

Tree House Education and Accessories Ltd

Scrip Code TREHOUQNR	Industry Education	CMP Rs.298	Recommendation Buy at CMP and add on dips to Rs.261-271	Target Rs.366	Time Horizon 2-3 quarters
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Price Chart



Stock Details

BSE Code	533540
NSE Code	TREEHOUSE
Bloomberg	THEAL IN
Price (Rs) as on Oct 9, 2015	Rs.298
Equity Capital (Rs Mn)	423.1
Face Value (Rs)	10.00
Eq. Shares O/s (mn)	42.31
Market Cap (Rs Mn.)	12595.9
Book Value (Rs)	154.8
Avg. Volume (52 Week)	23732
52 wk H/L (Rs)	548/270

Shareholding Pattern

(As on June 30, 2015)	% Holding
Promoters	29.82
Institutions	24.98
Non Institutions	45.20
Total	100.00

Abdul Karim
Fundamental Research Analyst
abdul.karim@hdfcsec.com

With a tagline "Nanhe Kadam and Badi Udaan", Tree House Education and Accessories Ltd (THEAL) has emerged as one of the largest pre-school service providers in India. The Company operates a large number of branded self operated pre-schools. It currently operates 647 pre-schools (out of which 540 are self operated) in 97 cities. THEAL also provides management services to 24 K-12 schools in 3 states. As of 31st March 2015, total numbers of students are ~55000 in Pre-School and K-12 segment.

Investment Rationale

- Niche and scalable business model
- New initiative of Day care centre could add more revenue and profitability
- Asset light model ensures capital efficiency and margin stability
- Monetization of K-12 business will improve return ratios
- Focus on debt reduction.

Concerns

- Introduction of adverse regulations, low entry barriers
- Geographical concentration, dependence on trained teachers, pay revision for teachers could impact margins.
- High and long period Receivables from K-12 school, large sums locked into Security deposits for premises.

Valuation

Considering the demand for pre schools, its established brand, earnings growth and focus on improving return ratios, we feel investors could buy the stock at the CMP and add on dips to Rs. 261-271 (13.5-14x of FY17E EPS) for a price target of Rs 366 (18.5x FY17E EPS) over next 2-3 quarters. At the CMP of Rs 298 it trades at 15.4x FY17E EPS.

Financial Summary

Particulars- Rs in Cr	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Net Sales	39.24	77.21	114.28	157.64	207.45	260.65	316.93
EBITDA	16.93	42.01	61.81	89.22	118.72	151.48	182.92
EBIDAM-%	43.1%	54.4%	54.1%	56.6%	57.2%	58.1	57.7%
Adjusted PAT	9.20	21.67	33.34	43.92	60.88	67.43	81.95
Adj PATM-%	23.4%	28.1%	29.2%	27.9%	29.3%	26.6%	26.5%
Adj EPS	2.7	6.4	8.8	11.8	14.4	15.9	19.4
P/E	44.9	31.9	27.7	19.7	29.1	18.7	15.4

(Source: Company, HDFC Sec)

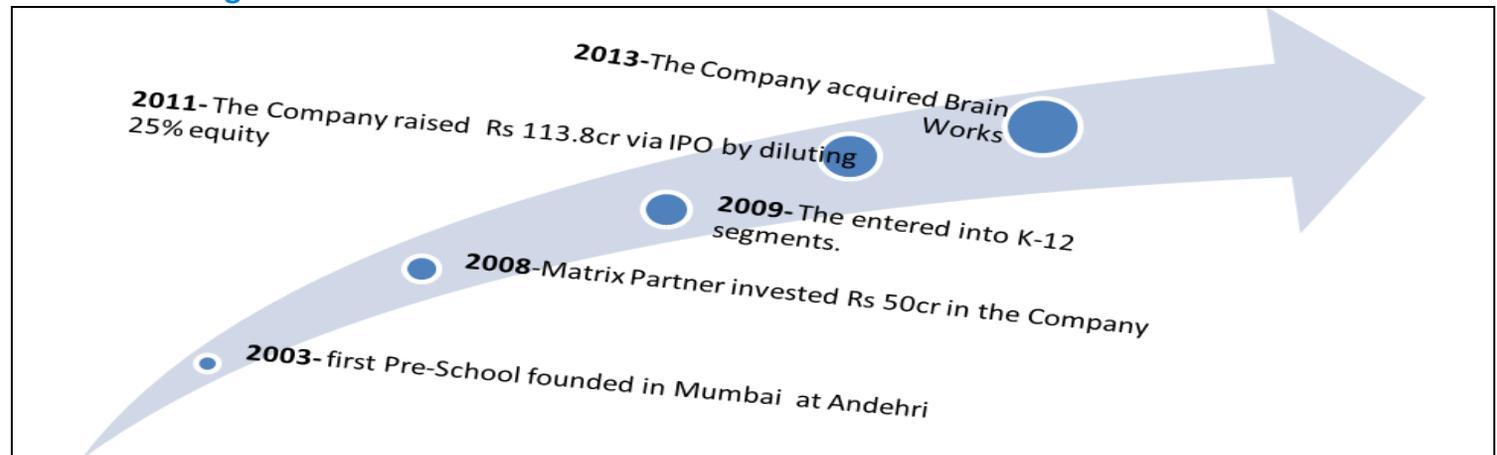
Company Description:

With a tagline "Nanhe Kadam and Badi Udaan", Tree House Education and Accessories Ltd (THEAL) has emerged as one of the largest pre-school service providers in India. The Company operates a large number of branded self operated pre-schools. It currently operates 647 pre-schools (540 are self operated) in 97 cities. Under the franchisee model, it receives a fixed non refundable one time up front fee and service fee on annual basis from the franchisee for use of brand name and modern and advance teaching methodologies. In 2009, THEAL did a forward integration to provide management services to K-12 schools. THEAL manages 24 K-12 schools in 3 states, Maharashtra, Gujarat and Rajasthan. The Company has initiated a move to provide low cost quality pre-primary education under the GLOBAL CHAMPS brand which is now available at 5 centers in Mumbai. Recently, THEAL has expanded its daycare foot print, now in 190 centers due to encouraging response from the parents.

The western region contributes 64% of its business. The Pre-schools in other regions are - North (6%), South (11%) and East (19%). THEAL's K-12 presence is restricted to the three western states Rajasthan (11 schools), Maharashtra (11 schools) and Gujarat (2 schools). As on June 30, 2015, the company has total staff strength of 2271 comprising of 2155 teaching staff. As of 31st March 2015, total numbers of students are ~55000 in Pre-School and K-12 segment.

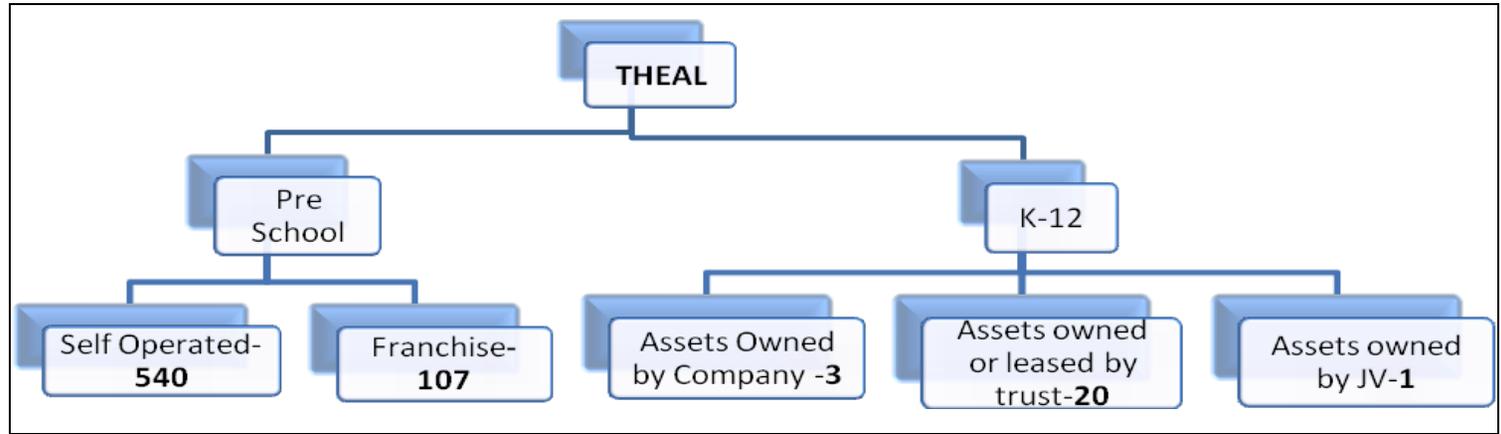
In the Pre-School segment, it offers play school, nursery facilities, vacation camp, mother toddler classes, training camp, hobby classes, day care facilities and teacher training courses. In the K-12 segment, the Company provides designing curriculum, teaching aid, supplying methods for imparting education, organising extra curriculam activities students and teacher training. Foreseeing the demand and rich experince in this segment with strong brand image, management is confident to expand its reach further across India.

