Tree House Education & Accessories Ltd. (Tree House)

Laying Foundation For A Bright Future

Equity Research
October 23, 2012

INITIATING COVERAGE

Rating Matrix	
Rating	STRONG BUY
CMP	Rs. 219
Target Price	Rs. 284

Stock Data	
Bloomberg Code	THEAL IN
NSE Code	TREEHOUSE
BSE Code	533540
Sensex	18,710
Market Cap (Rs. mn)	7,370
52 Week H/L (Rs.)	259/140
Monthly H/L (Rs.)	244/205
Equity Capital (Rs. mn)	337
Face Value (Rs.)	10

Shareholding Pattern	30 Sep 2012
Promoters	29%
Institutions	12%
Others	59%

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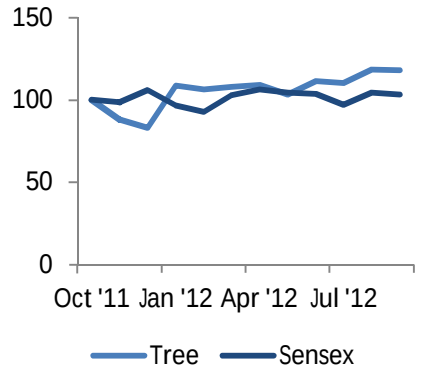
Relative Price Performance Chart



INVESTMENT TRIGGERS

Steady Growth In Preschool Business

The company currently has around 304 preschools and plans to setup 90 – 100 preschools every year thus giving a steady growth to the company.

K12 Business – A New Area Of Growth

The company has entered into school management services for K12 schools. The company currently has 21 schools under operations which is expected to increase to 24 schools by FY14. As these schools mature it will give a major thrust to company's growth.

Capex Plans To Be Implemented WITHOUT Taking Additional Debt

The company's capex plans to setup 90 – 100 preschools and adding further 3 K12 schools will be implemented without taking any additional debt on books. It will be funded by company's internal accruals only. The company is expected not to expand its school management services for K12 schools beyond 24 - 25 for few years to come.

Significant Improvement In Return Ratios

The company's asset light approach coupled with strong EBIDTA margins has led to increase in Return on Networth from 3.7% in FY10 to 11.4% FY12 which is further expected to rise to 15.5 by FY14. The ROCE has also increased from 5.1% in FY10 to 14.2% in FY12 and this is expected to increase to 19.4% in FY14.

Financial Snapshot

Year-end March	FY10A	FY11A	FY12A	FY13E	FY14E
Net Revenues (Rs. mn)	214	392	772	1,199	1,584
EBITDA (Rs. mn)	71	171	420	644	865
Adjusted PAT (Rs. mn)	26	92	217	345	479
Adjusted EPS (Rs.)	1.5	3.8	6.4	10.2	14.2
P/E (x)	-	-	-	21.3	15.4
P/B (x)	-	-	-	2.6	2.2
EV/EBITDA (x)	-	-	-	11.7	8.8
RoCE (%)	5.1	10.3	14.2	15.9	19.4
RoNW (%)	3.7	9.6	11.4	12.7	15.5

Source: Company, Prime Broking; (A) Actuals; (E) Estimated

COMPANY BACKGROUND

The Company is one of the leading providers of educational services in India. It operates the largest number of self-operated pre-schools in India. As of June 2012, it has 304 pre-schools under the brand name of "Tree House" across 37 cities (as per municipal limits) in India. As of Q1FY12, of 304 pre-schools, 241 are operated by the Company, or self-operated, and the rest are operated through franchisees. In recent years, the company has branched into providing educational services to K-12 schools and as of September 30, 2012, it provides such services to 21 schools in 3 states in India. Besides this the company is also the owner of has a **SELF GROWN INDIAN BRAND "TREE HOUSE"** and its promoters have no other business interest.

As of September 30, 2012, it has a team of 1246 teachers at its self operated pre-schools. It provides continuous training to all its preschool teachers on teaching methodologies and early child care, to keep abreast with the changes in teaching methods and student needs. The pre-schools are largely concentrated in the states of Maharashtra, Gujarat, Karnataka, Rajasthan and Andhra Pradesh.

Pre-schools or playschools traditionally cater to children in the age group of one and a half to six years. Pre-schools as a concept is relatively new in India and largely remains an urban phenomenon. **Increasing awareness among parents (about the benefits of quality pre-school education) and rising disposable income have been boosting penetration levels in this segment.** The Journey of Tree House has been encapsulated in Exhibit I

Exhibit I: Key Milestones

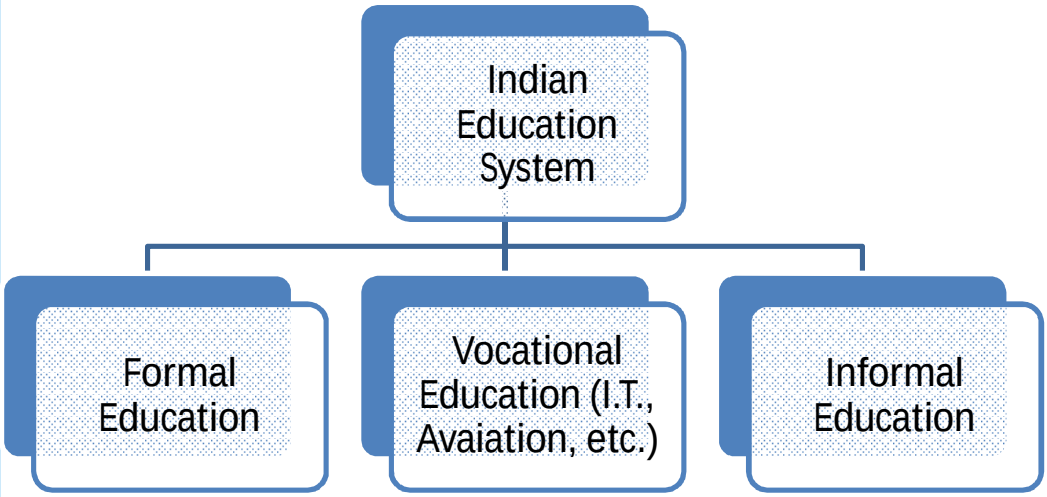
Year	Milestone
2003	Inception of the first preschool in Mumbai
2006	Set up six more preschools
2007	Acquired proprietorship from M/s Tree House. The first franchised preschool was launched
2008	Launched a teacher training programme. Roped in Matrix Partners India Investment Holdings, LLC as investor (Rs. 350 million investment)
2009	Entered the K-12 segment. Started day care centers - 'Muskaan'
2010	Ranked amongst the 100 small businesses in an annual survey conducted by franchising world A further investment of Rs. 150 million from Matrix Partners India Investment Holdings, LLC.
2011	Received an investment of Rs. 400 million [Rs. 310 million from FC VI India Venture (Mauritius) Ltd. and Rs. 90 million from Matrix Partners India Investment Holdings, LLC]
2012	Received an investment of Rs. 189 million [Rs. 42 million from Matrix Partners India Investment Holdings, LLC Rs. 14 million from FCVI India Venture (Mauritius) Ltd. And ` 133 million from ON Mauritius]. Received an investment of Rs. 1,121 million through an Initial Public Offer and shares of the Company were listed at National Stock Exchange and Bombay Stock Exchange in the month of August 2011

