized on sale of PU campus will be utilized for paying debt which the company raised during the year for acquiring Gayatri Educational Trust.

During FY2015 the company has added 5 more PU colleges (taking the total to 19 PU college tie-ups) and is aiming 30 tie-ups in the next 2-3 years

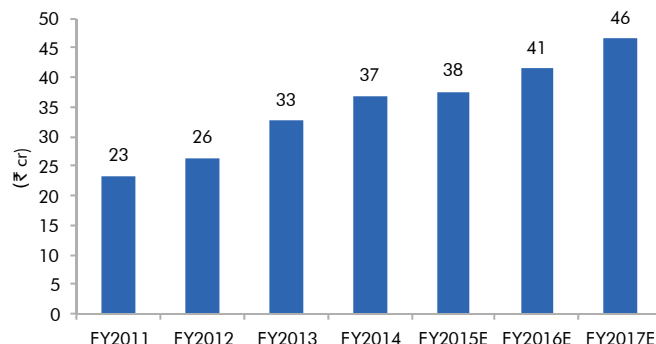**Commerce: ~8% CAGR in Net Revenue over FY2014-17E**

MT Educare offers commerce coaching to students of standards XI and XII, CA (CPT, IPCC, final), CS-Entrance and Bachelors degree in Commerce (University level). The company has expanded its presence across Maharashtra, Tamil Nadu, Karnataka although it is primarily concentrated in the Mumbai metropolitan region.

Exhibit 20: No. of students serviced during the year
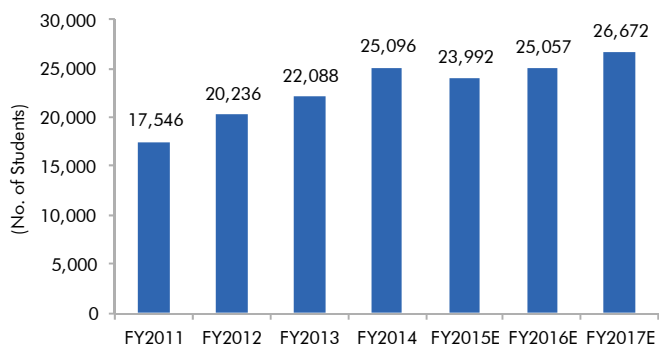
Source: Company, Angel Research

Exhibit 21: Expected revenue from Commerce section

Source: Company, Angel Research

Going ahead, we expect ~8% CAGR in Net Revenue over FY2014-17E to ₹46cr

Commerce section contributes ~16% to the company's total revenue and it grew by ~1% to ₹29cr yoy in 9MFY2015. Going ahead, we expect ~8% CAGR in Net Revenue over FY2014-17E to ₹46cr owing to multiplying number of students on the back of growth in CA students and an improvement in average realization.

Robomate to generate additional revenue for the company

Robomate is an educational application with recorded lectures of faculties and multimedia content for concept learning, easy revision and improved results. This e-learning initiative is directed towards providing Anytime, Anywhere learning opportunity to the students. It is also available for non-MT Educare students at higher fees.

Exhibit 22: Expected revenue from Robomate
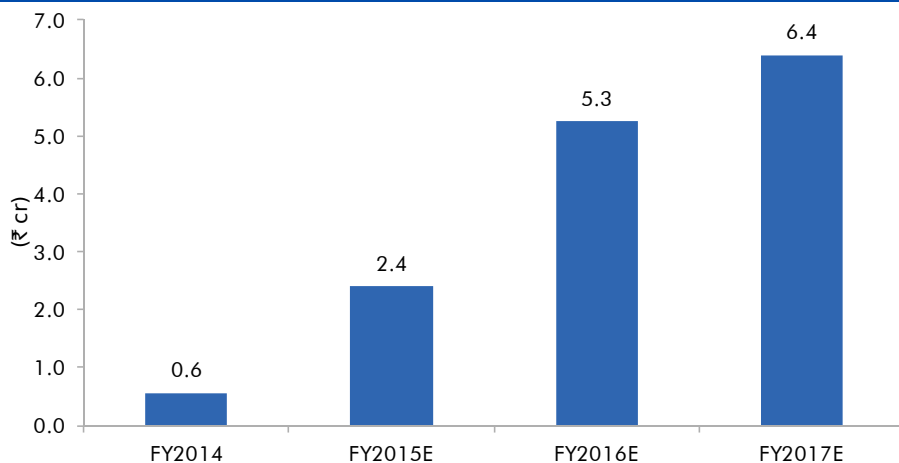
Source: Company, Angel Research

