Educomp Solutions Ltd – BUY

CMP Rs714, Target Rs817

Sector: Education	
Sensex:	16,994
CMP (Rs):	714
Target price (Rs):	817
Upside (%):	14.4
52 Week h/l (Rs):	1017 / 295
Market cap (Rscr) :	6,778
6m Avg vol ('000Nos):	3,083
No of o/s shares (mn):	95
FV (Rs):	2
Bloomberg code:	EDSL IB
Reuters code:	EDSO.BO
BSE code:	532696
NSE code:	EDUCOMP

Prices as on 05 Mar, 2010

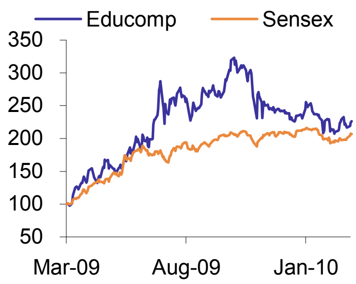
Shareholding pattern

December '09	(%)
Promoters	50.1
Institutions	40.8
Non promoter corp hold	3.5
Public & others	5.6

Performance rel. to sensex

(%)	1m	3m	1yr
Educomp	1.9	(4.2)	21.5
Everonn	(2.4)	(2.9)	176.8
Core Projects	10.9	34.6	308.9
Aptech	2.3	(6.5)	49.1

Share price trend



Largest education company with presence across all segments

Educomp Solutions has grown rapidly to become India's largest education company with presence across all segments of educational system, both formal and informal, from pre-schools to professional and vocational education. In most segments, Educomp is the market leader with no serious competition. Over the past 3-4 years, company has aggressively added scale in incumbent segments and acquired scale in new segments thereby substantially increasing its addressable market opportunity.

Robust revenue growth to continue driven by Smart Class and K-12 schools initiatives

After recording exceptional 125% revenue CAGR over FY06-09, Educomp is estimated to witness a robust 44% CAGR in revenues (on a higher base) over FY09-12. We believe Smart Class (multi-media content for private schools) and Edu Infra (high schools venture) would be the key engines of growth and their revenue share would remain dominant at >70% combined. Smart Class revenue growth (58% CAGR over FY09-12) would be aided by the adoption of new securitization model while Edu Infra revenues (50% CAGR over FY09-12) would be driven by new school additions and improvement in capacity utilization.

OPM to improve; earnings to record higher growth

Educomp's operating margin is expected to improve by 300-400bps over FY10-12 on account of profitability improvement in Smart Class (higher margin in the new model), ICT (led by value-added projects), pre-schools (consolidation to improve margin) and higher and vocational education businesses (some leverage from current huge investments being incurred). Resultantly, earnings are expected to record a higher-than-revenue CAGR of 60% over FY09-12.

Educomp to become FCF positive from FY11; BUY with TP Rs817

We expect Educomp to become FCF positive from FY11 as the new securitization model in Smart Class business would lead to higher cash profits generation, contraction in working capital cycle and reduction in capex intensity. This would eliminate the risk of further equity dilution to fund growth. Based on estimated strong earnings growth and dearth of other similar investment options in education space, we recommend BUY on Educomp with 1-year target price of Rs817 (15x FY12E EPS). However, low independence and small size of the Board is a key concern.

Valuation summary

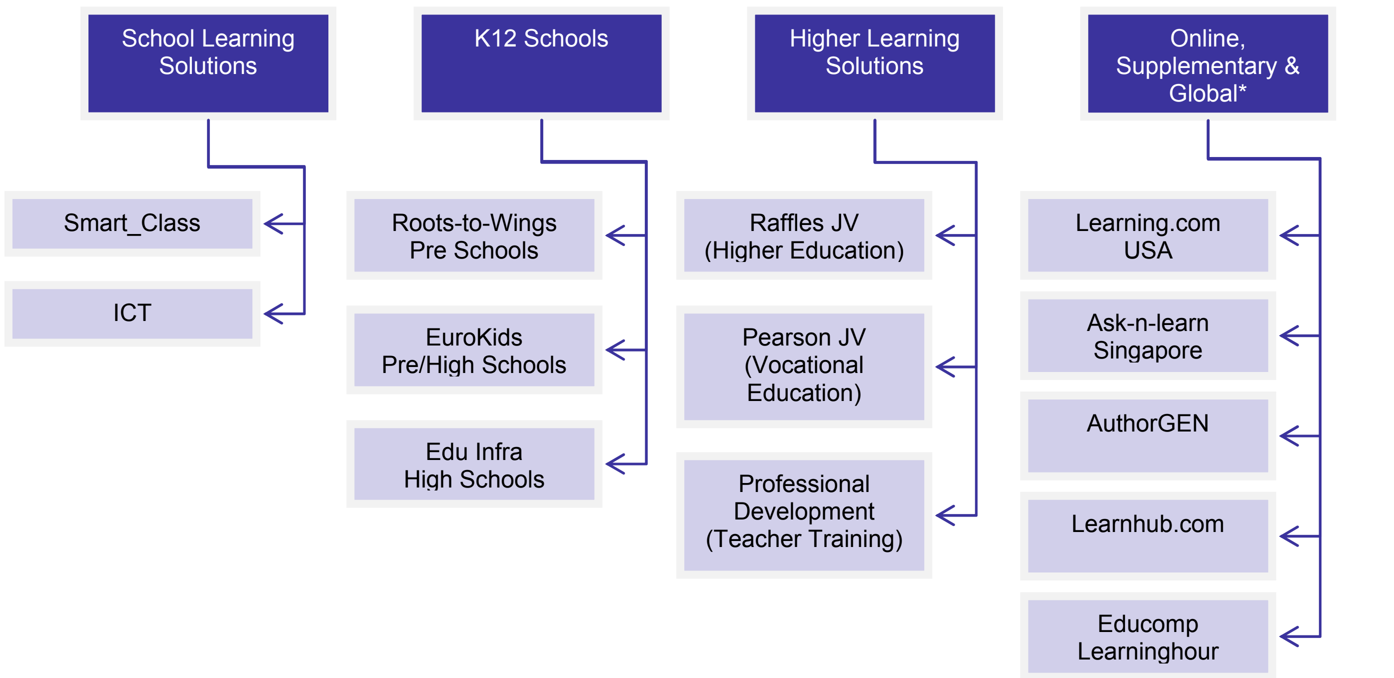
Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Revenues	6,371	11,175	17,955	18,998
yoy growth (%)	122.7	75.4	60.7	5.8
Operating profit	3,044	5,588	9,516	10,259
OPM (%)	47.8	50.0	53.0	54.0
Reported PAT	1,339	3,215	5,087	5,464
yoy growth (%)	88.3	141.9	58.2	7.4
EPS (Rs)	15.5	33.9	50.7	54.5
P/E (x)	46.1	21.1	14.1	13.1
EV/EBITDA (x)	22.6	12.3	7.1	6.2
Net Debt/Equity (x)	1.6	0.1	(0.2)	(0.3)
RoE (%)	36.3	36.7	29.7	23.3
RoCE (%)	23.3	29.0	34.9	34.1

Source: India Infoline Research

Company Overview

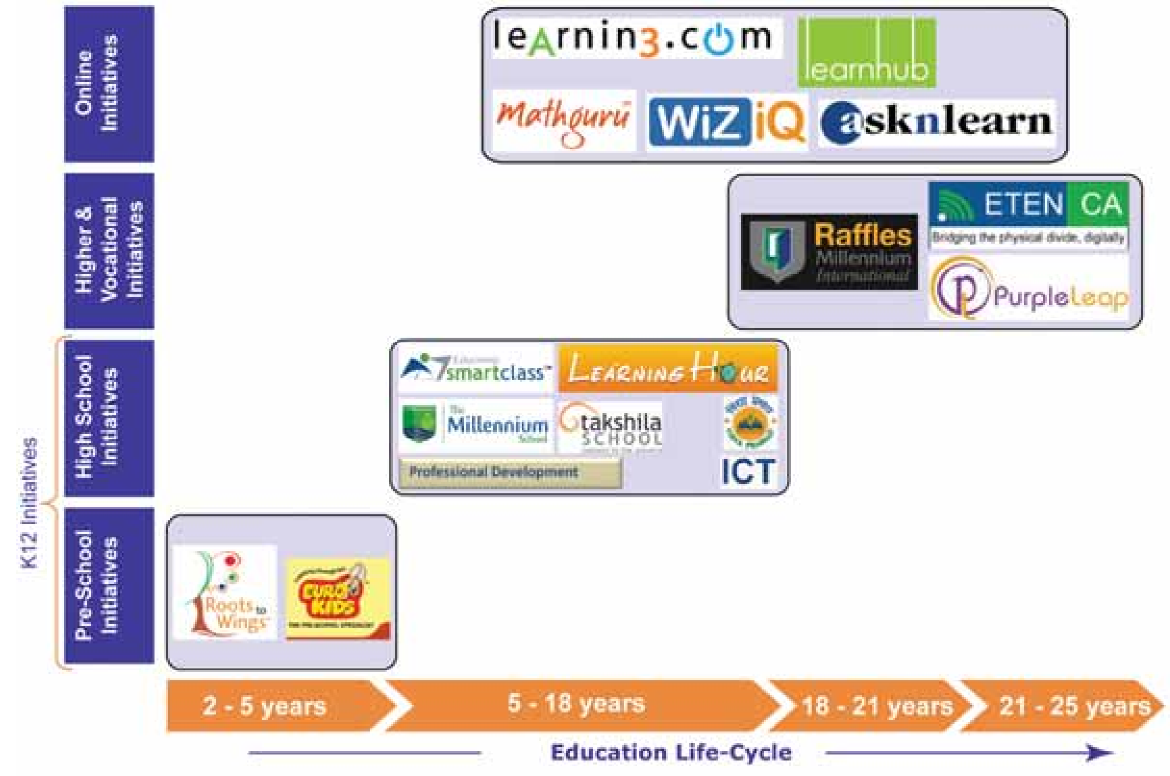
Educomp Solutions Ltd, incorporated in 1994, has grown rapidly to become India's largest education company. Educomp has presence across all segments of the Indian Education System, both formal and informal viz pre-schools, high schools, multimedia and content in private schools, ICT projects for Government schools, online/offline tutoring, teacher training, e-learning and professional and vocational education. In many of these segments, company is the market leader. Educomp has expanded its bouquet of offerings aggressively over the past 3-4 years through organic as well as inorganic route and has thereby significantly expanded its addressable market. With an employee base of over 4,500 professionals, company currently works with over 17,000 schools and serves more than 12mn learners and educators across India. Educomp has 27 offices worldwide; 20 in India, 3 in the US, 2 in Singapore and 1 each in Sri Lanka and Canada. In addition, it operates through various subsidiaries in India, USA, Singapore and Canada. Over FY06-09, Educomp's revenues and earnings grew at a robust CAGR of 125% and 112% respectively.

