

## MT Educare Limited

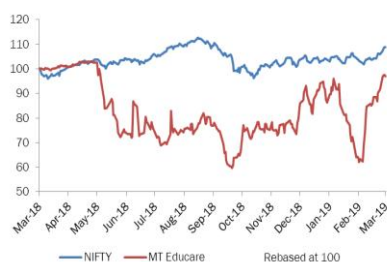
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Strong brands and expansion across verticals will drive growth

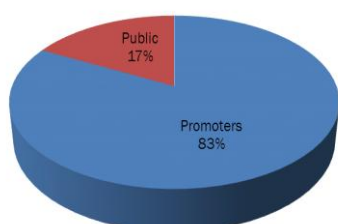
BUY

Sector	: Education
Target Price	: Rs 137
Current Market Price	: Rs 67
Market Cap	: Rs 481 crore
52-week High/Low	: Rs 77/40
Daily Avg. Volume	: 72,560
Face Value	: Rs 10
Beta	: 0.58
Pledged Shares	: 15.2%
Year End	: March
BSE Scrip Code	: 534312
NSE Scrip Code	: MTEDUCARE
Bloomberg Code	: MTEL IN
Reuters Code	: MTED.NS
Nifty	: 11,354
BSE Sensex	: 37,809
Analyst	: Research Team

### Price Performance



### Shareholding Pattern



## Initiation Report

### INVESTMENT SUMMARY

- MT Educare (MT) is one of India's largest academic coaching services provider, specialising in coaching students for secondary school, higher secondary science, and entrance exams for UG engineering and medical courses.
- MT is a strong player in school and higher secondary science coaching in Maharashtra. It also has a good presence in Karnataka where it manages pre-university colleges in partnership with Aryan Foundation.
- MT's key strengths include 3 decades' experience, top-ranking students, and strong brands. The company's strategy to collaborate with local partners in new markets and exploring different models to expand should enable it to accelerate growth going forward.
- The company's government projects vertical is expected to contribute higher revenues, given its experience in coaching and training, and the government's focus on skill development and increasing enrolment of students from backward classes in tertiary education.
- MT's asset-light business model and tech-enabled learning platform (Robomate+) make it more agile for scaling up and adapting to emerging trends
- We expect robust topline growth on the back of expansion, increase in enrolments, and higher contribution from government and digital verticals. At current levels, the MT stock is attractively priced at 8.8x FY21E EPS. We value MT at 18x FY21E EPS to arrive at a price target of Rs 137 with a potential upside of 105% and informing a BUY rating.

### Key Financial Metrics

Rs crore	FY17A	FY18A	FY19E	FY20E	FY21E
Operating revenue	304.6	222.6	236.7	347.4	430.6
Growth		-26.9%	6.3%	46.8%	24.0%
EBITDA	30.5	(171.9)	28.3	58.8	86.4
EBITDA margin	10.0%	-77.2%	11.9%	16.9%	20.1%
PAT	5.8	(131.8)	4.6	35.4	54.9
PAT margin	1.9%	-59.2%	2.0%	10.2%	12.8%
Diluted EPS (Rs)	1.47	(32.71)	0.64	4.91	7.60

Source: Company data; Khambatta Research

MT specialises in coaching students for secondary school, higher secondary science, and entrance exams for UG engineering and medical courses

There are over 25 crore children attending school in India, a number which is higher than any other country

## COMPANY OVERVIEW

MT Educare (MT) is one of India's largest academic coaching services provider for students at the secondary, higher secondary and tertiary levels. The company specialises in coaching at the secondary and higher secondary stages, and preparing students looking to take engineering and medical entrance examinations. MT also provides coaching in the commerce stream for plus-2 and chartered accountancy (CA) students, and prepares aspiring MBAs for CAT and other MBA entrance exams. The company manages undergraduate colleges in Karnataka run by an independent trust and is a service provider on government projects relating to coaching students from backward communities for entrance exams and skill building. On the digital front, MT's Robomate+ platform is a tab-based learning solution for school students and candidates preparing for entrance exams.

MT's geographical presence primarily spans Maharashtra and Karnataka with some presence in other parts of India.