During the year, the company has sold more than ₹2cr Robomate products in the CA and IIT segment and is also selling these products in segments like School, Science and Commerce. The company has already tied up with 15 coaching classes in Maharashtra (excluding Mumbai) and is expected to tie up with a further 50 coaching classes in this financial year. Furthermore, the company is also selling its products online and getting a good response for the same. This year the company is targeting ₹10cr revenue from the Robomate product which we have not factored in our financial model. We believe that, going forward, this product would draw additional revenue for the company with higher margin.

Partnership with SGES to generate additional revenue for company

MT Educare has entered into long term partnership agreement with SGES through its subsidiary. For this partnership the company has given an unsecured loan of ~₹42cr at ~ 13% interest rate per annum.

SGES has 33,500 students which is ~42% of total MT Educare students

Under this arrangement, the company will provide to SGES its expertise in teacher training, study material, technology aided teaching methods and support in development of digital content on the lines of Robomate. Further, the company has planned to jointly tap the growing potential in the Engineering and Medical aspirants market through various technology initiatives. Also, with the increasing student focus on Commerce stream in the two states of Andhra Pradesh and Telangana, MT Educare's presence in the XI-XII commerce market will help SGES extend its reach to a wider target audience.

SGES has 33,500 students which is ~42% of total students of MT Educare. In our view, going forward, MT Eduacare would get business opportunity from these higher number of students through test preparatory coaching for Engineering & Medical entrance examinations. Currently SGES is not making profits. However, MT Educare expects to turn it around in the next two years on back of higher capacity utilization, increase in number of students and hike in fees in FY2016 and FY2017.

About SGES: Established in 2010, SGES is one of the leading educational institutions for the intermediate section in the states of Telangana and Andhra Pradesh. SGES was founded by Mr. PVRK Murthy, an eminent and renowned educationist with over 30 years of teaching and academic experience. SGES currently has 51 colleges spread across the two states, with over 33,500 (in FY2015E) Engineering, Medical and Commerce aspirants studying in Junior and Senior Intermediate (XI and XII) colleges.

Higher spending government project to boost the additional revenue for MT Educare

In the Budget FY2016, the finance minister has allocated ~₹69,075cr on education spending in FY2015-16

The company is implementing projects for State level governments towards education. 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. Out of this, ₹42,220cr is pegged for the Schools sector and ₹26,855cr for higher education.

The new government has already started to emphasize on education spending. In our view, such government spending towards education will benefit MT Educare on back of strong brand, diversified geographical presence coupled with innovative teaching technology. The company has already started getting a decent number of orders from governments. As of now, the company has ₹15-20cr order book in hand. We expect the company to be able to secure more orders from this segment.