Business Segments



Source: Company
** Only key subsidiaries have been presented*

Presence across the entire education life cycle



Source: Company

Key events since incorporation

Year	Event
2009	Acquired popular education portal Studyplaces.com
	Change in Smart Class model from BOOT to Securitization
	JV with Pearson for vocational education in India
	Conversion of Mathguru into a free resource
2008	Restructuring of subsidiaries Edu Infra and Edu Manage into one entity, Edu Infra
	Acquired 51% stake in learning.com
	50:50 JV with Raffles Education for professional education in India
	Acquired 76% stake in A-Plus Education Solutions Pvt Ltd (Purple Leap)
	Acquired 50% stake in Eurokids International
2007	Investment in EduInfra and EduManage to set up private K-12 schools
	Acquired Ask 'n' Learn, Three Bricks E-Services, Savvica Inc (70.5%) & AuthorGen Tech (51%)
	Raised $80mn via FCCBs
2006	Launched first pre-school in Delhi under the brand 'Roots to Wings'
	Raised $25mn via FCCBs
	Launch of Mathguru.com
	Public Issue
2005	Launched Online tutoring service
2004	ISO 9001:2001 certification for ICT solutions
	Signed US pilot with Santa Barbara School District
	Entered Asia Pacific market with pilots in Singapore
	Set up R&D division
2003	Launched SmartClass content solution
2002	Established US subsidiary - Edumatics Corporation
	Launched Learning Mate Nhance-Learning Content Management Platform
2000	Started India's first K12 content development center
1999	Launched PlanetVidya.com -an online education system
	Launched professional development programs
1998	Launched eCampus -a student information system

Source: Company

➔ School Learning Solutions (SLS) – 76% of consolidated revenues

I) Smart Class – "The main engine of growth"

Flagship offering contributing 63% of revenues

Mainly targeted at unaided private schools in Tier-1, Tier-2, Tier-3 cities

Smart Class is Educomp's flagship offering comprising 63% of its consolidated revenues. It is an innovative technology-led solution that revolutionizes the way teachers teach and students learn inside the classroom. Smart Class is mainly targeted at unaided private schools in Tier-1, Tier-2, Tier-3 cities as the spending ability of the students' parents in such schools is high.

How does Smart Class work?

Educomp has India's largest digital content library covering all subjects across KG to Grade 12

An existing space inside the school campus is converted into a Smart Class knowledge center. The classrooms are equipped with plasma screens, interactive digi-boards, overhead projectors, etc and converted into a Smart Class. They are connected to the knowledge centre's dedicated server via a campus-wide ethernet network. The knowledge centre receives digital content from the Curriculum Research Center of the company. Educomp has India's largest digital content library of over 16,000 modules of curriculum-mapped, multi-media rich, 3D content. The library covers all subjects across Kindergarten to Grade 12. Inside the knowledge center, the extensive content repository resides in a user-friendly application engine. Teachers, who are trained for couple of days, access the content inside the classroom through individual logins.

Images of Smart Class

Source: Company

Raises quality of pedagogy resulting into enhanced learning outcomes

Smart Class significantly improves academic performance of students in schools through the use of technology

Smart Class, a teacher-led educational content solution, significantly improves academic performance of students in schools through the use of technology. It enhances teaching quality and student learning outcomes through 1) improvement in teacher's effectiveness and productivity 2) enhancing student's interest and engagement in learning inside through visuals and multimedia animations with/without voice over 3) brings even abstract and difficult curriculum concepts to life 4) enables instant formative assessment of learning outcomes 5) overall, makes learning an enjoyable experience for students.

Initial capex of Rs90,000-95,000 for converting a normal classroom into a Smart Class

Average value of contract for 25 classrooms would be Rs9.5-10mn, ~4x initial capex

High upfront capex led to negative FCF forcing Educomp to periodically dilute equity and raise debt

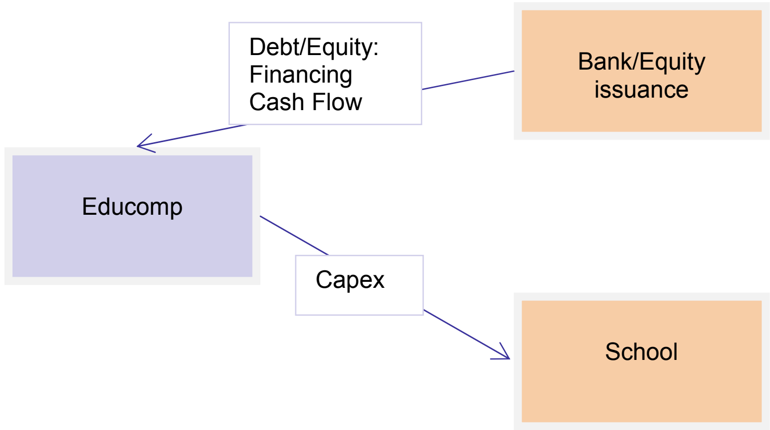
Scalability quotient in the BOOT model was low but financing schools became imminent for pushing the adoption

The old Smart Class model - BOOT

Till Q2 FY10, a Smart Class school project was undertaken by Educomp through a Build-Own-Operate-Transfer (BOOT) contract spanning five years. This model was capital intensive as company had to incur a capex of Rs90,000-95,000 (mainly the hardware cost) for converting a normal classroom into a Smart Class. Given that Educomp was mainly targeting large schools in Tier-1 cities, the average number of classrooms catered per school was ~25. Therefore, the upfront investment for the company was in the range of Rs2.3-2.4mn and the average value of the contract was Rs9.5-10mn, ~4x the initial capex.

With a high upfront capex, free cash flows (FCF) were significantly in the red forcing Educomp to periodically dilute equity and raise debt to maintain the high growth rate. So, the scalability quotient in the BOOT model was low. Company had to initially start with the BOOT model as Smart Class was a completely new concept and therefore financing the schools became imminent for pushing the adoption and creating a market demand for the product.

Diagrammatic representation of the old model



Source: Company, India Infoline Research

Educomp to sell hardware and content as a package to a third party vendor, EduSmart.

EduSmart to securitize the 5-year receivables from schools from banks and pay Educomp

Educomp will give corporate guarantee for EduSmart to banks

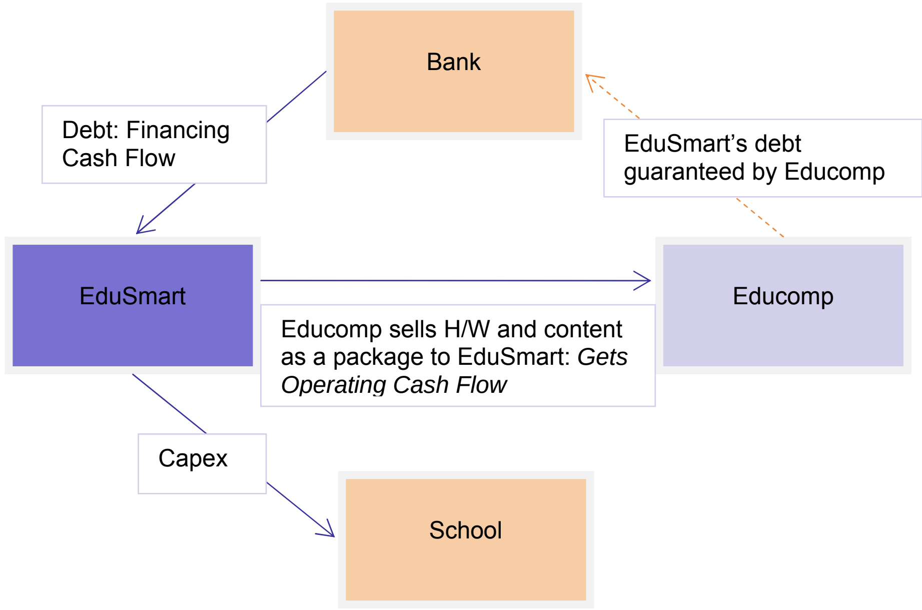
The new Smart Class model – Securitization

Under this new model, Educomp sells both hardware and content as a package to a third party vendor, EduSmart. EduSmart is company formed by ex-employees of Educomp who have sound understanding of the Smart Class business. EduSmart will install the equipment in schools and also provide services of commissioning and maintenance. It will securitize the 5-year receivables from the schools from a consortium of banks and pay Educomp towards the hardware and content package. The contract with the school will be a tripartite agreement which lays down the responsibilities of Educomp and EduSmart. Educomp will also give corporate guarantee for EduSmart to banks for the securitization funding. While the guarantee would cover the entire amount, in reality, recourse could be ~2-3% of the amount. Historical default rates of private schools have been less than 2% as parents seldom default on paying school fees of their children.

Educomp plans minor investment in EduSmart to have some strategic control for maintaining quality of Smart Class

The new model allows Educomp to focus on its core strengths of IP/content development while outsourcing non-core areas such as installation and maintenance. To have some strategic control over EduSmart for maintaining quality of Smart Class, Educomp plans to have a minor investment in EduSmart.

Diagrammatic representation of the new model



Source: Company, India Infoline Research

Revenue recognition and Cash Flow comparison between the two models

Old Smart Class Model - BOOT	Year 1	Year 2	Year 3	Year 4	Year 5	Sum
Revenues recognized by Educomp	20.0	20.0	20.0	20.0	20.0	100.0
Pre-tax margin %	35.0	35.0	35.0	35.0	35.0	35.0
Pre-tax profit	7.0	7.0	7.0	7.0	7.0	35.0
Cash flow	20.0	20.0	20.0	20.0	20.0	100.0

New Smart Class Model – Securitization	Year 1	Year 2	Year 3	Year 4	Year 5	Sum
Revenues recognized by Educomp	52.5	22.5	-	-	-	75.0
Pre-tax margin %	39.0	91.1	-	-	-	55.0
Pre-tax profit	20.5	20.5	-	-	-	41.0
Cash flow	58.0	4.0	4.0	4.0	4.0	75.0

Source: Company, India Infoline Research

Assuming that the tripartite contract with the school is worth Rs100, Educomp will sell the hardware and content package for Rs75 to the vendor. The vendor will securitize its Rs100 receivable from the school with the bank and receive ~Rs55-60, being the discounted value of receivables, and the same will be paid to Educomp upfront. Rs25 will be retained by the vendor to meet its obligation to the bank and the cost of servicing, operating and maintenance of Smart Class. The Rs75 revenues would be recognized by Educomp over two years, Rs52.5 (Rs30 towards hardware and Rs22.5 for content) in the 1st year and Rs22.5 (fully towards content) in the 2nd year. Resultantly, the profitability would be significantly higher in the 2nd year.

Benefits of the securitization model for Educomp

- Cash flow is significantly improved; business becomes free cash flow positive
- Creates platform for huge scale-up of Smart Class; would enable Educomp to add substantial number of schools each year
- Profitability is significantly improved due to economies of scale & tax arbitrage
- Debtors are reduced thereby improving the working capital cycle
- No risk of equity dilution due to Smart Class funding needs
- Quality of balance sheet improves with reduction in debt; could be leveraged for other high-growth opportunities

Market opportunity for Smart Class is gargantuan

High probability that all private schools may eventually have a multimedia product such as Smart Class

This trend is similar to that of computer labs in early nineties

Market size for Smart Class is increasing at 5-10% pa

Smart Class penetration is less than 5% implying a multi-year robust growth opportunity

The number of private schools in the country is estimated to be in the range of 70,000-75,000. Given the current trend, there is a high probability that all private schools may eventually have some or the other multimedia product being used in their classrooms. This trend is similar to that of computer labs in early nineties, when computers were introduced in schools. Today, almost every private school in the country has a computer lab. With about 4000-5000 new private schools being set-up every year, the market size for products such as Smart Class is increasing at 5-10% pa. Over the next 6-7 years, India could have ~100,000 private schools. The demand for private schools is being driven by rising disposable incomes, poor learning infrastructure in government schools and realization amongst parents of providing quality school education to their children. CBSE has estimated a shortage of 200,000 schools in the country. With the current school base of ~2,600, Smart Class penetration is less than 5% implying a multi-year robust growth opportunity. Further, contract renewals every 5 years add sustainability to future growth.