Milestone at a glance:



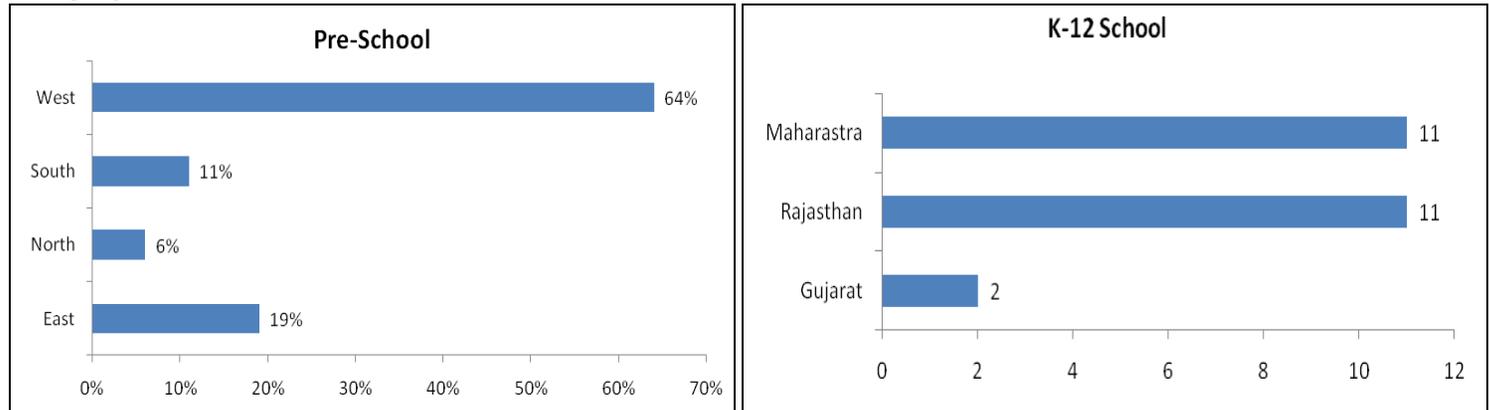
(Source: Company, HDFC Sec)

THEAL's Business Structure



(Source: Company, HDFC Sec)

Geographical Reach-so far



(Source: Company, HDFC Sec)

Out of the 540 self operated pre schools, 60% pre schools are in Tier I cities and rest are in Tier II & III cities.

Management Profile:

Management	Designation	Key Responsibility Area
Mr Rajesh Bhatia	Founder and MD	Oversees the day to day operations of the company
Mr Vishal Shah	Executive Director	Oversees the marketing/administration department of the Company
Mr Utsav Shrivastav	CFO	Financial Planning, Investments and day to day activities.
Mr Sanjay Kulkarni	Chairman	Operations and General activities
Ms. Pooja Bhimjiyani	Company Secretary	Compliance

(Source: Company, HDFC Sec)

Business Model: largely self operated

Considering its strategy for organic growth and expansion, THEAL is majorly focused on self operated business model, while its major peers are focused on franchisee model for growth as well as expansion. Though, scalability and sustainable margin are easily possible with franchisee model, the company has more stringent screening process to filter the franchisee application and it emphasizes on qualitative model rather than quantitative model.

Pre- School Details:

Pre School Details	FY11	FY12	FY13	FY14	FY15	Q1FY16
Tree House Pre School-No of Centres	178	302	379	490	612	647
Self Operated Pre school	108	240	300	386	505	540
Franchise	70	62	79	104	107	107
Tree House Pre School-No of Cities	23	37	43	63	88	97

(Source: Company, HDFC Sec)

From FY11 to Q1FY16, THEAL has grown from 70 to 107 franchisees, while its self operated pre schools have grown from 108 to 505. The franchisee additions are restricted to the tier-III and tier-IV cities and even upfront fees for franchisee are relatively higher than its peers.

Peers comparison on Upfront Fees and Floor Area of franchise business:

Peers	Upfront Fees	Floor Area
Kid Zee	5-10 Lac	2500 sq ft
Tree House	10 Lac+	1000 sq ft
Hello Kids	2-5 Lac	1000+ sq ft
Shemrock	7-8 Lac	2000-2500 sq ft
Euro Kids	10-15 Lac	2000 sqft
Bachpan	8-10 Lac	1500-2000 sqft

(Source: Market Sources, HDFC Sec)

Day Care Services:

THEAL has expanded its day care foot print to 190 centers since June 2014, as it received an encouraging response in this segment with 35% of centers now having this facility. At present company is providing day care services to 2850 kids (1.5 years onwards). Company is providing day care services for large number of employees of IT, ITES companies, basically in metro cities like Mumbai, Pune, Hyderabad, and Bangalore. Now, day care services are becoming as a significant contributor to the overall pre-school segment. This is asset light business, day care services are provided from Pre School premises and vacant premises are used after closing bell of Pre School. It does not require any talent and experts to operate. Incremental expenses are limited to one time capex of Rs.7-8 lacs per centre (towards AC, Refrigerator, CCTV, mattresses, curtains etc) and recurring incremental monthly costs of Rs.12-15000 per centre.

Brainworks acquisition: an inorganic achievement

The Company had acquired kindergarten (KG) and playschool business from Brainworks Learning System Private Limited with effect from 19th June, 2013 for a lump sum consideration of Rs. 51.00 million (which includes Rs.1.00 million being incidental expenses related to acquisition). The net assets acquired as a part of this acquisition was valued at Rs. 4.69 crore. The balance of the excess consideration paid over assets acquired amounting to Rs. 0.41 crore has been treated as goodwill. Brainworks had 63 centres out of which 49 were franchisee.

Teacher training courses:

To help improve skills of teaching and impart knowledge of best practices, the company offers teacher training classes at select centers for 18 years onward candidates. This aims at enabling teachers in the best teaching methods created by our experts. These facilities are available in select centers.

Service Offered

Service Offering	Description	Age Group-year	Timing
Play Group	Focuses on building cognitive power, making new friends, nurturing creativity and creates a forum for children to socialise and familiar to each other.	1.5-2.5	2 Hours
Nursery	Designed to get children ready for higher schooling by teaching alphabets, math concepts and valuable social skills.	2.5-3.5	2 Hours
Junior KG	To equip children with the right skills for smooth transition to formal school. Along with value education, the child will learn and acquire skills in GK, Environment studies, language etc.	3.5-4.5	3 Hours
Senior KG	To develop complex skills and engagement with peers. Along with value education, the child will learn and acquire skills in GK, Math, Sc-, Environment studies, language etc.	4.5-5.5	3 Hours
Summer Camp	Designed to help children discover and explore nature through creative art, craft, culture and sports, while learning about the vast opportunities in the world around.	2.5-8	N/A
Teaching Training	Intensive curriculum with theory and practical sessions, intended to create qualified and certified preschool teachers.	N/A	300 Hours
Hobby Classes	To enhance the child's life skills and overall grooming.	3-8	-
Day Care	Custom designed to the specific needs of the parents.	3-8	8 Hours

(Source: Company, HDFC Sec)

Services to K-12 Schools:

THEAL is also engaged in providing educational management services, on exclusive basis, to K-12 schools in India. Company has entered into services agreements with the K-12 school operators for providing such services, and are required to pay a one-time fee to obtain the exclusivity rights.