Exhibit 23: Historical and projected Revenue trend from govt. project
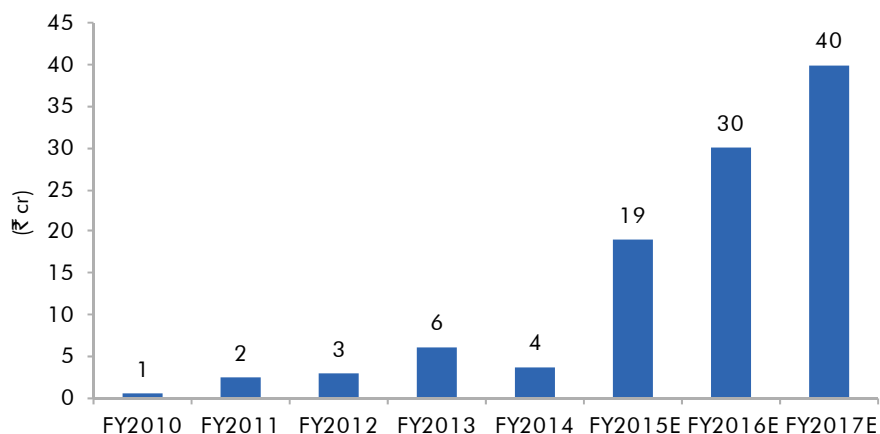
Source: Company, Angel Research

Financial Analysis

Top-line likely to clock a CAGR of 21% over FY2014-17E

Going ahead, we expect MT Educare to report a top-line CAGR of ~21% over FY2014-17E to ~₹355cr

MT Educare reported revenue CAGR of 24% over FY2011-14, primarily driven by the growth in enrollment of students and fee hikes. Going forward, we expect the company to register a healthy top-line CAGR of 21% over FY2014-17E supported by continuous centre expansion plan, strong brand value, and an increase in number of students; particularly in the Science segment (owing to higher enrollments in Lakshya and PU Colleges in Karnataka). Further, Robomate would also assist in improving revenue. Apart from this, the company is also executing government projects which would drive additional growth in the coming financial years. Moreover, the company has also tied-up with Gayatri Educational Trust which is expected to contribute strong revenues in FY2017.

Exhibit 24: Revenue trend
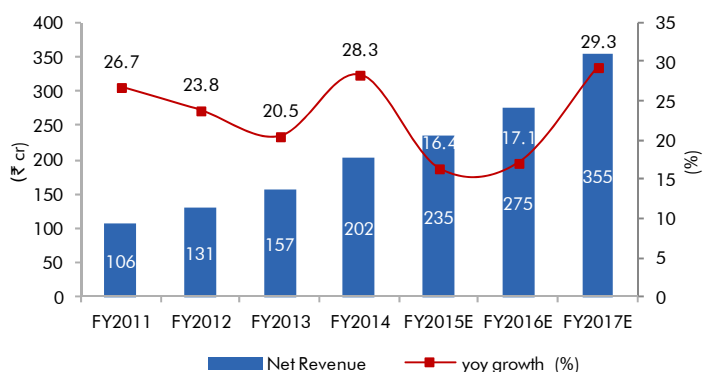
Source: Company, Angel Research

Exhibit 25: Profit trend
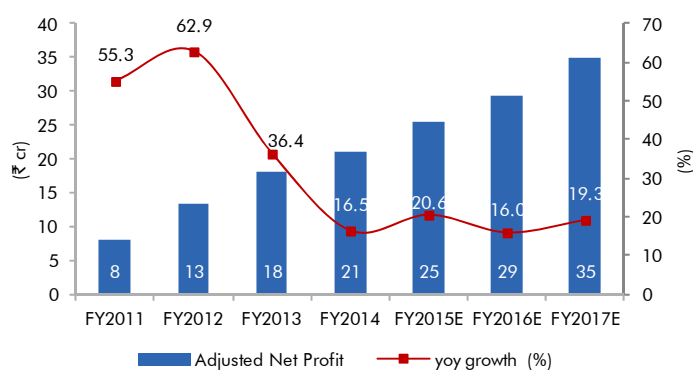
Source: Company, Angel Research

Going ahead, we expect MT Educare to report a bottom-line CAGR of ~19% over FY2014-17E to ~₹35cr

We expect ~19% CAGR in Net Profit over FY2014-17E; mainly led by strong revenue growth and also on back of a rise in capacity utilization of coaching centres, and introduction of high margin business - Robomate, which would drive earnings, going forward.