The new model to drive mass penetration of Smart Class; operating metrics of the business to change materially

One of the key rationales for adopting the new model is its high scalability

Management is confident of adding 500 schools in Q4 FY10 and 2,500 schools in FY11

As mentioned before, one of the key rationales for adopting the new model is its high scalability. This model would enable Educomp to penetrate in Tier-2 and Tier-3 cities at brisk pace while simultaneously increasing its reach in Tier-1 cities. With the adoption of the new model, management is confident of adding 500 schools in Q4 FY10 and 2,500 schools (~100% growth) in FY11. The long-term target of the company is to have a school base of 20,000 schools over the next 5-6 years. As majority of the incremental growth would come from Tier-2 and Tier-3 cities, the operating metrics of this business would materially change as below

- The average monthly student billing would decline from ~Rs150 currently to ~Rs120 over the next three years implying ~5-7% pa reduction due to penetrative pricing.
- Growth in student base would lag the growth in school base as company adds relatively smaller schools with student population of 600-900 in Tier-2 and Tier-3 cities.
- Average number of classrooms per school would decline from present ~25 to 19-20 in next three years and to 15-16 in the longer term.

We see robust growth in Smart Class revenues and expansion in margins; transfer of old contracts would create a bulge in FY11 revenues

We expect Educomp to add 450, 2,000 and 2,800 schools in Q4 FY10, FY11 and FY12 respectively

Smart Class revenues to witness 58% CAGR over FY09-12

Transfer all old BOOT contracts by March 2010 to benefit FY11 revenues; FY12 growth to be marginally negative

Revenues to track student addition more closely from FY12

Driven by the new securitization model we expect Educomp to add 450, 2,000 and 2,800 schools in Q4 FY10, FY11 and FY12 respectively. Our estimates are conservative against management's targets. We expect Smart Class revenues to witness 58% CAGR over FY09-12 driven by robust school additions and non-recurring benefit from transfer of existing old contracts. At 51.4%, the CAGR in student base would be lower than 65% CAGR in school base over FY09-12, resulting from addition of small and mid-size schools in Tier-2 and Tier-3 cities. With company intending to transfer all old BOOT contracts (at residual values) into new securitization model by March 2010, we expect Q4 FY10 and FY11 revenues to disproportionately benefit from this. Therefore, FY12 Smart Class revenues would be flat or marginally lower yoy and that revenue would track student addition more closely from that year onwards.

Segmental EBIT margin to expand due to higher profitability under the new model

We expect margin expansion of 400-500bps over FY10-12

EBIT margin in the Smart Class business is set to expand due to higher profitability under the new model. We have already seen this happening in Q3 FY10, where fresh schools were added under the new model and significant number of existing schools was transferred from old BOOT model. We expect EBIT margin expansion of at least 400-500bps over FY10-12.

Initial funding response from banks has been encouraging; availability of funding in future remains critical to long-term growth

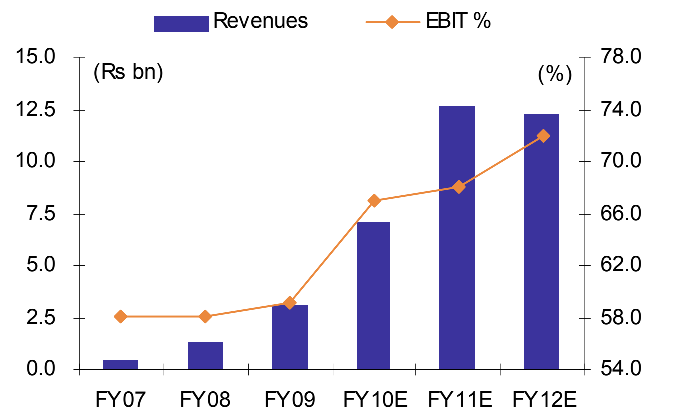
As at Q3 FY10-end, EduSmart had outstanding sanctions of Rs1.7bn

Securitization proposals worth Rs2-3bn under consideration from various banks

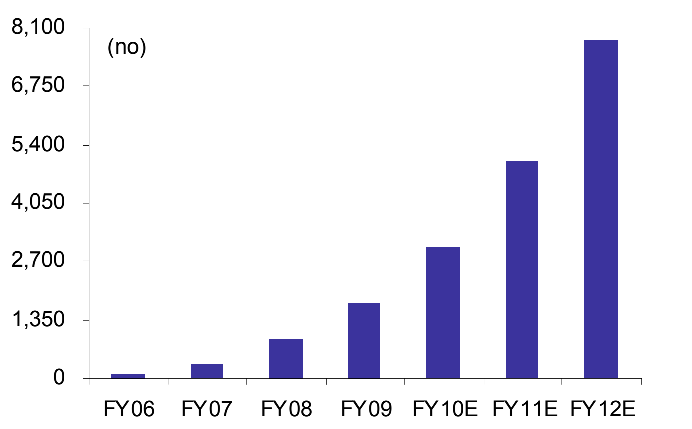
Overall funding requirement of Rs22-23bn to meet our school addition target

As at the end of Q3 FY10, EduSmart had outstanding sanctions of Rs1.7bn. In addition the company was to receive a disbursement of Rs1bn from Standard Chartered Bank by 31st January 2010. Securitization proposals under consideration from various banks including SBI, Axis Bank, IndusInd Bank and Canara Bank were Rs2-3bn. Based on broad calculations, we reckon that EduSmart would require bank funding of Rs6.5-7bn in Q4 FY10 for adding 450 schools and transferring residual 1,632 existing schools. Further, it is likely to require Rs7-7.5bn in FY11 and Rs8-8.5bn in FY12 to add 2,000 and 2,800 schools respectively.

Smart Class Revenues and EBIT%

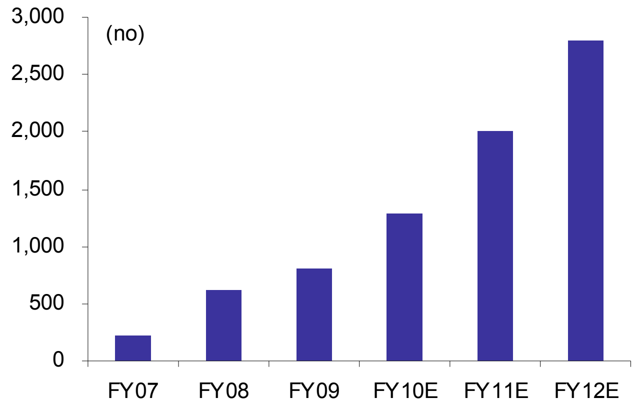


No of schools at the year-end

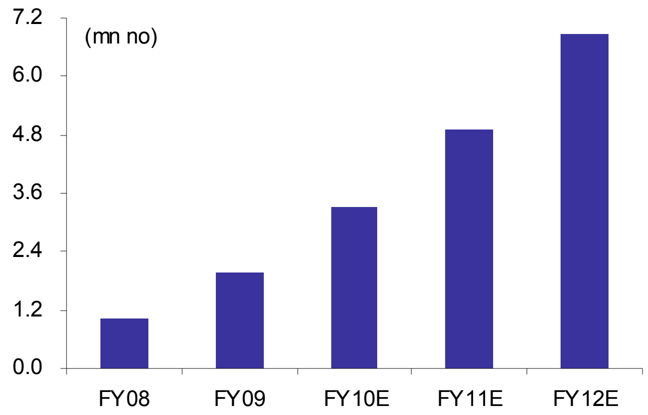


Source: Company, India Infoline Research

No of schools added during the year

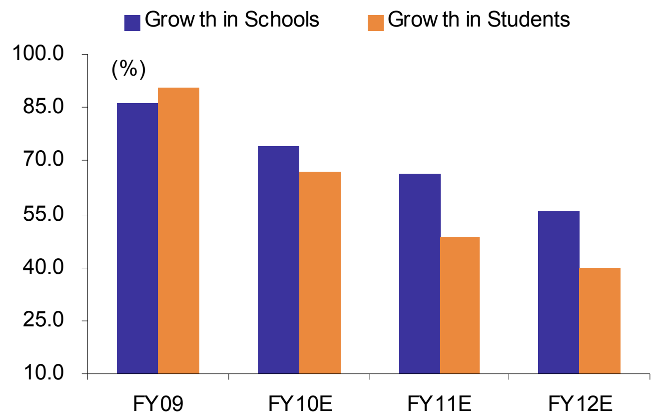


No of students at the year-end

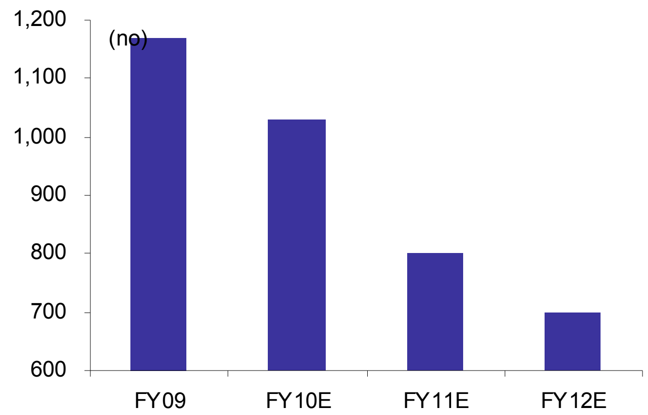


Source: Company, India Infoline Research

Growth in students to lag growth in schools

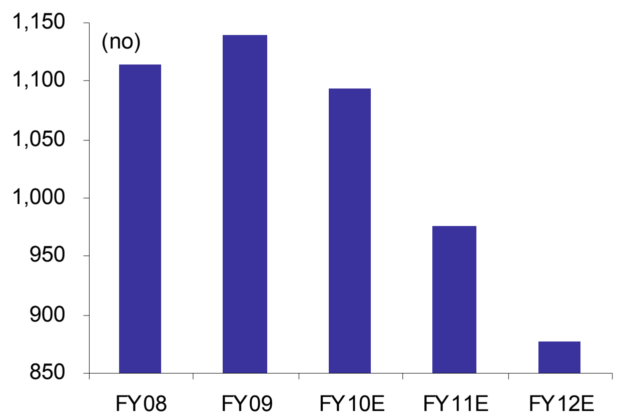


Incremental students added per school

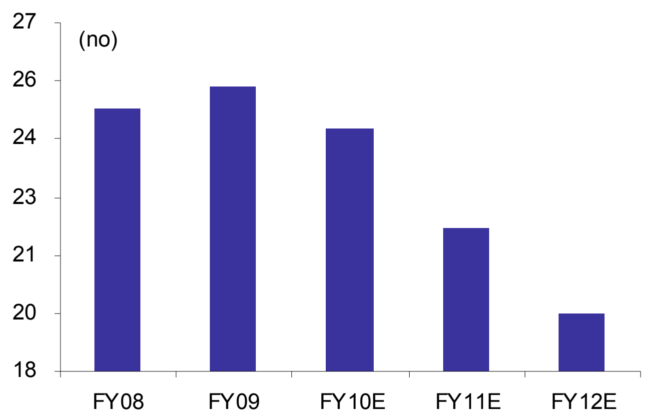


Source: Company, India Infoline Research

Average number of students per school



Average number of classrooms per school



Source: Company, India Infoline Research

II) ICT – "Growth to moderate"

Market leader with strong track record

Educomp has a strong track record of implementing large-scale ICT projects and has covered close to 15,000 government schools and 8mn students

Company is the market leader in this segment with a market share of ~12-13%

Educomp has an edge over competition due to its ability to develop content in regional languages

Educomp has a strong track record of implementing large scale PPP projects in ICT segment and has worked closely with various state and central government agencies, Ministries of IT and HRD. Company has partnered with fourteen state governments, namely Government of Assam, Karnataka, Orissa, Tripura, Gujarat, Uttar Pradesh, West Bengal, Tamil Nadu, Haryana, Jharkhand, Rajasthan, Punjab, Chhattisgarh and Andhra Pradesh, covering close to 15,000 government schools and 8mn students. With this tally, Educomp is the market leader with a market share of ~12-13% as just above 100,000 schools have been covered till date. In this segment, company faces competition from NIIT, Aptech, Everonn, Core Projects and regional players. Educomp has an edge over competition due to its ability to develop content in regional languages which is a combination of computer literacy and curriculum mapped content.