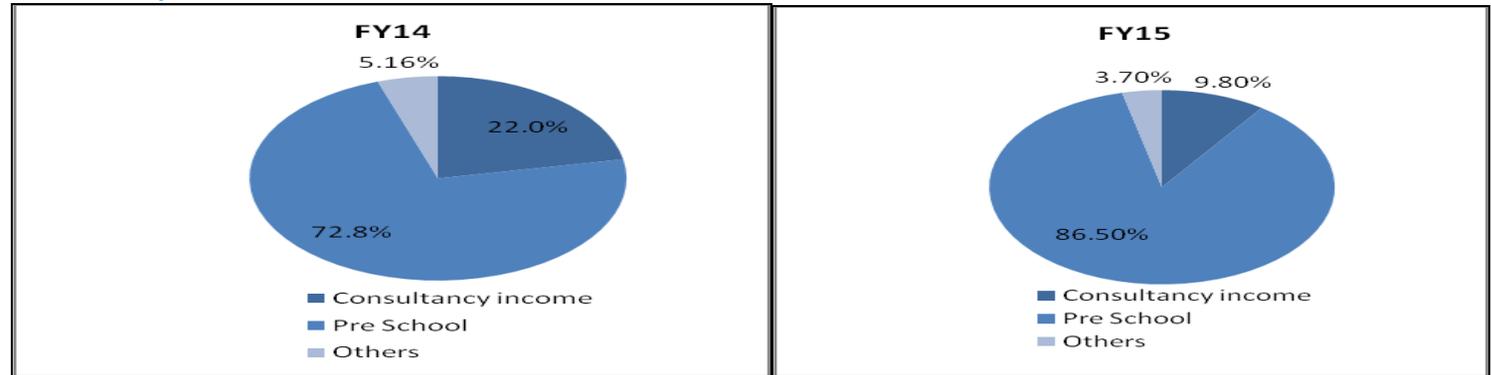
The Company started providing educational services in November 2008 to a school in Vadodara, and as of September 30, 2014, Company has contracted to provide educational services to 24 K-12 schools.

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

- a) 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 ;
- b) Providing facilities or services for improvement in the educational standards;
- c) Supplying methods for imparting education;
- d) Ensuring optimum utilization of the infrastructure and educational resources of the K-12 school;
- e) Training the employees for effective management of the K-12 school;
- f) Undertaking necessary amendments to the methodology adopted by the K-12 school;
- g) Ensuring optimization of services from the employees of K-12 school; and
- h) Designing extra-curricular activities for the students.

The usual term of its services agreement is 30 years. In consideration of the services provided by company, a K-12 school operator during the term of the agreement pays 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 pre-agreed minimum guaranteed amount payable by the K-12 school operator to the company. Further, as per the terms of the service agreement, company is provided access to inspect the K-12 schools to ensure that the schools are utilizing the educational services appropriately; this also helps to assist the K-12 school in maintaining a high standard of education. Other services include, carrying out changes in the methods, materials, manuals and implementation of curriculum, syllabus and manual for K-12 school and offering such guidance and advice as may be necessary for efficient operation of the K-12 school. The agreement restricts the K-12 school operators from availing educational services from any other person during the term of the agreement in lieu of exclusivity rights, for which THEAL pays to the K-12 school operators. The agreement may be terminated by either party in the event of breach of other party's obligations, however, such termination shall take effect at the end of the academic year during which the right of termination was exercised. THEAL is entitled to assign their rights under such agreements without any prior consent. THEAL also has to pay a deposit to these schools to help them in their working capital management. This is refundable by the year 2020.

Revenue split:



(Source: Company, HDFC Sec)

Industry Overview:

Indian education sector is known as a sector of opportunities and growth. The Indian education system is broadly divided into two parts Formal and Informal education. Formal education including K-12 and Higher Education is highly regulated and guided by HRD (Human Resource Development) Ministry. Institutions under formal education system should be non profitable entity, and operated by trust.

Informal education is broadly classified into four, such as Pre school, Vocational Training, Tuition/Coaching Classes and Ancillary Education. This is so far not regulated and it provides huge opportunity of growth for private players. There is a huge gap between the demand and supply, always price factor comes later than quality and brand in the sector. The vocational segment has emerged as a big market that is expected to grow a CAGR of 25%.

According to the Ministry of Human Resource and Development, India needs 1.2 million more teachers under the Right to Education campaign. Moreover, with 546 million people under 25 years of age, there is huge potential in India in the education sector that needs to be tapped. By 2020, to increase the percentage of students going for higher education from the present 12.4% to 30% in the country, India will need 800 more universities and another 35,000 colleges, according to the ministry. According to HRD estimates, India's education sector needs investment worth USD 150 billion in the next 10 years.

Opportunities:

- (a) The role of private sector is expanding the reach of Indian education system. The government is focusing more on the sector and targeting gross enrollment ratio of 30%+ in higher education by 2020.
- (b) Foreign Direct Investment in education sector will lead to increased number of institutions and greater availability of opportunities to the students. It will enhance the access to international qualifications and

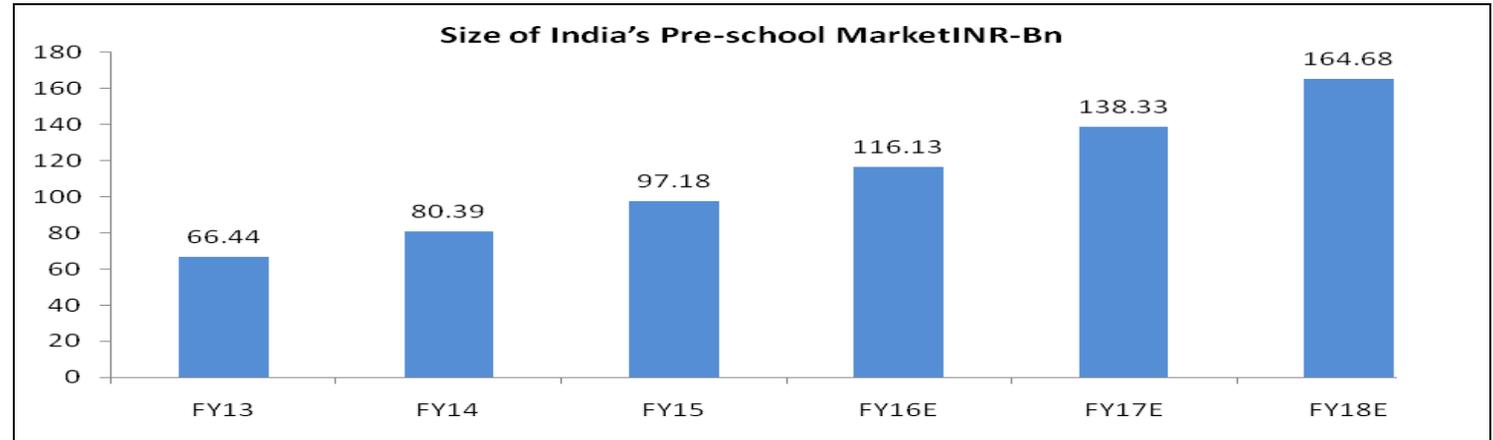
technology. It will provide greater opportunities for utilization of improved infrastructure. This will further lead to competition which will help in improving the quality, innovative curriculum development and subject expertise. The access to technology and infrastructure will help in growth in the research and development.