Exhibit 26: ROE & ROCE trend
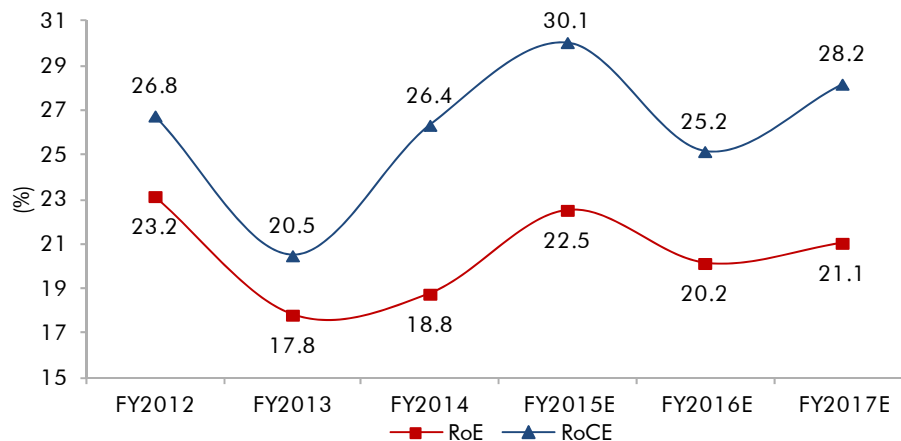
Source: Company, Angel Research

Outlook and Valuation

We believe that, going ahead, the company would report strong revenue growth owing to addition of new centres as well as increase in utilization rate at existing centres, expected growth from Karnataka (due to higher PU College tie-ups) besides its pan-India strategy with a focus on nationwide common entrance and professional examinations such as CA, IIT JEE Advanced, JEE Mains, CAT, CMAT etc.

Further, the company launched the Robomate product last year for IIT and CA students which got a good response. In FY2016, the company would be launching Robomate for schools, and science and commerce students, which would aid its revenue growth, going forward.

We estimate MT Educare to report net revenue CAGR of ~21% to ~₹355cr and net profit CAGR of ~19% over FY2014-17E. **At the current market price of ₹111, the company trades at 15.0x and 12.6x, its FY2016E and FY2017E EPS of ₹7.4 and ₹8.8, respectively. We initiate coverage on the stock with a Buy recommendation and target price of ₹141, based on 16x FY2017E EPS; indicating an upside of ~27% from the current levels.**

Exhibit 27: Comparative analysis

Company	Year end	Mcap(₹ cr)	Sales(₹ cr)	OPM(%)	PAT(₹ cr)	EPS(₹)	RoE	P/E	P/BV	EV/ Sales	EV/ EBIDTA
MT Educare	FY2015E	440	235	21.0	29	7.4	22.5	15.1	3.4	1.8	8.6
	FY2016E		275	18.3	29	7.4	20.2	15.0	3.0	1.5	8.2
	FY2017E		355	17.3	35	8.8	21.1	12.6	2.7	1.1	6.5
Tree House	FY2015E	1,693	206	59.9	53	15.6	8.0	35.9	2.9	8.7	14.5
	FY2016E		259	60.3	79	18.6	10.9	24.0	2.6	7.1	11.9
	FY2017E		313	60.5	100	23.6	12.5	18.9	2.4	6.0	9.8

Source: Company, Angel Research

Exhibit 28: One year forward PE chart
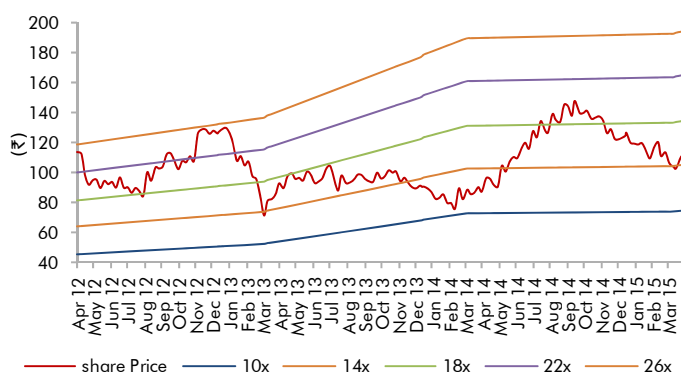
Source: Company, Angel Research