Earns above-industry margin through value addition

Apart from executing plain vanilla ICT projects, Educomp has also implemented many value added projects.

This explains why company has historically earned above industry margin of 20%+ in this segment

Apart from executing plain vanilla ICT projects (only computer education projects), Educomp has also implemented many value added ICT projects (also involving computer aided learning and multimedia based educational content development). A simple computer education project typically involves computer education infrastructure implementation (supply of the required hardware and software), teacher training (many times teachers are also provided to run the program) and supply of consumables. The contract is a BOOT arrangement covering a period of five years. Company has to bear the upfront investments of setting-up the computer lab (typically 30% of the project size) and teacher salaries (if provided), consumables during the duration of the contract. As these contracts are typically allotted on L1 basis amidst stiff competition, the profitability is modest at <20% EBIT. In case of contracts involving computer aided learning and multimedia based educational content development, the margin is higher due to value addition and low competition. This explains why Educomp has historically earned above industry margin of 20%+ in this segment.

Strong revenue growth in 9m FY10; likely to moderate going ahead

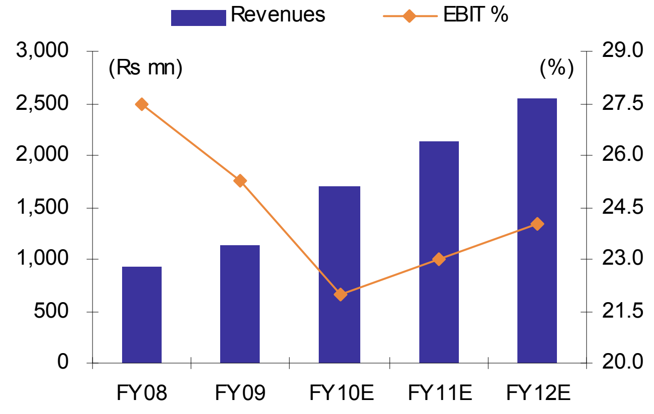
Significant number of project wins between Q1 FY09- Q1 FY10 has led to strong revenue growth in 9m FY10

ICT revenues to witness 31% revenue CAGR over FY09-12 driven by 20% CAGR in school base

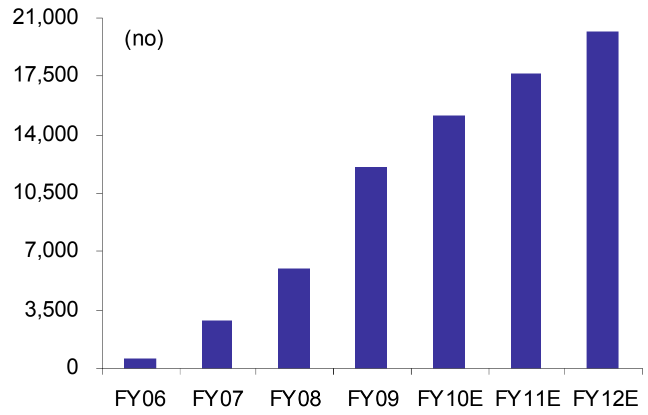
EBIT margin to improve to 24-25% aided by higher contribution of value added projects

During 9m FY10, ICT revenues stood at Rs1.32bn representing a robust 130% yoy growth. This was mainly driven by a significant number of projects wins (7,788 schools, >50% of current base) between Q1 FY09-Q1 FY10. In the near-term strong growth would continue despite modest school addition in the past two quarters. The longer-term growth would be healthy with Educomp's strong competitive position and as large number of schools are expected to come-up for bidding over the next two years. We estimate ICT revenues to witness 31% revenue CAGR over FY09-12 driven by 20% CAGR in schools covered. EBIT margin is expected to improve gradually to 24-25% between FY09-12 aided by an increase in the contribution of value added projects.

ICT Revenues and EBIT%

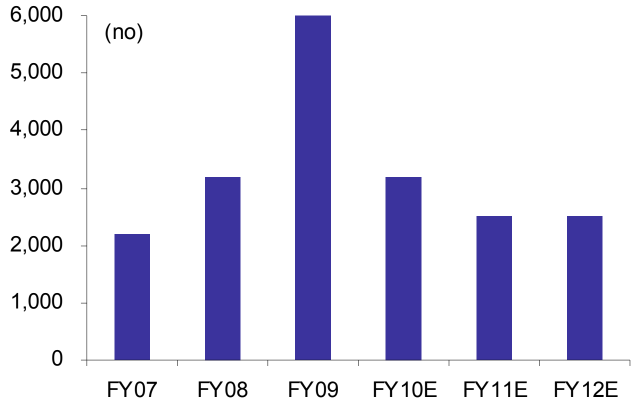


No of schools at the year-end



Source: Company, India Infoline Research

No of schools added during the year



Source: Company, India Infoline Research

➔ K-12 Schools – 10% of consolidated revenues

I) Pre-schools – "In consolidation phase"

Current size of the pre-school market is estimated at US$250-300mn with about 15,000 pre-schools

Organized large chains such as Eurokids and KidZee have 400-450 schools each

Pre-school, a US$250-300mn market growing rapidly
The current size of the pre-school market is estimated at US$250-300mn with about 15,000 pre-schools in the country. The pre-school market has been fast expanding and is expected to touch US$2bn over the next 5-7 years. The industry is highly fragmented with organized large chains such as Eurokids and KidZee running 400-450 schools each across the country. Largely an urban phenomenon, the rapid proliferation of pre-schools over the past five years have been driven by the increased understanding amongst parents about the benefits of high quality pre-schooling for their children.

Educomp has presence through its organic brand, Roots-to-Wings and Eurokids

Eurokids investment has made Educomp one of the leading players in pre-school market
In this segment, Educomp has presence through its organic brand, Roots-to-Wings and Eurokids, a relatively recent investment. Under Roots-to-Wings, company has 240 franchisee schools including sign-ups. Revenues generated by this organic pre-school venture were Rs26mn in Q3 FY10 and Rs64mn in 9m FY10. As compared to substantial losses in the first two quarters, Roots-to-Wings reported 30% OPM in Q3 FY10. However, it is only through Eurokids' investment that company significantly strengthened its position in the pre-school market.

In October 2008, company acquired 50% stake in Eurokids for Rs390mn

Eurokids is one of the largest pre-school chains in India with about 424 pre-schools

Eurokids targets to expand its network to 1,000 over the next three years.

In October 2008, Educomp entered into a 50-50 strategic partnership with Eurokids International Private Ltd (Eurokids). The agreement included acquisition of 50% stake for Rs390mn as well as infusion of additional capital into Eurokids for future expansion by Educomp. The agreement also provides company with the option to increase its stake in stages to 74% at same valuations within two years. Eurokids is one of the largest pre-school chains in India with about 424 pre-schools (394 franchised and 30 owned) spread across 160 towns and cities. Post the strategic investment by Educomp, Eurokids targets to expand its network to 1,000 pre-schools over the next three years. Eurokids revenues were Rs69mn in Q3 FY10 and Rs215mn in 9m FY10. Its profitability has substantially deteriorated to 5% in the first nine months. As Educomp has majority representation on the Board of Eurokids, the latter has been classified as a subsidiary despite 50% holding and its financials are consolidated line-by-line.

Franchising would remain the model for expansion; no material difference in profitability between owned and franchised pre-schools

To follow a multi-brand strategy and expand through franchising
Educomp intends to continue to run and expand Roots-to-Wings and Eurokids separately and thereby follow a multi-brand strategy. Franchising would remain the model for expansion. Typically, in a franchised pre-school, Educomp provides curriculum content, uniforms, text-books, soft toys/gifts items, etc, to the franchisee and participates in teacher selection and evaluation process. Revenues and cash flows are earned through 1) an upfront franchise fee of Rs0.5-1mn (depending on the location of the school) 2) 20% share in the fees collected and 3) profit mark-up on the uniforms, text books, soft toys/gift items supplied. With no meaningful difference in profitability between owned and franchised pre-schools, players have preferred to scale-up through the latter route.

II) Edu Infra – "Set for robust growth"

K-12 schools, largest market in Indian Education System

Demand for private K-12 schooling has been growing at substantial pace over the past five years

The demand for private K-12 schooling has been growing at substantial pace over the past five years driven by 1) a failed government education system 2) increased awareness amongst parents about significantly higher quality of education in private schools 3) rising disposable income due to economic growth and 4) favorable change in the country's demographics (>50% of population below the age of 20). As a result, the private schools, especially unaided (no government support), have significantly increased in number. The number of private schools in the country is estimated to be in the range of 70,000-75,000. With about 4000-5000 new private schools being set-up every year, India could have ~100,000 private schools over the next 6-7 years. CBSE estimates demand for 200,000 K-12 schools over the next 10 years.

About 4000-5000 new private schools are being set-up every year

CBSE estimates demand for 200,000 K-12 schools over the next 10 years

Edu Infra, the main K-12 schools entity

Education carries a social connotation in India and therefore regulations restrict ownership of schools to trusts/non-profit entities

As education carries a social connotation in India, regulations restrict ownership of schools to trusts and other non-profit entities and further prevent them from distributing dividends or even investing the surplus generated in setting-up new schools. Therefore, a two-tier structure has gained prominence which breaks through the hurdles created by the regulations. In this structure, a profit-seeking entrant sets up a trust or other not-for-profit body to own and operate schools. This entity secures approval from the respective educational board, enrolls students and collects fees. The entrant also incorporates a school management and infrastructure entity to provide curriculum content/IP, infrastructure and administration services to the trust schools. The surplus generated by the school after meeting teacher salaries can then be transferred to the school management and infrastructure vendor via lease rentals, fixed management fees or revenue share.

Therefore, a two-tier structure has gained prominence wherein an entrant would set-up a trust to own schools and school management/infrastructure entity to make profits

Educomp runs schools on similar model; Edu Infra being the school management/infrastructure entity

Educomp runs schools on similar model wherein all the schools are run under not-for-profit bodies while the infrastructure, content/IP, administrative services are outsourced to Educomp Infrastructure & School Management Services Ltd (Edu Infra), an entity in which the company owns 69.4%. Edu Infra has also been providing its structured school management system, Millennium Learning System, to various private K-12 schools. The Millennium Learning System includes Educomp's own range of books, professional development for teachers, Smart Class system, a comprehensive library of lesson plans and active management of the school quality. Edu Infra recorded revenuers of Rs389mn in FY09 and earned hefty OPM of 75% reflecting how rewarding K-12 business is. In 9m FY10, its revenues were Rs402mn and OPM was 71%.

