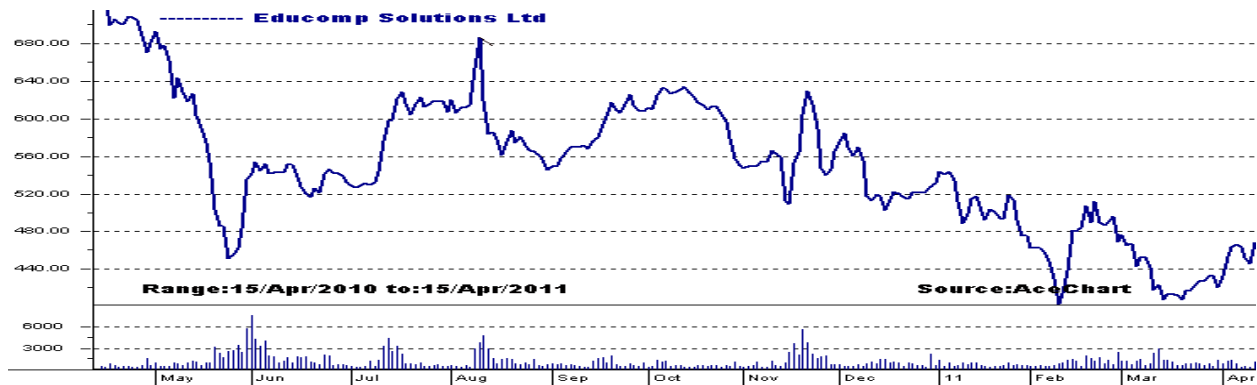




Report Date	19 April 2011
Company Name	Educomp Solutions Ltd.
Recommendation	Buy at CMP Rs 457.25 (Medium risk-Medium return)
Target price	Rs 550
Stop loss	Rs. 414



Technical View & Recommendation

After taking good support at 400 levels, the stock has given a price breakout with increased volumes on the daily chart. The stock is trading above its 20 SMA and with the strong closing on 13th April, it has also breached its 50 days SMA and is moving upwards. MACD and RSI trading with upward bias also support the bull run of the stock. We recommend a buy on the stock with stop loss at Rs.414 for the target of Rs.550.

Company profile

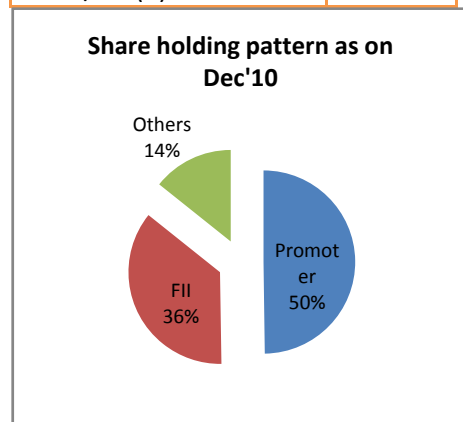
Educomp Solutions Limited (ESL) is an Information & Software product provider in the education industry. Educomp Group reaches out to over 26,000 schools and 15 million learners and educators across the world thru its various products like SmartClass, K-12 schools, online supplemental solutions and higher learning & vocational education institutes.

Recent developments

1. ESL has recorded improved financial no.s in Q3FY11. Top line has grown by 29% qoq and 38% yoy. Bottom line has recorded impressive growth of 72.4% & 56.5% qoq and yoy respectively.
2. ESL's flagship product, SmartClass contributes around 70% of the total revenue. SmartClass is a 3D animation software that provides visual input of the subject to the students and teachers. The software makes the students grasp the concepts quickly and effectively. SmartClass is gaining popularity among the schools, teachers and students for on the back of a very successful TV advertising campaign. In 9MFY11, ESL has implemented SmartClass in a total of 19,144 classrooms and the target for the year FY11 is 30,000 classrooms.
3. ESL also provides comprehensive educational programs involving infrastructure implementation, teacher training and content development projects. The company has brought about a transformation in the teaching-learning processes by empowering teachers and encouraging students to acquire knowledge and gain clarity of concept through use of Information Communication Technology (ICT). It has bagged two prestigious projects from the Government of Gujarat and Assam. The Total contract value for both the contracts is Rs. 6.81 Crores.
4. ESL has also received the LOI from the Director Education, Government of Maharashtra, for the implementation of **ICT@Schools Project -Phase 2** in two regions namely Nasik & Latur totaling 540 Secondary and Higher Secondary Schools. The total worth of the order is Rs. 67.93 crores. Company has pan India presence with contacts from 13 State Governments at present.
5. ESL is shortly going to launch a uniquely developed three dimensional digital content in schools, developed using the 3D stereoscopic technology. The 3D introduction in classroom teaching will add a new dimension to learning.
6. According to the management the nature of business is seasonal and Q4 is usually their strongest quarter. Coupled with robust pricing of SmartClass, good revenue growth can be anticipated.
7. With the rollout of 3G and wireless broadband across India, Management is optimistic that it will provide greater penetration and accessibility for its products.
8. The company's business has a high growth potential taking in to consideration the emphases on education and computer literacy in our country. With the focus on 100% literacy rate, the government is likely to give greater thrust on the education industry comprising of various service providers. ESL's valuation looks reasonable taking in to account its present growth and future prospects.

Key Financial Data

Key Details	
Share Capital (Rs Cr)	19.18
Face Value(Rs)	2
52 Wk High/Low	758/386
Market Cap (Rs Cr)	4484.25
EPS (Rs.TTM)	31.54
PE (X)	14.82
Price/BV (X)	3.08



Particulars (Rs. Crores)	Dec'10	Dec'09	% chg YoY	Sep'10	% chg QoQ
Net Sales	357.52	260.10	37.46	276.79	29.17
Oth Op Inc.					
Total Inc.	357.52	260.10	37.46	276.79	29.17
Total Exp.	194.36	126.65	53.46	173.02	12.34
PBIDT	163.16	133.45	22.27	114.28	42.77
Dep.	20.08	33.78	-40.55	20.79	-3.40
Other Inc.	10.52	15.85	-33.60	10.51	0.14
Interest	27.89	13.88	100.97	21.18	31.63
PBT	125.72	101.64	23.69	72.31	73.86
Tax	25.33	37.51	-32.47	14.09	79.80
PAT	100.39	64.14	56.52	58.22	72.42
PBDITM%	45.64	51.31	-567 bps	37.49	815 bps
PATM%	28.08	24.66	342bps	21.04	704 bps
EPS	10.12	6.45		6.05	

Concerns

- ESL operates globally; the growth and expansion outside India depends on the approval of the RBI. A failure to obtain such approvals could negatively impact the Company's business and financial prospects.
- Delay in payments from Government of India (including state Governments) contracts may affect business cash flow.
- The Company faces risks and uncertainties associated with the implementation of its expansion projects, within and outside India.
- Some of the new verticals i.e higher & vocational education projects are incurring losses and management has not indicated any time lines for these to verticals to break even. The losses so far are small compared to the scale of the operation of ESL.

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BONANZA PORTFOLIO LTD

New Delhi: 4353/4C, Madan Mohan Street, Ansari Road, Darya Ganj, New Delhi – 110002. Tel: 91 11 30181290/94 Fax: 91 11 30412657

Mumbai: Bonanza House, Plot No. M-2, Cama Industrial Estate, Walbhat Road, Goregoan (E) Mumbai – 400063. Tel. 91 22 67605500/600 Fax. 022-67605530.