Source: Company

Indian Education System

India spends nearly 3.5% of its gross domestic product on education. The central government has been investing in promoting literacy and education; however its efforts remain largely focused on elementary schooling. Secondary and higher education have not been key priorities for the central government as in the opinion of the central government it is necessary to first create adequate infrastructure and provide incentives to universalize elementary education (*Source: Company Prospectus*). Exhibit II shows the various aspects of Indian Education System

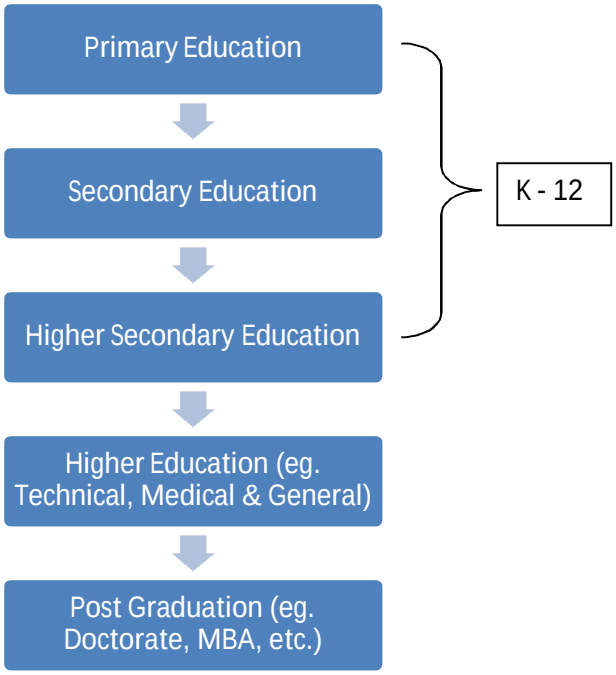
Exhibit II: Indian Education System



Source: Company

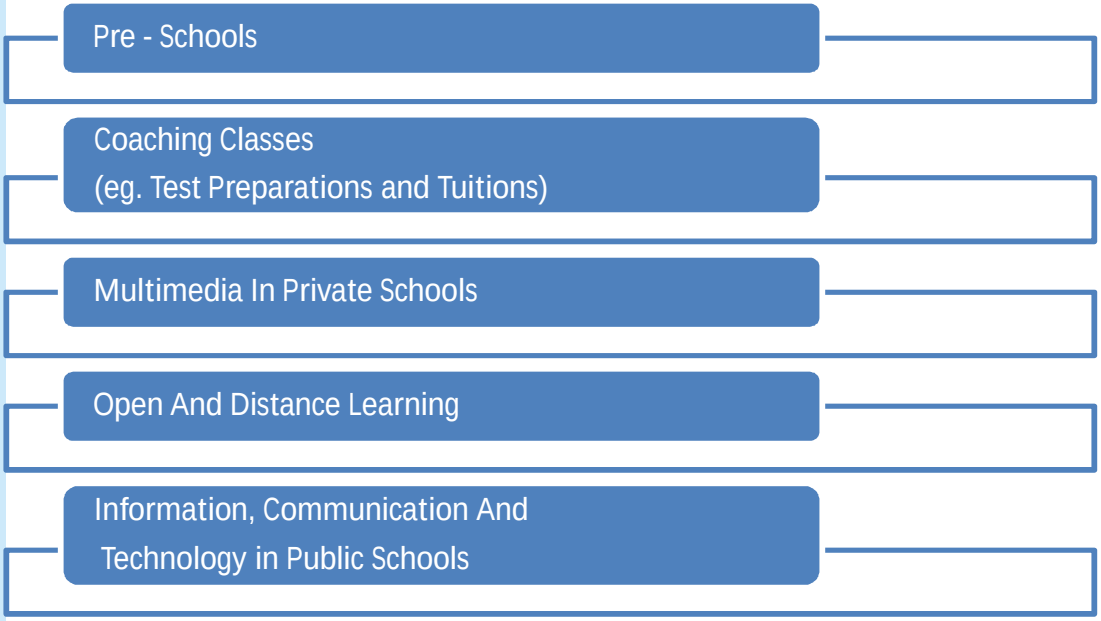
The education system in India comprises of formal, vocational and informal education. While all levels of formal education are highly regulated and fall under the purview of Ministry of Human Resource Development, Government of India (MHRD), non-formal education is unregulated. The different aspects of formal and informal education are depicted in Exhibits III & IV. The company has presence in early childhood education and K-12 education.

Exhibit III: Types of Formal Education



Source: Company

Exhibit IV: Types of Informal Education



Source: Company

Early Childhood Education

The pre-school market which is as per company's prospectus is estimated to be at Rs. 43,200 million is still in its nascent stage. The pre-school market is highly fragmented and unorganized in nature owing to the low entry barriers and low investment levels required in the sector. Unlike schools, colleges and higher educational institutions (which are restricted by law from functioning as "for-profit" ventures), pre-schools are not prohibited to make profits. The organized sector has contributed 11% to the total pre-school market of Rs. 43,200 million in 2009–10.

Business models

Companies operating pre-schools either adopt a franchisee model or self-operated model for pre-schools.

