



Zee Learn Limited

Market Leader And Strong Brand To Drive Growth

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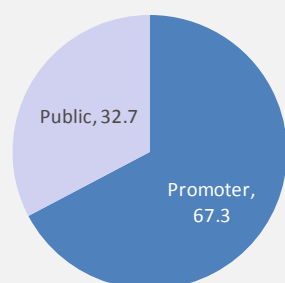
Coverage Stock: Zee Learn Limited

Market leader and strong brand to drive growth
CMP INR: 48
Target: INR 80
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| Bloomberg: | ZLL:IN |
|----------------------------------|--------|
| 52-week range (INR): | 49/27 |
| Share in issue (Cr): | 32 |
| M cap (INR Cr): | 1,537 |
| Avg. Daily Vol. BSE/NSE :('000): | 86/275 |

SHARE HOLDING PATTERN (%)

 Date: 03rd February, 2017

Zee Learn (ZLL) is India's leading player in the education segment by virtue of having the fastest growing chain of K-12 schools (Mount Litera Zee School) and Asia's No. 1 chain of pre-schools (Kidzee) in its kitty. In FY16, pre-school (Kidzee) and K-12 school segments contributed ~70%+ and ~20%+, respectively, to the company's revenue. Rising disposable incomes, burgeoning school age population and prudent franchise (in K-12 and pre-school) additions over FY16-19E equip ZLL to clock 44% earnings CAGR. This, in turn, is bound to fuel healthy cash flows and boost return ratios. At CMP of INR48, the stock is currently trading at 24x/19x FY18E/FY19E EV/EBITDA, respectively. We initiate coverage with 'BUY' recommendation.

Pre-school segment: Branded players control dominant share

In FY16, the domestic pre-school segment was pegged at USD2.5bn (up from USD0.75bn in FY11). Of this, the branded players constituted 33.83%; Kidzee accounts for 33% of the branded pie. The domestic pre-school segment is envisaged to grow to USD3.4bn by CY20, clocking CAGR of over 17%. With growing awareness of importance of pre-school/play-school in upbringing of child in tier 2 and 3 cities, penetration rate for the pre-school segment is expected to rise to 25%. ZLL ensure and takes up the training of teacher recruits at franchisee schools, regular safety & quality audits of franchise and discontinue the franchise on compliance issue as well.

Innovation, quality focus, diverse product portfolio entrench dominant player credentials

ZLL has invested considerable resources in developing learning designs, student learning materials and e-content for pre-schools and K-12 schools. Moreover, with rising scale and rationalisation of vendors, the company has prudently managed cost of goods while simultaneously improving quality. We perceive these initiatives as potent operating and profitability margin boosters.

K-12 business – India largest in world...growing at faster rate

The Indian K-12 system is the largest in the world with 253 mn students enrolled in 1.4 mn schools. However, with inefficiencies in the government education system, has resulted in poor infrastructure both hard (buildings, technology) and soft (teachers, pedagogy) and high drop-out rates. Thus, it is an opportunity to overhaul to education system in the country for the efficient private players

Robust 18% sales CAGR over FY16-19E; healthy operations to spur cash flow

We estimate ZLL's net sales to clock ~18% CAGR over FY16-19E to INR246cr by FY19E driven by increase in student enrollments in both the category schools and continuous schools addition. We forecast Kidzee to post ~20% CAGR and continue to contribute ~70% to total revenue and Mount Litera to register 17% CAGR over FY16-19E mainly with increase in pupils. Moreover, we envisage robust operational performance to boost the company's cash flow in the coming years.

