

# Private school foray to fuel growth

## Raising estimates & PO

We raise earnings estimates by 6% and 11% to factor its recent foray in lucrative private school market in India. We expect consolidated earnings to grow at CAGR of 68% over FY08-10E driven by adoption of computer aided learning (CAL) in schools and strong 259% CAGR in earnings from its recent school initiative. Retain Buy with PO of Rs2200, implies upside of 21% from current levels.

## Large market potential & Leader

With plans to set up over 100 branded schools and strong presence in CAL in both private and government schools, Educomp has emerged as mainstream player in kindergarten to class 12 (K-12) segments. With demand for 2000 additional private schools per year and fragmented industry structure, Educomp potentially can be a leader with largest chain of schools in India.

## High growth and margins

Educomp plans to build, own and manage schools through license agreement with leading schools brands in India. We expect 58 private branded schools to be set up in four years. With operating margins of 40-50% at peak occupancy level, we estimate earnings from this division to grow at a CAGR of 259% FY08-10e.

## Buy on strong earnings growth ;Q1 seasonally weak

In our view, Educomp remains a secular growth story on growing demand for quality K-12 schools and growing adoption of CAL by schools. It is a leader and pioneer in this nascent and highly scaleable sector, it also stands out amongst our coverage as being insulated from the US macro and Rupee appreciation risks. However, we note that Q1 is a seasonally weak quarter and school sign ups are likely to be low.

## Estimates (Mar)

(Rs)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	133	282	655	1,200	1,847
EPS	8.41	16.41	38.03	69.75	107.31
EPS Change (YoY)	-47.5%	95.2%	131.8%	83.4%	53.9%
Dividend / Share	1.71	2.46	5.71	10.46	16.09
Free Cash Flow / Share	(1.60)	(28.49)	(88.96)	(103.46)	(44.89)

## Valuation (Mar)

	2006A	2007A	2008E	2009E	2010E
P/E	217.23x	111.30x	48.02x	26.18x	17.02x
Dividend Yield	0.094%	0.135%	0.313%	0.573%	0.881%
EV / EBITDA*	121.93x	63.52x	23.18x	11.93x	7.45x
Free Cash Flow Yield*	-0.082%	-1.59%	-4.95%	-5.76%	-2.50%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 9.



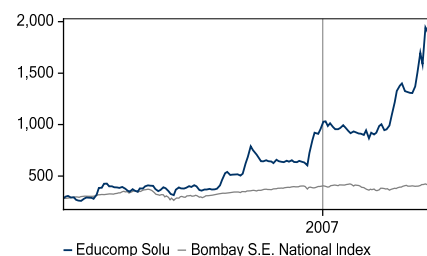
**Pratish Krishnan >>** +91 22 6632 8679  
Research Analyst  
DSP Merrill Lynch (India)  
pratish\_krishnan@ml.com

**Mitali Ghosh >>** +91 22 6632 8661  
Research Analyst  
DSP Merrill Lynch (India)  
mitali\_b\_ghosh@ml.com

**Prasad Deshmukh >>** +91 22 6632 8678  
Research Analyst  
DSP Merrill Lynch (India)  
prasad\_deshmukh@ml.com

## Stock Data

Price	Rs1,826
Price Objective	Rs1,600 to Rs2,200
Date Established	8-Jun-2007
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs291.00-Rs1,999
Mrkt Val / Shares Out (mn)	US\$772 / 17.2
Average Daily Volume	132,869
ML Symbol / Exchange	EUSOF / BSE
Bloomberg / Reuters	EDSL IN / EDSO.BO
ROE (2008E)	25.8%
Net Dbt to Eqty (Mar-2007A)	-47.7%
Est. 5-Yr EPS / DPS Growth	53.0% / 53.0%
Free Float	35.0%



>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the NYSE/NASD rules.

Refer to "Other Important Disclosures" for information on certain Merrill Lynch entities that take responsibility for this report in particular jurisdictions.

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 10 to 11. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.