- (c) Foreign direct investment in the field of education will also improve the state of primary, secondary and higher secondary schools in India. Due to massive infrastructural requirements that India’s schools and colleges need, only FDI can solve the problem. The Indian education system gets a small percentage of the total national resources. FDI will solve problems such as scarcity of funds.

Opportunity in Pre- school in India:

Preschool in India is under penetrated, unorganized and fragmented because of its nascent phase. It is expected that the penetration level of Pre-school is limited to 10-15% of the total urban population in the 2-4 years of age bracket. As per the recent survey 80% of the Industry is unorganized and expected that it would come down to 74% by FY18E due to the entry of more organized players and large scale expansion from the existing organized players.

Size of India’s Pre-school Market:



(Source: CRISIL, HDFC Sec)

According to CRISIL estimate, preschool market in India is estimated to grow at a CAGR of 20% between FY13-18 to reach Rs.164.68bn. The growth would be aided by rapid urbanization, growing per-capita income and increasing awareness about the importance of pre-schooling.

CRISIL Research estimates that 0.21 million K-12 institutions will be set up during 2012-13 to 2017-18 as against an estimated 0.2 million set up during 2007-08 to 2012-13. The average enrollments per institution stood at 157 in 2013-14. The presence of private players in the K-12 segment has been increasing due to the necessity for good

facilities of education and better infrastructure, which are found lacking in several government-owned institutions. The share of private K-12 centers will gradually rise to 30% in 2017-18 from 28% in 2013-14. However, their share in total enrollments is predicted to rise at a much faster pace to 51% in 2017-18 from 47% in 2013-14.

Key facts from Q1FY16 Conference Call -

(1) THEAL Management expects to report better than industry growth in FY16E and FY17E. As per CRISIL expectation, industry could grow by 15% in next couple of the years.

(2) Company plans to add 150 pre-schools in FY16, of which 50% of the pre-schools will be opened in the Tier I cities such as New Delhi, Pune, Hyderabad and Bangalore. Company has planned for a capex of INR 1bn in FY16. THEAL is focusing to reach more Tier-2 and Tier-3 cities through self operated model. For K-12, it is planning to adhere to an asset light business model.

(3) There is no regulatory obligation for Pre-school and Secondary school in India. If any regulation comes in India for Pre-School and secondary school in India going forward, it could be a major concern.

(4) Currently Day Care centres are operated in 190 centres compared to 119 centres in Q4FY15. Company plans to take this to 300 centres by FY16. The Company has entered into tie-up with large employers in the IT, ITES Banking and consulting companies to provide day care service for their employees.

(5) Currently out of 540 centres nearly 66.75% (360 centres) of the centres are mature centres, 33% of total centres are not profitable and 64 centres have no students so far. Average rent for each centre stands at Rs 51-52000/ month.

(6) THEAL has been able to hike its fees by about 10% in K-12 segment and 5-6% for Pre School segment. Company has not given any guidance for next year's fee hike.

(7) Same Store Sales (SSS) growth for mature centre has been 26-27% in FY15; and the company is expecting to see this at a range of 24-25% going forward.

Investment Rationale

Niche and scalable business model:

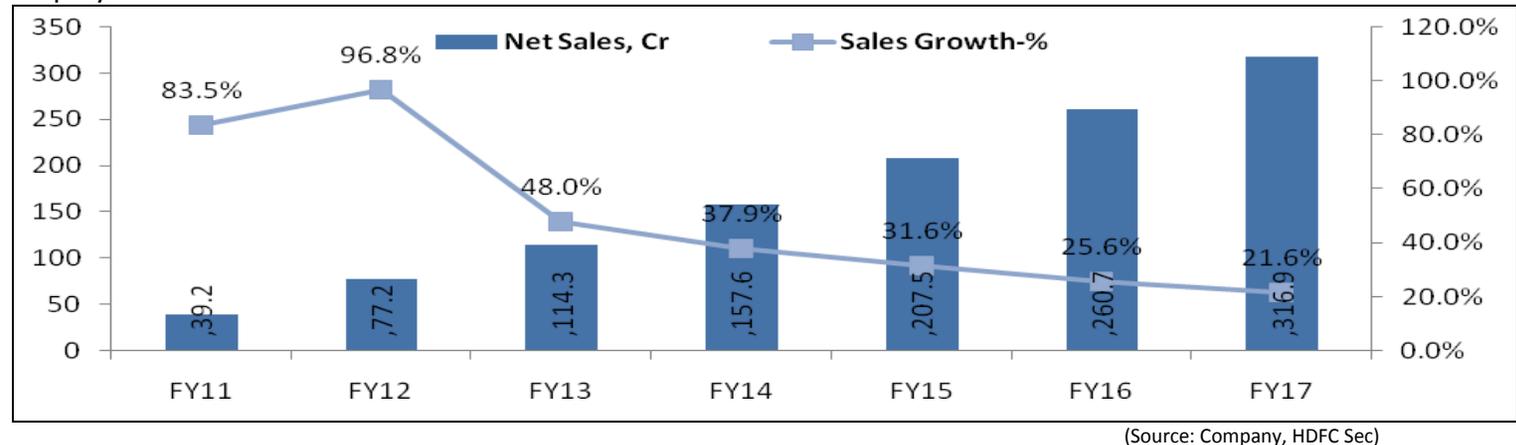
As of June 30th 2015, THEAL operates 647 pre-school, of which 540 schools are self operated and 107 are operated by franchisees and provides day care services at 190 pre-schools. Apart from pre-schools and day care business, it

has a portfolio of 24 large format K-12 schools. It runs over four-fifths of its pre-schools itself as against Zee Learn. Zee Learn runs India's largest pre-school chain KidZee, but banks on a franchisee-led expansion model. The company generates its revenue by providing teaching services and consulting services, which includes fee income (pre-School) and Consultancy fee (K-12).

The Company plans to increase its foot print of pre-schools into Tier-II and Tier-III cities and now increasing number of schools in NCR region. The Company plans to add 100-150 schools every year to capture major market share in tier II and tier III cities.

Its major exposure in self operated model results in strong commanding position in overall business and the company has full ownership in earning as well as operations. It has decided to spend Rs 100+ crore in next 2 years to increase its reach. Further, the company has decided to increase its revenue contribution of self operated pre-school from 85% to 90% in the next year. The Company's brand equity, fund availability and expected healthy demand outlook makes this target look achievable.

A part of allied services portfolio, such as day care, teacher training, summer camp and activity classes on dance, music and art will aid revenue growth going ahead. Even, its day care service has received encouraging response from the market and it has huge growth potential going forward. The management has decided to add more allied services in the portfolio in near future. It has also tied up with IT and ITeS corporate to provide day care services for employees.



We expect that THEAL could report 20-26% revenue growth in FY16E and FY17E largely led by new pre-school and day care business additions and their maturing.

Day care centre could add more revenue and profitability:

THEAL has expanded its daycare foot print to 190 centers after initiating this business in June 2014. With it receiving an encouraging response in this segment, company has earned Rs.1.17cr revenue in FY15. This is asset light business, day care services are provided from Pre School premises and vacant premises are used after closing bell of Pre School. It does not require any talent and experts to operate. Incremental expenses are limited to one time capex of Rs.7-8 lacs per centre (towards AC, Refrigerator, CCTV, mattresses, curtains etc) and recurring incremental monthly costs of Rs.12-15000 per centre. Management of THEAL believes that this service will contribute significantly to the company's top-line and bottom-line, going ahead. THEAL has entered into tie-ups with large corporate in the IT, ITES, banking and consulting space to provide day-care services for their employees. For FY16E, THEAL plans to take this to 300 centers and revenue from this segment could increase to Rs 3 crores compared to Rs. 1.17 crore for FY15.