Franchisee model: A company expands its operations and extends its brand name through franchise, in lieu of which, it is paid a franchise fee and a royalty fee. The royalty fees, which is based on the total fee generated by the school in a year, can range anywhere between 5% and 30%. Franchising enables the company not only to share expenses, but also enables it to share knowledge, experience, brand image, and technical expertise. Majority of large pre-school chains have adopted the franchise route for rapid growth.

Company-owned model: This model facilitates the company to maintain quality, hygiene, and safety control across its pre-schools. A few companies such as Camlin and Birla Edutech are planning to enter the pre-school market with the company-owned model.

The curriculum designed by the company is in easy-to-implement format, which defines the day-to-day activity that needs to be conducted by the teacher on a minute-by-minute basis. In addition, it uses multimedia training devices for teaching at certain pre-schools. Further, the Book of Rhymes, Tree House Junior K.G Book, Tree House Nursery Book and Tree House Play School Book that have been developed in-house by the company, which forms a part of the curriculum of our pre-schools, have received copyright registration with the Copyright office.

At its pre-schools, it follows a combination of the montessori and play-way method of teaching students. The montessori method uses tools and equipment while the play-way method uses plays, songs and activities, to teach the children. Further, the company provides the latest montessori equipment at its pre-schools and ensures that the equipment is upgraded regularly.

Economics of Preschool

The pre-schools are usually set up on an average area of 2,000 sq. ft. to ensure that the area of the pre-school is spacious for the children. It accepts admissions throughout the year for its pre-schools. It also accepts fees for courses on a lumpsum and/or on installment basis depending upon the option exercised by the parents.

Further, to assist the pre-school students in securing seats for admissions in pre-primary, the Company has entered into agreements with two schools in Mumbai to reserve seats for its students, subject to the students meeting the criteria and guidelines for admissions as formulated by those schools.

Arrangements for self-operated pre-schools

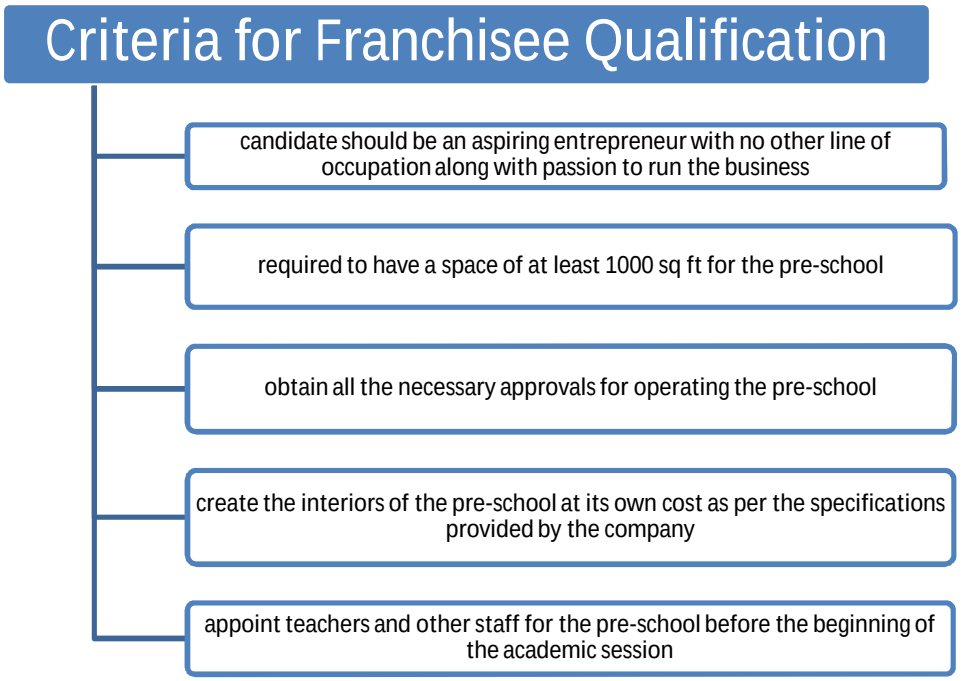
Leave and license agreements: For the self-operated pre-schools, the company usually takes properties on leave and license basis for a period of three years to five years. Typical rental escalation is 5% p.a.

Franchisee operated pre-schools

The first franchisee operated pre-school was established in 2007. Since then, the number of its franchisee operated pre-schools has increased to 63, as of June, 2012. The company usually chooses to open self-operated pre-schools in metro cities within India and enter into agreements with franchisees to operate franchisee operated pre-schools in non metro cities in India. The company is selective in appointing a franchisee to operate a franchisee operated pre-school and the foremost criteria for appointing a franchisee is the personal commitment to operate a pre-school. The franchisees are selected by identification team which interviews the franchisee before formalizing the arrangement with it.

The company selects a franchisee by applying the following qualification criteria as shown in Exhibit V:

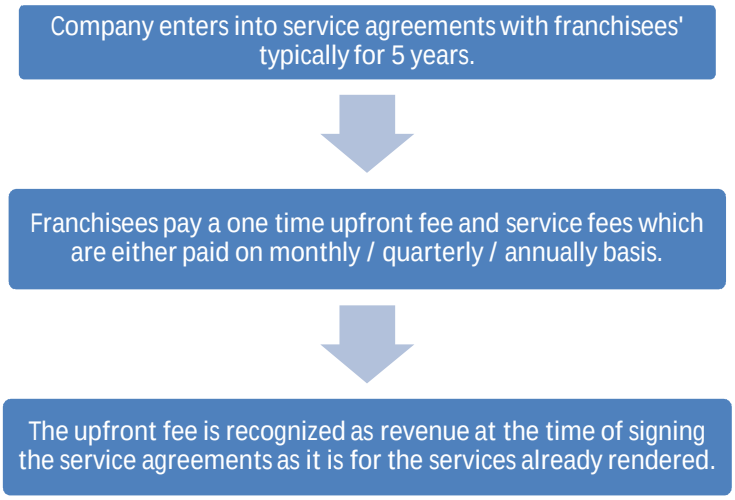
Exhibit V: Qualification Criteria for Franchise



Source: Company

A typical agreement with franchisees and its revenue recognition has been shown in Exhibit VI

Exhibit VI: Typical Agreement with Franchisees and its Revenue Recognition



Source: Company

The service fee is a percentage of gross revenue of the franchisee operated pre-schools which includes admission fees, day care fees, tuition fees and all other charges collected by the franchisee from the users of the franchisee operated pre-school. Further, it also receives separate fees towards each student kit provided by Tree House to the franchisee operated pre-school.