08 June 2007

# iQprofile<sup>SM</sup> Educomp Solutions Ltd.

Key Income Statement Data (Mar)	2006A	2007A	2008E	2009E	2010E
<b>(Rs Millions)</b>					
Sales	555	1,065	2,304	3,858	5,654
Gross Profit	369	653	1,669	3,048	4,765
Sell General & Admin Expense	(107)	(151)	(292)	(374)	(480)
Operating Profit	205	406	996	1,942	3,222
Net Interest & Other Income	9	36	14	(59)	(192)
Associates	NA	NA	NA	NA	NA
Pretax Income	214	442	1,010	1,883	3,030
Tax (expense) / Benefit	(79)	(159)	(344)	(640)	(1,030)
Net Income (Adjusted)	133	282	655	1,200	1,847
Average Fully Diluted Shares Outstanding	16	17	17	17	17

## Key Cash Flow Statement Data

Net Income (Reported)	134	282	655	1,200	1,847
Depreciation & Amortization	56	97	381	732	1,063
Change in Working Capital	(100)	(225)	216	(527)	(425)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	46	13	13	41	151
Cash Flow from Operations	137	167	1,263	1,447	2,635
Capital Expenditure	(162)	(658)	(2,794)	(3,228)	(3,408)
(Acquisition) / Disposal of Investments	(11)	0	0	0	0
Other Cash Inflow / (Outflow)	6	0	10	0	0
Cash Flow from Investing	(167)	(658)	(2,784)	(3,228)	(3,408)
Shares Issue / (Repurchase)	557	0	0	1	2
Cost of Dividends Paid	0	(42)	(98)	(180)	(277)
Cash Flow from Financing	616	1,070	839	1,594	1,328
Free Cash Flow	(26)	(490)	(1,531)	(1,781)	(773)
Net Debt	(499)	(1,079)	540	2,500	3,547
Change in Net Debt	(580)	(580)	1,619	1,960	1,047

## Key Balance Sheet Data

Property, Plant & Equipment	252	813	3,227	5,722	8,067
Other Non-Current Assets	23	23	23	23	23
Trade Receivables	260	465	735	1,177	1,511
Cash & Equivalents	609	1,189	507	320	876
Other Current Assets	66	94	155	247	347
Total Assets	1,210	2,583	4,647	7,490	10,824
Long-Term Debt	110	110	1,047	2,820	4,424
Other Non-Current Liabilities	16	16	16	16	16
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	187	194	202	209	218
Total Liabilities	313	320	1,265	3,046	4,658
Total Equity	897	2,263	3,382	4,444	6,166
Total Equity & Liabilities	1,210	2,583	4,647	7,490	10,824

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	21.2%	17.1%	20.2%	22.2%	24.1%
Return On Equity	23.8%	17.9%	25.8%	36.1%	40.0%
Operating Margin	37.0%	38.1%	43.3%	50.3%	57.0%
EBITDA Margin	47.2%	47.2%	59.8%	69.3%	75.8%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	1.0x	0.6x	1.9x	1.2x	1.4x
Asset Replacement Ratio	2.9x	6.8x	7.3x	4.4x	3.2x
Tax Rate (Reported)	36.9%	36.1%	34.0%	34.0%	34.0%
Net Debt-to-Equity Ratio	-55.6%	-47.7%	16.0%	56.3%	57.5%
Interest Cover	34.6x	30.6x	29.0x	21.7x	13.6x

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

## Company Description

Set up in 1994, Educomp is India's largest provider of technology driven education solutions co. It provides end to end solutions for K12 through licensing of digital content to enhance the teaching process. It aims to be a comprehensive provider of solutions in India's school education economy and has expanded its offerings to cater to pre schools, online tutoring, professional development for teachers etc.

## Stock Data

Price to Book Value 11.0x

## Raise estimates and PO to factor new venture, Retain Buy

We raise our estimates by 6% and 11% for FY08e and FY09e and raise our PO to Rs 2200, to factor in potential upside from its new venture in building and running schools in Kindergarten to Class 12 (K-12) space. While there are challenges in delivery and execution, we see substantial upside from its foray over next three to four years, as student occupancy levels improve and schools achieve steady state of operation.