Asset light model ensures capital efficiency:

THEAL's self operated business is based on rental model, where the property is taken on the basis of 5-7 years of lease as against the purchasing it. Now, the Company has also focused to transform its K-12 business into asset light model. Therefore, the Company has decided to monetize its building and properties going forward by offering only school management and consulting services to its K-12 schools. All this will ensure better capital efficiency and lower requirement of funds to achieve expected rate of growth.

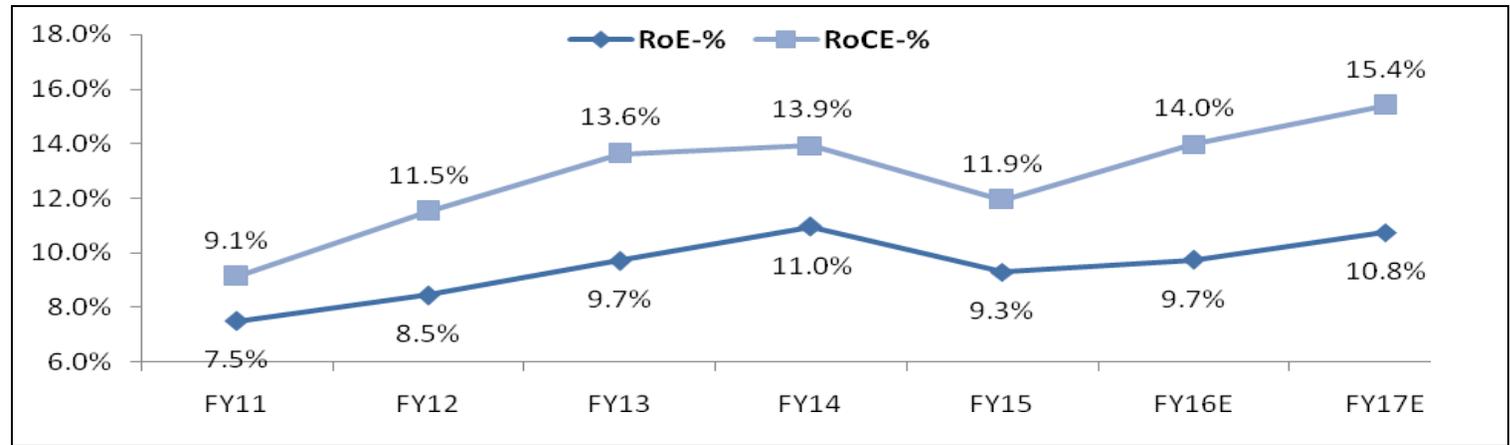
Monetization of K-12 business will improve return ratio:

Pre-school are asset light business and K-12 model required more investment but generated low return. The Company's return ratio was dented because of the huge investment in K-12 business. Now the company has initiated measures to monetize its K-12 business and decided to invest only in pre-school model.

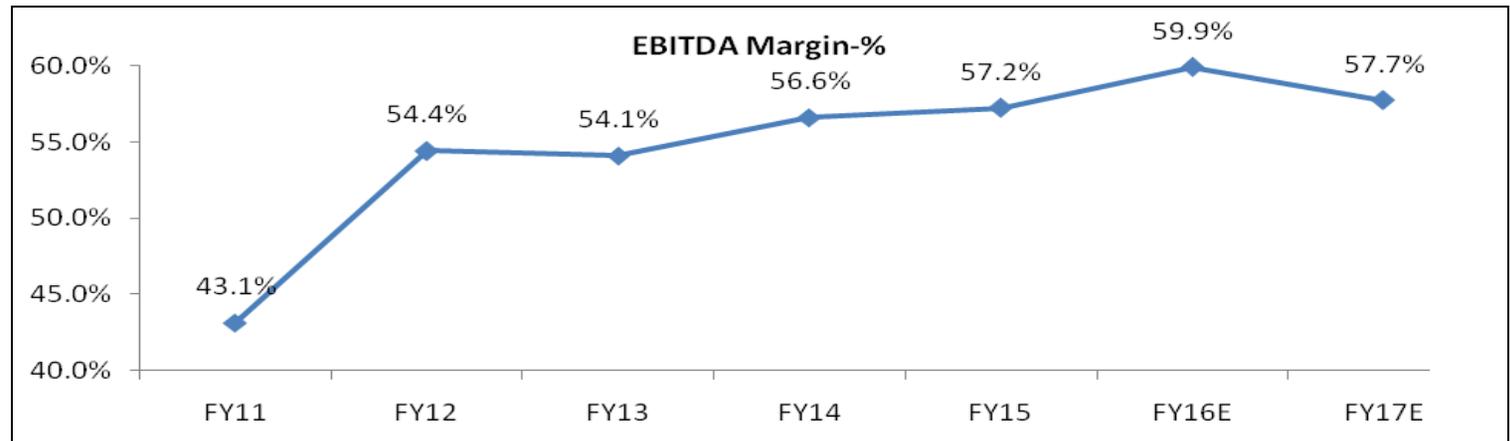
The Company has concluded a deal for sale of Vadodara School and building premises of Rs 17.1 cr. This property represents one of 5 K-12 school land and building owned hitherto by the Company. However, the Company will continue to provide educational services to these institutions. Profit on sale of this property (~Rs.3 cr) was reflected in Q4FY15 results as part of other income.

Tree House has also signed a MoU for sales of one more of its K-12 land and Building in Vadodara for a consideration of Rs 52.5cr. Profit of Rs.25 cr will be accounted on completion of this deal in Q3FY16. We have not considered this for our estimates.

Return Ratios



(Source: Company, HDFC Sec)



(Source: Company, HDFC Sec)

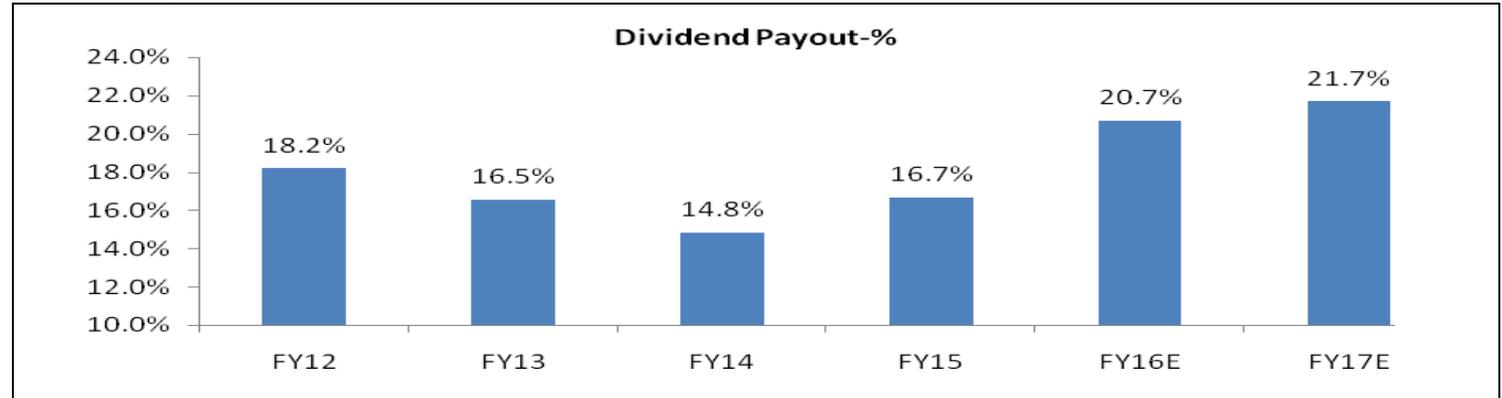
Dividend Payout is likely to increase:

Company is paying dividend for the last three years and in FY15, THEAL's dividend payout ratio stood almost 17%. The company is likely to turn FCF positive; this coupled with disinvestment of K-12 assets and margin expansion are likely to result in higher dividend payouts going forward.