Under the terms of the service agreement, it usually provides the following services (shown in Exhibit VII) to the franchisee operated preschool:

Exhibit VII: Services to the franchisee operated preschool

Typical terms of the service agreement with franchisee
• share the information and details of the methods, systems and processes created and developed by Tree House for running the pre-school classes • permit the use of the manual and the method developed by the company for running classes at the pre-schools • permit the use of the materials and trade secrets and confidential information developed by the company for running the classes • hold discussions from time to time for implementation of the methods developed by the company at the preschools

Source: Company

The company provides the curriculum to franchisee operated pre-school on an annual basis along with regular updates on the curriculum. Further, it also provides training to all the teachers of the franchisee operated pre-schools. The company has a dedicated franchisee service team which provides support to the franchisee operated preschools. It regularly monitors the pre-schools operated by the franchisee to ensure that they maintain the preschools in accordance with its standardized methods, systems and processes.

Courses Offered

It offers the following (Shown in Exhibit VIII) courses and activities at the pre-schools:

Exhibit VIII: Courses And Activities At The Pre-schools

Playgroup	• The Company offers this course for children between the age group of 1.5 years to 2.5 years for 2 hours daily on weekdays. • The course is based on play-way method with an aim to prepare children to attend a school
Nursery	• It offers this two hour course daily on weekdays to children between the age group of 2.5 years to 3.5 years. In this course, the children are taught writing and reading, value education through a combination of the montessori and play-way method. • The course is aimed at helping children to undergo a transition to formal school
Junior KG	• It offers this three hour course daily on weekdays to children between the age group of 3.5 years and 4.5 years. • It again teaches this course through a combination of montessori and play-way method to prepare the children for reading, writing and mathematics
Senior KG	• This three hour course is offered daily on weekdays to children between the age group of 4.5 years to 5.5 years. • Children are taught English, mathematics and general knowledge, amongst other things to prepare them for formal education, to build their inter-personal skills and to develop their independence
Vacation Camp	• The Company also organizes vacation camps during summer for a period of four weeks or diwali or Christmas holidays for children between the age group of 2 years to 12 years. • It conducts various activities during the camp to ensure that children utilize their time doing constructive things and learning
Teacher Training	• This three month course is offered by the company to women only. The course comprises of theory classes and practical internship at its pre-schools. • Additionally, it conducts workshops and provides interactive learning for candidates. • The course provides qualifications to be a teacher at a pre-school
Activity or Hobby Class	• It offers activities which includes dance (western / Indian / classical), music, art and craft, yoga, spoken English and Mathematic workshops at some of its select pre-schools
Day Care Services	• The company offers day care services at some of the self-operated pre-schools under the brand name "Muskaan". • These services are usually offered for children who attend our pre-schools and continue to remain at the pre-schools after their course till such time that their parents are able to attend to them.

Source: Company

EDUCATIONAL SERVICES TO K-12 SCHOOLS

The company is also engaged in providing educational services, on exclusive basis, to K-12 schools in India. It enters into services agreements with the K-12 school operators for providing such services, and is required to pay a one-time fee to obtain the exclusivity rights.

It started providing educational services in November 2008 to a school in Vadodara, and as of September 30, 2012, it has contracted to provide educational services to 21 K-12 schools. In addition, it intends to provide educational services to 24 K-12 schools by FY14. For such purpose, the company has entered into supplemental agreements with certain K-12 school operators to provide educational services to 21 K-12 schools.

The educational services which are provided to the K-12 school operators include:

- providing curriculum and teaching aids, including literary, artistic and musical works, used in imparting education and training to the students of the K-12 school or courses run by the K-12 school;
- providing facilities or services for improvement in the educational standards;
- supplying methods for imparting education;
- ensuring optimum utilization of the infrastructural and educational resources of the K-12 school;
- training the employees for effective management of the K-12 school;
- improving the intellectual level of its students;
- applying holistic approach towards education by carrying out amendments to the methodology adopted by the K-12 school;
- ensuring optimum services from the employees of K-12 school;
- providing unique extra-curricular activities for the students; and
- assisting in creating a brand goodwill for the K-12 school along with other ancillary services.

Details of the K-12 schools to which it currently provides educational services are given in Exhibit IX

Exhibit IX: School under Tree House Management

Name of Trust	School	Board	Location
Bharti Vidhya Mandir Samiti	Tree House High School	CBSE	Jhunjhunu
	Bhartiya Vidya Mandir Sr Sec School	SSC (Hindi Med)	Jhunjhunu
	Bhartiya Vidya Mandir Sr Sec School	SSC (Eng Med)	Jhunjhunu
Dixit Education Society	Arya Cambridge International School	IGCSE	Thane
Green Acres Educational Trust	The Green Acres Academy	ICSE	Chembur
Janodhar Sikshan Prasarak Mandal	Tree House High School	CBSE	Ghansoli (Navi Mumbai)
Mira Education Trust	Tree House High School	CBSE	Virar
	Tree House International School	IGCSE	Kalyan
	Tree House High School	ICSE	Kalyan
	Tree House High School	ICSE	Pune
	Tree House High School	IGCSE	Pune
	Mira The Happy School	GSEB	Vadodara
	Mira The Happy School	CBSE	Vadodara
Vidya Bharti Samiti	Tree House High School – Ajmer Rd.	CBSE	Jaipur
	Vidya Bharti Sansthan – Shyam Nagar	CBSE	Jaipur
	Vidya Bharti Sansthan Public School Todi Nagar	CBSE	Sikar
	Vidya Bharti SansthanPublic School Civil Lines	SSC	Sikar
	Vidya Bharti Sen. Sec. School, Police Line Rd.	SSC	Sikar
	Vidya Bharti Girls School	SSC	Sikar
	SBS Vidya Bharti School, Sanwali	SSC	Sikar
	Vidya Bharti Public School : Extn -1	SSC	Sikar

Source: Company

Terms of Service Agreement With K-12 Schools

The usual term of a typical services agreement is 30 years. In consideration of the services provided by the company, a K-12 school operator during the term of the agreement pays the company a service or consultancy fee, annually, as agreed, for every child, admitted or enrolled with the K-12 school or for courses conducted by the K-12 school. Such service or consultancy fee is subject to a minimum amount payable by the K-12 school operator to Tree House. Further, as per the terms of the service agreement, the company is provided access to inspect the K-12 schools to ensure that the schools are utilizing the educational services appropriately. The agreement restricts the K-12 school operators from availing educational services from any other person during the term of the agreement.