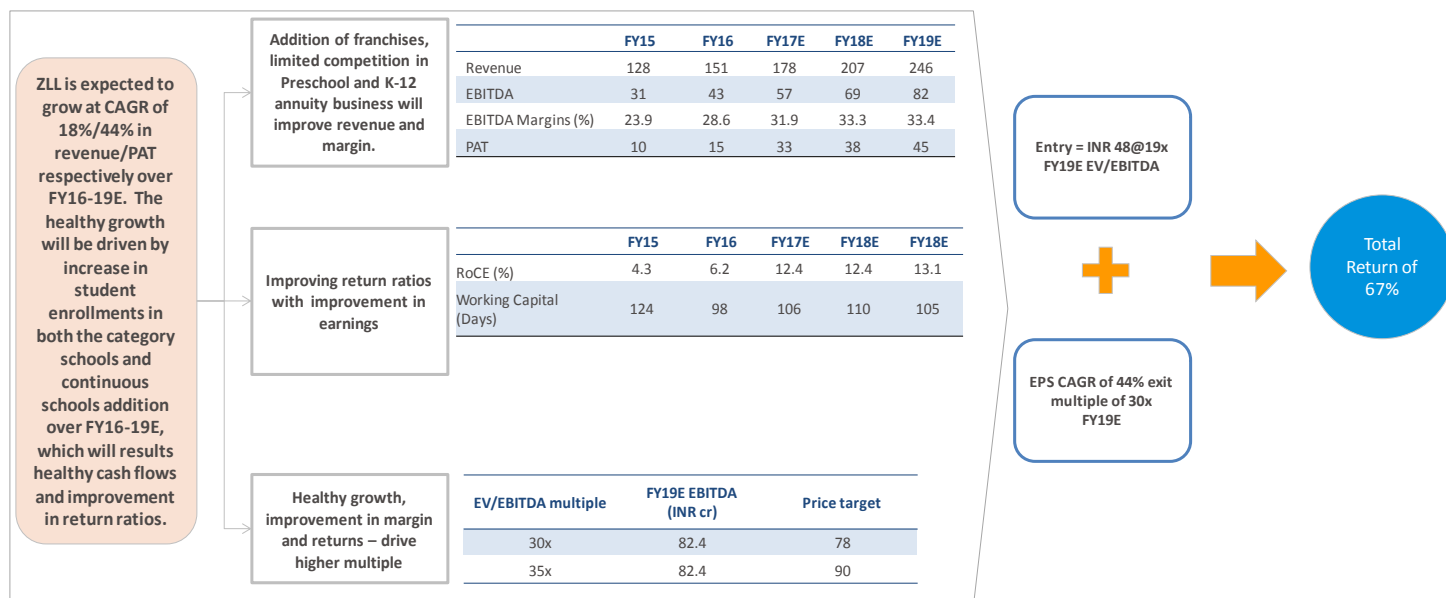
Outlook and valuations: Scaling the growth highway; initiate with 'BUY'

Rising disposable incomes, burgeoning school age population and prudent franchise (in both K-12 and pre-school) additions over FY16-19E position ZLL to deliver 44% earnings CAGR, which will spur healthy cash flows and return ratios. At CMP of INR48, the stock is currently trading at 24x/19x FY18E/FY19E EV/EBITDA, respectively. We initiate coverage on the stock with 'BUY' recommendation and target price of INR80, valuing it on discounted cash flow (DCF).

Financial highlights

| Year to March (Standalone) (INR Cr) | FY15 | FY16 | FY17E | FY18E | FY19E |
|-------------------------------------|-------|-------|-------|-------|-------|
| Income from operations | 128 | 151 | 178 | 207 | 246 |
| YoY Grth% | 5 | 18 | 18 | 17 | 19 |
| EBITDA | 31 | 43 | 57 | 69 | 82 |
| EBITDA Margin% | 24 | 29 | 32 | 33 | 33 |
| Profit after tax | 10 | 15 | 33 | 38 | 45 |
| YoY Grth% | NA | 53 | 119 | 14 | 20 |
| EPS | 0.3 | 0.5 | 1.0 | 1.2 | 1.4 |
| ROAE (%) | 4 | 6 | 12 | 12 | 13 |
| ROACE (%) | 4 | 5 | 7 | 9 | 10 |
| P/E | 154.5 | 101.5 | 46.3 | 40.8 | 33.9 |
| EV/EBITDA | 61.5 | 44.0 | 31.1 | 23.5 | 19.2 |

ZLL: Firmly set on path to post robust growth and high returns



Source: Company, Edel Invest Research

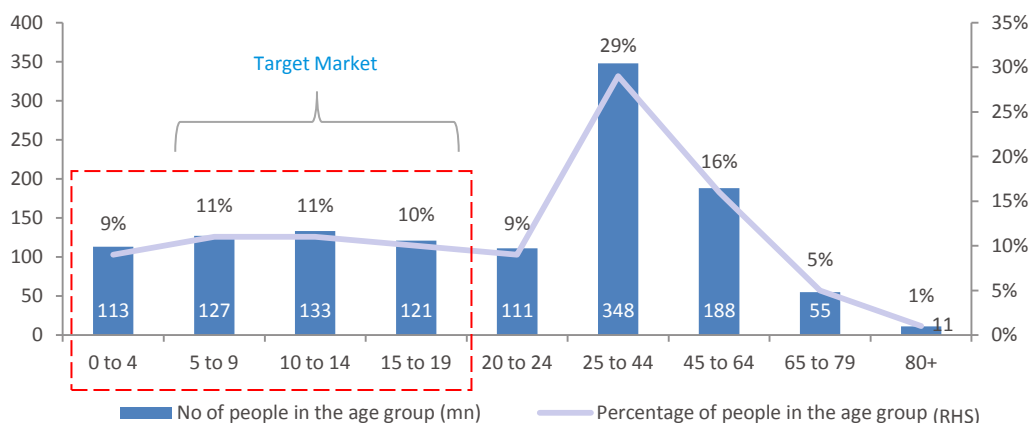
India education segment: Humungous untapped potential

India has the largest population in the world within the 5-24 years age group, which constitutes ~41% of the country's total population (~500mn). The primary education segment provides a great opportunity with ~29% of India's population between the age group of 0 and 14. Further, rising disposable incomes and willingness to spend on education are key drivers of Indian education. The country's literacy rate is ~74% compared to world average of ~86%. This presents humungous opportunity to private players to explore the hitherto untapped market.

