

ZEE LEARN

EDUCATION

Q1FY18: Revenue up 44%, Profit up 91% Y-o-Y, Business model paying rich dividends

Zee Learn (ZLL) in 1QFY18 posted revenues of Rs. 67 Cr (up 44% Y-o-Y) on a consolidated basis due to consistent growth in both Kidzee (pre-school) & MLZS (K-12) segments, and an additional revenue stream from manpower recruitment and training from the newly incorporated subsidiary. ZLL posted PAT of Rs 12.8 Cr (up 91% Y-o-Y) due to operational leverage coming into play bringing about economies of scale and the franchisee-based asset light business model paying great dividends for the company. The improved capacity utilizations at schools helped them monetize their network better, thus helping to post EBITDA margins of 37.5% in Q1FY18 vs. 34.4% y-o-y.

Kidzee, the largest chain of preschools in India, with over 1741 operational centres, has crossed the 1 billion mark in terms of revenues annually and is rapidly growing. Mount Litera Zee School (MLZS), one of the fastest growing K-12 school with 108 schools, is likely to benefit most from structural shift in favour of organized K-12 industry in India. The increasing number of signups and strong outlook indicates revenues visibility.

ZLL's PAN India presence with aggressive expansion in footprint, asset light business model and earnings visibility of 25% CAGR over FY17-FY19E makes it a perfect play to participate in the growing opportunities of Indian education industry. We maintain buy on Zee Learn with a target price of Rs. 72. (DCF valuation)

Key Highlights

- Strong growth outlook in both Kidzee and MLZS:** In Q1FY18, the number of enrolments grew by 15-16% y-o-y. Revenue from educational services accounted for 75% (Rs 57 Cr) of the total revenues on a consolidated basis. The number of pre-schools stood at 1741 and the company would maintain a run-rate of 300 pre-schools sign-ups every year. It thus looks to cross 2000 operational pre-schools in the next 2 years. The number of K-12 schools stood at 108 and with an annual run-rate of 24-25 schools every year, Zee Learn would almost double its K-12 schools network over the next 4 years. This ensures revenue visibility and we expect Zee Learn to post 16% revenue CAGR in the preschool segment and 20% revenue CAGR in the K-12 segment over FY17-FY19E. Due to low pre-school penetration and high demand supply gap, Zee Learn will consider opening some self operating pre-schools (COCO schools and not the franchisee route) in strategic locations.
- Entry into manpower recruitment and training activity:** Zee Learn has entered into a new strategic line of manpower recruitment and training business through the newly incorporated subsidiary Liberium Global. In Q1FY18, ZLL has been successfully able to train and place about 2000 people servicing largely the Essel Group companies. This business is a high ROI, zero capex but a low margin one. However, it can draw huge synergies within ZLL as well as cater to various training and business specific needs of the Essel group and address outside opportunities too. It looks to differentiate its offering through value added services and the management is confident that this business will provide robust growth in the future.

FINANCIAL SUMMARY (Consolidated)

Y/E March	Sales (Rs Cr)	EBITDA (Rs. Cr)	PAT (Rs Cr)	EPS (Rs)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS
FY16	151	45	15	0.5	-	-	6.2	6.2	-	0.0
FY17	179	64	37	1.1	141	-	13.5	8.8	-	0.0
FY18E	245	92	45	1.4	22	31.7	14.3	13.1	13.2	0.0
FY19E	302	115	57	1.8	28	24.8	15.7	14.8	10.3	0.0

Source: Company and Axis Direct Research

1 AUG 2017 /

Quarterly Update

BUY

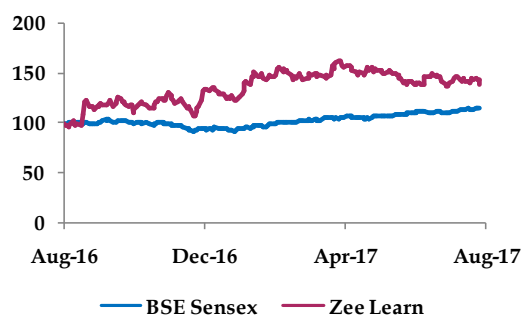
Target Price: Rs 72

CMP	: Rs 43.3
Potential Upside	: 66%
Relative to Sector	: Positive

MARKET DATA

No. of Shares	: 32.4 Cr.
FV (Rs)	: 1
Market Cap	: Rs. 1426 Cr.
52-week High / Low	: Rs 51.3/ Rs 29.7
Avg. Daily vol. (6mth)	: 687714 shares
Bloomberg Code	: ZLL: Natl India
Reuters Code	: ZEEE.BO
BSE Code	: 533287
NSE Code	: ZEELEARN