Exhibit 29: .... trading below average PE
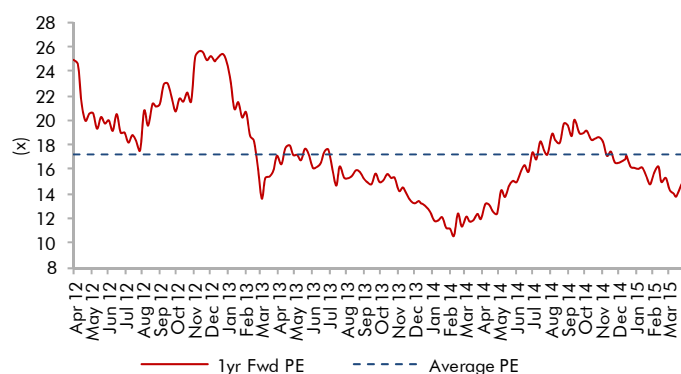
Source: Company, Angel Research

Risks and concerns

Geographical concentration: All its coaching centres are located in the western region, mainly in Mumbai metropolitan. This is a geographical concentration risk for the company.

Threat from competitors: In the coaching model, lack of any significant entry barriers exposes the company to the risk of facing intense competition from other domestic players like Sinhal Classes, Kalra Shukla, Brilliance, etc.

Thriving unorganised segment: A growing presence of unorganised segment might grab a share of the industry revenue pie.

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, 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 (FY2014), Employee and faculty strength of 2,200+ with 1,100+ respectively, of which 300+ faculty members are post graduates.

Exhibit 30: Milestones achieved
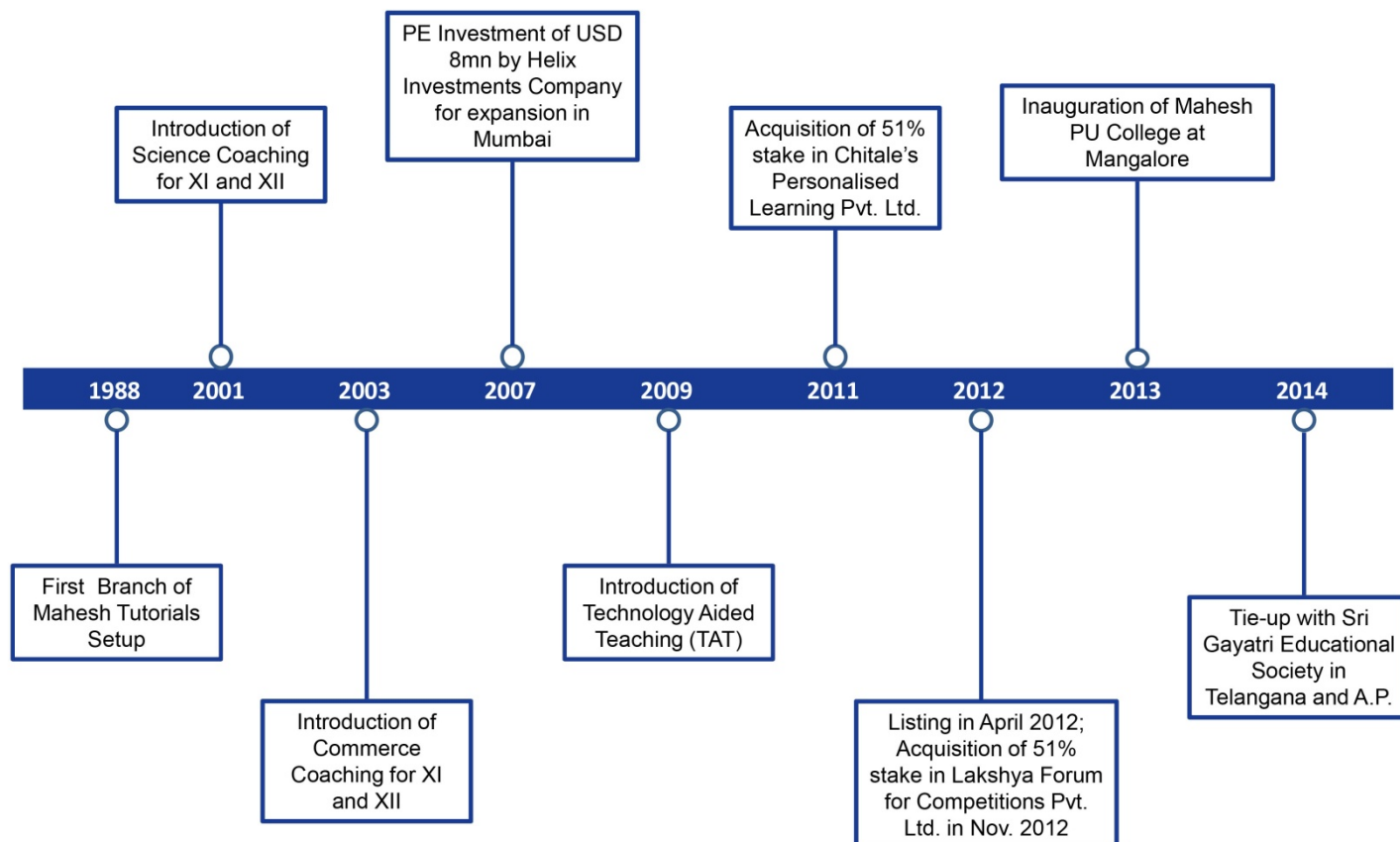
Source: Company, Angel Research

Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Total operating income	131	157	202	235	275	355
% chg	23.8	20.5	28.3	16.4	17.1	29.3
Total Expenditure	107	128	159	186	225	294
Personnel Expenses	18	22	29	33	40	53
Others Expenses	90	106	131	152	184	241
EBITDA	23	29	42	49	50	61
% chg	21.6	26.9	44.4	16.5	2.0	22.2
(% of Net Sales)	17.7	18.6	21.0	21.0	18.3	17.3
Depreciation& Amortisation	8	9	13	9	12	13
EBIT	15	21	30	41	38	48
% chg	42.8	35.6	42.2	38.3	(6.9)	27.3
(% of Net Sales)	11.7	13.2	14.6	17.4	13.8	13.6
Interest & other Charges	0	-	0	4	2	2
Other Income	4	5	2	6	7	7
(% of PBT)	20.7	18.3	7.5	14.5	16.1	13.0
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	19	25	32	43	44	54
% chg	49.8	32.2	25.6	35.9	0.5	23.8
Prior Period & Extra. Exp./(Inc.)	-	-	-	-	-	-
PBT (reported)	19	25	32	43	44	54
Tax	6	8	11	14	14	18
(% of PBT)	33.2	29.8	34.9	33.1	33.0	33.0
PAT (reported)	13	18	21	29	29	36
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	(0)	(0)	(0)	(0)	(0)	1
PAT after MI (reported)	13	18	21	29	29	35
Deprecation related adjustment	-	-	-	4	-	-
ADJ. PAT	13	18	21	25	29	35
% chg	62.9	36.4	16.5	20.6	16.0	19.3
(% of Net Sales)	10.1	11.5	10.4	10.8	10.7	9.9
Basic & diluted EPS (₹)	3.3	4.5	5.3	7.4	7.4	8.8
Adjusted EPS EPS (₹)	3.3	4.5	5.3	6.4	7.4	8.8
% chg	62.9	36.4	16.5	20.6	16.0	19.3