The domestic education system has clocked remarkable growth over the past few years. India is definitely ahead of other developed countries in education and training—the number of institutes offering education is much more in India compared to China and the US. Moreover, several foreign institutions too are making a beeline for India, which is bound to boost the quality of education in the country.

The education sector is envisaged to witness major growth as India will have the world's largest tertiary-age population and second largest graduate talent pipeline globally by 2020 end. In FY16, the education market was worth about USD100bn and is expected to reach USD116.4bn in FY17 and further cross USD144bn by FY20. Currently, higher education contributes 58.8% to the market size, school education 38.1%, pre-school 2.5% and technology & multi-media the balance 0.6%.

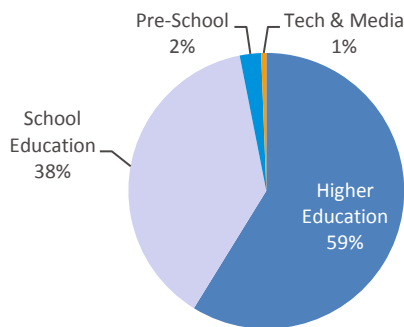
Target Population – K12 & Pre-Schools



Source: Company, Edel Invest Research

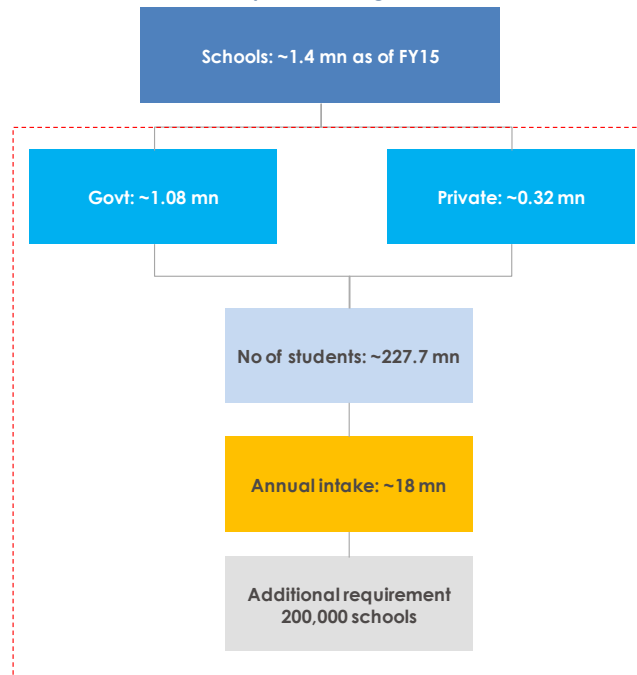
Education industry in India is estimated to reach ~USD144 bn by CY20 from USD97.8 bn in CY16