Edu Infra recorded revenues of Rs402mn and OPM was 71% in 9m FY10.

Presently 22 schools operational under Edu Infra covering 18,000+ students and 14 schools under Eurokids

Educomp ventured into the K-12 school segment to exploit the opportunity arising from the huge demand-supply gap for quality private schools in the country. Edu Infra's portfolio of schools include

I) Millennium Schools: Targeted towards Tier-1 and Tier-2 cities with fees in the range of Rs3,500-4,000 per month
II) Takshila Schools: Targeted towards Tier-2 and Tier-3 cities with fees in the range of Rs1,800-2,000 per month
III) Vidya Prabhat Schools: Targeted towards Tier-4 cities and semi-urban towns with fees at Rs800 per month

Edu Infra currently has 22 schools in operation with 18,000+ student enrollments. These schools could be further segregated between Takshila Schools, schools under dry management contracts, co-branded schools and owned schools. Locations of the existing schools include Lucknow, Meerut, Panipat, Amritsar, Chennai Porur, Chennai OMR, Hoshiarpur, Ahmednagar and Gaya.

Educomp believes its schools differentiate from other private schools through 1) enhanced quality of learning for students through Smart Class 2) superior teacher quality aided by company's lineage in teacher training 3) more exhaustive and rich curriculum content backed by the largest K-12 content library in the country.

Educomp also has 14 franchised EuroSchools under Eurokids

Further, Educomp also has 14 franchised EuroSchools under Eurokids at locations such as Mumbai, Jalna, Tumkur, Hassan, Bangalore, Patna, Jodhpur, Hyderabad, Davangiri, Guwahati and Turaon. All of these 14 schools have become operational only in H1 FY10.

Images of schools under Edu Infra

The Millennium School, Noida

The Millennium School, Mohali

Source: Company

Co-branding has been an effective strategy for expansion

Company has some schools operational in South India under the name PSBB Millennium School

Under co-branding strategy for schools, Educomp uses well-established and highly credible local/regional K-12 school brands for its Millennium schools for pan-India expansion. For instance, company has some schools operational in South India under the name PSBB Millennium Schools. PSBB (Padma Sheshadri Bal Bhavan) School is amongst the larger private school chains in the country with strong presence in South India. Association with such strong K-12 education brand accelerates student enrollments in Millennium Schools. In return, schools pay a royalty equivalent to 5% of the fees collected to the school chain.

Recently Educomp signed an agreement with founders of The Shriram Schools to set-up five co-branded schools over next 2-3 year

Educomp had also recently signed an agreement with Shri Educare Ltd (SEL), promoted by the founders of The Shriram Schools, to set-up five co-branded schools over the next 2-3 years which would be called 'The Shriram Millennium Schools'. SEL is essentially engaged in setting up K-12 schools in India and abroad, providing teachers' training and undertaking education consultancy, while Edu Infra is facilitating schools across India by providing expertise in school management, educational infrastructure as well as learning systems. The first school under the arrangement was opened in Q3 FY10 in Noida.

Visibility for another 23 schools

Land and capital are the two critical resources for scaling-up in high schools

K-12 schools is a highly capital intensive business. As per the company, approximate cost of setting-up schools (land, building and furniture) is about Rs120-160mn in Tier I and Tier-II cities, Rs200-250mn in Delhi-NCR and Rs400-450mn in Mumbai. Land and capital are the two critical resources for scaling-up in this segment.

Near-term visibility for additional 23 schools, 22 under Edu Infra and 1 under EuroSchools

Educomp has near-term visibility for additional 23 schools, 22 under Edu Infra and 1 franchisee sign-up for EuroSchools. Of the 22 schools coming up under Edu Infra, 6 are under construction while the land acquisition is complete for the remaining 16 schools. In the longer term, Educomp plans to have 150 schools in its fold over the next 3-4 years.

Edu Infra to drive revenue growth and margin improvement in K-12 Schools segment

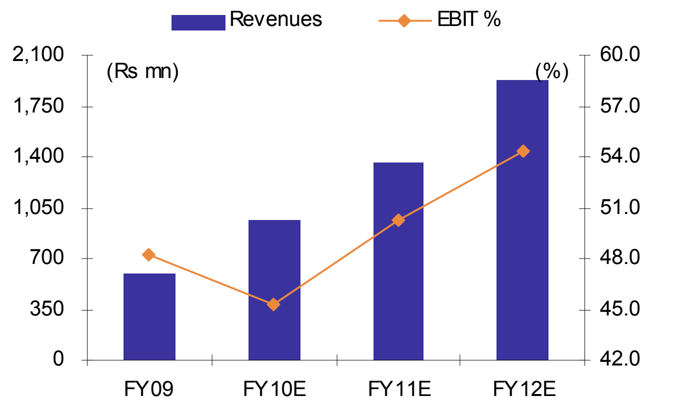
Edu Infra revenues to register a strong 50% CAGR over FY09-12

K-12 Schools segment revenues to witness a robust 48% CAGR over FY09-12

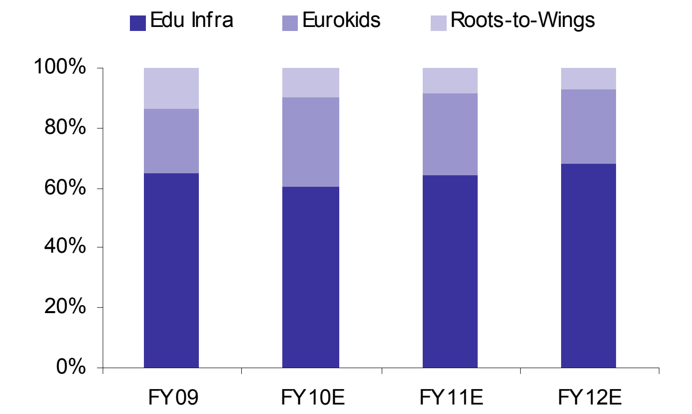
Margins in the segment to improve with higher contribution of high schools revenues

We expect Edu Infra revenues to register a strong 50% CAGR over FY09-12 driven by new school additions and significant improvement in capacity utilization of already operational schools. We have been significantly conservative than the management in factoring new school additions. For Roots-to-Wings, we have assumed a stable revenue growth of 20% over FY09-12 while for Eurokids, a higher growth has been assumed at 30% due to revenue contribution from EuroSchools. Overall, K-12 Schools segment revenues are expected to witness a robust 48% CAGR over FY09-12. Margins in the segment would improve significantly over the next two years aided by higher contribution of highly profitable high schools business as against the pre-schools business.

K-12 segment Revenues and EBIT%

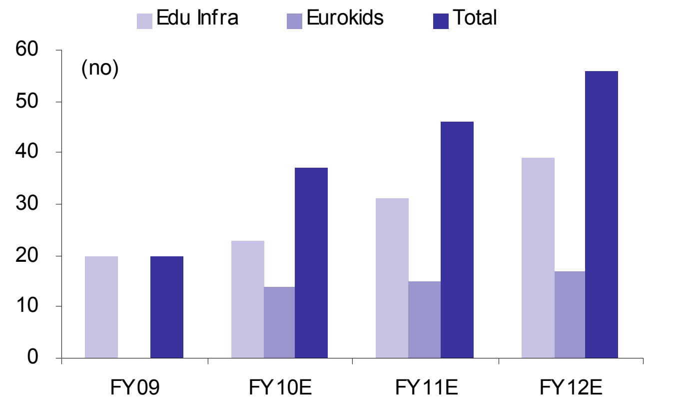


K-12 segment revenue mix

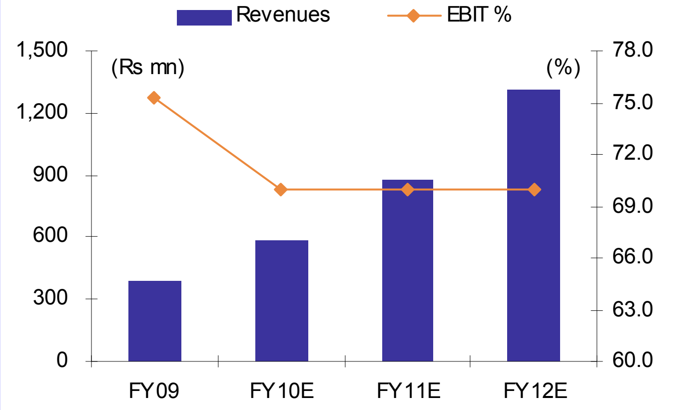


Source: Company, India Infoline Research

No of schools operational at year-end

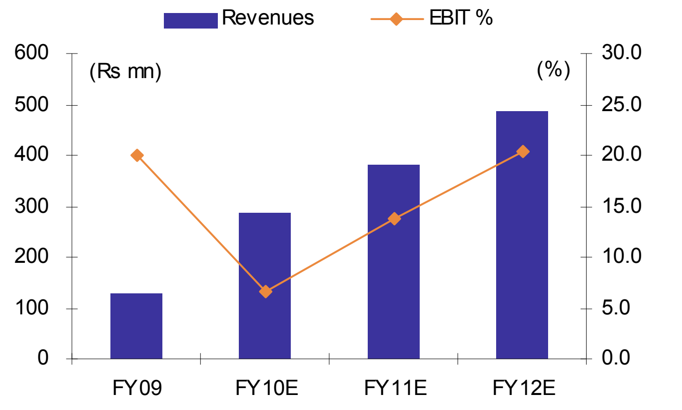


Edu Infra Revenues and EBIT%

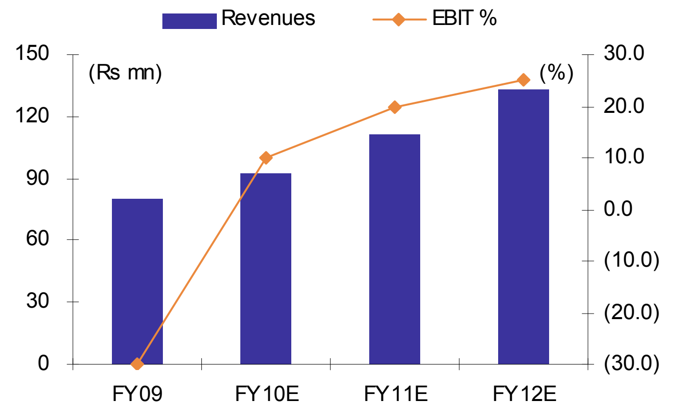


Source: Company, India Infoline Research

Eurokids Revenues and EBIT%



Roots-to-Wings Revenues and EBIT%



Source: Company, India Infoline Research

➔ Higher Learning Solutions (HLS) – 3% of consolidated revenues

I) Professional Development – "Flat growth"

Leading teacher training company in the country

Leading teacher training company in India having trained >1.5mn teachers

Company charges Rs800-850 per teacher for training; EBIT margin is 27-32%

Educomp is a leading teacher training company in India having trained more than 1.5mn teachers in technology integration, pedagogy and best classroom practices. Company has partnered with Ministry of Human Resource Development, Government of India, corporates and NGOs for various teacher training projects in schools across the country. Educomp runs exclusive centers for teacher training in over 30 locations in India and has a team of 200+ trainers. Analyzing the revenue and teachers trained data of the past three years, company appears to be charging Rs800-850 per teacher for training. The EBIT margin has moved in the range of 27-32% over the past three quarters.

