

ZEE LEARN

EDUCATION

Q2FY18: Revenue up 59%, Profit up 55% Y-o-Y, Business model paying rich dividends

Zee Learn (ZLL) in 2QFY18 posted revenues of Rs. 60 Cr (up 59% Y-o-Y) on a consolidated basis due to consistent growth in preschool and K-12 segment, 63% growth y-o-y in income from lease rentals and an additional revenue stream from manpower recruitment and training from the newly incorporated subsidiary. ZLL posted PAT of Rs 11.3 Cr (up 55% 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, helping to post highest standalone EBITDA margins of 43% vs. 31% y-o-y. Kidzee, the largest chain of preschools in India, with over 1800+ operational centres, is rapidly growing due to low penetration. Mount Litera Zee School (MLZS), one of the fastest growing K-12 school with 110+ 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 however revise our target price to Rs 68 (vs. Rs 72 earlier) due to company's foray into low margin manpower and training activity which would reduce the blended margins of the consolidated entity. (DCF valuation)

Key Highlights

- Strong growth outlook in both Kidzee and MLZS:** In Q2FY18, the number of enrolments for Kidzee and MLZS grew by approx. 11% and 16% respectively y-o-y. Revenue from educational services accounted for 58% (Rs 35 Cr) of the total revenues on a consolidated basis. The company signed up 110 pre-schools in this quarter, taking the total number to 1800+ and it would maintain a run-rate of 300 pre-schools sign-ups every year. It thus looks to cross 2000 operational pre-schools by FY19E. The number of K-12 schools stood at 108 and the company would maintain an annual run-rate of 14-15 schools.
- Revenue visibility and increasing margin trend:** The number of signups ensures revenue visibility and we expect Zee Learn to post 16% revenue CAGR in the preschool segment and 18% revenue CAGR in the K-12 segment over FY17-FY19E. Due to low pre-school penetration and high demand supply gap, Zee Learn has opened 6 self-operating pre-schools (COCO schools and not the franchisee route) in strategic locations and is looking to add more in the coming years. On a standalone business, Zee Learn posted highest ever EBITDA margins of 43% vs. 31% Y-o-Y due to asset light business model and fixed nature of its majority of expenses. Management had guided to reach 45% EBITDA margins by FY20E which we believe is attainable by the company on a sustainable basis.

FINANCIAL SUMMARY (Consolidated)

Y/E	Sales	EBITDA	PAT	EPS	Change	P/E	RoE	RoCE	EV/EBITDA
March	(Rs Cr)	(Rs. Cr)	(Rs Cr)	(Rs)	(YoY %)	(x)	(%)	(%)	(x)
FY16	151	43	15	0.5	52.2	-	6.2	6.2	-
FY17	179	62	37	1.1	141.4	-	13.5	8.8	-
FY18E	253	95	47	1.4	27.6	31.7	14.9	13.5	13.5
FY19E	300	117	59	1.8	25.2	25.4	15.9	15.0	10.7

Source: Company and Axis Direct Research

25 OCT 2017 /

Quarterly Update

BUY

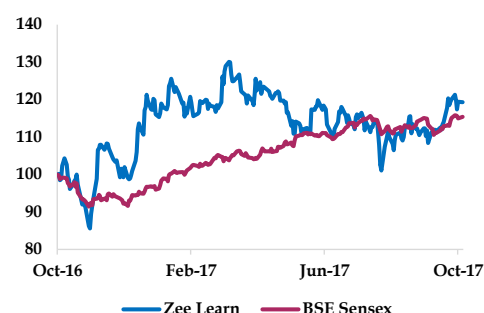
Target Price: Rs 68

CMP	: Rs 46
Potential Upside	: 48%
Relative to Sector	: Positive

MARKET DATA

No. of Shares	: 32.4 Cr.
FV (Rs)	: 1
Market Cap	: Rs. 1490 Cr.
52-week High / Low	: Rs 51.3/ Rs 32
Avg. Daily vol. (6mth)	: shares
Bloomberg Code	: ZLL: Natl India
Reuters Code	: ZEEE.BO
BSE Code	: 533287
NSE Code	: ZEELEARN

PRICE PERFORMANCE



Rohit Chawla

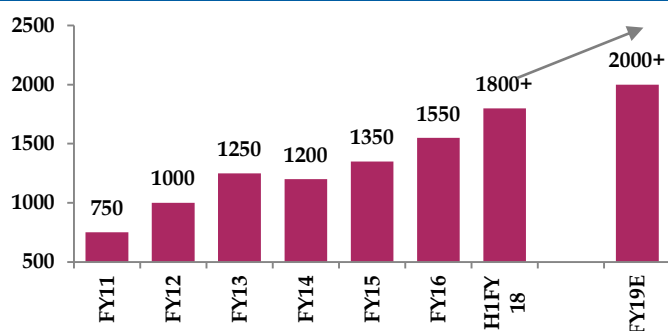
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- Entry into manpower recruitment and training activity:** Zee Learn has entered into a new strategic line of manpower recruitment and training business through the newly incorporated subsidiary Liberium Global. This segment generated Rs15.9 Cr. revenues in Q2FY18 (up 71% Q-o-Q). In Q1FY18, ZLL had been successfully able to train and place about 2000 people servicing largely the Essel Group companies. 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. As per the management, 3 outside clients have also come onboard. The business being a high ROI and low margin one, the company looks to differentiate its offering through value added services and the management is confident that this business will provide robust growth in the future.