Education segment – market-share

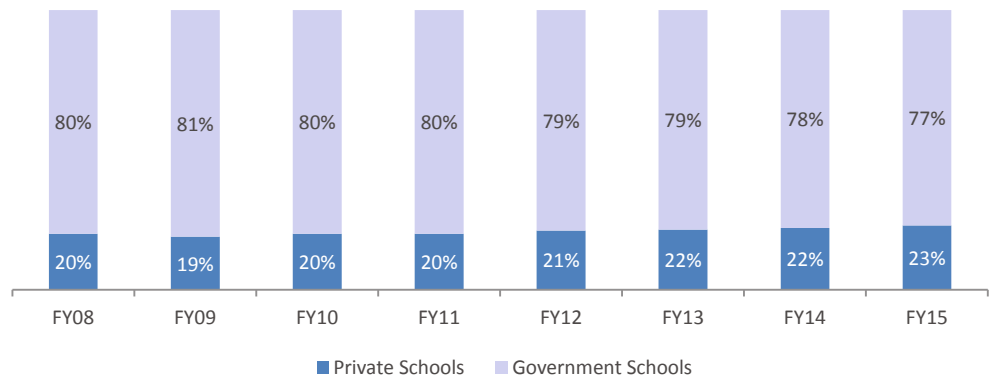


Source: Company, Edel Invest Research

Schools requirement – growth driver

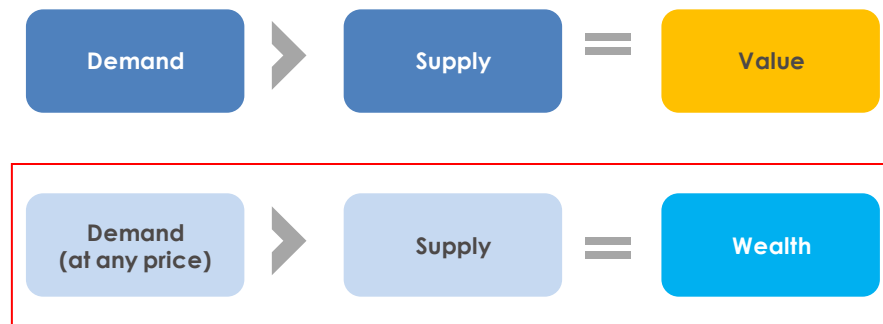


Education Sector – increasing private participation



Source: Company, Edel Invest Research

Current Indian Education sector – wealth creator

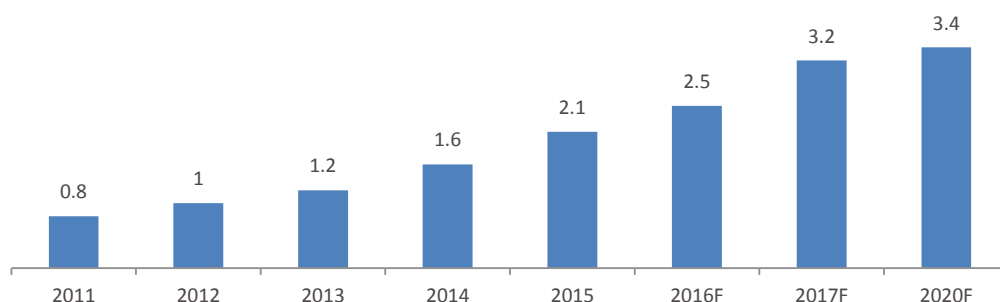


Pre-school segment: Branded players controlling dominant pie

In FY16, the pre-school segment was worth USD2.5bn (USD0.75bn in CY11), of which the branded segment contributed 33.83%; Kidzee accounts for 33% of the branded pie. The pre-school segment is expected to grow to USD3.4bn by CY20, clocking CAGR of over 17%. Growing awareness of importance of pre-school/play-school in upbringing of child in tier 2 and 3 cities is envisaged to propel the pre-school segment's penetration rate to 25%. To ensure scalability, pre-school chains like Kidzee and Eurokids are upgrading to K-12 schools. The branded pre-school outperforming the sector growth mainly through asset light franchise model. ZLL has mostly franchised pre-schools wherein it receives royalty in advance and also created strong base of pre-schools for annuity based business models.

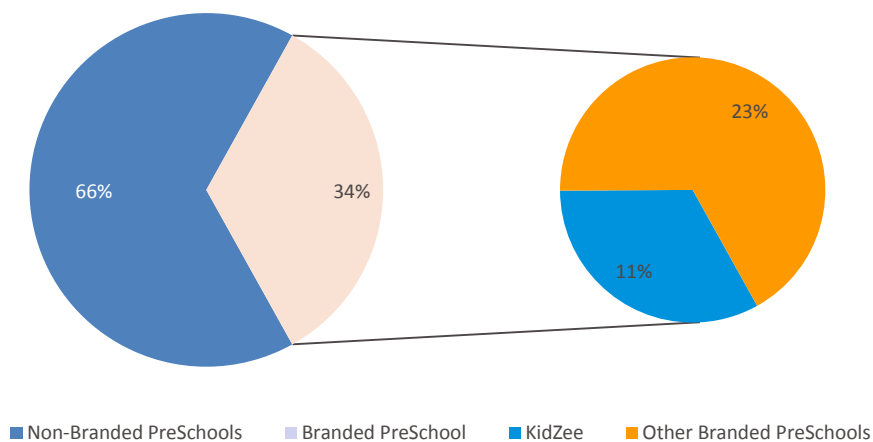
The pre-school industry is still in a nascent stage in India with only 2.5% penetration. Considering the average enrolment of 75 kids per centre, 113mn children will require over 15 lakh centers. However, currently, India has only around 30,000 pre-school centers. As a market leader, Kidzee strongly believes in filling this void by expanding its footprint across cities and towns in India.

Domestic education market: growth continue with increase in organized pie



Preschool market: moving to branded Pre-Schools

Market-share in value terms



Source: Company, Edel Invest Research

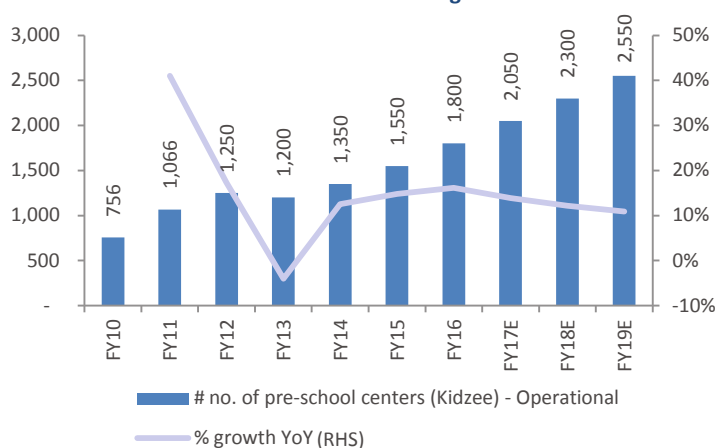
Largest Pre School Chain in Asia – Kidzee