PRICE PERFORMANCE

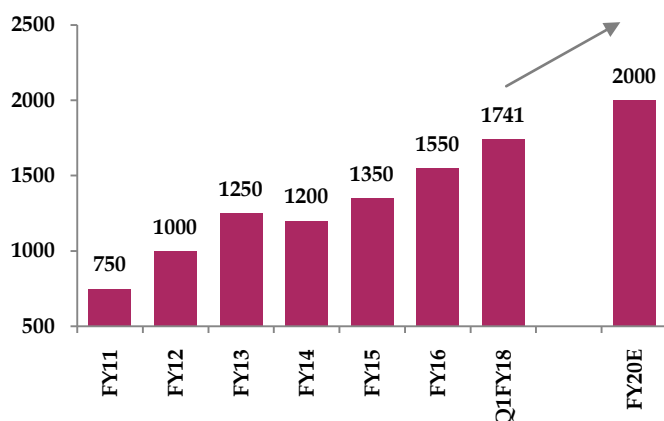


Rohit Chawla

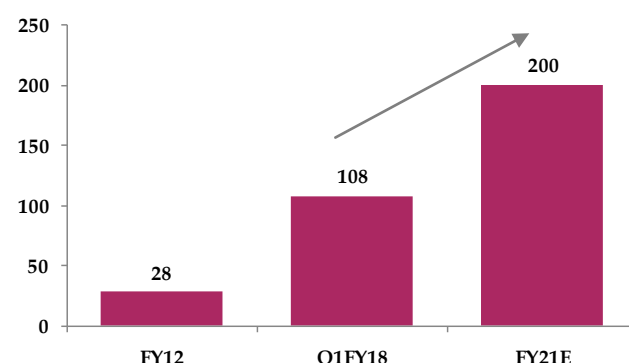
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- Debt and interest rate reduction:** Zee Learn's Standalone debt stood at Rs 103 Cr in FY17, after Rs 25 Cr had been repaid during the year. For the subsidiary Digital Ventures, Rs 125 Cr term loan had been restructured, bringing the total debt to Rs 125 Cr. Also there was a marginal rate decrease for Digital Ventures from 13% to 11.5%. Zee Learn's rate reduction by way of loan restructuring is expected in FY18E, and substantial rate reduction is expected as the company is actively negotiating with bankers. This would bring the interest rates to single digits thus positively impacting the margins of the company. Management has indicated that the debt profile would remain at the same level going forward, while they reduce their interest burden.
- Other initiatives:** Zee Learn has invested considerable resources in developing learning designs, students learning materials and e-content for preschools and K-12 schools. With new technologies on Augmented Reality and Virtual Reality coming into play, the company has a vision of digitizing the entire delivery leading to superior learning outcomes and better engagements with key stakeholders. It would be a combination of both brick and mortar as well as online, which will help the company make better offers to potential customers. Thus, books supplemented with digital content, which would be available to students and teachers all round the clock, would enable a 'blended learning approach' and 'learning on demand' for students. Also, the company is looking to partner government in various initiatives, as they have a strong presence on vocational side through ZICA and ZIMA, thus expanding their reach.

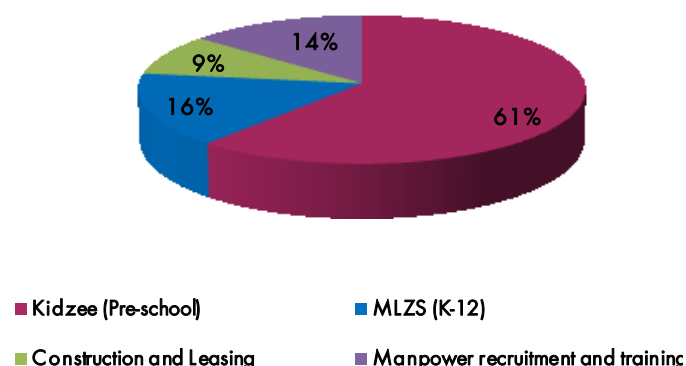
Operational Kidzee Schools (Pre-school)



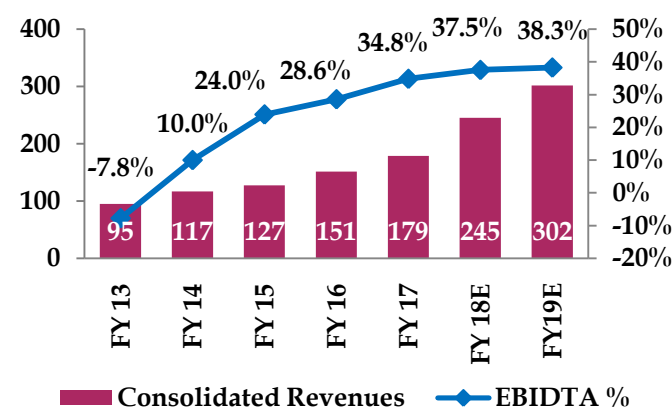
Mount Litera Zee School (K-12)



Revenue break-up in Q1FY18



Consolidated Revenue and EBITDA (%) trends



Source: Company, Axis Securities

Results Update (Consolidated)

(Rs. cr)	Quarterly Performance			Financial Year Ending		
	Q1FY18	Q1FY17	% Change (YoY)	FY17	FY18E	FY19E
Sales	67	46	44	179	245	302
Other Op. Inc	0.0	0.0		0	0	0
Total Revenue	67	46	44	179	245	302
Expenditure						
Net Raw Material	14	11	26	35	40	45
Employee expenses	16	8	99	25	54	77
Other Exp	12	11	4	56	59	64
Total Expenditure	42	31	37	117	153	186
EBIDTA	25	16	57	62	92	115
Oth. Inc.	1.3	0.7		2.0	5.0	3.0
Interest	4.2	5.7	(25)	19	19	19
Depreciation	2.8	3.2	(10)	10	10	12
Exceptional Item	0.0	0.0		0.0	0.0	0.0
PBT	19	8	146	36	68	87
Tax	6.5	1.1		-1	23	30
PAT	12.8	6.7	91	37	45	57
Share of profit of Associates	0.0	0.0		0	0	0
Adjusted PAT	12.8	6.7	91	37	45	57
EPS (Rs.)	0.4	0.2		1.1	1.4	1.8

Source: Company, Axis Direct Research.

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Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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