Due to aggressive investment in K-12 business over the last few years, the company had negative free cash flow. Going forward, the capex spend is likely to moderate, as there are no major scheduled capex investment in the K-12 segment. Furthermore, sizable pre-school base and ramp up in the K-12 business will help the company to turn FCF positive from FY16E onwards.

For FY16E, we are expecting dividend of Rs 2.50/share for FY16E and Rs 3/share for FY17E. We have estimated the dividend payout to increase to 21% and 22% in FY16E & FY17E.

Dividend Payout-%



(Source: Company, HDFC Sec)

Debt reduction and return ratio improvement:

Currently the company is more focused on expansion and debt reduction. The debt as of Mar 2015 was Rs.105 cr (incl ST debt of Rs.64 cr.)The company has raised Rs.200cr through a QIP to fund its expansion plans. Further, it would be selling its K-12 school property, and would utilize its free cash flows to reduce debt. The company expects to be virtually debt free within two years.

Return ratios (that could be depressed temporarily due to the recent QIP) could again rise as debt is repaid, K-12 properties are sold and extra cash is returned to shareholders by way of dividends or buy-back.

Recent Update:

Tree House in Dec 2014 raised Rs 200 cr through QIP issuing 45,45,454 equity shares to eligible qualified institutional buyers at the issue price of Rs. 440 per equity share, aggregating to Rs. 200 crore. The company plans to utilize these funds to aggressively expand its network and reduce debt, which will ease the interest cost going ahead. Further, interest cost will be lower going ahead as the company has repaid a part of the loans that were taken at higher interest rates.

Risks & Concerns

Introduction of adverse regulations:

There is no defined regulation and appropriate guideline for primary education in India. Because of low entry barrier, most of industry players are creating price competitive environment. Therefore, play school fees are becoming more costly than primary and even secondary school fees. Government intervention (If and when

undertaken in future) on pre- school model and imposing adverse regulations could impose restrictions on the Company which could affect its sales and margin growth.

Geographical concentration on a specific region: The Company is dominant player in West India, 64% focus in West, almost 45% in Maharashtra. It is so far largely known as a Mumbai based company. The Company has less exposure in other metro cities, like Delhi, Bangalore, Chennai, and Hyderabad. Any setback from Western India region especially Mumbai could hit its business.

Higher Receivables from K-12 school/deposits locked up in K-12 schools: The outstanding consulting fee for K-12 school is received from the trust with a lag. The Company's consulting fee billing cycle is based on annual value of agreement and payment is received in arrears. In most of cases, payments are received in next year. As at Mar 2015 it has not received the consulting fee due from K-12 school of Rs 17.58cr for FY14 and Rs 17.55cr for FY15. Higher receivable adversely impacts investors confidence toward the company and its management.

THEAL has paid a sum of Rs.140 cr as deposit with K-12 schools / trusts as on March 2015 which is refundable starting from 2020. While a large sum is locked up in deposits earning no returns and impacting return ratios, the timely recoverability of these deposits at the end of the agreement is also not without doubt.

Low entry barriers: Competitors providing similar services and infrastructure set up operations because of the low barrier of entry into the education sector. Low entry barriers resulting in higher neck to neck competition from existing and new players.

Dependence on trained teachers: As the Company's offerings are primarily centered around services, its success depends upon the talent it hires: its highly trained teachers and supervisors and the Company's ability to attract, motivate and retain its employees. The inability to do so may have an adverse effect on its growth plans. Now attrition rate (up to age -35) stands at 20%, which is unchanged than previous year.

Seasonality: This business has seasonality in nature; Q2 is a weak quarter as far as topline is concerned, while Q1 and Q3 are good quarters from margins perspective (due to summer and winter holidays and accompanying extra activities undertaken). Q4 has relatively low margins due to advertisement costs and new centre addition costs.

Security deposit: Security deposits against Rent agreements lock up a lot of funds for THEAL. This amounted to Rs.24 cr in FY15.

THEAL has raised equity funds many times in the past: THEAL has raised equity on a number of occasions since FY08 as it needed to raise funds for its preschools and K-12 schools. This led to low levels of RONW/ROCE. However going forward it is confident of meeting its funds requirement for opening new preschools from internal accruals/monetizing K-12 assets.

Table of equity issuances

Date	No. of Equity Shares	No. of Equity Shares Increased	Change in Reserves(Rs Cr)	Reason
23-Dec-14	42310724	4545454	195.45	Issued to QIBs
30-Sep-14	37765270	0	0	As Per Shareholding Pattern
29-May-14	37400070	230000	4.89	Conversion of Warrants
29-Mar-14	37170070	50900	1.08	Conversion of Warrants
21-Dec-13	37119170	373900	7.95	Conversion of Warrants
28-Oct-13			0.64	Conversion of Warrants
20-Sep-13	36715270	300000	6.38	Conversion of Warrants
12-Sep-13	36415270	450000	9.57	Conversion of Warrants
04-Dec-12	35965270	1850000	39.33	Preferential Issue Of Shares
06-Sep-12	34115270	400000	0	Issued under ESOP Scheme
23-Aug-11	33715270	8432189	105.4	Public Issue
29-Apr-11	0	1264154	17.7	Preferential Issue Of Shares
15-Dec-10	0	1400000	8.54	Further Issue
13-May-10	0	3618927	36.38	Preferential Issue Of Shares
27-Apr-10	0	1583333	8.42	Preferential Issue Of Shares
25-Sep-09	0	791667	4.21	Preferential Issue Of Shares
15-Jul-09	0	1583333	8.41	Preferential Issue Of Shares
16-Jan-09	0	791667	4.21	Preferential Issue Of Shares
13-Aug-08	0	4750000	25.25	Preferential Issue Of Shares

(Source: Company, HDFC Sec)

Pledged shares by promoters: Promoters have pledged 39.82 lac shares (31.6% of their holding). Sudden fall in stock prices could result in further selling pressure by the pledges if the promoter is not able to top up the security in time.

View and Valuation:

With consistent expansion of pre-schools, monetization of K-12 assets and repayment of debt, THEAL will continue to register a healthy earnings growth going forward. Considering its earnings growth and strong return ratios, we expect the company to report a CAGR of 23.6% in the top-line and 16% in the bottom-line over FY15-17E.

Considering the demand for pre schools, its established brand, earnings growth and focus on improving return ratios, we feel investors could buy the stock at the CMP and add on dips to Rs. 261-271 (13.5-14x of FY17E EPS) for a price target of Rs 366 (18.5x FY17E EPS) over next 2-3 quarters. At the CMP of Rs 298 it trades at 15.4x FY17E EPS.

