

## ZEE LEARN

### EDUCATION

#### Q3FY18: Revenue up 72%, Profit up 256% Y-o-Y, Business model paying rich dividends

Zee Learn (ZLL) in 3QFY18 posted revenues of Rs. 52 Cr (up 72% Y-o-Y) on a consolidated basis due to robust 20% growth in preschool and K-12 segment, 57% 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 7.7 Cr (up 256% 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. In spite of being a seasonally weak quarter, the improved capacity utilizations at schools helped them monetize their network better, helping to post standalone EBITDA margins of 34% vs. 22% y-o-y.

Kidzee, the largest chain of preschools in India, with 1790 operational centres, is rapidly growing due to low penetration. Mount Litera Zee School (MLZS), one of the fastest growing K-12 school with 115 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.

#### Valuation

- ZLL's PAN India presence with aggressive expansion in footprint, asset light business model and earnings visibility of 27% 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 64 (vs. Rs 68 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 Q3FY18, the number of enrolments for Kidzee and MLZS grew by approx. 7% and 18% respectively y-o-y. Also the average revenue per student for Kidzee and MLZS has increased by 11% and 10% respectively. Revenue from educational services accounted for 58% (Rs 30.5 Cr) of the total revenues on a consolidated basis. Zee Learn has signed 238 new Kidzee pre-schools and 11 MLZS, expanding its presence in 650+ cities in India by YTD FY18. The total number of operational Kidzee and MLZS are 1790 and 115 respectively. The company would maintain an annual run-rate of approx. 300 pre-school and 15 MLZS signups. It thus looks to cross 2000 operational pre-schools in the next 2 years and add 50-70 MLZS in the next 4-5 years. Management is also contemplating a new brand or offering in the preschools segment (below Kidzee) which will target the deeper catchment areas at lower price points predominantly served by the unorganized space.

#### 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)
FY17	179	62	37	1.1	-	-	13.5	8.8	-
FY18E	275	103	51	1.6	37	29.6	16.0	14.2	12.6
FY19E	325	121	62	1.9	22	24.3	16.5	15.3	10.5
FY20E	385	143	76	2.3	23	19.8	17.2	16.5	8.5

Source: Company and Axis Direct Research

22 JAN 2018 /

Quarterly Update

**BUY**

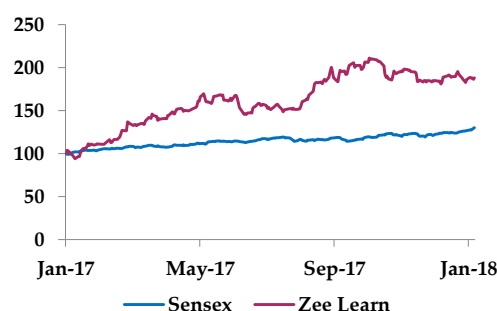
Target Price: Rs 64

CMP	: Rs 46
Potential Upside	: 39%
Relative to Sector	: Positive

#### MARKET DATA

No. of Shares	: 32.5 Cr.
FV (Rs)	: 1
Market Cap	: Rs. 1495 Cr.
52-week High / Low	: Rs 51.3/ Rs 38
Avg. Daily vol. (6mth)	: 664957 shares
Bloomberg Code	: ZLL: Natl India
Reuters Code	: ZEEE.BO
BSE Code	: 533287
NSE Code	: ZEELEARN

#### PRICE PERFORMANCE

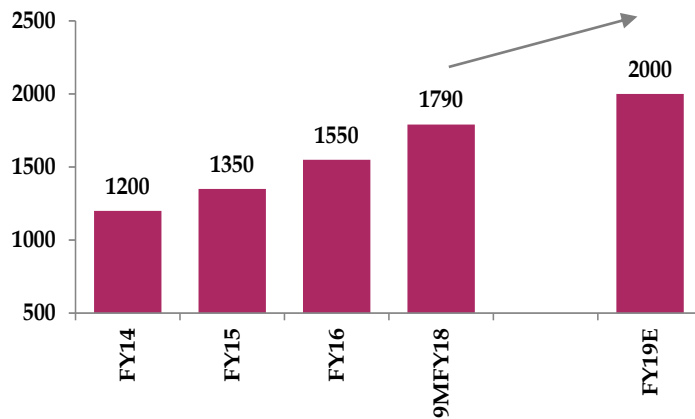


Rohit Chawla  
[rohit.chawla@axissecurities.in](mailto:rohit.chawla@axissecurities.in)

