MT-Educare Ltd

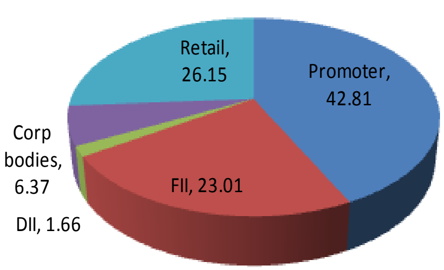
BUY

BSE Code	534312
NSE Code	MT Educare
Bloomberg Code	MTEL:IN
Current Price	120
Target Price	137
Mcap ₹ bn	5
Mcap US$ bn	0.1
52 wk H/L	154.9/74.2
Face Value	10
2 wk avg vol (000)	1007

Financial Snapshot

₹ Mn	FY14	FY15E	FY16E
Net sales	2,018	2,319	2,762
% ch	28.3%	14.9%	19.1%
EBIDTA	447	544	649
%ch	77%	17%	22%
PAT	210	274	295
%ch	16.6%	30.1%	7.8%
EPS	5.3	6.9	7.4
BV	28.1	30.8	34.1
P/E	22.7	17.4	16.2
EV/EBIDTA	10.8	9.3	7.3
ROE	18.8%	22.3%	21.8%
ROCE	16.1%	18.5%	18.6%

Shareholding Pattern



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Increase in revenues backed by higher realization per student

MT-Educare Ltd (MTEL) reported a revenue growth of 14% over the previous year which was in line with our growth targets for FY15E. The growth has mainly been from the addition in science tutorial revenues coupled with Robomate and others which includes rental and management fees. The total number of students serviced for the year has been 71,853 vs 73,786. The student enrolled among the varied revenue streams of school, commerce and CPLC has declined by 2.7% for 9mths ended which was lower than our estimates. The EBITDA margins contracted to 19.8% from 22.5% over the previous year which would improve over time as student enrollment keeps rising along with increase in ancillary revenues like test preps and Robo-Mate. The PBT decreased YoY by 1.2% although MTEL has witnessed higher other income which was more than double however the gains have been offset by interest expense which has moved in tandem compared to the previous year. The overall results have been moderately satisfactory and we continue to remain positive on the prospects of MTEL over a longer term.

Revenues to continue to grow albeit moderately: MTEL posted a revenue growth of 14% which was in line with expectations. The growth has been aided by increase in realization from the students and addition in the ancillary business. The additions from the schools is yet to show an increase in the enrollments. The shift in college trend have moved more towards the professional courses like CA in the commerce section and AIJEE or JEE in the science section although the student addition has not been heartening in the college section which has witnessed a decline of 12.4% for 9mths ended. We believe that demand for these education courses will only increase given the number of people going through the educational system increases.

Margins expected to revive: EBITDA margins have been subpar at 19.8% witnessing de-growth of 273bps over the previous year. This has been mainly on the back of higher expenses which would include the rental and electricity expenses along with faculty cost. The new coaching centers would not commence operations immediately which could bare an effect on margins while it would still incur fixed cost which is the rental and staff expense. The older centers could make up for the lower revenues generated from the new coaching institutes. We expect the EBITDA margins to improve given increase in student addition with an increase in capacity utilization. As most of the newer centers would have low occupancy while the older centers operative can offset this with an increase in their occupancy levels. As most cost are fixed in nature they would be add to the revenues and profitability going ahead.

Resilient Cash Flow: MTEL has a strong balance sheet which is net cash positive at ₹150mn for 9mths ended. Since MTEL is in the expansion phase the surplus cash would enable aid them in expanding in different locations and have a wider reach to its target markets. MTEL have an asset light model because of which they do not require heavy capex spends.

PBT decreases with higher interest expenses: The other income has seen an increase by 224 bps compared to the previous year. The large part of other income would include interest and dividend income. We could see similar levels of other income as the company posses strong cash reserves and investments. The interest component has seen a big move compared to the previous year and believe this trend would not persist as the company is cash rich and would repay all debt on maturity. In view of this we believe the profit increase for the year would have been higher had we not seen an increase in the interest expense. The PAT growth was higher by 9% than the previous year

Valuation:

At present MTEL is trading at a P/E multiple of 17.4x & 16.2x, a P/BV of 3.9x & 3.5x and an EV/EBITDA of 9.3x & 7.31x for FY15E & FY16E respectively. While MTEL is still in its expansion phase, we believe higher utilization of its classroom and healthy revenue flow from its new initiatives through technology aided teaching coupled with higher enrollment of students for the desired stream would improve its revenues and profitability. The realization for the courses would also bode well as MTEL gains recognitions and market share in the coaching space. Given the strong cash generations and ever improving return ratios we believe a 8x EV/EBIDTA multiple 15 month which we have used is justifiable. With this we retain our target price of ₹137 and maintain our BUY recommendation with an upside of 15% over this period.

Financials

Profit & Loss

In ₹ million	FY13	FY14	FY15E	FY16E
Net sales	1,573	2,018	2,319	2,762
YoY (%)	*20.4*	*28.3*	*14.9*	*19.1*
Total expenses	816	999	1,140	1,323
EBIDTA	757	1,019	1,179	1,439
YoY (%)	*24.5*	*34.6*	*15.7*	*22.1*
EBIDTA (%) of total sale	48.1	50.5	50.8	52.1
Other income	47	24	52	41
PBIDT	803	1,043	1,231	1,480
Depre/ Amor	86	128	86	164
PBIT	717	914	1,145	1,317
Interest	0.00	0.08	40.80	42.00
PBT	717	914	1,104	1,275
(-) Tax	76	111	146	151
Tax/ PBT	10.6	12.2	13.2	11.8
Share of loss of associate:	0	0	0	0
PAT	642	803	958	1,124
Minority interest	-4	-2	-3	-3
Net Profit	180	210	274	295
YoY (%)	36.3	16.6	30.1	7.8

Balance Sheet

In ₹ million	FY13	FY14	FY15E	FY16E
Equity capital	396	398	398	398
Reserves	616	722	827	957
Net worth	1,012	1,120	1,225	1,355
Total borrowings	0	0	160	80
Non current Liabilities	89.7	41.9	41.9	41.9
Current Liabilities	677	675	738	827
Minority interest	2	7	4	1
Total liabilities	**1,777**	**1,829**	**2,161**	**2,303**
Net block	665	878	966	972
CWIP	110	54	70	50
Investments	21	8	338	378
Deferred tax	41	47	47	47
Current assets	**619**	**500**	**360**	**427**
Non current assets	322	343	382	429
Total assets	**1,777**	**1,829**	**2,161**	**2,303**

Cash Flow

In ₹ million	FY13	FY14	FY15E	FY16E
Net profit	180	210	274	295
Depn and w/o	86	128	86	164
Deferred tax	-0	-6	0	0
Change in wrkg cap	113	-69	16	44
Other income	-47	-24	-52	-41
Operating cash flow	**332**	**241**	**324**	**462**
Other income	47	24	52	41
Capex	-381	-272	-190	-150
Investments	-46	40	103	-20
Investing cash flow	**-381**	**-208**	**-35**	**-129**
Dividend	0	0	0	0
Equity	350	2	0	0
Debt	0	0	160	-80
Financing cash flow	**350**	**2**	**160**	**-80**
Others	-12	-13	-2	-16
Net change in cash	**289**	**22**	**447**	**237**

Key Ratios

	FY13	FY14	FY15E	FY16E
EPS (₹)	4.6	5.3	6.9	7.4
CEPS (₹)	6.7	8.4	9.1	11.5
Book value (₹)	25.6	28.1	30.8	34.1
DPS (₹)	2.0	2.3	2.4	3.4
Debt-equity (x)	0.00	0.00	0.13	0.06
ROCE	25.1%	28.5%	33.0%	33.8%
ROE	17.8%	18.8%	22.3%	21.8%
Valuations				
PE (x)	25.7	22.1	17.0	15.8
Cash PE (x)	17.4	14.0	12.9	10.1
Price/book value (x)	4.6	4.2	3.8	3.4
Dividend yield	1.7%	1.9%	2.0%	2.9%
Market cap/sales	2.9	2.3	2.0	1.7
EV/sales (x)	2.7	2.2	1.9	1.6
EV/EBDITA (x)	14.4	10.5	9.1	7.1

Disclaimer

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