Quarterly Review (Rs. in crs)

Rs in Cr,	Q1FY16	Q4FY15	Chg-%	Q1FY15	Chg-%	FY15	FY14	Chg-%
Gross Sales	69.0	50.68	36.2%	53.91	28.0%	207.45	157.64	31.6%
Other Operating Income	0.0	0.00	-	0	-	0.00	0.00	-
Net Sales	69.0	50.68	36.2%	53.91	28.0%	207.45	157.64	31.6%
Operating Cost	13.7	13.54	1.0%	12.15	12.5%	47.10	39.56	19.1%
Employee Expenses	6.4	6.58	-3.2%	5.03	26.6%	23.90	17.38	37.5%
Other Expenses	4.8	6.97	-31.3%	3.45	38.8%	17.73	11.47	54.5%
Total Expenditure	24.8	27.09	-8.3%	20.63	20.4%	88.73	68.41	29.7%
EBITDA	44.2	23.59	87.4%	33.28	32.8%	118.72	89.22	33.1%
Depreciation	9.7	7.84	23.1%	5.99	61.1%	26.82	16.96	58.1%
EBIT	34.6	15.75	119.4%	27.29	26.6%	91.90	72.26	27.2%
Other Income	3.0	6.17	-51.4%	0.15	-	7.15	1.34	433.1%
Interest	3.7	3.45	7.0%	3.2	15.3%	15.31	7.59	101.8%
PBT	33.9	18.47	83.3%	24.24	39.7%	83.74	66.02	26.8%
Tax	12.6	1.35	834.8%	8.18	54.3%	22.86	22.10	3.4%
Reported Profit	21.2	17.12	24.1%	16.06	32.3%	60.88	43.92	38.6%
Extra-ordinary Items	3.2	0.00	-	0	-	0.00	0.00	-
Adjusted Profit	18.0	17.12	5.3%	16.06	12.2%	60.88	43.92	38.6%

(Source: Company, HDFC Sec)

Business Metrics:

Particulars	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16
Total Number of Centres	426	444	490	505	538	562	612	647
Self Operated Pre school	322	340	386	403	435	459	505	540
Franchise	104	104	104	102	103	103	107	107
Self operated pre- school-%	75.6%	76.6%	78.8%	79.8%	80.9%	81.7%	82.5%	83.5%
Net Additions	16	18	46	15	33	24	50	35
Presence-City	55	57	63	67	75	80	88	97
Total Staff-	1848	1841	1965	1987	2100	2179	2219	2271
Teaching Staff	1758	1758	1880	1812	2009	2085	2117	2155

(Source: Company, HDFC Sec)

Financials

Income Statement:

Rs in Cr	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Gross Sales	39.24	77.21	114.28	157.64	207.45	260.65	316.93
Other Operating Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Sales	39.24	77.21	114.28	157.64	207.45	260.65	316.93
Operating expenses	10.50	18.82	30.16	39.56	47.10	57.88	71.27
Employee benefits expense	4.91	9.62	13.31	17.38	23.90	30.64	37.48
Other expenses	6.90	6.75	9.00	11.47	17.73	20.65	25.26
Total expenses	22.31	35.20	52.47	68.41	88.73	109.17	134.01
EBITDA	16.93	42.01	61.81	89.22	118.72	151.48	182.92
Depreciation and amortization expense	3.96	7.80	13.38	16.96	26.82	41.42	50.54
EBIT	12.96	34.21	48.43	72.26	91.90	110.06	132.37
Other income	1.91	3.88	7.06	1.34	7.15	3.96	1.58
Finance costs	1.25	6.50	6.62	7.59	15.31	11.98	9.80
Profit before Tax	13.63	31.59	48.87	66.02	83.74	102.04	124.16
Total tax expense	4.43	9.92	15.53	22.10	22.86	34.60	42.21
PAT before Exceptional Item	9.20	21.67	33.34	43.92	60.88	67.43	81.95
Exceptional Items	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PAT before Minority	9.20	21.67	33.34	43.92	60.88	67.43	81.95
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Profit / (Loss) - Adjusted	9.20	21.67	33.34	43.92	60.88	67.43	81.95
EPS	2.7	6.4	8.8	11.8	14.4	15.9	19.4

(Source: Company, HDFC Sec)

Balance Sheet:

Particulars, Rs in Cr	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
EQUITY AND LIABILITIES							
Share Capital	24.0	33.7	35.97	37.17	42.31	42.31	42.31
Reserves and Surplus	98.6	222.7	297.39	360.39	612.57	666.04	730.22
Money received against share warrants			10.02	3.31			
Total Shareholders' Funds	122.65	256.39	343.37	400.88	654.88	708.35	772.53
Long Term Borrowings			29.03	50.68	41.12	31.12	26.12
Deferred Tax Liabilities (Net)	1.8	3.3	4.36	5.11	0.42	0.46	0.51
Other Long Term Liabilities	0.0	0.1	0.02	0.00	0.00	0	0
Long Term Provisions	0.1	0.3	0.30	0.42	0.53	0.58	0.64
Total Non-current Liabilities	1.93	3.66	33.70	56.21	42.07	32.17	27.27
Current Liabilities							
Short Term Borrowings	47.6	51.4	37.69	31.95	64.70	34.70	29.70

Trade Payables	2.5	3.0	3.75	5.71	7.20	9.28	11.29
Other Current Liabilities	10.4	15.3	20.22	21.68	24.20	26.62	27.95
Short Term Provisions	0.7	6.8	5.70	10.30	11.46	12.61	13.87
Total Current Liabilities	61.26	76.49	67.36	69.64	107.56	83.21	82.81
TOTAL	185.84	336.54	444.42	526.73	804.51	823.73	882.60
ASSETS							
Fixed Assets	114.15	156.61	194.78	275.33	347.25	421.25	451.25
Tangible Assets	38.3	113.6	132.97	215.57	293.51	367.63	392.37
Intangible Assets	24.0	23.5	22.05	31.27	27.49	26.1	28.7
Capital Work-in-Progress	20.5	14.1	34.68	27.40	25.16	26.4	29.1
Intangible Assets under Development	31.3	5.4	5.09	1.09	1.09	1.09	1.09
Non-current Investments	2.6	6.2	9.98	11.48	11.24	12.36	13.60
Long Term Loans and Advances	33.5	84.9	169.32	187.08	231.02	254.12	279.53
Total Non-Current Assets	150.3	247.7	374.08	473.88	589.51	687.74	744.38
Current Assets							
Current investments	0.0	25.0					
Inventories	1.5	3.7	4.60	5.62	5.22	7.14	8.68
Trade Receivables	1.8	5.8	6.87	29.00	42.97	49.99	60.78
Cash and Cash Equivalents	28.9	47.7	48.72	10.81	161.37	72.88	62.17
Short Term Loans and Advances	1.9	5.2	7.28	7.40	5.22	5.74	6.32
Other Current Assets	1.5	1.5	2.87	0.01	0.22	0.24	0.27
Total Current Assets	35.52	63.87	70.34	52.85	215.00	135.99	138.22
TOTAL	185.84	311.54	444.42	526.73	804.51	823.73	882.60

(Source: Company, HDFC Sec)

Cash Flow Analysis:

Particulars, Rs in Cr	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
EBT	13.63	31.59	48.87	66.02	83.73	102.04	124.16
Depreciation and Amortization	4.08	7.81	13.38	16.96	26.82	41.42	50.54
Interest /Dividend paid	1.25	6.50	6.62	7.59	15.31	11.98	9.80
Other Adjustment	-1.91	-3.82	-6.76	-1.33	-10.37	-4.55	-8.41
(Inc)/Dec in working Capital	-3.24	-29.14	-58.34	-35.24	-34.89	-3.83	-8.34
Tax Paid	-3.16	-6.54	-17.64	-18.89	-21.60	-34.60	-42.21
CF from Operating Activities	10.66	6.40	-13.87	35.10	59.00	112.46	125.53
Capital expenditure	-69.40	-76.15	-75.44	-100.06	-112.38	-174.00	-118.97
(Purchase)/Sale of Investment	-1.63	-28.53	21.19	-1.50	0.24	-1.12	-1.24
Others	0.87	3.59	4.83	4.19	3.79	22.50	-0.05
CF from Investing Activities	-70.16	-101.09	-49.42	-97.38	-108.35	-152.63	-120.25
Inc/(Dec) in Share capital	43.68	116.00	58.87	20.11	196.60	0.00	0.00

Inc/(Dec) in Debt	35.62	3.78	15.32	15.91	23.19	-40.00	-10.00
Dividend and Interest Paid	-1.27	-6.27	-9.87	-11.79	-19.89	-8.18	-5.99
CF from Financing Activities	78.03	113.50	64.31	24.23	199.90	-48.18	-15.99
Net Cash Flow	18.52	18.82	1.03	-38.04	150.55	-88.34	-10.71
Opening Balance	10.34	28.87	47.69	48.71	10.67	161.22	72.88
Adjustment,		0.00	0.00	0.00	0.00	0	0
Closing Balance	28.87	47.69	48.71	10.67	161.22	72.88	62.17