Developing Infrastructure Facilities For Educational Purposes

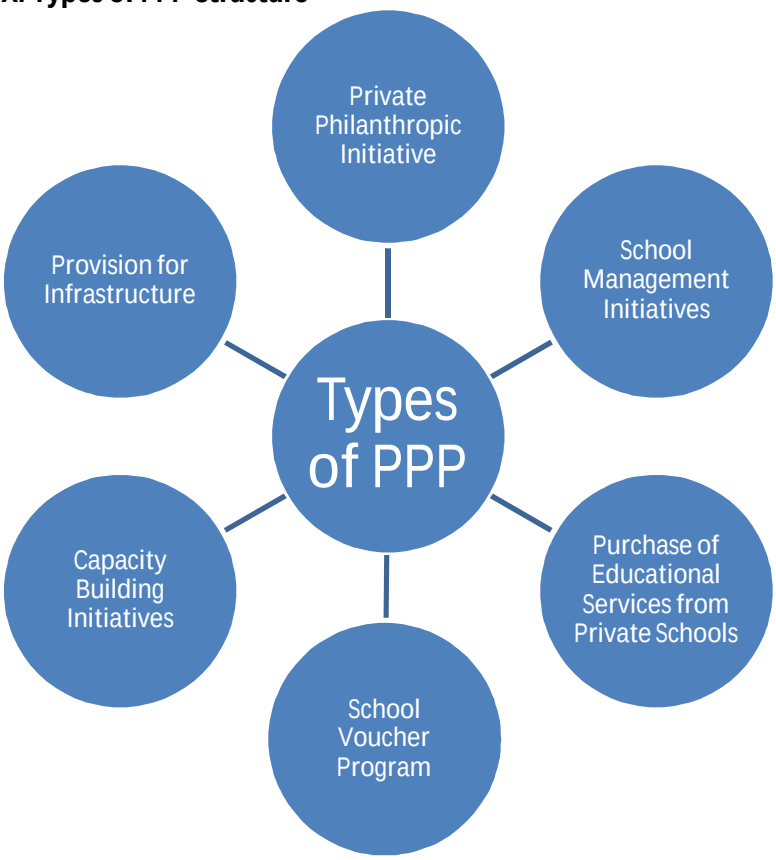
The company proposes to expand its business by developing infrastructure facilities for educational purposes and leasing such infrastructure facilities to K-12 school operators. These educational complexes will include classrooms, living accommodation for students, library, computer laboratory, primary health centre along with indoor and outdoor recreation. The land for creation of such infrastructure facilities will be owned or leased by the company.

Role of Public Private Partnership (PPP) in Education

Recent years have seen an expansion and broadening of the private sector's role in the financing and provision of education services in many countries. A key trend has been the emergence of more sophisticated forms of private involvement in education through PPPs. PPPs involve the public and private sectors working together to achieve important educational, social and economic objectives.
Commission of UK on PPPs has described it is "A risk-sharing relationship based upon an agreed aspiration between the public and private (including voluntary) sectors to bring about a desired public policy outcome. More often than not this takes the form of a long-term and flexible relationship, usually underpinned by contract, for the delivery of a publicly funded service."

As per World Bank document on **"Public Private Partnerships in Secondary School Education in India"** the possible PPP arrangements are as shown in Exhibit X

Exhibit X: Types of PPP Structure



Source: World Bank document on **"Public Private Partnerships in Secondary School Education in India"**

Private Sector Philanthropic Initiatives
The most common form of PPP in the education sector is private philanthropy. There is also a range of innovative ventures supporting education, both philanthropic and for-profit ventures.

School Management Initiatives
The second form of PPP in the education sector is the private management of public schools. This involves education authorities contracting directly with private providers to operate public schools or certain aspects of public school operations. While these schools are privately managed, they remain *publicly* owned and *publicly* funded. Contract schools can be run by a variety of bodies – including private firms, neighboring schools with a good reputation for serving students and their community, NGOs, universities, etc.

Example: Educomp has entered into an agreement with the Government of Punjab in establishing and running Senior Secondary schools in Punjab state under PPP Model. Highlights of Adarsh Schools of Educomp include:

- The Punjab Government has provided land free of cost for establishing school to Educomp on a 99 years lease.
- Punjab Government and Educomp are sharing the total capital expenditure incurred on infrastructure development and the recurring operating expenditure on these schools
- Management of Adarsh School is done by Educomp
- Provision of teaching and non-teaching staff, their training and effective running of Adarsh schools are also the prime responsibility of Educomp
- The Punjab Education Development Board will periodically review the performance of Adarsh schools.

Purchase of Educational Services from Private Schools
The third form of PPP in which governments sponsor 'public' students to attend private institutions is normally used in order to assist a government meet demands of access. There are a number of common components to this form of PPP, including:

- The government pays a subsidy for each student enrolled in eligible private secondary schools; participation in the program is limited to private secondary schools in areas that are not served by government-aided or public schools
- Only schools charging equal or less than the government's per student cost can participate
- Participating schools are chosen by the government.

School Voucher Program

A school voucher is a certificate or entitlement that parents can use to pay for the education of their children at a public or private school of their choice, rather than the public school that is closest to them or to which they have been assigned. Vouchers are paid directly from a public entity to parents or to schools directly on parents' behalf. There are many examples around the world – in both developed and developing countries – of voucher programs that provide funding to students attending either public or private schools.

Capacity Building Initiatives

There is a wide range of possible initiatives ranging from curriculum and pedagogical support; management and administrative training; textbook provision; teacher training; and the development of support networks, professional partnerships and linkages.

A prime example of this form of PPP is provided by the Government of Gujarat's (GoG) recent steps to improve the level of learning in its schools across the state. The GoG put out tenders to private operators to assist in the delivery of a number of projects focusing exclusively on improving the quality of education and/or building capacity of teachers and educational personnel.