| Particulars | KIDZEE | TreeHouse | Euro Kids | Bachpan | Shemrock | Little Millenium |
|------------------------|---|----------------------|-----------|-----------------------|-----------------------|------------------------------------|
| Established since | 2003 | 2003 | 1997 | 2005 | 1989 | 2006 |
| COCO Centers | ✓ | ✓ | ✓ | ✗ | ✗ | ✗ |
| Franchise Centers | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Presence | Pan India | Concentrated in West | Pan India | Concentrated in North | Concentrated in North | Pan India |
| Teaching Method | Multiple intelligences and Visual, Auditory & Kinesthetic (VAK) style of learning | Montessori, Play-way | Play-way | | | Multiple Intelligence and thematic |
| Differentiated Content | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ |
| Nos of centres | 1550 | c.400 | c.800 | c.1000 | c.300 | c.270 |

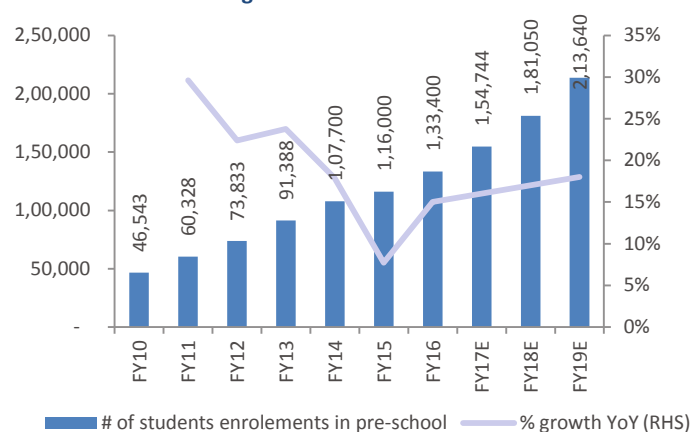
Kidzee – expansion continue...

ZLL expected to sign up ~400 franchise annually and franchise takes around 6-8 months to become operational. The net addition of pre-schools is expected to be ~250 in year and students enrollment expected to grow at ~16-17% annually.

Pre-school continue to grow

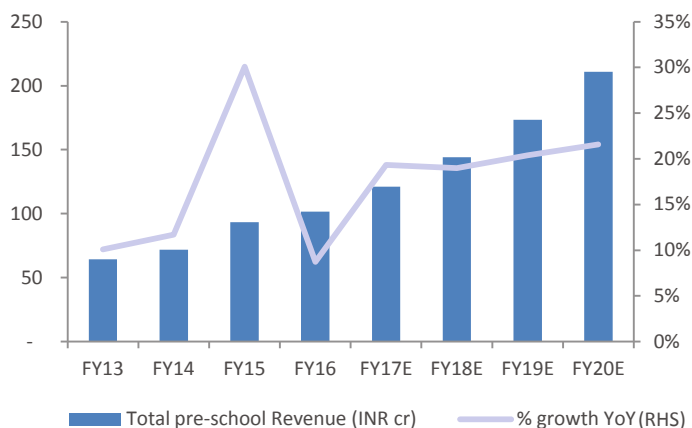


Student enrollment grow with class size & school additions

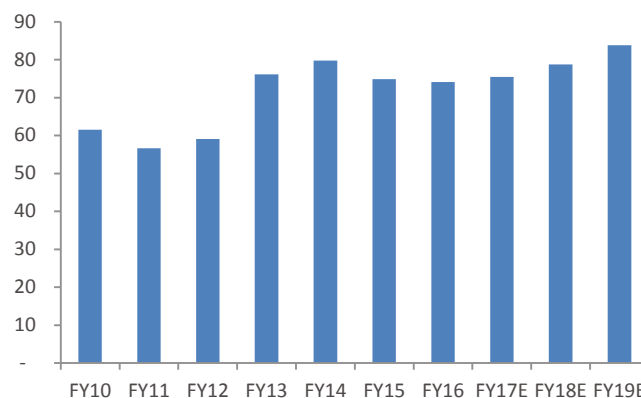


Source: Company, Edel Invest Research

Pre-School revenue – continue to grow



Maintain class size with increasing Pre-School



Source: Company, Edel Invest Research

Preschool Segment Outlooks

Market

- 2012 Market size c.Rs. 5200 Cr
- Expected CAGR 15%
- Expected Market size by 2020 Rs. 16,000 Cr
- Urban Penetration stands at 25% & Rural at 5%
- GER of 10.9% at all India level as compared to 100% in France or Scotland
- Current Penetration 14 Lakh children from a Preschool population of 1.3 crore preschool children