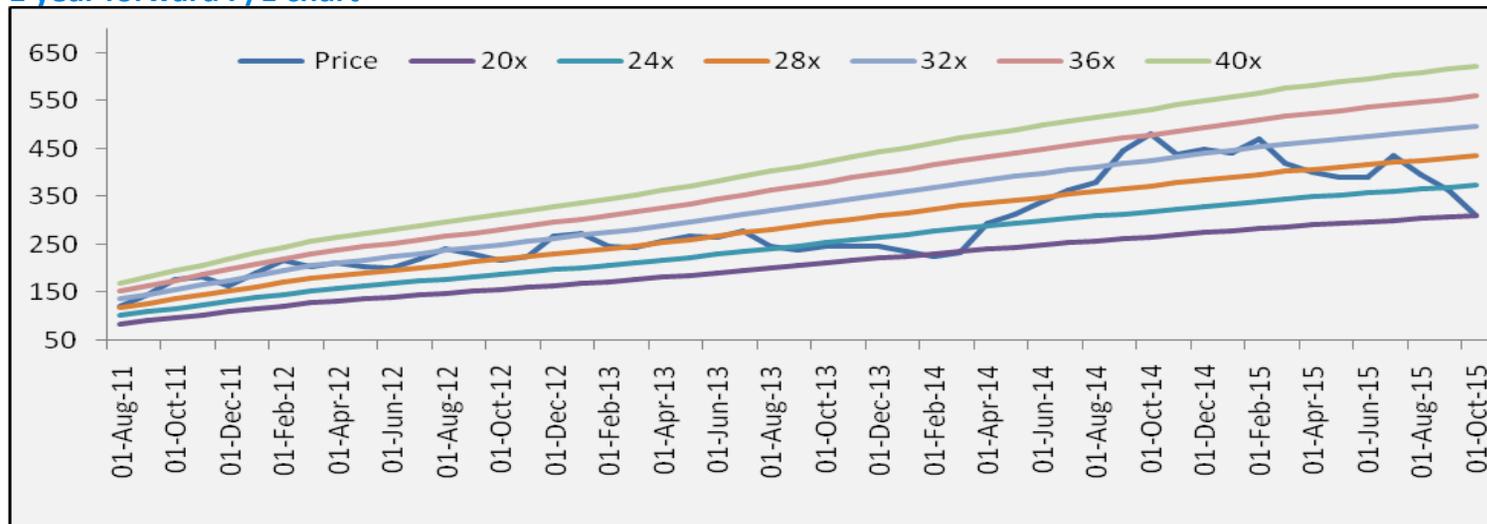
(Source: Company, HDFC Sec)

Financial Ratio:

Particulars	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
No of Equity Shares-cr	3.37	3.37	3.78	3.72	4.23	4.23	4.23
Current Market Price-Rs	122.57	204.90	244.15	233.08	418.50	298	298
Market Capitalization-cr	413.2	690.8	922.0	866.4	1770.7	1260.9	1260.9
Enterprise Value-cr	432.0	694.5	940.0	938.2	1715.2	1253.8	1254.5
EPS	2.7	6.4	8.8	11.8	14.4	15.9	19.4
Cash EPS (PAT + Depreciation)	3.9	8.7	12.4	16.4	20.7	25.7	31.3
Book Value Per Share(Rs.)	36.4	76.0	90.9	107.8	154.8	167.4	182.6
PE(x)	44.9	31.9	27.7	19.7	29.1	18.7	15.4
P/BV (x)	3.4	2.7	2.7	2.2	2.7	1.8	1.6
Mcap/Sales(x)	3.1	2.7	2.1	1.5	2.0	1.1	0.9
EV/EBITDA	25.5	16.5	15.2	10.5	14.4	8.3	6.9
EBITDAM (%)	43.1%	54.4%	54.1%	56.6%	57.2%	58.1%	57.7%
EBITM (%)	33.0%	44.3%	42.4%	45.8%	44.3%	42.2%	41.8%
PATM (%)	23.4%	28.1%	29.2%	27.9%	29.3%	25.9%	25.9%
ROCE (%)	9.1%	11.5%	13.6%	13.9%	11.9%	13.7%	15.2%
RONW (%)	7.5%	8.5%	9.7%	11.0%	9.3%	9.5%	10.6%
Current Ratio	0.6	0.8	1.0	0.8	2.0	1.6	1.7
Quick Ratio	0.6	0.8	1.0	0.7	2.0	1.5	1.6
Debt-Equity	0.4	0.2	0.2	0.2	0.2	0.1	0.1

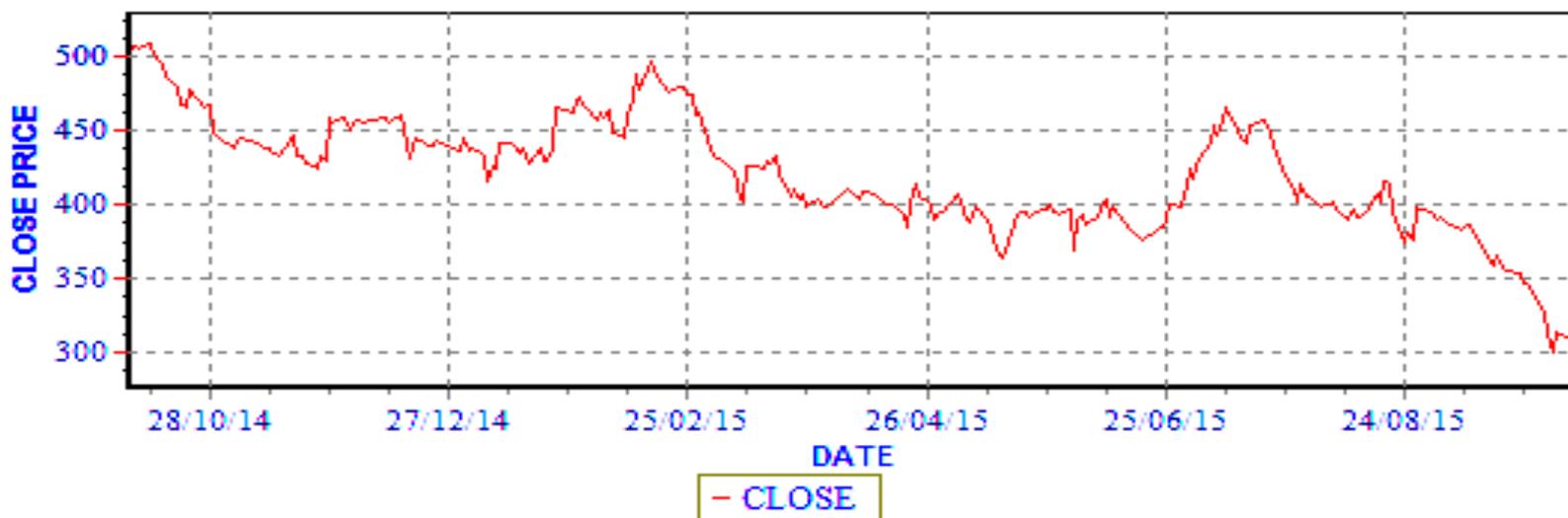
(Source: Company, HDFC Sec)

1 year forward P/E chart



(Source: Company, HDFC Sec)

1 year daily closing price chart:



Fundamental Research Analyst: Abdul Karim
abdul.karim@hdfcsec.com

RETAIL RESEARCH Tel: (022) 3075 3400 Fax: (022) 2496 5066 Corporate Office

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
Website: www.hdfcsec.com Email: hdfcsecretailresearch@hdfcsec.com

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