Table 1: Revised Estimates

Revised Estimates (Rs.mn)	Earlier FY08E	Revised FY08E	Change (%)	Earlier FY09E	Revised FY09E	Change (%)	Earlier FY10E	Revised FY10E
Sales	2183	2304	6%	3451	3858	12%	N.A	5654
PAT	625	655	5%	1087	1200	10%	N.A	1847
EPS (Rs.)	36	38	6%	63	70	11%	N.A	107

Source: Merrill Lynch Research

## Earnings CAGR of 68% (FY08-10e)

We expect earnings to grow at CAGR of 68% during FY08-10E, driven by strong growth in its new initiatives and growth in content aided learning business. Our revised PO of Rs 2200 is at PEG of 0.85 (08P/E to EPS CAGR 08-10e) and implies P/E of 32x FY09e and 21x Fy10e, which we believe is fair given the strong earnings growth rate (68%, FY08-10e), visibility of revenues from its school foray and strong momentum in its traditional business of content aided learning for government schools and private schools.

## Unveils corporate structure to tap growing private school business

Educomp recently announced that it subscribed equity in Educomp Infrastructure Pvt Ltd (Edu Infra) and Educomp School Management Ltd (Edu Manage) for an investment of Rs500mn and Rs50mn respectively. It now plans to be a mainstream player in the K-12 segment through setting up chain of branded schools in India. Educomp will hold 69.38% and 68% stake in Edu infra and Edu manage, with the balance being held by promoters and key employees. Edu Infra has also merged two schools (Revs of Rs100mn p.a) run by the promoters (in personal capacity) with the company.

Table 2: Role and revenue sources for subsidiaries

	Edu Infra	Edu Mgt	Learning Leadership foundation
Area of Operations	Set up school infrastructure Will own, manage, school properties Deal with Real estate Cos & known education brands in India	Offer Educomp's range of products and services (Content aided learning, Pre school content, teacher training, Consulting, etc)	Trustee for schools
Revenue source	Lease Rentals Edu infra services fees One time consulting fee	Revenues from products, services	Tuition Fees, Admission Fees

Source: Company, Merrill Lynch Research

## Large market potential

As per industry checks there is demand for adding at least 2000 quality private schools in India every year. While there are over 60,000 private schools, the segment is highly fragmented and mostly run by individuals. Educomp through its venture could build the largest chain of quality schools in India. With operating margins of over 45% for quality schools, the new venture is likely to add substantially to profits over next 3-4 years. Through this venture Educomp would also garner larger share of child's fee and significantly increase its presence in K-12 segment. We expect these subsidiaries to contribute 8% and 18% of profits during FY09e and FY10e respectively.

## Highly visible and profitable business

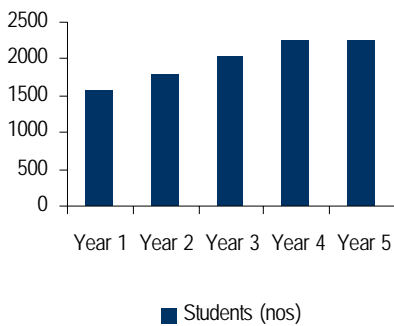
### Plans to set up over 100 branded schools

Edu Infra plans to set up nearly 100 branded schools over the next four years at an estimated cost of Rs 14bn. It already has license agreements with leading school brands such as Padma Seshadri Bala Bhavan, Chennai (PSBB) and is in talks with other leading brands in India and internationally to help them expand their presence to Edu Infra. We have factored setting up of around 58 new schools over next four years in our model.

### Visible and sustainable growth

Schools have perpetual revenue models with significant long term visibility in revenues. Edu infra has signed 30 years agreement with school brands, and most likely to be renewed till perpetuity. We expect revenues from its school foray to register CAGR of 222% over FY08-FY10e to Rs1248mn, contributing 22% to revenues. Given the scale of operations we expect profits to grow at CAGR of 259% to Rs340mn contributing 18% to profits.