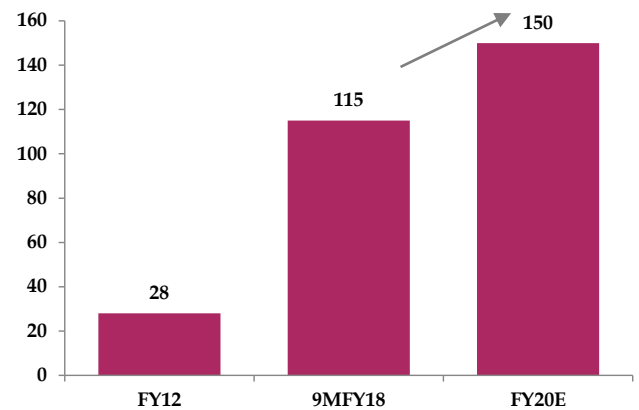
## Key Highlights (Cont'd)

- 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 core segment (Pre-schools, K-12, and Vocational) over FY17-FY20E. 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 EBITDA margins of 34% vs. 22% Y-o-Y (38% in YTD FY18) due to asset light business model and fixed nature of its majority of expenses. Management has guided to reach 45% EBITDA margins by FY20E for the standalone business which we believe is attainable by the company on a sustainable basis.
- 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 Rs 14.2Cr. revenues in Q3FY18 (Rs 39.4 Cr. in YTD FY18). This line of business 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. 4 clients came onboard in Q3FY18 taking the total client count to 22. 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 for Zee Learn stood at 34.5% in Q3FY18 (vs. 33.2% Y-o-Y). As the low margin manpower and training business contributed approx. one-fourth of the company's revenues in Q3FY18, it dented the overall margins of the consolidated entity. This trend is expected to continue going forward. The EBIT margins for core segment, leasing, manpower and training stood at 44%, 21% and 4% respectively in YTD FY18.
- DVPL to become self-sufficient in 2-3 years:** Lease rentals in Q3FY18 stood at Rs 7.5Cr (up 57% 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 (Rs 7 Cr out of Rs 12 Cr already paid), money has not been coming against the lease rentals, however, the company has refundable security deposit of about Rs 120 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. The company is also considering REIT as an option where it would take ownership of the own schools asset worth Rs. 600-700 Cr and do one-time payment to the trust. In turn, the trust would set off the loan and keep paying lease rentals to REIT. Also the company's consolidated debt currently stands at Rs 238 Cr and they have 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 to upgrade its digital content. Thus books would be supplemented with digital content, which would be available to students and teachers all round the clock. This seamless integration 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.

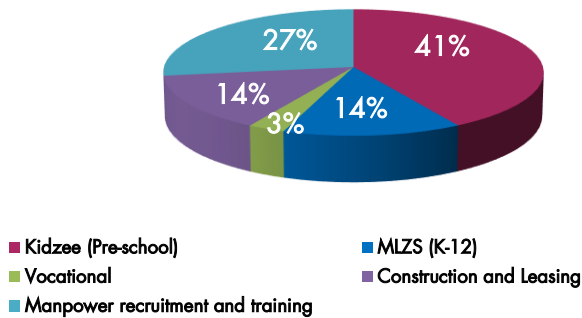
### Operational Kidzee Schools (Pre-school)