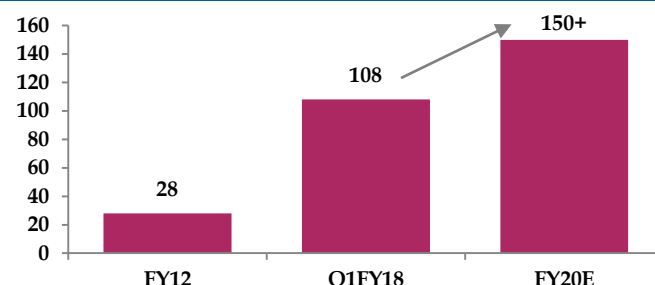
The EBITDA margins on a consolidated basis stood at 39% in Q2FY18 (vs. 38% Y-o-Y). As the low margin manpower and training business contributed almost one-fourth of the company's revenues in Q2FY18, it dented the overall margins of the consolidated entity. This trend is expected to continue going forward. The margin profile of the core business (Pre-school and K-12) stood at 40%+ while that of the new venture at 3-5%.

- DVPL to become self-sufficient in 2-3 years:** Lease rentals in Q2FY18 stood at Rs 7.2 Cr (up 63% Y-o-Y). Currently the surplus generated out of schools is not sufficient enough to pay both the management fee to ZLL and the lease rentals to DVPL. Therefore, while they are paying the management fee to ZLL, money has not been coming against the lease rentals, however, the company has refundable security deposit of about Rs 100 Cr, payable to Trusts and therefore the debtors are secured. Management has guided that DVPL will start paying lease rentals in 1-1.5 years and will become self-sufficient in the next 2-3 years. Also the company 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. 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.

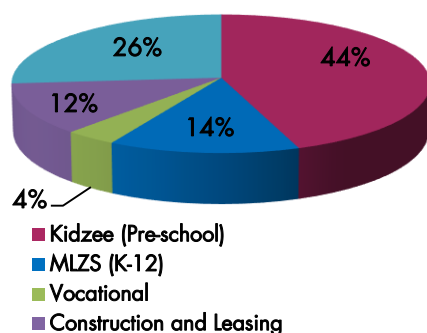
Operational Kidzee Schools (Pre-school)



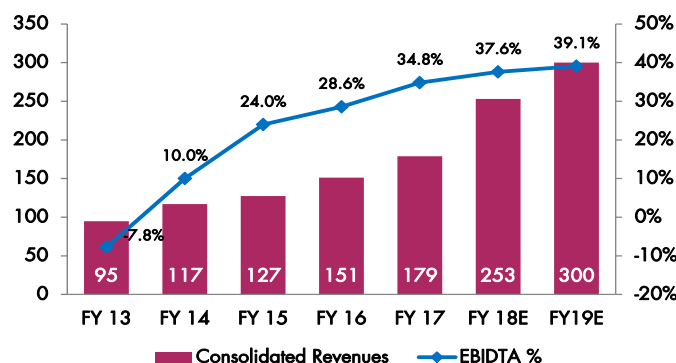
Mount Litera Zee School (K-12)



Revenue break-up in Q2FY18



Consolidated Revenue and EBITDA (%) trends



Source: Company, Axis Securities

Results Update (Consolidated)

(Rs. cr)	Quarterly Performance					Financial Year Ending		
	Q2FY18	Q2FY17	% Change (YoY)	Q1FY18	% Change (YoY)	FY17	FY18E	FY19E
Sales	60	38	59	68	(11)	179	253	300
Other Op. Inc	0.0	0.0		0.0		0	0	0
Total Revenue	60	38	59	68	(11)	179	253	300
Expenditure								
Net Raw Material	6	7	(15)	14	(59)	35	43	46
Employee expenses	23	7	217	16	40	25	63	75
Other Exp	9	10	(12)	12	(26)	56	52	62
Total Expenditure	37	24	56	42	(12)	117	158	183
EBIDTA	23	14	65	26	(10)	62	95	117
	38.8%	37.6%		38.3%		34.8%	37.6%	39.1%
Oth. Inc.	0.5	0.6		0.3		2.0	5.0	3.0
Interest	4.2	5.1	(18)	4.2	(2)	19	19	19
Depreciation	2.8	2.5	12	2.8	(1)	10	10	12
Exceptional Item	0.0	0.0		0.0		0.0	0.0	0.0
PBT	17	7	133	19	(11)	36	71	89
Tax	5.7	0.0		6.5		-1	24	30
PAT	11.3	7.3	55	12.8	(11)	37	47	59
Share of profit of Associates	0.0	0.0		0.0		0	0	0
Adjusted PAT	11.3	7.3	55	12.8	(11)	37	47	59
EPS (Rs.)	0.3	0.2		0.4		1.1	1.4	1.8

Source: Company, Axis Direct Research.

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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