



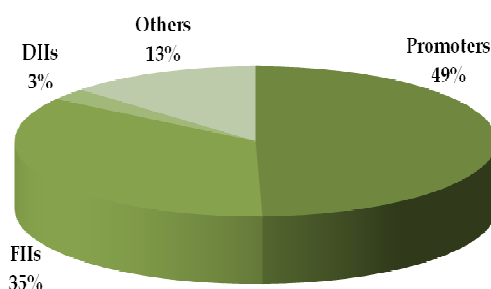
# Educomp Solutions Ltd.

17 August 2011

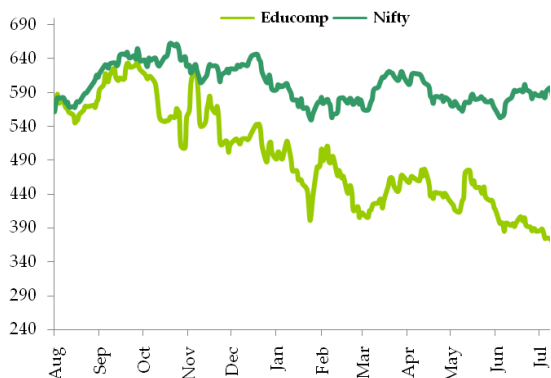
Buy

Industry	Education
CMP (INR)	274
Target (INR)	480
Upside / Downside	75%
52 week High / Low (INR)	649 / 262
Market Cap (INR bn)	26.2
3M Avg. Daily Volumes	1,169,400
P / E (FY12 E)	7.3x

## Shareholding Pattern (%)



## 1 - Year Stock Chart



## Stock Performance

	1 Month	3 Months	1 Year
Educomp	-29.2%	-36.2%	-51.3%
Nifty	-9.5%	-7.4%	-7.0%

(INR in mn)

Particulars	Actual	Estimates
Total Income	2,924	3,235
EBIDTA	1,054	1,380
Reported PAT	366	887

\* Source: Bloomberg, Unicon Research

## SmartClass Growth continues to fortify Educomp's Revenue!

Educomp Solutions Ltd. (Educomp) has reported revenue of INR 2.92 bn, up 28% (YoY) but down 40% (QoQ), slightly below our estimates. Revenue growth was aided by all its business domains. School Learning Solutions (SLS) grew 14% YoY to INR 1.81 bn, Higher Learning Solutions (HLS) grew 163% YoY to INR 90 mn while the K – 12 schools segment grew 44% YoY to INR 305 mn. In the SmartClass section, Educomp added 5,288 new classrooms during the quarter across 664 schools, averaging 8 classrooms per school. Pricing during the quarter for SmartClass stood at INR 0.4 mn per classroom. On a quarterly basis, the revenues have declined because Q1 is a seasonally weak quarter for Educomp.

EBITDA for the quarter stood at INR 1.05 bn, up 59% on an annual basis but down 49% on a sequential basis. This was also slightly below our estimates. EBITDA margin at 36%, improved by 691 bps on an annual basis. Educomp has the capacity to scale up its model and its various businesses like SmartClass, etc. are aiding in this margin expansion.

Net Profit in Q1 stood at INR 366.4 mn, flat on a YoY basis and down 75% on a QoQ basis. Net profit was below our estimates. The YoY figure is flat due to an increase in the company's effective tax rate. Net margin declined by 348 bps on a YoY basis to 12.5% largely due to an increase in interest and tax expense.

## Outlook & Valuation

Educomp is best positioned to capture the lucrative K – 12 market with its past experience and business expertise. Also its leadership in multimedia (SmartClass) based education would aid the company as it pursues its growth strategy going forward. The SmartClass securitization model would also help in reducing the cash conversion cycle of the company and allay investor concerns. At the current market price, the company is trading at 7.3x its FY12 estimated EPS. We recommend a Buy on this stock but revise our price target downwards to INR 480.

# Educomp Solutions Ltd.

## Consolidated Financials

(INR in mn)

Particulars	Q1 FY12	Q1 FY11	Y-o-Y	Q4 FY11	Q-o-Q
Net Revenue	2,924.2	2,278.8	28%	4,887.1	-40%
Operating Exp.	1,870.2	1,614.8	16%	2,835.6	-34%
<b>EBITDA</b>	<b>1,054.0</b>	<b>664.0</b>	<b>59%</b>	<b>2,051.5</b>	<b>-49%</b>
<i>EBITDA Margin</i>	36.0%	29.1%	691 bps	42.0%	-593 bps
Depreciation	251.5	198.0	27%	234.1	7%
<b>EBIT</b>	<b>802.5</b>	<b>466.0</b>	<b>72%</b>	<b>1,817.4</b>	<b>-56%</b>
<i>EBIT (%)</i>	27.4%	20.4%	699 bps	37.2%	-974 bps
Interest	328.7	161.2	104%	310.2	6%
Other Income	67.3	100.0	-33%	190.7	-65%
Tax Provision	140.6	39.0	260%	244.5	-43%
<i>Tax Rate (%)</i>	26.0%	9.6%	1634 bps	14.4%	1157 bps
<b>PAT</b>	<b>400.5</b>	<b>365.8</b>	<b>10%</b>	<b>1,453.5</b>	<b>-72%</b>
Extraordinary Items	0.0	0.0	#DIV/0!	0.0	#DIV/0!
Minority Interest	(34.2)	(0.9)	3525%	3.2	-1178%
<b>Reported PAT</b>	<b>366.4</b>	<b>364.8</b>	<b>0%</b>	<b>1,456.6</b>	<b>-75%</b>
<i>PAT Margin</i>	12.5%	16.0%	-348 bps	29.8%	-1728 bps
Diluted EPS (INR)	3.6	3.7	-2%	14.2	-75%

Source: Company, Unicon Research



# Educomp Solutions Ltd.

## Unicon Investment Ranking Methodology

Rating	Buy	Accumulate	Hold	Reduce	Sell
Return Range	>= 20%	10% to 20%	-10% to 10%	-10% to -20%	<= -20%

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