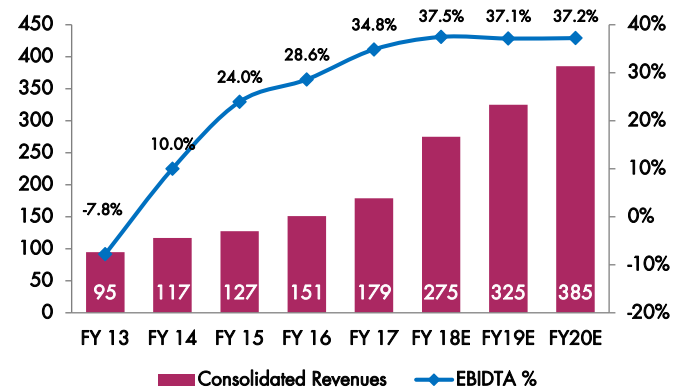
### Mount Litera Zee School (K-12)



### Revenue break-up in Q2FY18



### Consolidated Revenue and EBITDA (%) trends



Source: Company, Axis Securities

## Results Update (Consolidated)

(Rs. cr)	Quarterly Performance					Financial Year Ending			
	Q3FY18	Q3FY17	% Change (YoY)	Q2FY18	% Change (YoY)	FY17	FY18E	FY19E	FY20E
<b>Sales</b>	<b>52</b>	<b>30</b>	<b>72</b>	<b>60</b>	<b>(14)</b>	<b>179</b>	<b>275</b>	<b>325</b>	<b>385</b>
Other Op. Inc	0.0	0.0		0.0		0	0	0	0
<b>Total Revenue</b>	<b>52</b>	<b>30</b>	<b>72</b>	<b>60</b>	<b>(14)</b>	<b>179</b>	<b>275</b>	<b>325</b>	<b>385</b>
<b>Expenditure</b>									
Net Raw Material	6	3	83	6	6	35	41	47	55
Employee expenses	19	9	110	23	(14)	25	88	107	127
Other Exp	9	8	13	9	0	56	43	50	60
<b>Total Expenditure</b>	<b>34</b>	<b>20</b>	<b>69</b>	<b>37</b>	<b>(8)</b>	<b>117</b>	<b>172</b>	<b>204</b>	<b>242</b>
<b>EBIDTA</b>	<b>18</b>	<b>10</b>	<b>79</b>	<b>23</b>	<b>(23)</b>	<b>62</b>	<b>103</b>	<b>121</b>	<b>143</b>
<b>EBIDTA Margin</b>	<b>34.5%</b>	<b>33.2%</b>		<b>38.8%</b>		<b>34.8%</b>	<b>37.5%</b>	<b>37.1%</b>	<b>37.2%</b>
Oth. Inc.	0.4	0.2		0.5		2.0	2.2	2.2	2.0
Interest	4.1	4.5	(10)	4.2	(2)	19	19	18	18
Depreciation	2.8	2.2	26	2.8	1	10	10	12	13
Exceptional Item	0.0	0.0		0.0		0.0	0.0	0.0	0.0
<b>PBT</b>	<b>11</b>	<b>4</b>	<b>224</b>	<b>17</b>	<b>(33)</b>	<b>36</b>	<b>76</b>	<b>93</b>	<b>114</b>
Tax	3.8	1.4		5.7		-1	26	31	38
<b>PAT</b>	<b>7.7</b>	<b>2.2</b>	<b>256</b>	<b>11.3</b>	<b>(32)</b>	<b>37</b>	<b>51</b>	<b>62</b>	<b>76</b>
EPS (Rs.)	0.24	0.07		0.35		1.14	1.56	1.89	2.33

Source: Company, Axis Direct Research.

**Disclosures:**

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on [www.axisbank.com](http://www.axisbank.com).
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We Rohit Chawla, MBA (Finance), author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period.

Any holding in stock – No

5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.
6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:
  - i. Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;
  - ii. Managed or co-managed public offering of the securities from the subject company of this research report and / or;
  - iii. Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

**Term& Conditions:**

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

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

**Disclaimer:**

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

**Copyright in this document vests with Axis Securities Limited.**

Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 18002100808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: [compliance.officer@axisdirect.in](mailto:compliance.officer@axisdirect.in), Tel No: 022-42671582. SEBI-Portfolio Manager Reg. No. INP000000654