

Educomp Solutions

Rs483
OUTPERFORMER

Education

Game changer!

Mkt Cap: Rs48.5bn; US\$1.02bn

A maverick within the Indian Education Sector, Educomp Solutions (Educomp) has reported 108% CAGR in revenues and 111% CAGR in earnings over the past five years. Strong execution, continued earnings momentum, enhanced visibility and stickiness in the business, and significant improvement in disclosures across financial parameters are the key reasons for our positive bias for Educomp. We recently met the entire senior management team of Educomp, including Shantanu Prakash (MD), Sangeeta Gulati (CFO) and each of the individual business heads. We also visited its facilities, including the Millennium School in Noida and its R&D centre in the Noida SEZ. Our interaction with the management team has imparted further comfort on its execution ability and the direction of the overall business.

Evolution of Educomp from a 3-5 year annuity business (in the digital content space) to a 12-year annuity business (K12 schools) reflects the innate ability of Educomp to capitalize on the sticky nature of the education space. With 60% of the total capital committed in the business (or Rs15.6bn) deployed towards K-12 schools (steady state RoCEs of ~25%), we see Educomp transforming to an 'scalable', 'profitable' and 'value accretive' business in the longer run. Given the current business momentum and past deliverances by the management, our sense is that over next 4-5 years Educomp will be nearly 5x the scale of the nearest competitor in the country! Incrementally, our apprehensions towards the new structure of Smart Class have been further alleviated with the management intention of increasing the number of vendors (with minimal capitalization and recourse to Educomp at 20% or less). With highest transparency levels, increasing visibility in the business and value drivers clearly identified, Educomp is looking well placed across all parameters. We believe that markets in general have been overtly apprehensive (40% underperformance over the past 12 months) and have ignored the strong execution that the largest player in the space (USD50bn) has achieved. We see investor sentiment turning positive with incremental transparency in the system as also continued traction in almost all of Educomp's business operations. At 13xFY12E earnings and 2xBook, we see value. Maintain outperformer with a price target of Rs780.

Key financials

As on 31 March	FY07	FY08	FY09	FY10	FY11E	FY12E
Net sales (Rs m)	1,101	2,861	6,371	10,395	12,634	15,012
Adj. net profit (Rs m)	283	712	1,356	2,765	3,307	3,698
Shares in issue (m)	80	86	86	95	95	100
Adj. EPS (Rs)	3.5	8.3	15.7	29.1	34.8	36.8
% change	-	133.0	89.9	85.5	19.6	5.8
PE (x)	136.2	58.4	30.8	16.6	13.9	13.1
Price/ Book (x)	30.3	13.5	9.0	2.5	2.1	1.9
EV/ EBITDA (x)	76.7	33.5	16.2	10.4	10.9	8.5
RoE (%)	44.4	32.7	35.1	24.0	16.5	15.8
RoCE (%)	31.7	19.5	21.4	17.3	13.3	16.6

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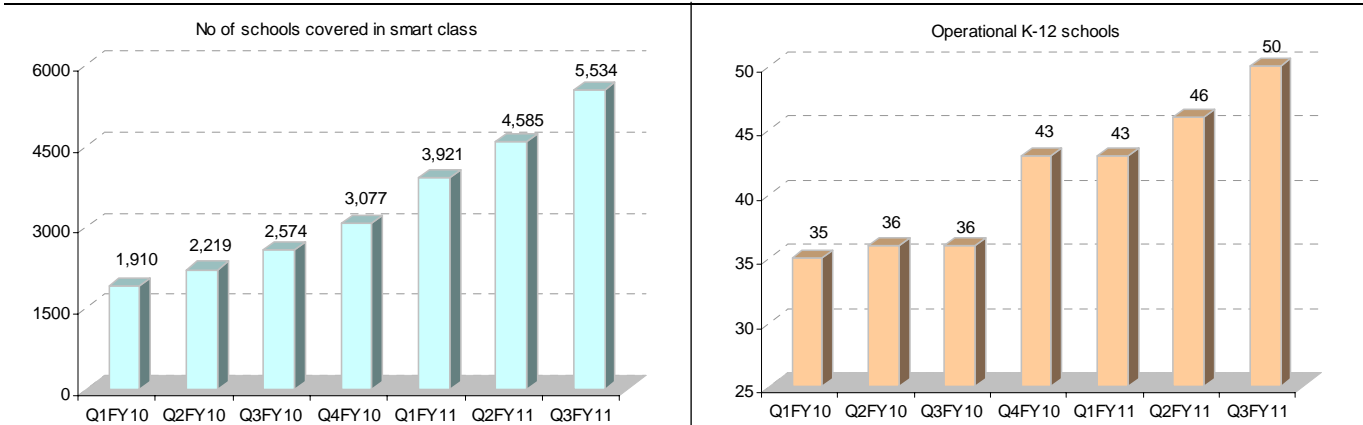
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Educomp's presence across the value chain

Segment	Market size	Educomp's presence	Current penetration	Market position for Educomp	FY11E Rev contribution	FY11E EBIT Margins
Multimedia content	US\$160m	Smart Class	<1.5%	Largest player	77%	52%
ICT	US\$90m	EduReach	<2%	Largest player		
Pre-schools	US\$1bn	Roots to Wings, Eurokids	<3%	Largest player	9%	40%
K12 schools	US\$20bn	Millennium, Takshila, Universal Academy	Shortage of 200,000 schools	Largest private player		
Prof development	US\$15m	Teacher Training	-	Largest player		
Higher Education	US\$7bn	Raffles JV	Shortage of 15,000 universities	Growing presence	5%	Yet to turn profitable
Vocational Education	US\$1.4bn	Pearson JV	-	Amongst top 5 players		
Online & supplemental	US\$7bn	Mathguru, WizIQ, VMC, Learnhub, Learning Hour, Edulgnite, EducompOnline	-	Significant presence	9%	Yet to turn profitable
Global	-	Learning.com, Ask-n-Learn	-	-		

Source: Company, IDFC Securities Research

Strong operational deliverance by Educomp



Source: Company, IDFC Securities Research

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1. Outperformer: More than 5% to Index
2. Neutral: Within 0-5% to Index (upside or downside)
3. Underperformer: Less than 5% to Index

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