## INDUSTRY OVERVIEW

India has a large young population with close to 50 crore individuals in the 5-24 years age group, constituting 41% of the population<sup>1</sup>, and over 25 crore children attending school, a number which is higher than any other country<sup>2</sup>. The demand-supply gap within the Indian education sector represents an additional requirement of 2,00,000 schools, 35,000 colleges, 700 universities and 4 crore seats in vocational training<sup>3</sup>. Further, a large population with English intelligibility and English as an important language of instruction in school and tertiary education make the delivery of educational products relatively easy. India ranked 28 out of 88 countries in the English Proficiency Index 2018. Both coverage and quality of India's tertiary education has been on an upward trend over the past few years with 49 Indian educational institutions represented in the Times Higher Education (THE) Emerging Economies University Rankings published in January 2019.

## Academic Coaching

With increasing numbers of students completing secondary and higher secondary education and an expanding share of those students going for higher education, competition at the tertiary education stage is on the rise in India. While new streams and courses have been gaining in popularity over the past decade, engineering and medical education still retains their popularity and high aspirational value. Entrance to government-funded premier engineering colleges takes place through the Joint Entrance Examination (JEE) while the National Eligibility-cum-Entrance Test - Undergraduate (NEET-UG) selects students for admission

<sup>1</sup> Census of India, 2011

<sup>2</sup> IBEF

<sup>3</sup> IBEF

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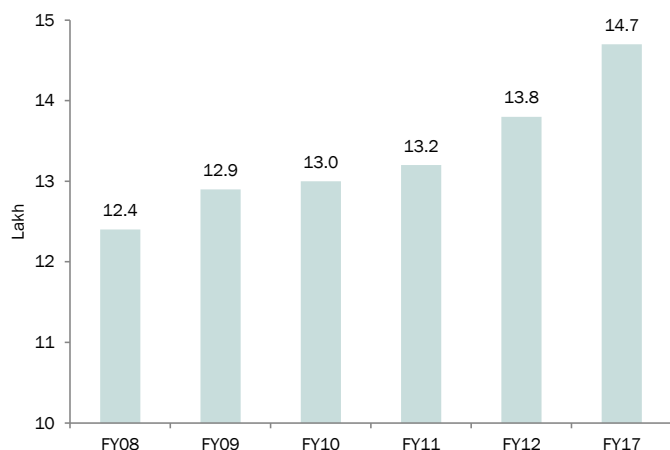
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According to an NSSO survey, 26% of Indian students take private tuitions with 36% of secondary and higher secondary students and 20% UG students going to coaching classes

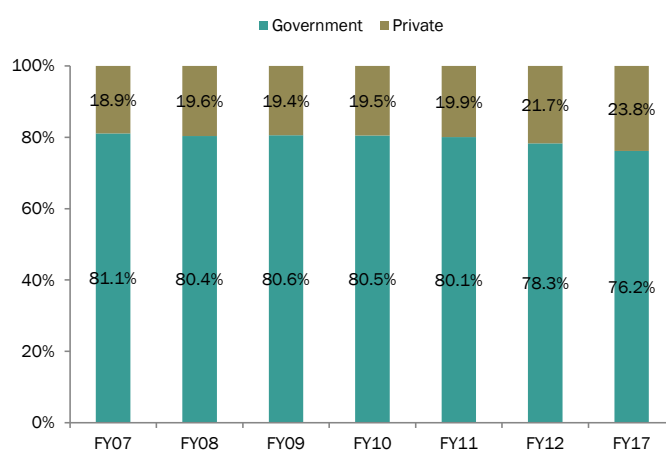
to UG medical and dental courses. While a large number of students primarily focus on preparing for these entrance exams during their higher secondary courses, strong scores in plus-2 board exams are critical for admission to various non-engineering and non-medical streams at premier colleges. A case in point is the near-100% cut-off at several Delhi University colleges for application to their UG programmes.