Chart 1: Expected student enrolment



Source: Merrill Lynch Research

### Schools to achieve steady state in 3-4 years.

One of the key advantages of branded schools is its ability to attract students in its first year of operations itself. Edu infra's current schools in Chennai and Bangalore did experience strong enrolments in its first year of operation and now currently have over 2500 students. We have assumed around 1000 students in year one, increasing each year as the school adds secondary and higher secondary operations.

### Key assumptions of our model

Table 3: key assumptions

No of Schools to be set up (in four years)	58
Constructed	39
Leased from real estate providers	19

#### Assumptions for one School

Capex per school (if owned)	Rs120mn-140mn
No of students	2250
Avg fee per year/ student (Rs.)	45000-50000
Admission fees/ Student (Rs.)	25000
Fees (over 5 years) (Rs.mn)	551
School operational exps	50%-60%
Net Margins - Edu infra, Edu mgt	24%

#### Sources of revenues

Edu infra-	Lease rentals (14.5% of tuition fees)
------------	---------------------------------------

**Table 3: key assumptions**

---

Management services charges (4.5% of tuition fees)  
One time consulting (0.5mn/ school)

Edu Manage

Advisory, products and services

Source: Company, Merrill Lynch Research

## Key risks in our assumptions

### Timely construction of schools

As schools need to start in time for the academic session, execution and delivery is the key in its new venture. The company has already tied up with real estate developers such as DLF for school sites. It has already signed up with reputed architects to develop schools on turnkey basis.

### Tie up with other leading school brands

While it has tied up with PSSB, it is advanced discussion with other leading brands. Its inability to sign up with these brands would impact our numbers.

## Financials

**Table 4: Profit & Loss**

Rs mn (year-end March)	FY06	FY07	FY08E	FY09E	FY10E
Sales	555	1065	2304	3858	5654
Other income	15	49	48	31	45
Total Income	570	1114	2352	3889	5699
Cost of goods sold	95	237	344	404	374
Personnel expenses	91	174	291	406	516
Salaries, allowances and bonus	87	112	194	266	341
Sales cost	0	14	26	32	37
Administration and other expenses	107	163	287	361	435
Total Expenditure	288	562	926	1184	1370
EBITDA	267	503	1378	2674	4284
Depreciation	56	97	381	732	1063
EBIT	211	406	997	1942	3222
Finance charges	6	13	34	90	237
EBT	205	393	963	1852	2984
PBT	220	442	1011	1882	3029
Total Taxes	79	159	344	640	1030
Profit after tax and before prior period items	141	283	667	1242	1999
Minority interest	1	0	12	43	153
Profit after tax, minority interest & pre-acquisition profits	139	283	655	1200	1847