Growth Drivers

- Increased propensity to spend on quality education
- Rising urbanization
- Increase in population
- Demand Vs supply gap
- Increase in Consumer disposable
- Income /affordability
- Substantial improvement in the quality of pre-schools
- Success of the Franchise Model
- Ease of entering the segment and low investment

Key Challenges

- Lack of awareness
- High rental cost
- Unavailability of quality teachers
- Limited target population as they cater only to a small target market in the vicinity
- 70% Unorganized market

Franchise model – Brand to play...healthy growth

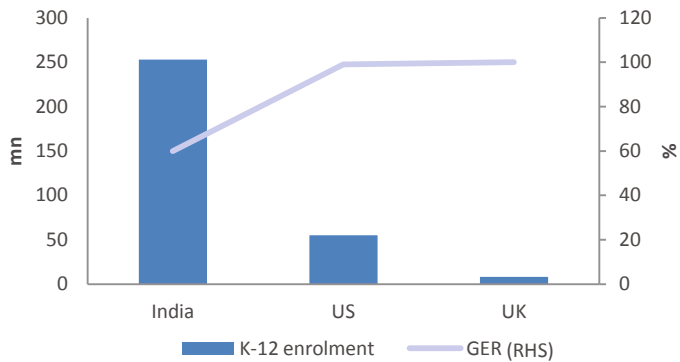
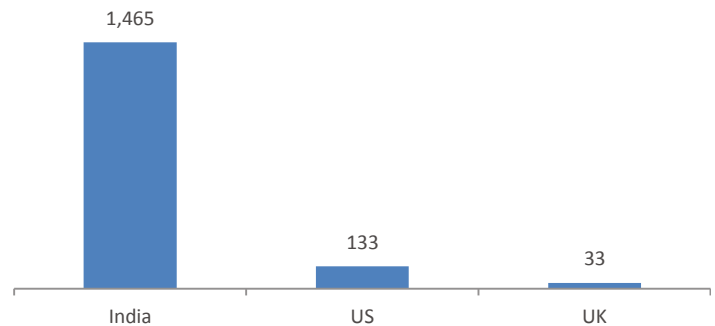
ZLL is majorly on franchise model and have agreements for typically six years. The franchisee owner bears the establishment costs and an upfront franchisee fee, which is typically INR 15 – 18lacs. Further, it pays royalty each year under a revenue-share agreement and also student kit fee to franchisor. The franchisor provides the curriculum, content, kits and other necessary support like teacher training and advertising and marketing. This model provides high scalability; however, maintaining the quality of delivery and managing brand reputation are key concerns for the franchisor. Hence, the ZLL ensure and takes up the training of teacher recruits at franchisee schools, regular safety & quality audits of franchise and discontinue the franchise on compliance issue (~ 50 franchises per year).

The unit economics of a preschool centre under the franchisee model are:

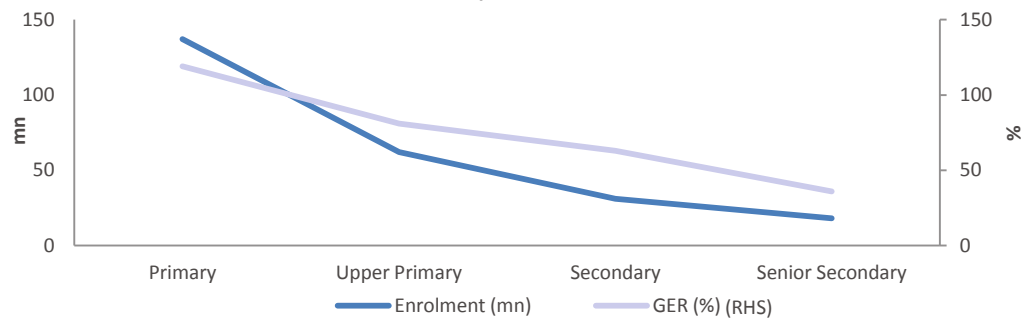
| Initial Investment (INR lacs) | 15 - 18 |
|--|----------------|
| Capacity | 175 |
| Batch | 2 |
| # of students in pre-school | 80 |
| Fee per students (INR) | 28,000 |
| Franchise (INR lacs) | |
| Revenue | 22.4 |
| Rental expenses | 7.5 |
| 4 teachers * INR 6,000 per month | 2.9 |
| 1 Centre Head | - |
| Maids (3* INR 3,000) , security (1* INR 6,000), utilities (2,000) monthly | 2.0 |
| Consumables / Events / Miscellaneous | 2.8 |
| Royalty cost | 2.2 |
| Total operating cost | 17.5 |
| EBITDA | 4.9 |
| EBITDA margin (%) | 22% |
| OI (Day Care/Activity centre) - INR 5000/month | 0.1 |
| PBT | 5.1 |
| Tax | 1.7 |
| Tax rate | 33% |
| PAT | 3.4 |
| PAT margin (%) | 15% |
| ROI (%) | 33% |
| Franchisor (INR lacs) | |
| Revenue (incl. Kit) | 5.0 |
| Kit Cost (INR cr) | 1.2 |
| Teacher training, quality and other employees | 1.2 |
| S&M | 0.8 |
| Other expenses | 0.3 |
| EBIT | 1.6 |
| EBIT margin (%) | 33% |