The intense competition for admission to quality UG education in India, especially in marquee institutions such as the Indian Institutes of Technology (IITs) and the All India Institutes of Medical Sciences (AIIMS) is the principal driver of proliferation of private coaching classes in the country. The sheer number of students appearing for school board and UG entrance exams has led to the advent of big organised players in the academic coaching space. According to an NSSO survey, 26% of Indian students take private tuitions with 36% of secondary and higher secondary students and 20% UG students attending coaching classes.

### Number of Schools in India



### Share of Government and Private Schools



Source: CARE Ratings / DISE

### K-12 Education

The K-12 education infrastructure in India can be broadly divided into government-owned, government-aided and privately-owned schools. While government (owned and aided) schools form the majority of schools in the country (11,18,268 in FY17), the number of private schools at 3,49,412 (FY17) accounts for a significant 24% share. During the period FY08-FY17, the growth in the number of private schools of 4.1% CAGR outpaced the increase in number of government schools at 1.2%, resulting in the share of private schools expanding from 19.6% to 23.8%. In 2030, 24% of India's population will be in the age group of 5 to 19 years<sup>4</sup>, presenting an addressable population of over 35 crore for K-12 education. Increasing disposable income levels, growing aspirations and a middle class comprising almost 80% of the population

<sup>4</sup> PopulationPyramid.net

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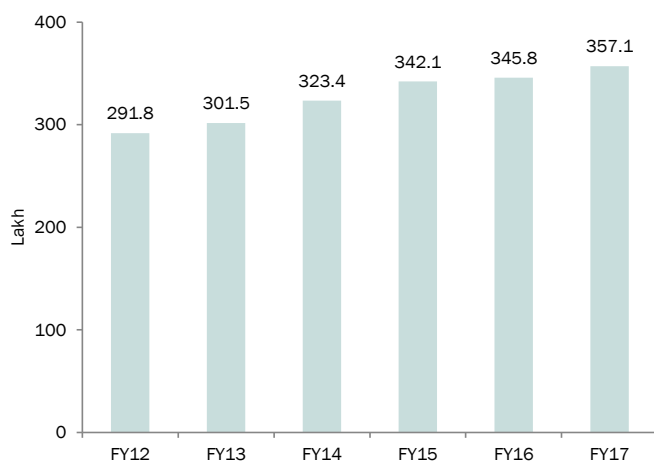
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by 2030 (up from current 50%)<sup>5</sup> bode well for the demand for private coaching going forward.

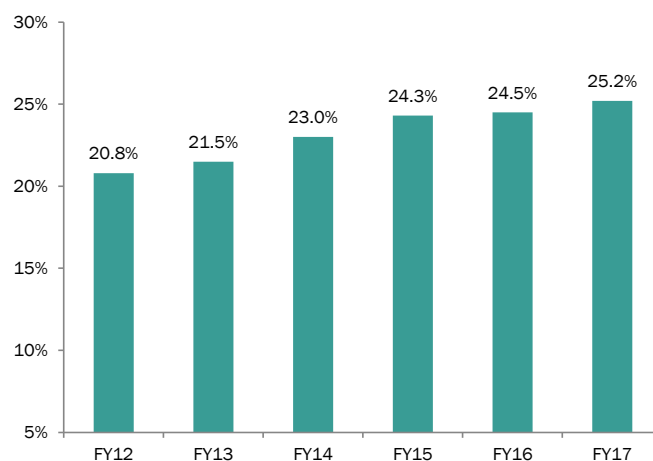
### UG Entrance Examinations

The number of IITs increased from 7 in 2001 to 23 in 2016. As of 2018, there were over 11,000 seats for UG courses at the IITs. A total of 11,86,454 candidates appeared for the JEE Main in 2017<sup>6</sup> as from this year onwards, there are plans to conduct the JEE Main twice a year. Over 13 lakh candidates are estimated to have taken the medical entrance exam NEET-UG in 2018. Going forward, as the number of seats in engineering and medical colleges increases and more candidates sign up to write the entrance exams, the demand for specialised coaching for these exams will grow.

### Student Enrolment in Higher Education



### Gross Enrolment Ratio in Higher Education



Source: CARE Ratings / AISHE

### PEER COMPARISON

MT directly competes with a number of privately-held coaching service providers such as ALLEN Career Institute, Aakash and FIIT JEE while it has a few listed peers in the broader education space. For the purpose of this research, we are comparing MT with some of its listed peers.