Provision of Infrastructure

This is a model in which the private partner builds, owns and operates the infrastructure facilities and the government uses these facilities for running the school, in lieu of which the private partner is paid a fee over the period of the contract which is generally long term between 20–30 years. Strict performance criteria for maintenance of the schools are fixed. Based on satisfactory maintenance, payment is made. The ownership and the asset at the end of the contract period may be transferred to the government, or be retained by the private sector depending on the terms in the contract. Exhibit XI provides a summary of different roles and responsibilities under infrastructure PPPs.

Example: Everonn Education Limited offers ICT-enabled computer education in government schools through turnkey projects on a BOOT model. The ICT division in Everonn Education Limited (EEL) acts as an education service provider for computer education, computer literacy, computer-aided learning and teachers' training projects. While Everonn makes the initial investment, the same is reimbursed by government departments in periodical installments spread over the years.

Exhibit XI: Summary Of Different Roles And Responsibilities Under Infrastructure PPPs.

Options	Asset Ownership	Operations & Management	Capital Investment	Commercial Risk	Duration
Management Contract	Public	Private	Public	Public	3 – 15 years
Lease	Public	Private	Public	Shared	8 – 15 years
Concession (Build Operate Transfer (BOT)	Public	Private	Private	Private	25 – 30 years
Build Own Operate Transfer (BOOT)/ Build Own Operate (BOO)	Private	Private	Private	Private	20 – 30 years

Source: World Bank document on **"Public Private Partnerships in Secondary School Education in India"**

Rationale for Public Private Partnership in Education Sector

From the perspective of the public sector, the PPP models are premised to bring the following benefits (as shown in Exhibit XII):

Exhibit XII: Rationale for Public Private Partnership in Education Sector

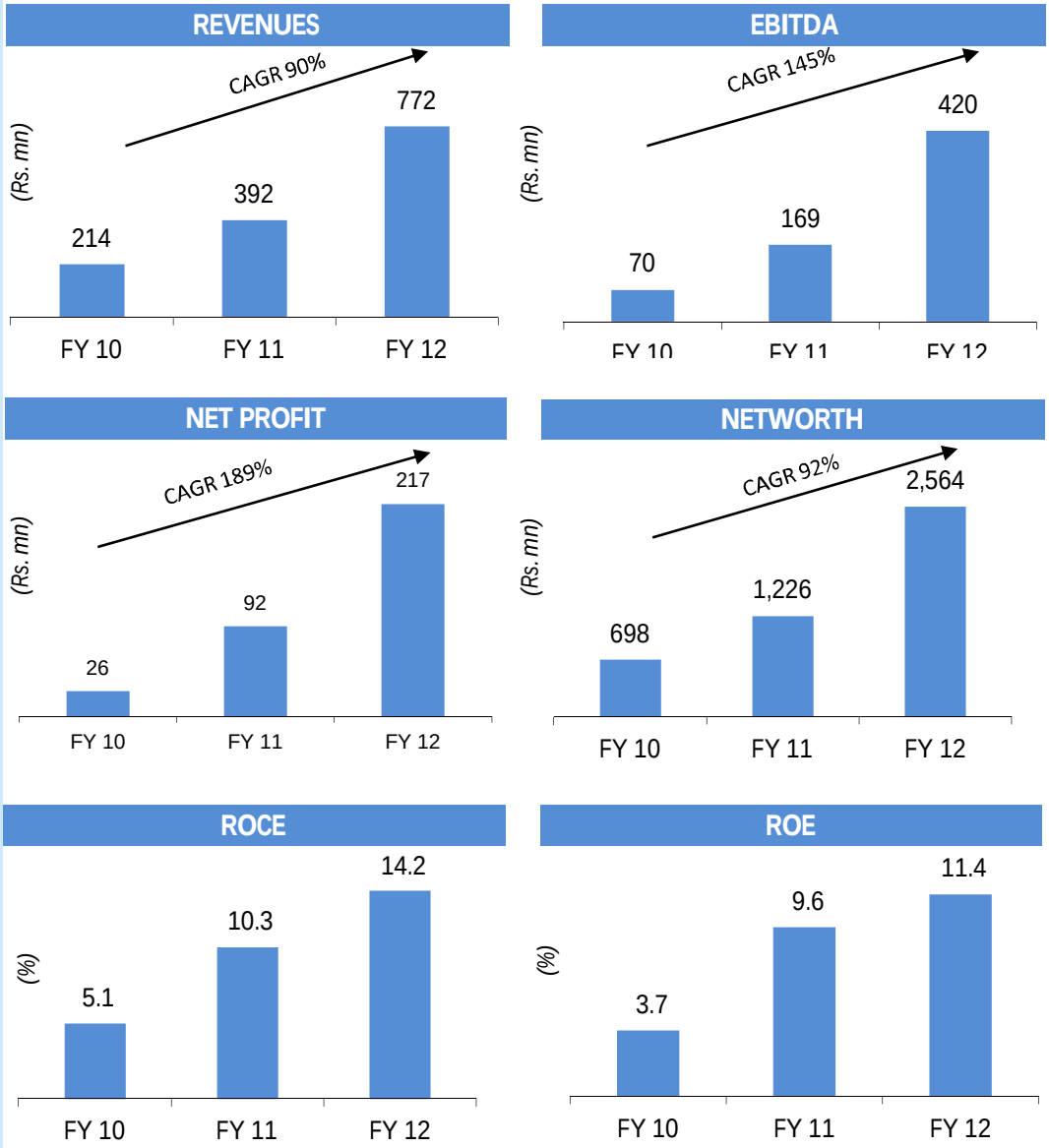
Easing The Budget Constraint	• There is a huge gap between the requirement and the availability of school infrastructure in the country. It is not possible to provide such large amounts from the government alone. A PPP arrangement often pre-supposes initial commitment of funds from the private sector that is gradually returned by the government through appropriate financial instruments.
Efficiency Gains	• The private sector can provide support services with greater efficiency as compared to government sector because of specialization. Also greater accountability of private staff leads to improvement in efficiency.
Appropriate Risk Sharing	• The risk allocation between the public and private sector can be optimized to ensure that the overall risk is lowered significantly. Speed of implementation: Since the private partner would be interested in getting payment as soon as the services are being made available, the speed of implementation would be much quicker. Delay in project completion timelines leads to penalties for the private provider, hence speed is insured.
Reduction Of Cost	• This will incur if and only if there is greater managerial efficiency in the private sector.
Accountability For Performance	• The accountability for performance in schools is high – if the private provider misses their targets then there will be financial consequences.
Quality Monitoring	• The private partner would have an incentive to raise the quality of education in the school to be eligible for payment.
Greater Flexibility	• The government systems have rigidity. The private partner is expected to have much higher autonomy in hiring teachers and organizing the school.