Source: Company, Merrill Lynch estimates

**Table 5: Balance Sheet**

	FY06	FY07	FY08E	FY09E	FY10E
<b>Shareholders' funds</b>					
Share capital	160	172	172	172	172
Reserves and surplus	736	2089	2646	3666	5235
<b>Net worth</b>	<b>895</b>	<b>2261</b>	<b>2818</b>	<b>3838</b>	<b>5407</b>
Minority Interest	2	2	564	606	759
<b>Secured Loans</b>	<b>109</b>	<b>109</b>	<b>1047</b>	<b>2820</b>	<b>4423</b>
<b>Total Sources of funds</b>	<b>1023</b>	<b>2389</b>	<b>4445</b>	<b>7281</b>	<b>10606</b>
<b>Fixed assets</b>					
Gross Block	375	1032	3827	7055	10462
Net Block	185	746	3160	5656	8001
Capital Work in Progress	67	67	67	67	67
<b>Total</b>	<b>252</b>	<b>813</b>	<b>3227</b>	<b>5722</b>	<b>8067</b>
Investments	21	21	21	21	21
<b>Current assets, loans and advances</b>					
Inventories	17	19	21	23	25
Sundry debtors	260	465	735	1177	1511
Cash	609	1189	507	320	876
Loans and Advances	49	74	134	224	321
<b>Current assets, loans and advances</b>	<b>935</b>	<b>1747</b>	<b>1397</b>	<b>1745</b>	<b>2734</b>
<b>Less current liabilities and provisions</b>					
<b>Liabilities</b>	<b>81</b>	<b>88</b>	<b>95</b>	<b>103</b>	<b>111</b>
<b>Provisions</b>	<b>106</b>	<b>106</b>	<b>106</b>	<b>106</b>	<b>106</b>
<b>Less current liabilities and provisions</b>	<b>187</b>	<b>194</b>	<b>202</b>	<b>209</b>	<b>218</b>
<b>Net current assets</b>	<b>748</b>	<b>1553</b>	<b>1196</b>	<b>1535</b>	<b>2516</b>
<b>Total Applications</b>	<b>1023</b>	<b>2389</b>	<b>4445</b>	<b>7281</b>	<b>10606</b>

Source: Company, Merrill Lynch estimates

**Table 6: Cash Flow Statement**

	FY06	FY07	FY08E	FY09E	FY10E
<b>Cash flows from operating activities</b>					
Net profit before taxation and after prior period items as per P&L	221	442	1011	1882	3029
Depreciation	56	97	381	732	1063
<b>Operating profit before working capital changes</b>	<b>282</b>	<b>551</b>	<b>1392</b>	<b>2614</b>	<b>4090</b>
Trade & other receivables	-70	-205	-270	-442	-334
loans & advances	-17	-26	-59	-90	-97
others	0	0	540	0	0
<b>Cash Generated from operations</b>	<b>182</b>	<b>327</b>	<b>1607</b>	<b>2087</b>	<b>3665</b>
Taxes paid ( Net of TDS)	-46	-159	-344	-640	-1030
<b>Net cash from operating activities</b>	<b>137</b>	<b>167</b>	<b>1263</b>	<b>1447</b>	<b>2635</b>
<b>Cash flows from investing activities</b>					
Purchases of fixed assets	-162	-658	-2794	-3228	-3408
<b>Net cash used in investing activities</b>	<b>-167</b>	<b>-658</b>	<b>-2784</b>	<b>-3228</b>	<b>-3408</b>
<b>cash flows from financing activities</b>					
Net proceeds from fresh issue of capital through IPO	557	0	0	1	2
Proceeds/ repayment of long term borrowings	5	0	938	1773	1603
Dividend paid	0	-42	-98	-180	-277
FCCB raised	0	1113	0	0	0
<b>Net Cash from financing activities</b>	<b>616</b>	<b>1070</b>	<b>839</b>	<b>1594</b>	<b>1328</b>
<b>Net increase in cash and cash equivalents</b>	<b>586</b>	<b>580</b>	<b>-682</b>	<b>-187</b>	<b>556</b>
<b>Opening cash and cash equivalents</b>	<b>23</b>	<b>609</b>	<b>1189</b>	<b>507</b>	<b>320</b>
<b>Closing cash and cash equivalents</b>	<b>609</b>	<b>1189</b>	<b>507</b>	<b>320</b>	<b>876</b>

Source: Company, Merrill Lynch estimates

**Table 7: Ratios**

Year Mar 31 (Rs mn)	FY06	FY07E	FY08E	FY09E	FY10E
<b>Valuation ratios</b>					
P/CEPS	149	83	30	16	11
P/BV (x)	33	14	11	8	6
EV/EBITDA (x)	113	60	22	11	7
EV/EBIT (x)	144	75	30	16	9
EV/ Revenues	55	28	14	9	7
<b>Growth %</b>					
Revenue	67	92	116	67	47
EBITDA	75	88	174	94	60
EBIT	107	92	145	95	66
Net Profit	104	101	136	86	61
<b>Profitability %</b>					
EBIT	38	38	43	50	57
Net Profit	25	27	28	31	33
<b>Return %</b>					
RONW	24.8	17.9	25.8	36.0	39.9
ROCE	32.1	23.8	29.2	33.1	36.0
<b>Per Share Data (Rs.)</b>					
EPS -diluted	8	16	38	70	107
CEPS	12	22	60	112	169
BVPS	56	131	164	223	314
DPS	2	2	6	10	16
FCF/Share	-1	-28	-89	-103	-45
DSO	148	124	95	90	87