**Career Point:** Career Point is an education solutions provider offering school education, coaching services and higher education. The Kota-based company has institutions and coaching centres located across India.

**Zee Learn:** Zee Learn is one of India's leading education companies with presence in the preschool, K-12 and tertiary education (with a focus on creative and media arts) segments. Zee Learn is the majority shareholder in MT.

<sup>5</sup> World Economic Forum

<sup>6</sup> CBSE

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The training service providers in the peer group have lower operating margins

**Aptech:** Aptech is a learning solutions provider with presence in over 40 emerging economies and offering training to individuals in animation & multimedia, IT, aviation & hospitality, banking & finance, hardware & networking, beauty & makeup, and English language. The company's enterprise division provides customised training for corporations and institutions, and tech-enabled assessment solutions. It also runs the pre-school chain Aptech Montana.

**NIIT:** NIIT offers multi-disciplinary learning management and training delivery solutions to corporations, institutions and individuals across 40 countries and is one of the world's leading training service providers.

We are comparing financial metrics from FY17 as MT reported a loss at both the operating and net levels in FY18, mainly on account of one-time expected credit loss (ECL) provisions relating to Aryan Foundation, Sri Gayatri Educational Trust, certain government projects and other debtors. Zee Learn and Career Point have comparable (higher) EBITDA margins with both the companies into formal school education. MT Educare, Aptech and NIIT, on the other hand, have a lower EBITDA margin profile. Although their product offerings are different, these three companies are training service providers in a broad sense.

### Peer Comparison: FY17 Key Financial Metrics (Consolidated)

Rs crore	MT Educare	Career Point	Zee Learn	Aptech	NIIT
Revenue	304.6	74.0	179.9	212.2	845.2
EBITDA	30.5	19.6	59.1	29.2	57.5
EBITDA margin	10.0%	26.5%	32.9%	13.8%	6.8%
PAT	5.8	21.0	33.5	19.3	40.9
PAT margin	1.9%	28.3%	18.6%	9.1%	4.8%
Diluted EPS (Rs)	1.47	11.56	1.04	4.62	2.44
ROCE	N/A	9.9%	N/A	25.3%	26.7%
ROE	4.0%	5.7%	12.4%	8.1%	5.5%

Source: Bloomberg

## INVESTMENT THESIS

### A strong player in Maharashtra and Karnataka

MT operates 110 school coaching and 42 science coaching centres in Maharashtra

MT is a strong player in Maharashtra's school coaching market (CBSE/ICSE/state board) and the leading tutorial service for the Maharashtra state board. It runs 110 centres in the school segment in the state. MT additionally operates 42 science centres (comprising MT Science and Lakshya centres) in Maharashtra, focusing on engineering and medical entrance exams. The company has 34 commerce centres in Maharashtra for plus-2 and CA students. Overall MT is present across 84 locations in the state.

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**In FY13, MT acquired Lakshya, a premium brand offering coaching to aspiring IIT and medical students**

In Karnataka, MT has a tie-up with Aryan Foundation to manage 22 pre-university (PU) colleges (providing plus-2 level education). Additionally it provides science coaching to students of these colleges. While the curricula are similar, the company considers its Karnataka operations as a business unit separate from its science segment comprising MT Science and Lakshya centres in Maharashtra and North India.

**Robust experience, consistent performance and strong brands are key positives**

MT was one of the early entrants in the organised coaching market in India, having gathered over 3 decades' experience. Its flagship 'Mahesh Tutorials' brand is one of the most popular names in school coaching in Mumbai. In FY13, MT acquired Lakshya, a brand positioned as a premium offering for aspiring UG engineering (especially IIT) and medical students, and a generating higher average realisation than MT Science. Over the years, MT's students have acquired some top ranks and attained high scores in IIT/AIIMS entrance, school board and CA exams. Students' academic outcomes and ranks are regarded as key indicators of success and performance in the tutorial industry, which, in turn, draws more aspiring students to coaching institutions delivering strong results for outgoing students. MT, with its performance record and strong brands, is positioned well to capture a good share of the growth in the Indian academic coaching market going forward.