Source: World Bank document on **"Public Private Partnerships in Secondary School Education in India"**

FINANCIAL PERFORMANCE

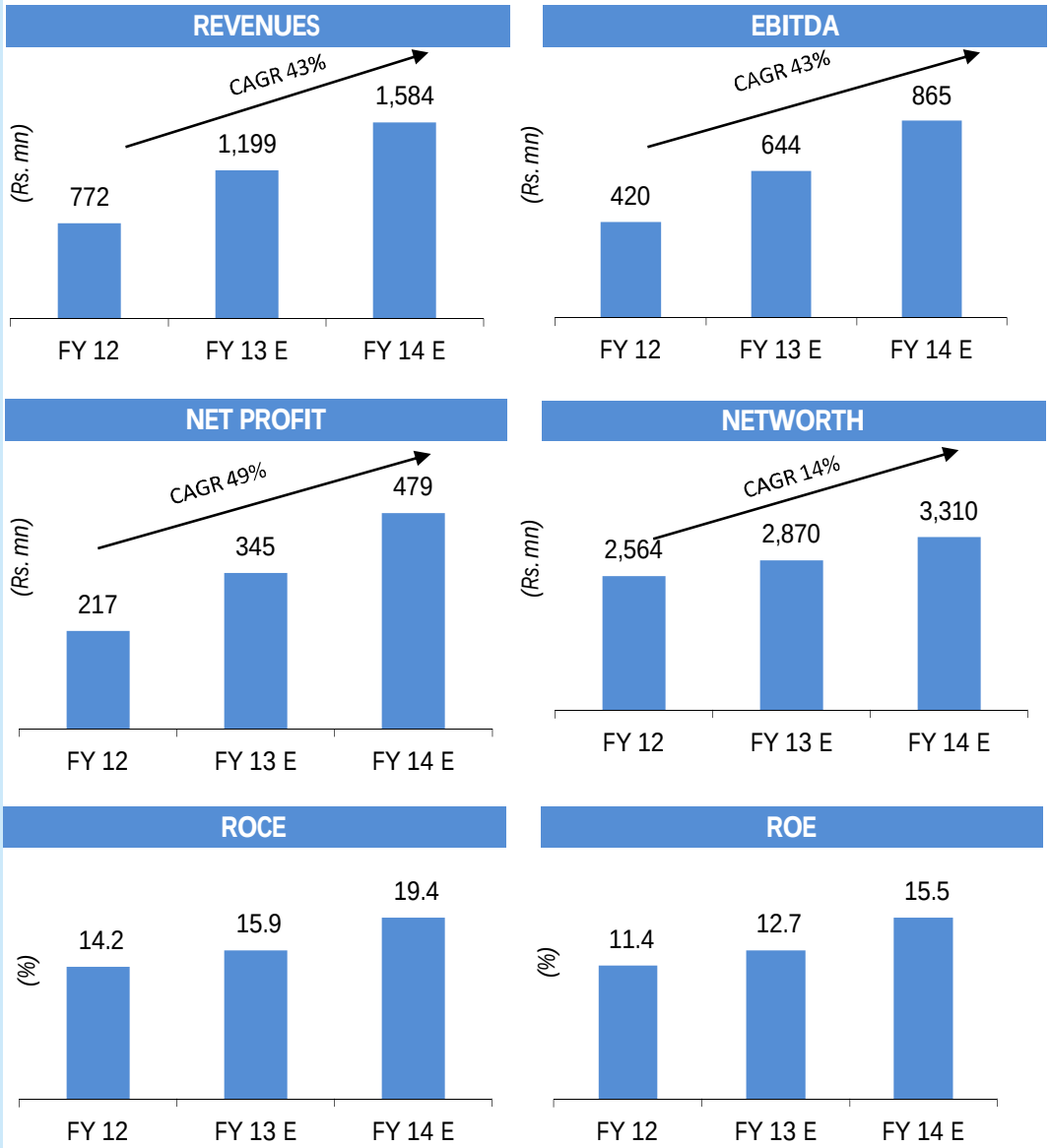
Tree House Revenues, EBITDA and PAT have grown at a CAGR of 90%, 57% and 189% respectively over the period FY10-FY12 (Exhibit XIII). The projected performance has been shown in Exhibit XIV

Exhibit XIII: Financial Performance



Source: Company, Prime Broking

Exhibit XIV: Projected Performance



Source: Company, Prime Broking

VALUATION

The PAT of the company is expected to grow by 49% CAGR over FY12 – FY14. We **very conservatively value Tree House based on PEG model giving it 0.4 multiple**, which gives us a PE of around 20. Thus we give a **STRONG BUY** on the stock with a **target price of Rs. 284** based on FY14 EPS.

KEY RISKS

The key downside risks are as follows:

1. Pre Schools have very low entry barrier. Increase in competition leading to price wars may affect the business of the company adversely.
2. Operating pre-schools and providing educational services to K-12 schools is currently unregulated but the governments may introduce a regulatory framework. Any such government regulation may adversely affect the performance of the company.
3. The Company has limited operating history in providing educational services to K-12 schools, and may not have sufficient experience to address risks frequently encountered in that business.

Annexure 1: Consolidated Profit & Loss Statement

(Rs. mn)	FY10A	FY11A	FY12A	FY13E	FY14E
Operating Income	**214**	**392**	**772**	**1,199**	**1,584**
Growth (%)		*83.6*	*96.8*	*55.2*	*32.2*
Expenditure	**142**	**222**	**352**	**555**	**719**
EBITDA	**71**	**171**	**420**	**644**	**865**
Growth (%)		*138.5*	*146.4*	*53.2*	*34.3*
EBITDA Margin (%)	*33.4*	*43.5*	*54.4*	*53.7*	*54.6*
Depreciation	29	40	78	124	153
EBIT	**42**	**131**	**342**	**520**	**712**
Other Income	5	19	37	37	37
Interest Expenses	6	13	65	62	62
Exceptional Gain / (Loss)	(1)	(1)	2	-	-
PBT	**40**	**136**	**316**	**495**	**687**
Tax	14	44	99	150	208
Tax rate (%)	*35.2*	*32.5*	*31.4*	*30.2*	*30.2*
PAT	**26**	**92**	**217**	**345**	**479**
Minority Interest	-	-	-	-	-
Profit from Associates	-	-	-	-	-
PAT After Minority Interest	**26**	**92**	**217**	**345**	**479**
Growth (%)		*253.8*	*135.6*	*59.4*	*38.8*
Net margin (%)	*12.2*	*23.4*	*28.1*	*28.8*	*30.3*

Source: Company, Prime Broking; (A) Actuals; (E) Estimated

Annexure 2: Consolidated Balance Sheet Statement

(Rs. mn)	FY10A	FY11A	FY12A	FY13E	FY14E
Equity Capital	174	240	337	337	337
Reserves & Surplus	524	986	2,227	2,533	2,973
Networth	**698**	**1,226**	**2,564**	**2,870**	**3,310**
Minority Interest	-	-	-	-	-
Total Loans	**120**	**476**	**514**	**514**	**514**
Net Deferred Tax Liability	4	18	33	56	88
Total Liabilities	**821**	**1,721**	**3,111**	**3,440**	**3,912**
Net Fixed Assets	**635**	**1,288**	**1,704**	**1,951**	**2,169**
Investments	**10**	**26**	**62**	**62**	**62**
Inventories	3	15	37	57	75
Sundry Debtors	69	18	58	90	119
Cash & Bank Balance	103	289	727	379	278
Loans & Advances	50	208	763	1,263	1,673
Other Current Assets	4	15	15	15	15
Current Liabilities	54	138	255	377	479
Net Current Assets	**176**	**406**	**1,345**	**1,428**	**1,682**
Total Assets	**821**	**1,721**	**3,111**	**3,440**	**3,912**

Source: Company, Prime Broking; (A) Actuals; (E) Estimated

Annexure 3: Consolidated Cash Flow Statement

(Rs. mn)	FY10A	FY11A	FY12A	FY13E	FY14E
PBT	40	136	316	495	687
Depreciation	29	40	78	124	153
Other Items	328	716	812	103	(668)
Change in working capital	(367)	(754)	(1,077)	(508)	339
Tax paid	(7)	(32)	(65)	(126)	(176)
Cash flow from operations	**23**	**107**	**64**	**87**	**335**
Capital expenditure	(130)	(345)	(819)	(371)	(371)
Investments	(9)	(8)	(263)	22	22
Other items	(148)	(349)	72	15	15
Cash flow from investing	**(286)**	**(702)**	**(1,011)**	**(334)**	**(334)**
Change in Networth	270	873	1,348	-	-
Change in Debt	-	(0)	-	-	-
Other items	76	(93)	(213)	(101)	(101)
Cash from financing	**345**	**780**	**1,135**	**(101)**	**(101)**
Net change in cash	82	185	188	(348)	(101)
Opening cash balance	**21**	**103**	**289**	**477**	**129**
Closing cash balance	103	289	477	129	28

Source: Company, Prime Broking; (A) Actuals; (E) Estimated

Annexure 4: Free Cash Flow to Firm Statement

(Rs. mn)	FY10A	FY11A	FY12A	FY13E	FY14E
EBITDA	71	171	420	644	865
Less: Tax	(14)	(44)	(99)	(150)	(208)
NOPAT	**57**	**126**	**321**	**494**	**657**
Capital Expenditure	(130)	(371)	(371)	(423)	(296)
Change in Working Capital	(367)	(430)	(355)	277	416
FCF	**(439)**	**(675)**	**(405)**	**348**	**778**

Source: Company, Prime Broking; (A) Actuals; (E) Estimated

Annexure 5: Du Pont Analysis

	FY10A	FY11A	FY12A	FY13E	FY14E
PAT/PBT	0.6	0.7	0.7	0.7	0.7
PBT/EBIT	1.0	1.0	0.9	1.0	1.0
EBIT/Net sales	0.2	0.3	0.4	0.4	0.4
Net Sales/Total Asset	0.3	0.3	0.3	0.4	0.4
Total Asset/Networth	1.2	1.3	1.3	1.2	1.2
RoNW (%)	3.7	9.6	11.4	12.7	15.5

Source: Company, Prime Broking; (A) Actuals; (E) Estimated

Annexure 6: Key Ratios

Profitability ratios (%)	FY10A	FY11A	FY12A	FY13E	FY14E
OPM	33.4	43.5	54.4	53.7	54.6
EBIT Margin	19.7	33.4	44.3	43.4	44.9
Net Profit Margin	12.2	23.4	28.1	28.8	30.3

Return ratios (%)	FY10A	FY11A	FY12A	FY13E	FY14E
RoCE	5.1	10.3	14.2	15.9	19.4
RoNW	3.7	9.6	11.4	12.7	15.5
RoA	3.0	6.7	8.3	9.6	11.7

Per share data	FY10A	FY11A	FY12A	FY13E	FY14E
Book Value Per Share	40.1	51.1	76.0	85.1	98.2
EPS	1.5	3.8	6.4	10.2	14.2
Cash EPS	3.2	5.5	8.7	13.9	18.8
No. of Shares (mn)	17	24	34	34	34

Leverage ratios (x)	FY10A	FY11A	FY12A	FY13E	FY14E
Interest Coverage	7.3	10.5	5.3	8.4	11.5
Debt/Equity	0.2	0.4	0.2	0.2	0.2
Net Debt/Equity	0.0	0.2	(0.1)	0.0	0.1
Net Debt/EBITDA	0.2	1.1	(0.5)	0.2	0.3

Valuation ratios	FY10A	FY11A	FY12A	FY13E	FY14E
P/E	-	-	-	21.3	15.4
EV/EBITDA	-	-	-	11.7	8.8
EV/Sales	-	-	-	6.3	4.8
P/BV	-	-	-	2.6	2.2

Source: Company, Prime Broking; (A) Actuals; (E) Estimated

Important Disclosures

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Stock Ownership/Conflict Disclosure	
Prime/Prime Subsidiaries	No
Key Prime Management &/or other employees	No
Any other corporate finance conflict of interest	No

Analysts' Ratings Definitions	
STRONG BUY	Expect >= 25% return
BUY	Expect a return >= 15% and < 25%
Hold	Expect a return >= 5% and < 15%
Sell	Expect < 5% return

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