K-12 business: India largest in world; growing at faster clip

The Indian K-12 system is the largest in the world with 253 mn students enrolled in 1.4 mn schools. However, with inefficiencies in the government education system, has resulted in poor infrastructure both hard (buildings, technology) and soft (teachers, pedagogy) and high drop-out rates. Thus, it is an opportunity to overhaul to education system in the country for the efficient private players.

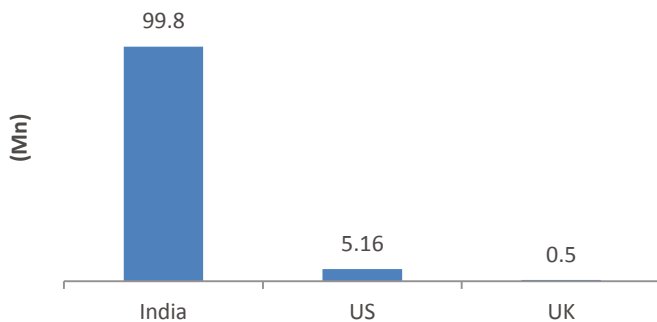
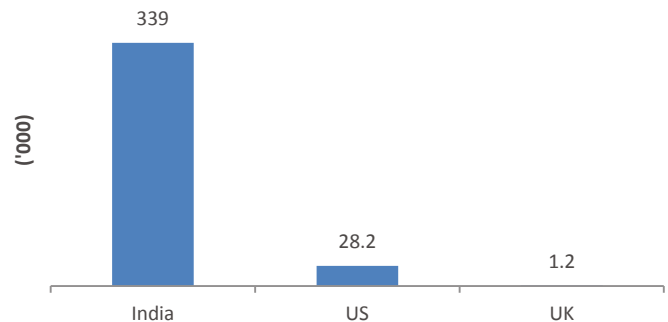
K-12 enrolment and GER across countries FY2 (mn)**Number of K-12 schools FY12 ('000)**

Source: Edel Invest Research, FICCI.

Key challenges in terms of access and quality**Enrolment / GER across levels**

Source: Edel Invest Research, FICCI.

Private schools account for 25% of the total number of K-12 schools in India. Overall, utilisation in private schools is higher, more so at the primary and secondary level, compared to government schools.

...25% of all K-12 schools in India are private schools, they account for 40% share in student enrolment**Number of students enrolled in private schools (mn)****Number of private schools ('000)**

Source: Edel Invest Research, FICCI.

The private school have better quality than Government school and also pass % higher, which resulting shift towards Private schools. Thus, going forward 130,000 private schools would be required over the next 8-10 years.

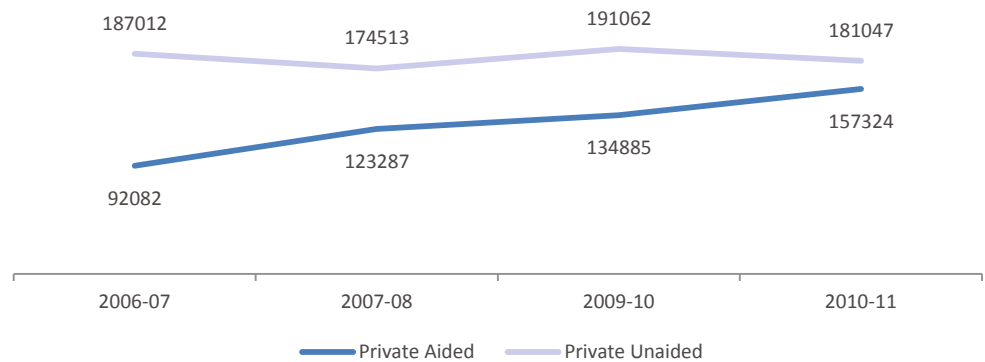
| Current state | 2022 state |
|---|---|
| Total current enrolment 253 million students | Total projected enrolment 373 million students |
| GER overall: ~69.3% | GER overall: 95% (projected)* |

Total number of private schools required to meet the requirements**:

~ 130,000

(Assuming current GER trends and shift to private schools trend)

