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MT Educare Limited

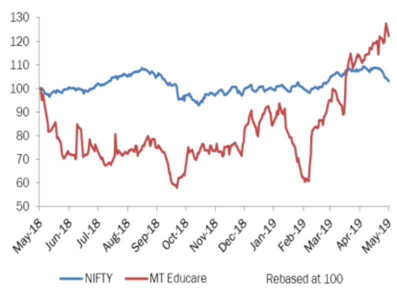
14 May 2019

In-line operating performance; strong growth potential beckons

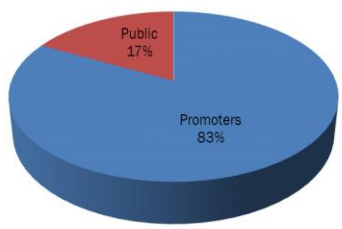
BUY

Sector	: Education
Target Price	: Rs 145
Current Market Price	: Rs 88
Market Cap	: Rs 635 crore
52-week High/Low	: Rs 94/40
1-year Avg. Volume	: 118,726
Face Value	: Rs 10
Beta	: 0.71
Pledged Shares	: 15.23%
Year End	: March
BSE Scrip Code	: 534312
NSE Scrip Code	: MTEDUCARE
Bloomberg Code	: MTEL IN
Reuters Code	: MTED.NS
Nifty	: 11,148
BSE Sensex	: 37,091
Analyst	: Research Team

Price Performance



Shareholding Pattern



FY19 Update Report

Highlights

- MT Educare's (MT's) FY19 core operating results are line with our estimates. The company reported a profit at the operating and net levels after registering losses in FY18 on account of one-time expected credit loss (ECL) provisions relating to Aryan Foundation, Sri Gayatri Educational Trust, certain government projects, and other debtors.
- While operating revenue came in marginally lower than our expectation, EBITDA was in line, leading to 50 bps higher EBITDA margin (12.5%). PAT was higher than our estimate due to higher-than-expected other income. The higher other income is attributable to a reversal of losses booked in the previous year.
- Management expects stronger performance in FY20, aided by the addition of 15 pre-university (PU) colleges in Karnataka, 24 schools/colleges in and around Mumbai, higher enrolments in Science and Karnataka verticals, greater contribution from government-funded projects (with projects worth Rs 100 crore already in hand or under execution), and arrangements with various publication houses for the distribution of Robomate+ notebooks.
- We continue to expect robust topline growth and healthy margin expansion over the next couple of years. After appreciating 32% since our initiation report dated 26 March 2019, the MT stock is currently trading at 11.5x FY21E EPS. Valuing at 19x FY21E EPS, our price target is revised upward to Rs 145 (from Rs 137) with a potential upside of 65% and informing a BUY rating.

Key Financial Metrics

Rs crore	FY17A	FY18A	FY19A	FY20E	FY21E
Operating revenue	304.6	222.6	228.6	347.4	430.6
Growth		*-26.9%*	*2.7%*	*52.0%*	*24.0%*
EBITDA	30.5	(171.9)	28.5	58.8	86.4
EBITDA margin	*10.0%*	*-77.2%*	*12.5%*	*16.9%*	*20.1%*
PAT	5.8	(131.8)	9.1	35.6	55.1
PAT margin	*1.9%*	*-59.2%*	*4.0%*	*10.3%*	*12.8%*
Diluted EPS (Rs)	1.47	(32.71)	1.27	4.94	7.62

Note: Consolidated financials
Source: Company data; Khambatta Research

Valuation

We continue to expect robust topline growth over the next couple of years, driven by growth in number of centres in existing and new markets, higher enrolment, increasing share of 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 margin expansion. After appreciating 32% since our initiation report dated 26 March 2019, the MT stock is currently trading at 11.5x FY21E EPS. We believe the strong operating performance in FY19 demonstrates high competence of MT's management and consequently enhances earnings visibility. As a result, valuing at 19x FY21E EPS (compared to a target multiple of 18x in our initiation report), our price target is revised upward to Rs 145 (from Rs 137) with a potential upside of 65% and informing a BUY rating.

Year-on-year Performance

Rs crore	FY18	FY19	Y-o-y
Operating revenue	222.6	228.6	2.7%
EBITDA	(171.9)	28.5	N/A
EBITDA margin	*-77.2%*	*12.5%*	*90 ppt*
PAT	(131.8)	9.1	N/A
PAT margin	*-59.2%*	*4.0%*	*63 ppt*
Diluted EPS (Rs)	(32.71)	1.27	N/A

Note: Consolidated financials
Source: Company data

Reported vs Estimate

Rs crore	FY19E	FY19A	Variance	Comments
Operating revenue	236.7	228.6	-3.4%	Revenues came in marginally lower.
EBITDA	28.3	28.5	0.8%	EBITDA was in line with our estimate.
EBITDA margin	*11.9%*	*12.5%*	*52 bps*	EBITDA margin was marginally higher as operating performance was broadly in line.
PAT	4.6	9.1	97.1%	PAT came in higher than our estimates due to higher other income (Rs 20.8 crore vs our estimate of Rs 15.0 crore).
PAT margin	*2.0%*	*4.0%*	*203 bps*	Higher PAT margin was due to higher other income.

Note: Consolidated financials
Source: Company data; Khambatta Research

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Profit & Loss Account (Consolidated)

Rs crore	FY17A	FY18A	FY19A	FY20E	FY21E
Operating revenue	**304.6**	**222.6**	**228.6**	**347.4**	**430.6**
Growth		*-26.9%*	*2.7%*	*52.0%*	*24.0%*
Operating expenses	274.1	394.5	200.1	288.6	344.2
EBITDA	**30.5**	**(171.9)**	**28.5**	**58.8**	**86.4**
EBITDA margin	*10.0%*	*-77.2%*	*12.5%*	*16.9%*	*20.1%*
Depreciation & amortization	18.8	21.4	18.1	18.6	20.2
EBIT	25.1	(178.7)	31.1	69.2	95.2
Interest expense	14.4	23.0	19.8	14.9	11.4
PBT	10.7	(201.7)	11.4	54.3	83.8
Tax expense	4.9	(69.9)	2.3	18.6	28.8
PAT	**5.8**	**(131.8)**	**9.1**	**35.6**	**55.1**
PAT margin	*1.9%*	*-59.2%*	*4.0%*	*10.3%*	*12.8%*
Diluted EPS (Rs)	**1.47**	**(32.71)**	**1.27**	**4.94**	**7.62**

Source: Company data; Khambatta Research

Abridged Balance Sheet (Consolidated)

Rs crore	FY17A	FY18A	FY19A	FY20E	FY21E
Total shareholders' funds	141.8	204.9	219.2	254.8	309.9
Total debt	144.8	151.5	104.2	102.3	74.0
Current liabilities	83.8	107.0	121.7	76.4	86.1
Total equity & liabilities	**375.2**	**474.0**	**453.6**	**436.4**	**472.5**
Cash & cash equivalents	16.1	202.5	9.4	51.1	56.4
Trade receivables	115.0	17.6	25.5	34.7	43.1
Tangible fixed assets	43.8	33.0	50.3	45.3	40.2
Total assets	**375.2**	**474.0**	**453.6**	**436.4**	**472.5**

Source: Company data; Khambatta Research

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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.

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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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