**Strategic tie-ups and expansion into new markets will contribute to future growth**

MT has presence in formal PU education through strategic tie-ups with Aryan Foundation in Karnataka where it manages 22 Mahesh PU Colleges, and with Sri Gayatri Educational Trust in Telegana and Andhra Pradesh. While the Karnataka collaboration contributes directly to MT's topline in the form of management fees charged to the foundation and tuition fees charged to students for providing science coaching services, the partnership model with Gayatri Trust does not comprise any direct revenue stream. This strategic partnership intended to generate revenue for the company through the sale of Robomate+ to students of Gayatri colleges has, however, not contributed to MT's topline. The company had incurred an implementation cost of Rs 32 crore, all of which was charged in FY17 as a one-time expense.

**Going forward, we expect MT to expand its footprint in new markets through a mixed model comprising owned and franchise branches**

Although MT's main presence is in the states of Maharashtra and Karnataka, its premium Lakshya brand is present in Punjab, Haryana and Chandigarh in northern India, albeit through few centres. It also has presence in Tamil Nadu, Gujarat, Uttar Pradesh and Northeast India in commerce coaching / school coaching / government projects. Currently the company operates its centres directly and does not use the franchise model. Going forward, we expect MT to expand its footprint in the states where it has minor presence as well as look to enter big states where it is currently not active such as NCR, West Bengal, Bihar and Rajasthan by employing a mixed model comprising owned and franchise branches.



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MT's strong experience in coaching and training along with its robust infrastructure favourably position it for government projects

### **The emerging UVA business (government projects) offers strong opportunities**

MT provides science coaching services for entrance exams and skill development training under government schemes through its UVA vertical. These trainings are usually provided free of charge to the beneficiaries as the government foots the bill for the professional services rendered by service providers like MT as part of its affirmative action mandate for socioeconomically backward classes.

The Government of India has hiked the budget for education expenditure by Rs 10,000 crore to Rs 93,848 crore in its Interim Budget for FY2019-20. The National Education Policy Framework 2018, launched in November 2018, focuses on improving the quality of education as well as innovation and research. The Rashtriya Yuva Sashaktikaran Karyakaram (RYSK), an umbrella programme in the area of youth development including vocational education schemes, has been allocated a sum of Rs 1,160 crore for the period FY2017-18 to FY2019-20. The flagship Pradhan Mantri Kaushal Vikas Yojana (PMKVY) and other schemes under the Skill India initiative have set a target of training 40 crore individuals in various vocational skills by 2022 with the government partnering with non-governmental and private agencies to deliver training programmes across the country.

Being an emerging vertical, we expect UVA to register healthy growth going forward. With its strong experience in coaching and training and robust infrastructure, MT stands in good stead to be a preferred service provider in government programmes.

### **An asset-light business model and the Robomate+ platform make MT more agile to scale up and adapt to emerging trends**

MT operates with an asset-light business model where most of its premises are leased. Further, in its PU ventures, the premises are provided by the venture partners. This enables MT to easily expand its network and scale up the business with little capex. At the centre stage of MT's business model is its intellectual capital, comprising content and teaching faculty. While the content is developed in-house with MT owning the intellectual property, the company's strong brand equity enables it to recruit quality teachers without much difficulty.

MT operates out of leased premises and facilities belonging to its strategic partners

MT's digital learning solution Robomate+ is a tab-based platform that serves as both a standalone learning application as well as an extended learning tool for MT's classroom students. Robomate+ is offered as part of the package for MT's science students while its sale outside of the MT network establishes it as a separate revenue stream. With the use of digital educational content expanding rapidly, Robomate+ puts MT in the edutech map with the objective of monetising the product more extensively and enabling the company to adapt to a more tech-driven education sector going forward.