Higher penetration would lead to flat revenues over FY09-12

Educomp has covered 25% of teacher training market

Going ahead, we expect 20% growth in teachers trained in FY11 and FY12

There are more than 6mn teachers in the country with about 85% of them in need of re-skilling. Educomp having trained ~1.6mn teachers till date seems to have covered about 25% of this market. Increased penetration led to a relatively low 15% growth in teachers trained in FY09 (42% growth in FY08) while the number is likely to be significantly lower yoy in FY10. Going ahead, we expect 20% growth in teachers trained in FY11 and FY12. Absolute revenues in this business would however be lower in FY12 as compared to FY09.

II) Pearson JV (IndiaCan) – "In investment mode"

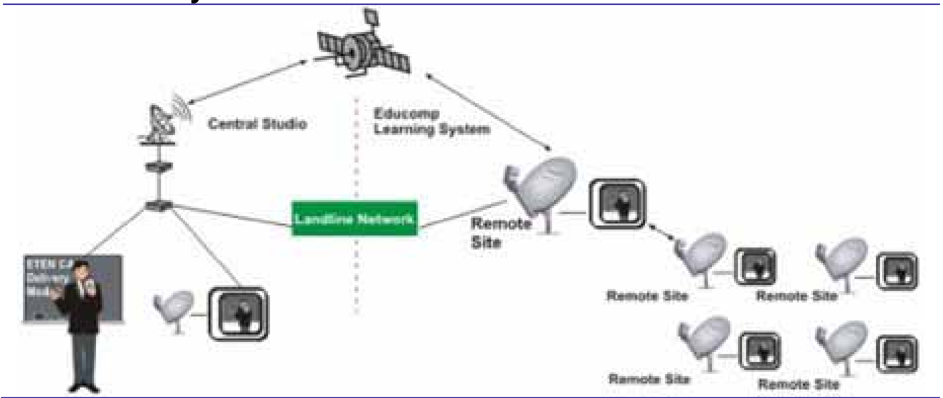
ETEN - Virtual Learning

There are 50 learning centers in operation catering to 8,000+ students

Coaching for CA aspirants and accountancy, English language and training for retail and hospitality industry

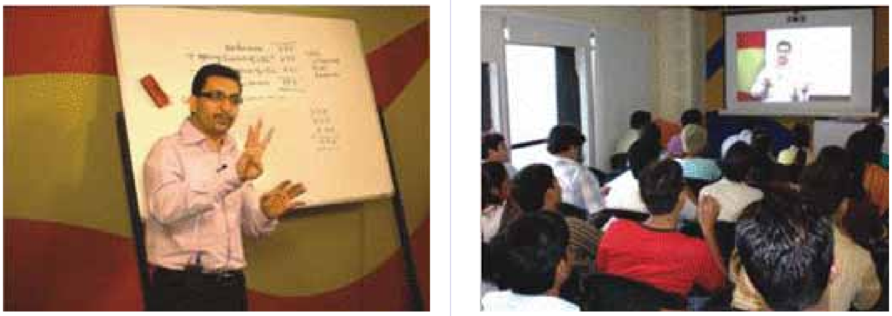
ETEN (Educomp Tele-Education Network) is Educomp's initiative towards helping students in receiving personalized coaching from acclaimed faculties in their home town and at a lower cost compared to face-to-face classes from the same faculty. Through its state-of-the-art telecommunication facilities and studios, ETEN conducts two-way audio, video and data enabled faculty lectures for students sitting at company's learning centers across the country. Presently, there are 50 learning centers in operation catering to 8,000+ students. The services being offered currently under ETEN initiative are ETEN CA (coaching for CA aspirants and accountancy training), English language learning and training for retail and hospitality industry.

ETEN delivery



Source: Company

Images of studio and learning centre



Source: Company

Purple Leap and IGNOU initiative

Purple Leap focuses on improving the employability of college graduates

In July 2008, Educomp acquired a strategic stake in A-Plus Education Solutions Pvt Ltd with an option to acquire upto 76%. A-Plus has been operating under the brand name 'Purple Leap' which focuses on improving the employability of college graduates. It is run by a team of four young professionals, who are graduates from premier management institutions such as XLRI and IIM Bangalore.

Tie-up with IGNOU to provide programs in spoken English and personality development

Educomp has tied-up with IGNOU (Indira Gandhi National Open University) to provide programs in spoken English and personality development. These programs are targeted towards students, professionals and housewives who want to learn English for career advancement or want to improve their communication and social skills. Under the program, IGNOU targets to train about 12,900 students across 52 centers in 42 cities in Phase I through implementation partners like Educomp.

IndiaCan on fast expansion track

JV with Pearson for offering vocational skills training in India

Pearson acquired 50% stake in Educomp's existing vocational training business for

In June 2010, Educomp entered into a JV with Pearson, the international education and information company, for offering skills training in India, one of the fastest growing labour markets. As per the agreement, Pearson also acquired a 50% stake in Educomp's existing vocational training business (ETEN, Purple Leap and IGNOU initiative) for US$17.5mn.

The JV rechristened as IndiaCan would provide training for professional skills in sectors such as retail, BFSI, IT, etc

Demand for professional skills training is huge with NSDC targeting to train 500mn workers by 2020

The JV which has been rechristened as IndiaCan would provide training for essential professional skills in sectors such as retail, BFSI, IT, etc and would also include English training. The training will be backed by industry-standard certifications provided by Edexcel, Pearson's market leading qualification and accreditation arm. The demand for professional skills training is huge with the National Skill Development Council (NSDC) targeting to train 500mn workers by 2020.

100 IndiaCan training centers already operational across the country

In the medium-term, it plans to create a national network of more than 600 centres

IndiaCan has witnessed rapid expansion in its 1st year of operation itself with over 100 vocational training centers already operational in different formats across the country. In the medium-term, it plans to create a national network of more than 600 centres. Currently, IndiaCan has tied-up with leading companies in including retail, banking and finance, telecom and consumer goods, to provide jobs to students who will successfully complete these courses. The company is also in talks with other major companies for partnership in segments like telecom, BPO, media and hospitality.

Government programs under implementation in IndiaCan

Entity	Project Scope	Vertical
RMoSL (Rajasthan)	⌖ Implemented in Dholpur, Karauli, Jhalawar, Sawai Madhopur & Bharatpur ⌖ Total number of students – 1,732	IT, Retail, English
RKCL	⌖ Currently setup at Jhalawar ⌖ Plans to expand to 7 districts, cross-utilize RMoL center infrastructure	IT
DEGT (Punjab)	⌖ Running Modular Employability Courses in Patiala, Ludhiana, Mohali. Starting in Hoshiarpur soon	BFSI, Retail
MoRD (UP)	⌖ Saharanpur Center accredited on MES (Modular employable Skills Scheme) ⌖ Plan to open 2 centers at Barabanki and Lucknow under UP MoRD for IT training	IT
Gujarat Industrial Development Corporation (GIDC)	⌖ Offering Computer Operator/ manufacturing courses ⌖ Building a tie-up with Teamlease ⌖ To be Implemented in Patan, Anand, Vadodara, Panchmahal & Bharuch.	Mfg & IT
Gujarat Knowledge Society (GKS)	⌖ Implemented in Ahmedabad and Vadodara Zone ⌖ Plan to train 300 candidates under GKS	IT
DTC	⌖ 500 candidates have been trained in Phase I, Phase II training to start soon ⌖ Plans to train an additional 2500 candidates in both phases	Soft Skills

Source: Company

III) Raffles JV – "In investment mode"

JV with Raffles Education for professional education in India

JV with Raffles Education for professional education in India

A premium design institute in the name of Raffles Millennium International was launched at Delhi in March 2009

Second RMI college was opened in Bangalore recently

Additional four colleges are coming up in Chandigarh, Chennai, Hyderabad and Ahmedabad by April 2010

In May 2008, Educomp entered into a joint venture with the largest private education group in Asia-Pacific region, Raffles Education, for professional education in India. The JV intends to bring the entire suite of Raffles' professional development programs and courses to India. Under the JV, a premium design institute in the name of Raffles Millennium International (RMI) was launched in Delhi in March 2009. RMI offers courses in fashion design, product design, interior design, interactive media design and fashion marketing. It has also started courses in Commerce where students will get Diplomas from Raffles University in Singapore. Further, it plans to introduce courses on business management, tourism and hospitality management in near future. The second RMI college was opened in Bangalore recently. Additional four colleges are coming up in Chandigarh, Chennai, Hyderabad and Ahmedabad by April 2010 which would run academic sessions from 2010-11. Through this venture, Educomp intends to leverage its existing huge K-12 student base of over 10mn in other business segments.

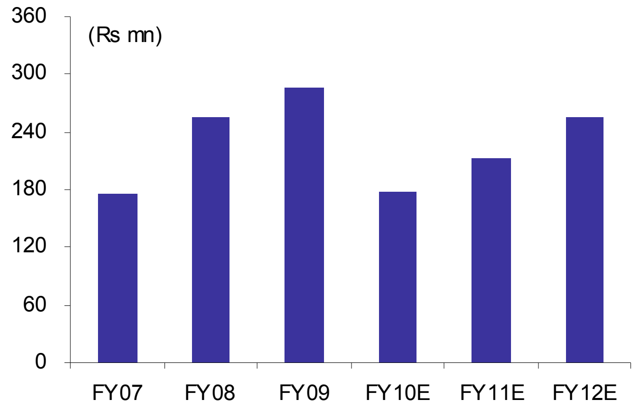
HLS segment revenue growth to be driven by Pearson and Raffles JVs

HLS segment revenues to witness a 26% CAGR over FY09-12

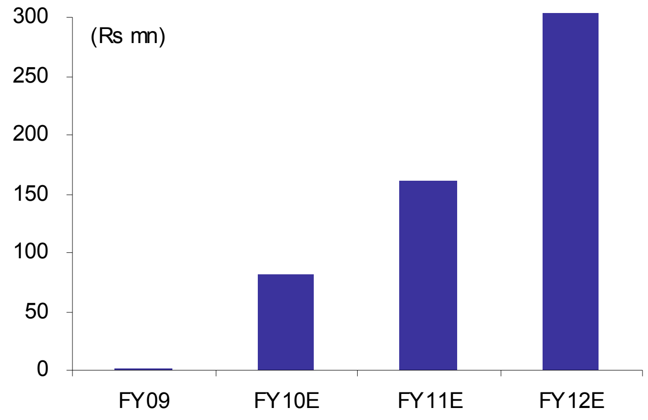
Profitability could improve to mid single digits by FY12 from significant losses in recent quarters

Brisk expansion in IndiaCan (Pearson JV) vocational training centers and opening of new RMI colleges would drive HLS segment revenue growth over the next three years. We expect segment revenues to witness a 26% CAGR over FY09-12. We also believe that profitability could improve to mid single digits by FY12 from significant losses in recent quarters. This would be aided by higher utilization of vocational training centers and colleges.