Source: Company, Merrill Lynch estimates

## Price Objective Basis & Risk

Our PO of Rs 2200 is set at PEG of 0.85x FY08E /EPS CAGR (08E-10E) lower than 1 and implies P/E of 32x for FY09e and 21x FY10e. Our PE target is supported by growing leadership status in the school education economy relatively nascent but highly scaleable education content industry, likely earnings upside from its new Intellectual Property based initiative (Learning Leadership System) and thought leadership in K-12 space. Risks to our valuation are delays in execution of contracts in its new venture and Smart Class, relatively high DSO in government school program.

## Analyst Certification

I, Pratish Krishnan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Special Disclosures

In accordance with the SEBI (Foreign Institutional Investors) Regulations and with guidelines issued by the Securities and Exchange Board of India (SEBI), foreign investors (individuals as well as institutional) that wish to transact the common stock of Indian companies must have applied to, and have been approved by SEBI and the Reserve Bank of India (RBI). Each investor who transacts common stock of Indian companies will be required to certify approval as a foreign institutional investor or as a sub-account of a foreign institutional investor by SEBI and RBI. Certain other entities are also entitled to transact common stock of Indian companies under the Indian laws relating to investment by foreigners. Merrill Lynch reserves the right to refuse copy of research on common stock of Indian companies to a person not resident in India. American Depositary Receipts (ADR) representing such common stock are not subject to these Indian law restrictions and may be transacted by investors in accordance with the applicable laws of the relevant jurisdiction. Global Depository Receipts (GDR) and the Global Depository Shares of Indian companies, Indian limited liability corporations, have not been registered under the U.S. Securities Act of 1933, as amended, and may only be transacted by persons in the United States who are Qualified Institutional Buyers (QIBs) within the meaning of Rule 144A under the Securities Act. Accordingly, no copy of any research report on Indian companies' GDRs will be made available to persons who are not QIBs.



08 June 2007

**iQmethod<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

*iQmethod<sup>SM</sup>* is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

*iQdatabase<sup>®</sup>* is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

*iQprofile<sup>SM</sup>*, *iQmethod<sup>SM</sup>* are service marks of Merrill Lynch & Co., Inc. *iQdatabase<sup>®</sup>* is a registered service mark of Merrill Lynch & Co., Inc.

## Important Disclosures

### EUSOF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of April 30, 2007 or such later date as indicated.

### Investment Rating Distribution: Technology Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	114	41.76%	Buy	21	20.39%
Neutral	146	53.48%	Neutral	31	22.79%
Sell	13	4.76%	Sell	1	9.09%

### Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

\* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium, and C - High. INVESTMENT RATINGS, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Buy (10% or more for Low and Medium Volatility Risk Securities - 20% or more for High Volatility Risk securities); 2 - Neutral (0-10% for Low and Medium Volatility Risk securities - 0-20% for High Volatility Risk securities); 3 - Sell (negative return); and 6 - No Rating. INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered to be secure); and 9 - pays no cash dividend.

In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: Educomp Solu.

MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this company within the next three months: Educomp Solu.

The country in which this company is organized has certain laws or regulations that limit or restrict ownership of the company's shares by nationals of other countries: Educomp Solu.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

## Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

---

### Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.: Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Global (Taiwan) Ltd or Merrill Lynch, Pierce, Fenner & Smith Limited (Taiwan Branch); is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

### Copyright, User Agreement and other general information related to this report:

Copyright 2007 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) prior to Merrill Lynch's public disclosure of such information. The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc.