



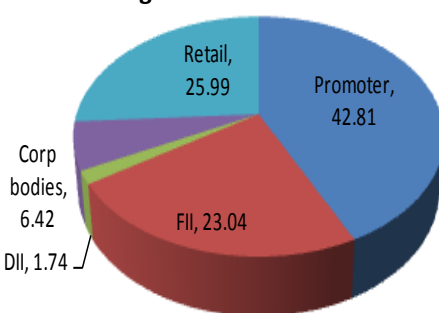
ACCUMULATE

BSE Code	534312
NSE Code	MT Educare
Bloomberg Code	MTEL:IN
Current Price	128
Target Price	144
Mcap ` bn	5
Mcap US\$ bn	0.1
52 wk H/L	154.9/66.9
Face Value	10
2 wk avg vol (000)	187

Financial Snapshot

` Mn	FY14	FY15E	FY16E
Net sales	2,018	2,319	2,762
% ch	28.3%	14.9%	19.1%
EBIDTA	447	541	652
%ch	77%	17%	22%
PAT	210	248	304
%ch	16.6%	18.0%	22.6%
EPS	5.3	6.2	7.6
BV	28.1	30.8	33.8
P/E	24.2	20.5	16.7
EV/EBIDTA	11.5	9.4	7.7
ROE	18.8%	20.3%	22.7%
ROCE	16.1%	18.5%	18.6%

Shareholding Pattern



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Steady Growth over the next couple years

MT-Educare Ltd (MTEL) is a coaching service provider under the leadership of Mahesh Shetty having education and coaching centers spread across demographics. MT-Educare first began with a single center for SSC coaching and has expanded in various other streams of competitive examinations unlocking the opportunity in coaching business. At present MT-Educare caters to coaching in medical and engineering exams, CA/CS curriculum and other vocational courses. It has its coaching centers spread across 136 locations with 220 centers at present. Due to the widespread operations across locations it gives it an advantage as compared to peers that are not operational in similar locations. According to a survey conducted by ASSOCHAM about 87% of primary and 95% of secondary school students are now taking private coaching in metros.

Demand for better educational courses: The demand for higher degrees is ever increasing and to cater to this demand MTEL has also forayed into coaching for entrance examinations along with coaching for medical and engineering curriculums. As students demand for higher education increases we will see a steady increase in demand for test preparations which they offer.

Increase in spends on education by households: The number of students being enrolled for private coaching has seen a steady increase. The Indian education space is very competitive and to ensure the child is able to achieve good grades parents are now turning to coaching classes which has almost become the norm in metros. This has spurred the opportunity to be capitalized by MTEL as it also has its coaching centers spread across locations offering the convenience to students at various time slots.

Desire by students to enter premier colleges: Today the desire to secure admission with premier colleges is constantly increasing. The shift has resulted in various educational courses offered in different streams be it science, commerce or management. With the expertise in different educational courses offered, MTEL de-risk itself from being concentrated to providing coaching to specific courses paving way for revenue from other streams resulting in increased growth.

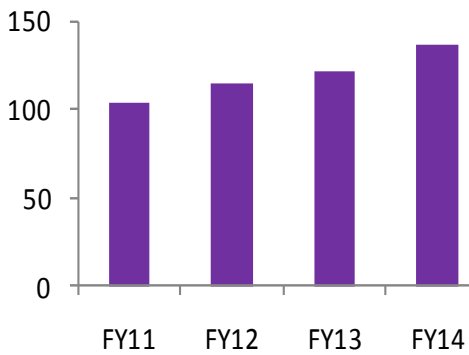
Overcoming hindrances in space for education centers: Today one of the most common hindrances in setting up a coaching institute is acquiring space in different localities, MTEL has overcome this obstacle by signing long term rental agreements with space owners giving the institute a pan India presence. This has enabled MTEL in building on its brand equity gaining recognition in the coaching business.

Valuation: At present MTEL is trading at a P/E multiple of 20.8x & 17x, a P/BV of 4.2x & 3.85x and an EV/EBITDA of 9.5x & 7.8x for FY15E & FY16E respectively. Although it looks fairly priced on a P/E multiple we need to remember the high depreciation with large requirements of furniture at all locations. Due to this we believe an EV/EBIDTA multiple is better suited for it. Given the strong cash generations and improving return ratios we believe an 8x multiple 18 month forward is justifiable. With this we arrive at a target price of 145 which implies an upside of 11% over this period. The current utilization rates for most of his classes have a good opportunity for scaling up which would be very positive to earnings over the long run. In view of this we recommend an ACCUMULATE on the stock when there is a correction.



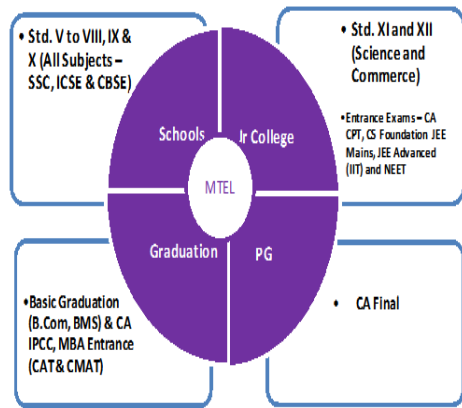
Investment rationale

Locations



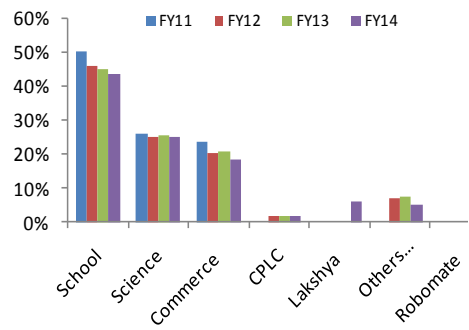
Diversity in MTEL coaching portfolio:

Today there has been a dramatic change in the way which parents look at educating their children. This has led to a massive pull towards coaching classes making its function parallel to the education system. In today’s world, competition to secure admission at premier educational institutions has increased drastically with the requirements of scoring good grades. To bridge this gap, the competition has led parents opt for enrolling their children into coaching classes with a assurance of securing higher grades there by making it accomplishing for students to get into better educational institutes. Further with MTEL has diversified its portfolio of coaching which ranges from SCC and ICSE in the school arena to college entrance exams for various courses along with coaching for test prep exam at national and state level. The varied coaching services that MTEL caters to are :



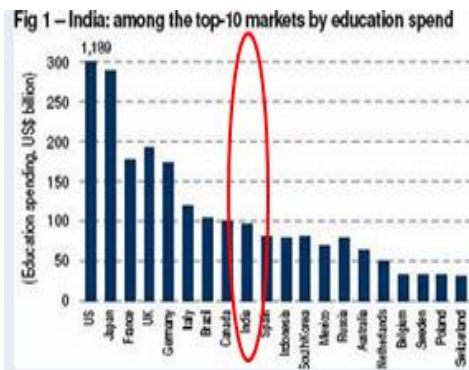
School coaching classes: MTEL provides coaching in the school section targeting students from class V to SSC, ICSE & CBSE. This is the largest division for it generating 45% of the total revenue. In this the largest revenue comes from SSC tutorials which has been the main stay of the organization. The average fees for 2 years are about `90,000 per student over the 2 year period. Once a student registers for the first year it is safe to assume he would continue for the second year giving steady revenue for it.

Test preparations: It also provides coaching assistance in entrance test and national level examinations for engineering, medical, MBA and CA aspirants. MTEL has tapped the opportunity through an organic route taking over Chitale coaching classes targeting MBA aspirants and Lakshya acquisition targeting IIT candidates. It also has recently entered into a long term partnership arrangement with SriGayatri Educational Society which operates in the states of Telangana and Andhra Pradesh whereby MTEL would provide its expertise in teacher training, study material, technology aided teaching (TAT) through Robomate.



Commerce section: In the commerce section MTEL caters to the standard XI and XII right up to the final year (B.com) along with the various other curriculums that colleges offers i.e BMM , BMS, BAF etc. In commerce section MTEL offers a combo product for both XI and XII which has witnessed traction in Mumbai and Pune. This acts like a one stop shop where students do not have to enroll elsewhere for different classes providing the convenience to students. MTEL has been targeting Chennai for maximum enrollments in this area.

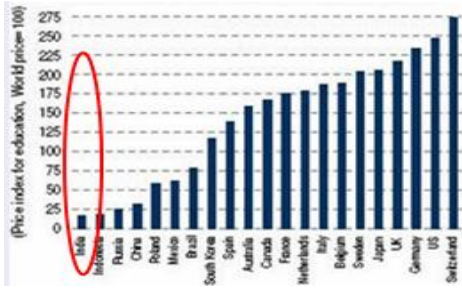
Science section: MTEL also caters to the XI and XII standard for science students. There by assisting and coaching students post the HSC examination on the various competitive exams of medical and engineering. The company expects revenues to move up steadily after the acquisition it has made with Lakshya and SriGayatri catering to the science division.



Apart from the above mentioned revenue sources MTEL also generates revenue from its Govt projects providing teacher training and grade enhancement programs, management consulting, Pre-school facilities under the brand ‘Global Champs’ and classroom based coaching in North India under the brand of “Study Mate” for CBSE students through a JV with HT learning centre ltd.

Increase in education spends yet to catch up:

As it can be seen in the chart beside, the educational spend by India although high is still seeing a constant increase which gives a stimulus to the education system as a whole. We believe with this indicator would move up gradually enabling more number of schools and colleges erected in the rural and urban regions where the density of the literate population is low. This has opened the doors for private coaching classes in such regions and

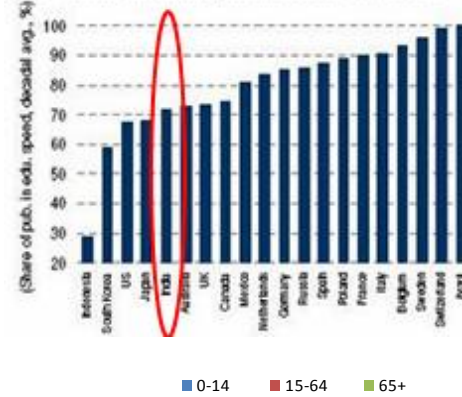


opportunities to be capitalized on, there by gaining recognition in the minds of the end consumer, resulting in better brand building. It is also noticed that the price for the education services provided in India is lower than the rest of the world.

Expanding footprint in new locations

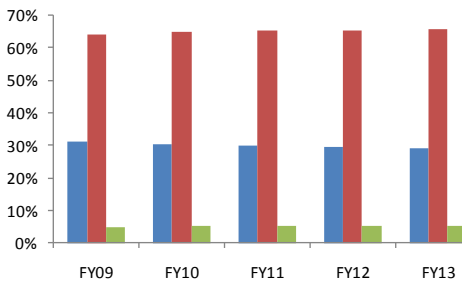
MT-Educare Ltd (MTEL) commenced its operations in 1988 with a single branch in Mumbai. Since then it has come a long way with multiple locations which caters to the various streams of education having a pan India presence. Although it has a presence throughout India it generates a large percentage of their revenue from the state of Maharashtra where they have their largest presence. MTEL has been expanding from the initial center in Mumbai taking it to a mammoth total of 220 centers in 136 locations comprising of 1000+ faculty members. MTEL operates its coaching centers in 7 states namely Maharashtra, Karnataka, Gujarat, Tamil Nadu, Delhi, Chandigarh, Punjab and Haryana.

Fig 3 – Public education spend in India at 70% of total



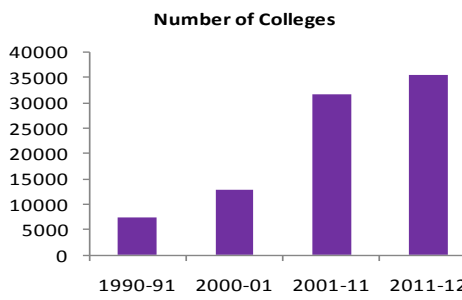
Demand for coaching leading to expansion of centers

With the Increasing demand from the aspirants for competitive examinations and the coaching services provided by MTEL, it would certainly imply future expansions of the centers from its current operations. MTEL has currently 220 coaching centers of which a large expansion has been done over the past couple years. Given these new centres are yet to stabilize they are not looking at many new centres at present. However given demand for coaching classes is expected to grow it would look to expand this number with the increasing response towards the different educational curriculum.



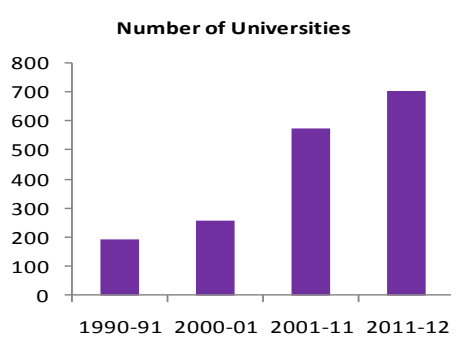
Rising youth population :

India is witnessing a significant change in the age profile population with strength of approximately 1.2bn people with the largest section belonging to the middle class of society. Of this 50% of the population falls in the age group between 0-14 and 15-21. The dearth of basic education along with the demand for higher education today has seen an increase in the number of colleges and universities. This implies that with the more educational courses offerings would create a demand for coaching institutes. The demand for coaching institutes will keep increasing as the society as a whole purely believes in the meritocracy. The brand equity built by MTEL would enable to capture a wider target market with its diversified reach and large portfolio of offerings.



Increase in disposable income:

There has been a significant growth in the consumer spending in India which is averaged ₹6984.16bn from 2004 until 2014, reaching an all time high of ₹9833.86bn. Due to this emergence of spending by the household with good earning ability one could see an increase in discretionary spends as the demand for supplemented education magnifies. Today parents thrive to give their children the best when it comes to education and would not be dithered with increase in fees for these coaching classes. They look for quality in teaching, excellence staff support and brand value while choosing from a plethora of coaching incumbents for their children.



Experienced faculty members

The teacher’s quality is a key determinant of student learning. Therefore final performance of the students and the results will be governed by the process and methodology adopted along with the aspirant’s efforts. To cope with demand for different examinations along changes in the syllabus and teaching pattern, MTEL has experienced staff along with the core and noncore faculty which would be in excess of 1000 and more members. The teaching faculty at MTEL goes through a rigorous training process for about 2-3 months before they get prepared to coach the students. While in the private tutoring there is no such means of validating their understanding on different subject content. The MTEL faculty is also involved in the preparation of the study content for the students as

INDIA CONSUMER SPENDING



opposed to the generic method of teaching by private tutors, from the material readily available in the market. This by itself emanates that efforts may not be taken by these private tutors to prepare and guide the students for the examinations. The faculty members at MTEL also acquire expertise in particular topics of subjects apart from being subject centric.

Increase in students per class (occupancy):

MTEL was in the growth phase and was expanding its centers and locations which are complete now. However one has to realize that the operations for coaching institutes will not see traction immediately and would take a while before classes get filled. Most centres for it consist of 3-4 rooms with seating capacity ranging from 40 to 60 students. Many of the new centres still have seats available as most enrollments happen before the coursework begin. At present the occupation levels at many of the centres are below 50% and the management is now focusing on increasing occupancies at its current centres. The increase in occupancy would be a big benefit to margins as most of the costs are fixed in nature and any increase in revenue would give a big fillip to the profitability.

Recognition of brand in coaching services

MTEL with its expanded presence in the 7 states has enabled it to achieve a significant top of the mind recall brand in the coaching industry. Continuous efforts have been taken by the company through the various marketing and advertising campaigns. This helps in reaching mass audience, where enquires would be done by the aspirants regarding MTEL’s coaching which leads to enrollments boosting revenue of its operations.

Inorganic growth with LAKSHYA and SriGAYATRI:

MTEL has utilized its opportunities paving the way for growth with the acquisition of Lakshya coaching institute. Lakshya has been started by IITians providing test preparation coaching in North India. Its centers are located across Patiala, Bhatinda, Chandigarh and Panchkula. MTEL on account of this acquisition has increased its scope of coaching in the science section providing training to the aspirants wanting to secure admission in premier engineering and medical colleges. This training would be for the JEE, JEE advance and NEET entrance exams. The IIT coaching is a premium source of revenues for most of the coaching classes and MTEL is capturing the growth from it. We believe that going ahead the shift in the demand for educational courses like these will boost revenues and profitability of MTEL.

MTEL’s has also acquired a 51% stake in SriGayatri education society. MTEL has formed a partnership with the company by enabling it to use its web based platform “Robomate” along with training for teachers, methods and technology aided teaching and content development. This acquisition will help both companies leverage their capabilities and have a wider reach in the coaching space. SriGayatri has 51 colleges operative in Tamil Nadu and Andhra Pradesh with approximately 35k aspirants in engineering, medical and commerce in class 11th and 12th.

Use of technology to extend its reach

Currently MTEL has adopted a web based technology through its Interactive network knowledge model (INK). It caters to students of standard 5th to aspirants of SSC, CBSE, and ICSE giving the leverage to students in terms of convenience. The classes are conducted over the internet in small batches. The use of technology for learning has not been something that other coaching institutes have ventured into but it has been an innovative and refreshing way to capture the attention of the students.

MTEL has also introduced customized app under the brand name of “ Robomate” where in the students can view recorded lectures, notes and test prep just in case they missed out

on any subject matter or would like to have the revision of specific important topics. We believe that this process of learning is still experimental and yet to garner in the coming years. Given no visibility to this we would not like to base valuation or profitability from this business vertical of theirs.

Asset light model:

MTEL does not own any property except for one in Karnataka, but have contractual agreements signed with the lease party before commencing operations, the tenure of these rental agreements would be in the range of 3-5 years and accordingly renewed. This makes the business asset light as it would be difficult to acquire each and every property in different locations given pricing. This enables them to get new centres set up for the coaching institutes at lower capital expenditures of ₹3.0-3.5mn per center with a deposit to be maintained around ₹1.0-1.5mn. This gives the company the leeway to expand its presence across location at a quicker pace without having to constantly look to raise capital. It also helps them keep debt levels in check would be a dangerous path.

Assistance to pre-universities in Karnataka :

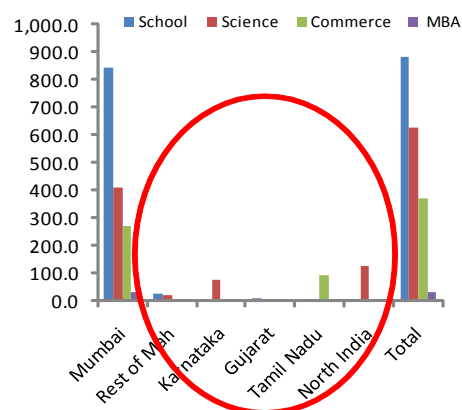
MTEL has tied up with few colleges in Karnataka where in it will provide test preparatory services coupled with training for teaching staff, assistance of the teachers to operate the technology offered by MTEL being robomate model. The capital requirement for this operation is not very huge and as a result MTEL has tapped this huge opportunity of growth as Karnataka is becoming the hub for medical and engineering colleges. The development of the brand name in coaching makes it a preferred incumbent. The relation maintained with the colleges can extend a helping hand in generating business from other colleges.

Negative working capital bodes well for the company:

MTEL being a coaching institute collects the money from the aspirants upfront when they enroll for any course, generating liquidity for the business operations. This enables the company to have a lower demand for additional funds for expansion plans. The lower capital expenditure on setting up newer coaching institutes in different locations can be funded fully or partially with the amount received from the pre-sale of the educational services. The company has offered students alternatives to make the fee payment.

1. Full payment of fees where the student is entitled to receive a discount
2. EMI facility with a down Payment of 15% of the total fee value.

FY14 Region-wise break-up



We believe that negative working capital would bode well for the company keeping in mind any expansion plans for the future, together with the any inorganic growth resulting in an improvement in profitability and growth going ahead.

Scope for revenue improvement in other regions:

From the chart beside, it can be clearly seen that MTEL’s revenues have purely been driven by the Mumbai region indicating that due to the immense competition and upcoming players in the coaching space has left minimal room for leveraging its capabilities. This is a plus point for MTEL as it has maximum coaching centers in this region gaining its advantage in terms of the location where in the charges for the fees would be slightly on the higher end as compared to the other operational institutes. This also has made it evident that MTEL would look to drive its revenues by concentrating its efforts in other regions where it operates and making it less dependent on the performance of one region. MTEL looks to add coaching centers every year but one cannot ignore that these institutes will not be operational immediately and would need time to start greasing the overall revenue wheels of the company.

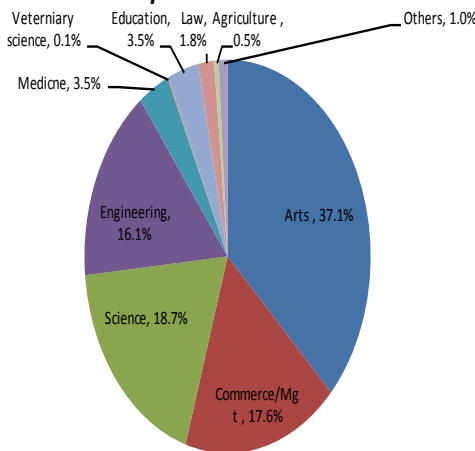
Strong cash generation:

Since MTEL is in still on the growth phase with large additions of centers expected over the next few years. This would mean they would have good amount of capital investment even though they follow an asset light model. This expansion of centers and increase in demand for various educational and vocational courses is expected to lead to good growth in revenues and earnings. The profit growth is expected to move the company is debt free however one cannot ignore that for its expansion plans it would require lower amount of capital and as a result of this interest would be much lower than growth of its operating profits. In all the cash generation was ₹98mn will help in its expansion plans and any further acquisitions if the opportunities exist.

Unorganized players still dominant:

It has been noticed that the education space is fragmented and dominated by the unorganized players. The concept of private coaching is still prevalent being important to parents, as children are given individual focus and attention. The convenience of having private tutors at the student’s locations offers leverage to tutors to charge a premium fee. The shift has begun where the unorganized players begun collaborating efforts and set up coaching institutes with the expertise of their cohorts and develop such institute along with the brand name. The sustainability of these tutors within the coaching institutes puts question mark on their integrity.

Enrolment as per education courses



Source: Twelfth Five Year Plan (2012-2017) - Social Sectors

We believe that the current education system has not put a lid on the teachers and professors lecturing in schools and colleges to run their own private tuitions. We are of the opinion that the quality of the teaching would not be equal to those in private classes. It also implies that the discrepancy in quality could be on account of the remuneration that is being offered by schools which manifest in a need to run private coaching. Like pointed out before, parents heavily rely on the tuition given lack of time on hands making it difficult to pay attention to children’s education, spawning the need for private tutors. Unless schools put some rules in place against coaching by their teachers the unorganized sector will coexist with that of coaching classes such as MTEL thereby keeping competition stiff.

Valuation: At present MTEL is trading at a P/E multiple of 20.8x & 17x, a P/BV of 4.2x & 3.85x and an EV/EBITDA of 9.5x & 7.8x for FY15E & FY16E respectively. Although it looks fairly priced on a P/E multiple. The depreciation charged would be higher on account of the classes being set up requiring investments in furniture and computers. The gradual increase in the occupancy for the coaching would improve its profitability as most of their cost is fixed in nature. Due to this we believe an EV/EBIDTA multiple is better suited for it. Given the strong cash generations and ever improving return ratios we believe an 8x multiple 18 month forward is justifiable. With this we arrive at a target price of 145 which implies an upside of 11% over this period. Given the upside is limited to these levels over 18 months we initiate coverage with an ACCUMULATE recommendation. We believe the stock would be good investment opportunities at corrections implying relatively good returns over the 18 month period.

Risks**Low Barriers to Entry:**

Barriers to entry in the coaching industry are very minimal which leads to eruption of newer institutes every now and then with competitive pricing strategies. This gives the students who find it difficult in meeting the fee requirement of MTEL an option to go for private tuitions of lesser cost making it feasible for them, thereby affecting the revenues and growth of the business operations of the company.

Failure to retain teaching staff:

The quality teaching staff would drive the business revenues and growth, MTEL is highly dependent on the performance and availability of the teaching staff, considering the subject expertise which they cater to, there would be the possibility of them being poached by other coaching institutes offering a higher remuneration. This would bring discrepancies to the business and discontinuance of their services affecting the revenues and growth.

Performance of students doesn't match with teaching:

Poor performance of students enrolled with MTEL will impact its business operations this could lead to students dropping out of courses and thereby affecting the revenues and brand value created. Seeing the discontent performance of the students will create a wrong impression in the minds of the parents thereby spreading a negative word of mouth towards the institute which would affect profitability going ahead.

Inability to attract students :

MTEL being a coaching institute largely depends on the student's enrollment there by providing visibility of revenue generation. The quality of the coaching services provided will largely influence the perception of these students, thereby spreading the word about the institute. Inability to meet the expectation of the students impacts its business operations.

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	1,141	1,326
EBIDTA	757	1,019	1,178	1,436
YoY (%)	24.5	34.6	15.6	21.9
EBIDTA (%) of total sale	48.1	50.5	50.8	52.0
Other income	47	24	34	47
PBIDT	803	1,043	1,212	1,483
Depre/ Amor	86	128	161	181
PBIT	717	914	1,051	1,302
Interest	0.00	0.08	10.40	15.60
PBT	717	914	1,041	1,287
(-) Tax	76	111	121	149
Tax/ PBT	10.6	12.2	11.6	11.6
Share of loss of associates	0	0	0	0
PAT	642	803	920	1,138
Minority interest	(4)	(2)	(3)	(3)
Net Profit	180	210	244	295
YoY (%)	36.3	16.6	15.9	21.2

Cash Flow

In ₹ million	FY13	FY14	FY15E	FY16E
Net profit	180	210	244	295
Depn and w/o	86	128	161	181
Deferred tax	(0)	(6)	(6)	(6)
Change in wrkg cap	113	(69)	14	51
Other income	(47)	(24)	(34)	(47)
Operating cash flow	332	241	379	474
Other income	47	24	34	47
Capex	(381)	(272)	(190)	(190)
Investments	(46)	40	103	(20)
Investing cash flow	(381)	(208)	(53)	(163)
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	484	215

Balance Sheet

In ₹ million	FY13	FY14	FY15E	FY16E
Equity capital	396	398	398	398
Reserves	616	722	827	943
Net worth	1,012	1,120	1,225	1,341
Total borrowings	0	0	160	80
Non current Liabilities	89.7	41.9	41.9	41.9
Current Liabilities	677	675	736	832
Minority interest	2	7	4	1
Total liabilities	1,777	1,829	2,159	2,293
Net block	665	878	891	900
CWIP	110	54	70	70
Investments	21	8	408	408
Deferred tax	41	47	47	47
Current assets	619	500	362	439
Non current assets	322	343	382	429
Total assets	1,777	1,829	2,159	2,293

Key Ratios

	FY13	FY14	FY15E	FY16E
EPS (₹)	4.6	5.3	6.1	7.4
CEPS (₹)	6.7	8.4	10.0	11.8
Book value (₹)	25.6	28.1	30.8	33.7
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%	26.9%	32.2%
ROE	17.8%	18.8%	19.9%	22.0%
Valuations				
PE (x)	28.1	24.2	20.9	17.2
Cash PE (x)	19.0	15.3	12.8	10.8
Price/book value (x)	5.0	4.5	4.2	3.8
Dividend yield	1.6%	1.8%	1.9%	2.7%
Market cap/sales	3.2	2.5	2.2	1.8
EV/sales (x)	3.0	2.4	2.1	1.7
EV/EBDITA (x)	15.8	11.5	9.6	8.0

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