Professional Development Revenues

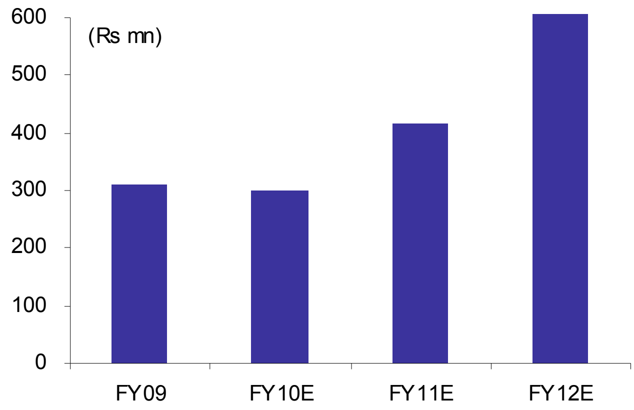


Pearson JV + Raffles JV Revenues

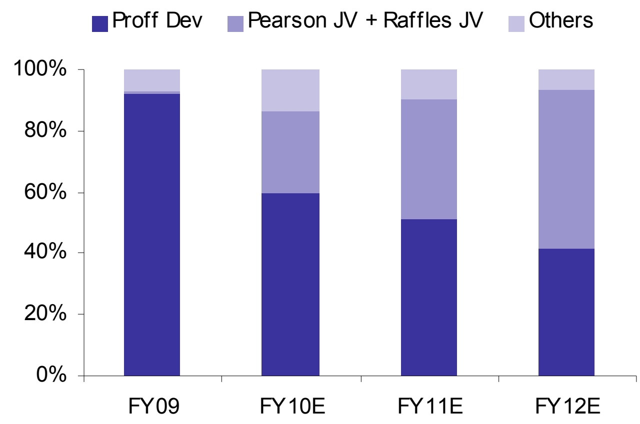


Source: Company, India Infoline Research

HLS Segment Revenues



HLS Revenue Mix



Source: Company, India Infoline Research

➔ Online Supplementary & Global (OS&G) – 11% of consolidated revenues

Mathguru - Online portal for students of Mathematics

Online math-help program providing students to all problems in NCERT books for Grade 6-12

This service has been converted into a free resource since January 2009

Mathguru is an innovative online math-help program providing students with solutions to all the problems in the NCERT books for Grade 6-12. Students can see the solution written on a virtual notebook using a virtual pen. They also hear the explanation from the teacher making the experience similar to watching a teacher write down the solution in a notebook. The only difference being that the student can see and hear the solution multiple times, if required to understand the problem. There are over 15,000 content modules built that map all the questions in NCERT books for Grade 6-12. Mathguru is managed by a team of 40 people and has served over 75,000 students till date. The service has been converted into a free resource since January 2009.

LearningHour - Online & Offline tutoring

LearningHour.com offers one-to-one online tutoring in all curriculums from Grade 6-12 primarily in India and Middle East

LearningHour, an Educomp subsidiary, runs online tutoring services and tutoring centers in India. Its portal, LearningHour.com, offers one-to-one online tutoring in all curriculums from Grade 6-12 primarily in India and Middle East as well as an online tutoring platform on which students and tutors communicate with each other using voice, video and digital whiteboards. About 5,000 users in Middle East have registered for online tutoring. All tutors are post graduates, engineers, doctorates in relevant subjects and undergo rigorous training in online tutoring processes and LearningHour pedagogy.

9 tutoring centers in operations covering 1,800+ students mainly catering to CBSE students for Grade 8-12

For offline tutoring, LearningHour has 9 tutoring centers in operations covering 1,800+ students. The subjects taught by these centers include Maths, Science, English, Accounts, Economics, Smart Maths, Vedic Maths, Memory Retention, etc. The centers mainly cater to CBSE students for Grade 8-12. The company recently started with its first batch for IIT JEE test prep program delivered through VSAT across 6 centers.

WiziQ, AuthorStream, Learnhub and Studyplaces.com

Web-based platform for students and teachers to discover, transact and deliver educational services

WizIQ is a web-based platform for students and teachers to discover, transact and deliver educational services and connect in real-time with audio-video and whiteboard capabilities. It has 491,000+ registered users with 79,317 users registering in Q3 FY10.

An online presentation sharing engine

AuthorStream is an online presentation sharing engine that allows web users to upload and share powerpoint presentations. It has ~625,000 registered users with 166,319 users registering in Q3 FY10.

A growing online educational community focused on lead generation business model.

Learnhub platform is a growing online educational community focused on lead generation business model. It has more than 200,000 registered. It came into Educomp's fold through the acquisition of Toronto-based Savvica Inc. The company recently introduced professional counseling services to its service portfolio and has already signed 19 contracts for counseling services, lead generation and advertising.

Recently acquired popular education portal Studyplaces.com

Educomp recently acquired popular education portal Studyplaces.com. Studyplaces provides a platform for students to acquire information related to higher education opportunities in USA, UK, India and various other countries. It has tie-ups with various universities and educational institutes for providing educational opportunities in aforesaid countries. Educomp plans to merge Studyplaces.com with Learnhub and the combined entity would offer the best resources to universities located in India and abroad (US, Canada, UK) to recruit students in India. Learnhub and Studyplaces combined cover over 10,000 colleges and universities across the world. They are also the largest portals for international students.

Learnhub and Studyplaces combined cover over 10,000 colleges and universities across the world

Learning.com

A leading provider of web-delivered curriculum and assessment to over 7,500 schools across the US

Educomp acquired 51% stake in US-based eLearning company, Learning.com for US$24.5mn in May 2008. Learning.com is a leading provider of web-delivered curriculum and assessment to over 7,500 schools covering 1,200 school districts and 2.8 million students across the US. Key products of Learning.com are EasyTech (a web-delivered K-8 technology literacy curriculum), Aha!Math (a K-5 supplemental math curriculum) and tech literacy assessment (evaluates student's technology literacy at Grade 5 and Grade 8). In 9m FY10, Learning.com recorded revenues of Rs539mn and net profit of Rs52mn, implying 10% PAT margin.

Learning.com recorded revenues of Rs539mn and net profit of Rs52mn in 9m FY10

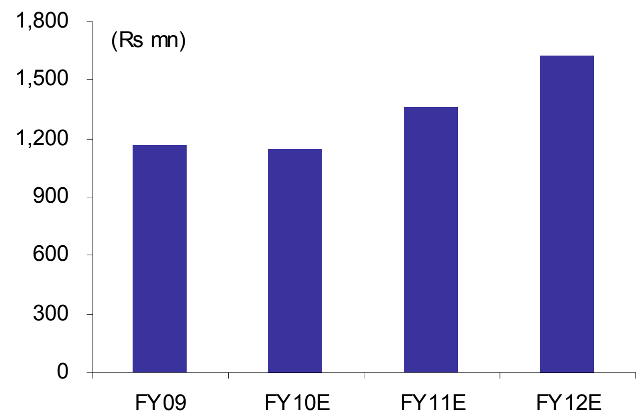
Ask 'n' Learn

A leading education technology company catering to over 180 educational institutions across Asia

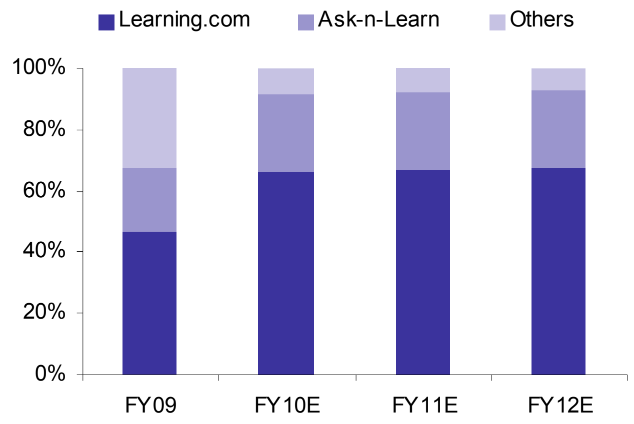
Educomp acquired Singapore-based Ask 'n' Learn Pte Ltd in 2007. Formed in 2000, Ask 'n' Learn, is a leading education technology company catering to over 180 educational institutions across Singapore, China, Thailand, Philippines, Japan, Brunei, Vietnam and Kuwait. It helps schools, regional Ministries of Education and corporate clients create innovative content and systems to meet diverse teaching and learning needs. Key products of Ask 'n' Learn include Wizlearn Academic Solutions (a learning and content management system), EduLearn (a learning management system suitable for primary and secondary schools, Game Builder (a tool to support teachers in the development of learning games as part of their activities to enhance learning) and EduWiz (a content management and presentation software with a quiz bank of 18,000 questions for K-12 students in English, Mathematics and Science). In 9m FY10, Ask 'n' Learn recorded revenues of Rs205mn and operating profit of Rs35mn, implying 17% OPM.

In 9m FY10, Ask 'n' Learn recorded revenues of Rs205mn and operating profit of Rs35mn

OS&G Segment Revenues



OS&G Revenue Mix



Source: Company, India Infoline Research

Educomp's consolidated revenues to witness 44% CAGR over FY09-12

Segmental revenue mix to remain largely unchanged over next two years

Improvement in margin in most businesses to aid OPM expansion

Consolidated revenues to witness 44% CAGR over FY09-12; OPM expansion to drive higher growth in earnings

Driven by near 50% revenue CAGR in both SLS and K-12 Schools segments, we expect Educomp's consolidated revenues to witness 44% CAGR over FY09-12. The segmental revenue mix would remain largely unchanged over the next two years with SLS contributing above 75% and K-12 Schools contributing 10% of consolidated revenues. The improvement in margin in most of the businesses would aid OPM expansion at the consolidated level to 54% in FY12E from 50% in FY10E. The margin improvement would lead to a higher 60% CAGR in profits.

New securitization model in Smart Class business to substantially improve cash flows

Expect company to become FCF positive from FY11 and generate significant cash flows thereafter

Educomp to become FCF positive from FY11 aided by adoption of new securitization model for Smart Class

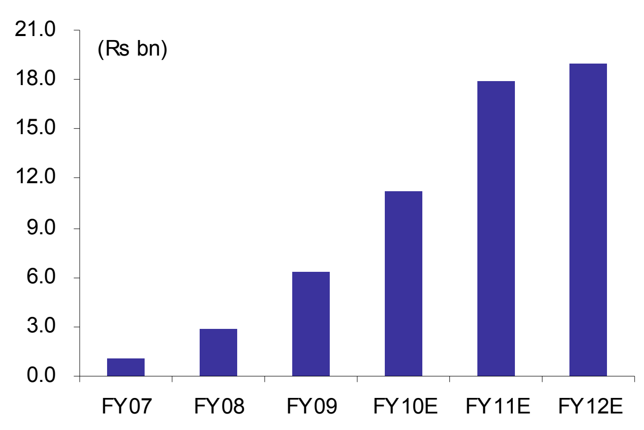
As mentioned before, the adoption of new securitization model in Smart Class business would substantially improve cash flows of Educomp along with accelerating revenue growth. Based on our understanding of financial dynamics of the new model (function of information shared by management), we expect company to become FCF positive from FY11 and generate significant cash flows thereafter. The FCF turnaround would be driven by robust revenue growth, expansion in margin, significant increase in cash profits, contraction in working capital cycle, improvement in OCF and reduction in capex intensity.