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	FY15E	FY16E	FY17E
SOURCES OF FUNDS						
Equity Share Capital	35	40	40	40	40	40
Reserves& Surplus	22	62	72	90	106	127
Shareholders Funds	57	101	112	130	146	167
Minority Interest	0	(0)	(1)	(1)	(1)	(1)
Total Loans	-	-	-	6	5	5
Deferred Tax Liability	-	0	-	-	-	-
Total Liabilities	57	101	111	135	150	171
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	12	17	25
Current Assets	64	77	58	155	179	226
Inventories	-	0	0	0	0	0
Sundry Debtors	6	10	9	24	29	39
Cash	18	24	10	14	17	19
Loans & Advances	26	12	20	89	100	121
Other Assets	14	30	20	28	33	46
Current liabilities	73	77	72	90	102	133
Net Current Assets	(9)	0	(13)	64	77	92
Deferred Tax Asset	4	4	5	5	5	5
Total Assets	57	101	111	135	150	171

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Profit before tax	19	25	32	43	44	54
Depreciation	8	9	13	9	12	13
Change in Working Capital	(7)	4	(16)	(74)	(9)	(13)
Interest / Dividend (Net)	(3)	(4)	(2)	4	2	2
Direct taxes paid	(7)	(7)	(11)	(14)	(14)	(18)
Others	2	1	1	0	0	0
Cash Flow from Operations	**12**	**27**	**17**	**(32)**	**34**	**37**
(Inc.)/ Dec. in Fixed Assets	(16)	(45)	(28)	45	(10)	(10)
(Inc.)/ Dec. in Investments	10	(3)	5	-	(5)	(8)
Cash Flow from Investing	**(6)**	**(48)**	**(22)**	**45**	**(15)**	**(18)**
Issue of Equity	1	35	0	0	0	0
Inc./(Dec.) in loans	(5)	0	(0)	6	(1)	0
Dividend Paid (Incl. Tax)	(1)	(6)	(8)	(11)	(13)	(15)
Interest / Dividend (Net)	(4)	(1)	(1)	(4)	(2)	(2)
Cash Flow from Financing	**(10)**	**28**	**(9)**	**(9)**	**(15)**	**(17)**
Inc./(Dec.) in Cash	(3)	7	(14)	4	3	2
Opening Cash balances	**21**	**18**	**24**	**10**	**14**	**17**
Closing Cash balances	**18**	**24**	**10**	**14**	**17**	**19**

Key Ratios

Y/E March	FY12	FY13	FY14	FY15E	FY16E	FY17E
Valuation Ratio (x)						
P/E (on FDEPS)	33.4	24.5	21.0	15.1	15.0	12.6
P/CEPS	21.4	16.7	13.1	11.8	10.7	9.0
P/BV	7.7	4.4	3.9	3.4	3.0	2.7
Dividend yield (%)	0.4	1.8	2.0	2.5	2.9	3.5
EV/Sales	3.1	2.5	2.1	1.8	1.5	1.1
EV/EBITDA	17.7	13.6	9.9	8.6	8.2	6.5
EV / Total Assets	3.2	2.3	2.3	1.9	1.6	1.3
Per Share Data (₹)						
EPS (Basic & fully diluted)	3.3	4.5	5.3	7.4	7.4	8.8
EPS (Adjusted)	3.3	4.5	5.3	6.4	7.4	8.8
Cash EPS	5.2	6.6	8.4	9.4	10.4	12.4
DPS	0.4	2.0	2.2	2.8	3.3	3.9
Book Value	14.4	25.4	28.1	32.6	36.7	41.9
Returns (%)						
ROCE	26.8	20.5	26.4	30.1	25.2	28.2
Angel ROIC (Pre-tax)	59.9	34.8	32.7	37.1	32.5	38.0
ROE	23.2	17.8	18.8	22.5	20.2	21.1
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.1	1.5	1.3	2.2	2.4	2.8
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

DISCLAIMER

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)*