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**VALUATION**

Our valuation informs a BUY rating with a target price of Rs. 137

We expect robust topline growth over the next couple of years, driven by growth in number of centres in existing and new markets, increase in enrolments, migration of students from MT Science to the premium Lakshya brand, contribution from franchises, and higher contribution from government projects and Robomate+. Operating leverage, a higher proportion of Lakshya students, growth in standalone Robomate+ revenue (for which the development cost has already been incurred in previous periods), and leveraging of existing infrastructure in government projects will enable healthy expansion of EBITDA margins. The MT stock is currently trading at 13.6x and 8.8x FY20E and FY21E EPS, respectively. Valuing MT at 18x FY21E EPS, we arrive at a price target of Rs 137 with a potential upside of 105% and informing a BUY rating.

**Valuation: Price-to-Earnings**

	Max	Min	Mean
MT Educare	58.9	9.6	29.9
Career Point	32.2	4.2	15.2
Zee Learn	141.5	16.6	64.1
Aptech	95.4	7.8	32.9
NIIT	57.6	16.4	31.8
<b>Peer group average</b>	<b>77.1</b>	<b>10.9</b>	<b>34.8</b>

Source: Bloomberg; Khambatta Research

**Profit & Loss Account (Consolidated)**

Rs crore	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Operating revenue</b>	<b>304.6</b>	<b>222.6</b>	<b>236.7</b>	<b>347.4</b>	<b>430.6</b>
<i>Growth</i>		-26.9%	6.3%	46.8%	24.0%
Operating expenses	274.1	394.5	208.4	288.6	344.2
<b>EBITDA</b>	<b>30.5</b>	<b>(171.9)</b>	<b>28.3</b>	<b>58.8</b>	<b>86.4</b>
<i>EBITDA margin</i>	10.0%	-77.2%	11.9%	16.9%	20.1%
Depreciation & amortization	18.8	21.4	17.7	18.9	20.4
EBIT	25.1	(178.7)	25.6	68.9	95.0
Interest expense	14.4	23.0	18.5	14.9	11.4
PBT	10.7	(201.7)	7.0	54.0	83.6
Tax expense	4.9	(69.9)	2.4	18.5	28.7
<b>PAT</b>	<b>5.8</b>	<b>(131.8)</b>	<b>4.6</b>	<b>35.4</b>	<b>54.9</b>
<i>PAT margin</i>	1.9%	-59.2%	2.0%	10.2%	12.8%
<b>Diluted EPS (Rs)</b>	<b>1.47</b>	<b>(32.71)</b>	<b>0.64</b>	<b>4.91</b>	<b>7.60</b>

Source: Company data; Khambatta Research



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**Key Balance Sheet Items (Consolidated)**

Rs crore	FY17A	FY18A	FY19E	FY20E	FY21E
Total shareholders' funds	141.8	204.9	210.0	245.4	300.3
Total debt	144.8	177.9	130.5	102.3	74.0
Current liabilities	83.8	86.3	59.2	76.4	86.1
<b>Total equity &amp; liabilities</b>	<b>375.2</b>	<b>473.9</b>	<b>401.7</b>	<b>427.0</b>	<b>463.0</b>
Cash & cash equivalents	16.1	202.5	51.2	71.7	77.1
Trade receivables	115.0	13.8	23.7	34.7	43.1
Tangible fixed assets	43.8	49.3	65.3	61.4	56.0
<b>Total assets</b>	<b>375.2</b>	<b>473.9</b>	<b>401.7</b>	<b>427.0</b>	<b>463.0</b>

Source: Company data; Khambatta Research

**KEY RISKS**

- MT generates over a half of its revenues from the school and science segments, most of which comes from Maharashtra. Such concentration of revenue is a significant risk for its business model, which, in turn, poses a risk to our revenue and earnings forecasts.
- While we expect MT to benefit from the execution of more government projects, these projects may be affected due to changes in policy and budget allocations.
- Inability of MT to adequately adapt to changes and disruptions in the sector, especially the ones driven by technology poses a risk to our outlook and forecasts.

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### Guide to Khambatta's research approach

#### Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

**DCF:** The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

**ERE:** The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

**Relative valuation:** In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

*Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.*

#### Stock ratings

*Buy recommendations* are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

*Hold recommendations* are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

*Sell recommendations* are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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