Independence and competency of the Board is a key concern

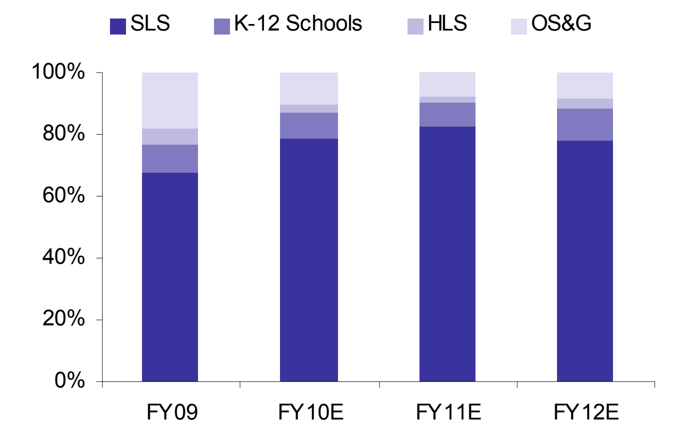
We would like to make few reservations about Educomp's Board which are as follows

- Mr Shantanu Prakash in both the Managing Director of the company and Chairman of the Board.
- Board strength is small with five members in all. We think that a larger Board size would increase investor comfort.
- Mr Gopal Jain is mentioned as an Independent Director of the company while his PE firm, Gaja Capital, holds more than 30% stake in Edu Infra, the K-12 schools entity of Educomp. He also holds sizeable 0.2mn stock options of the company. Factoring the above information, the actual independence of Educomp's Board is low at 40%.

Consolidated Educomp Revenues

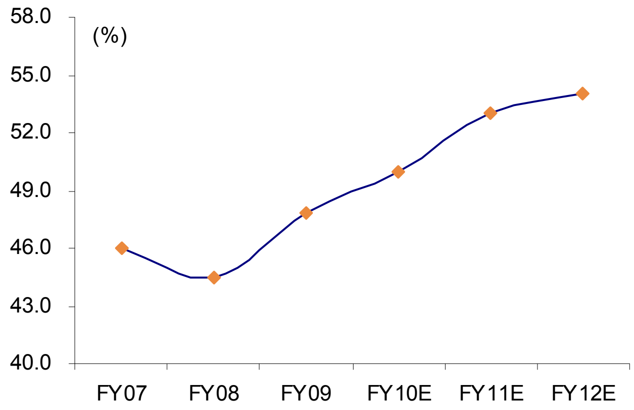


Consolidated Revenue Mix

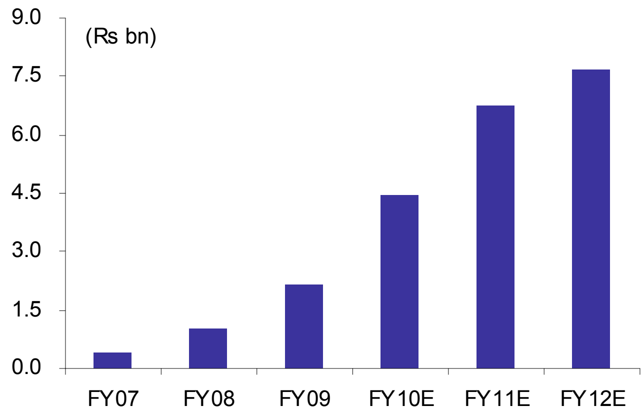


Source: Company, India Infoline Research

Consolidated OPM

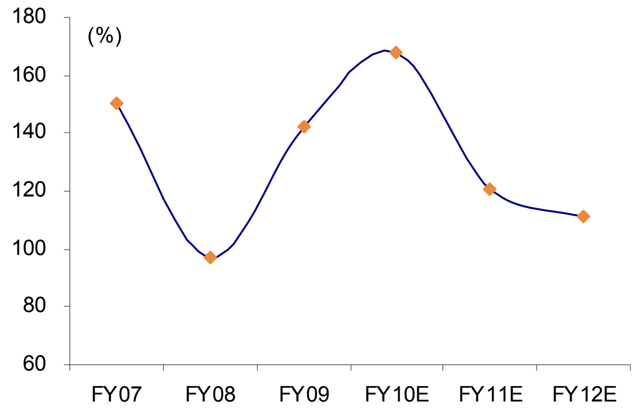


Cash Profits

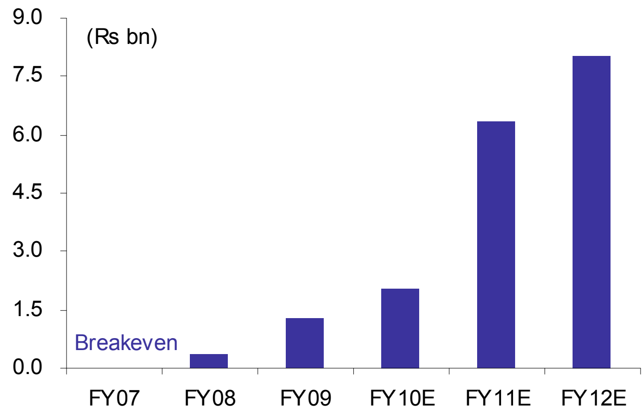


Source: Company, India Infoline Research

Working Capital Cycle

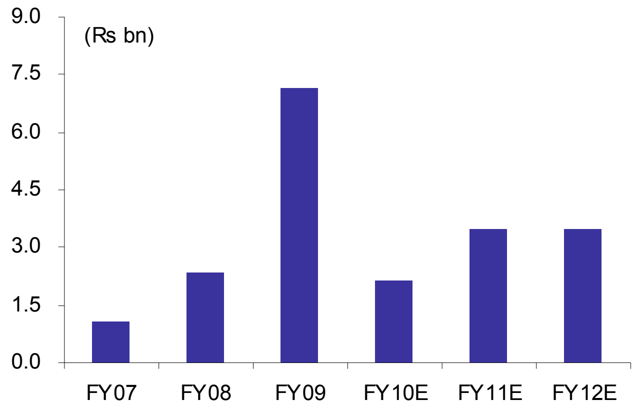


Operating Cash Flow

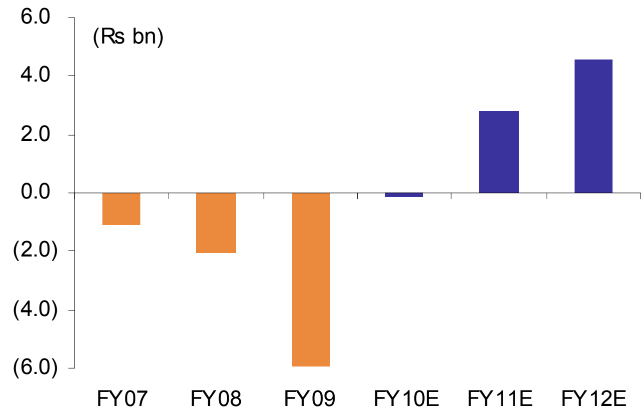


Source: Company, India Infoline Research

Capex



Free Cash Flows



Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Revenue	6,371	11,175	17,955	18,998
Operating profit	**3,044**	**5,588**	**9,516**	**10,259**
Depreciation	(815)	(1,213)	(1,666)	(2,226)
Interest expense	(268)	(500)	(240)	(50)
Other income	227	1,195	400	700
Profit before tax	**2,189**	**5,069**	**8,010**	**8,683**
Taxes	(773)	(1,774)	(2,804)	(3,039)
MI/Share in Assoc	(76)	(80)	(120)	(180)
Adj. profit	**1,339**	**3,215**	**5,087**	**5,464**
Exceptional items	(11)	0	0	0
Net profit	**1,329**	**3,215**	**5,087**	**5,464**

Balance sheet

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Equity capital	173	190	201	201
Reserves	4,123	13,023	20,806	25,708
Net worth	**4,296**	**13,212**	**21,007**	**25,909**
Minority interest	804	1,046	1,464	2,049
Debt	8,895	10,180	374	374
Total liabilities	**13,996**	**24,438**	**22,844**	**28,332**
Fixed assets	8,126	9,078	10,912	12,186
Intangible assets	1,237	1,237	1,237	1,237
Investments	729	729	1,479	2,479
Net working capital	**3,903**	**13,394**	**9,217**	**12,430**
Inventories	316	677	1,722	1,822
Sundry debtors	2,765	5,511	5,903	5,726
Cash	1,902	8,998	4,388	7,948
Other current assets	1,170	1,512	1,956	2,533
Sundry creditors	(599)	(1,041)	(1,673)	(1,770)
Other current liab	(1,651)	(2,263)	(3,079)	(3,828)
Total assets	**13,996**	**24,438**	**22,844**	**28,332**

Cash flow statement

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Profit before tax	2,102	4,989	7,890	8,503
Depreciation	815	1,213	1,666	2,226
Tax paid	(773)	(1,774)	(2,804)	(3,039)
Working capital Δ	(883)	(2,395)	(433)	347
Operating cash flow	1,260	2,033	6,320	8,037
Capital expenditure	(7,184)	(2,164)	(3,500)	(3,500)
Free cash flow	**(5,923)**	**(131)**	**2,820**	**4,537**
Equity raised	(66)	5,809	2,936	(220)
Investments	(692)	-	(750)	(1,000)
Debt finan/diposal	5,122	1,285	(9,806)	-
Dividends paid	(61)	(108)	(228)	(342)
Other items	611	241	418	586
Net Δ in cash	**(1,010)**	**7,096**	**(4,610)**	**3,560**

Key ratios

Y/e 31 Mar	FY09	FY10E	FY11E	FY12E
Growth matrix (%)				
Revenue growth	122.7	75.4	60.7	5.8
Op profit growth	139.1	83.5	70.3	7.8
EBIT growth	120.9	126.7	48.1	5.9
Net profit growth	89.3	140.0	58.2	7.4
Profitability ratios (%)				
OPM	47.8	50.0	53.0	54.0
EBIT margin	38.6	49.8	45.9	46.0
Net profit margin	21.0	28.8	28.3	28.8
RoCE	23.3	29.0	34.9	34.1
RoNW	36.3	36.7	29.7	23.3
RoA	11.2	14.6	18.4	17.8
Per share ratios				
EPS	15.5	33.9	50.7	54.5
Dividend per share	0.6	1.0	2.0	3.0
Cash EPS	24.9	46.7	67.3	76.7
BVPS	49.7	139.2	209.5	258.3
Valuation Ratios				
P/E (x)	46.1	21.1	14.1	13.1
Price/CEPS (x)	28.6	15.3	10.6	9.3
Price/Book (x)	14.4	5.1	3.4	2.8
EV/EBITDA (x)	22.6	12.3	7.1	6.2
Leverage ratios				
Interest coverage	9.2	11.1	34.4	174.7
Net debt / equity	1.6	0.1	(0.2)	(0.3)
Net debt / op. profit	2.3	0.2	(0.4)	(0.7)
Payout (%)				
Dividend payout	4.5	3.4	4.5	6.3
Tax payout	35.3	35.0	35.0	35.0
Liquidity ratios				
Debtor days	158	180	120	110
Inventory days	18	22	35	35
Creditor days	34	34	34	34

Du-Pont Analysis

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Tax burden (x)	0.61	0.63	0.64	0.63
Interest burden (x)	0.89	0.91	0.97	0.99
EBIT margin (x)	0.39	0.50	0.46	0.46
Asset turnover (x)	0.53	0.51	0.65	0.62
Financial leverage (x)	3.24	2.51	1.62	1.31
RoE (%)	**36.3**	**36.7**	**29.7**	**23.3**

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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