Growth in total private K-12 schools from 2007-11

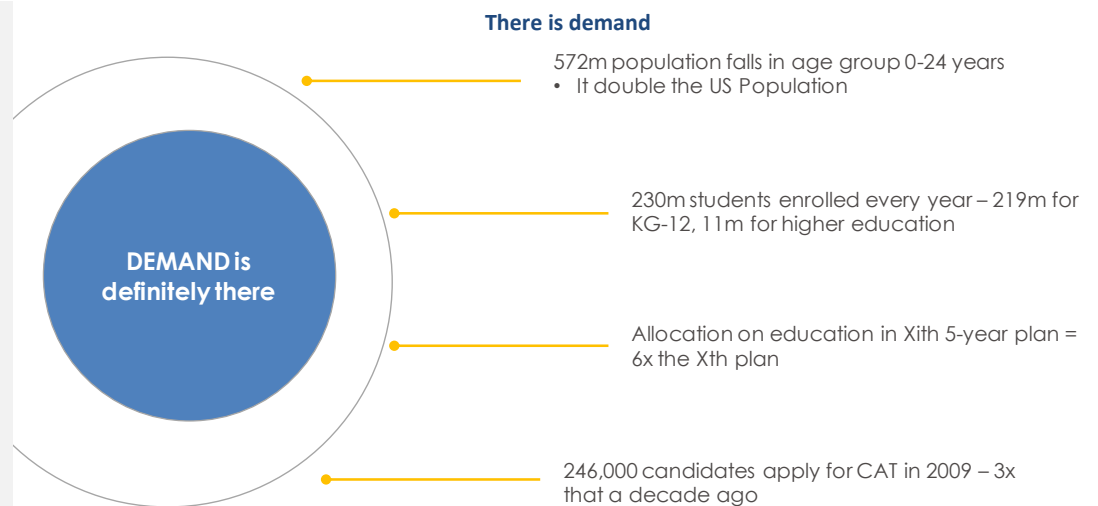


Private K-12 schools have clocked CAGR of 4% over FY11-16.

Source: Edel Invest Research, FICCI.

Major K-12 School chain

| Particulars | Mount Litera Zee School | Delhi Public School | Educomp Schools | Eurp School |
|------------------------|------------------------------------|----------------------------------|--|-------------|
| COCO Schools | 2003 | 2003 | 1997 | 2005 |
| Franchise Schools | ✓ | ✓ | ✓ | ✗ |
| Presence | Pan India | Pan India | Pan India | Pan India |
| Differentiated Content | ✓ | ✗ | ✗ | ✗ |
| Pedagogy | Propriety pedagogy 'Litera Octave' | NCERT with some additional books | Propriety pedagogy 'Millennium Learning System'. | Not Known |
| Affiliated Board | CBSE | CBSE | CBSE | CBSE |
| Schools | 100+ | 210 | 47 | 10 |

**Zee Learn: Demand**

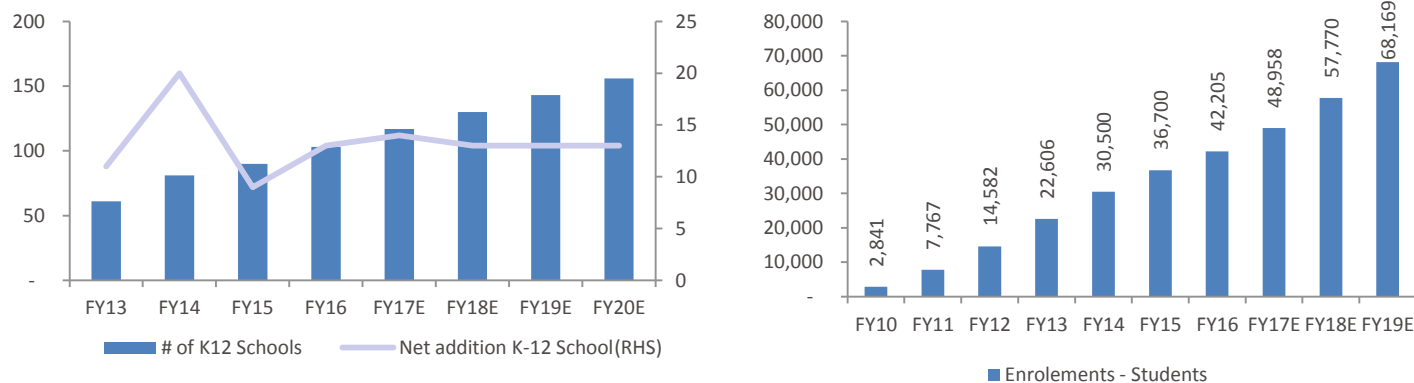
The only player Maximizing Value with low risk

- Huge Franchise base
- Pedagogies created – ILLUME, Litera Octave
- Developed school infrastructure through Brick & Mortar K-12 schools

Notable Trends in India's Education Sector K-12

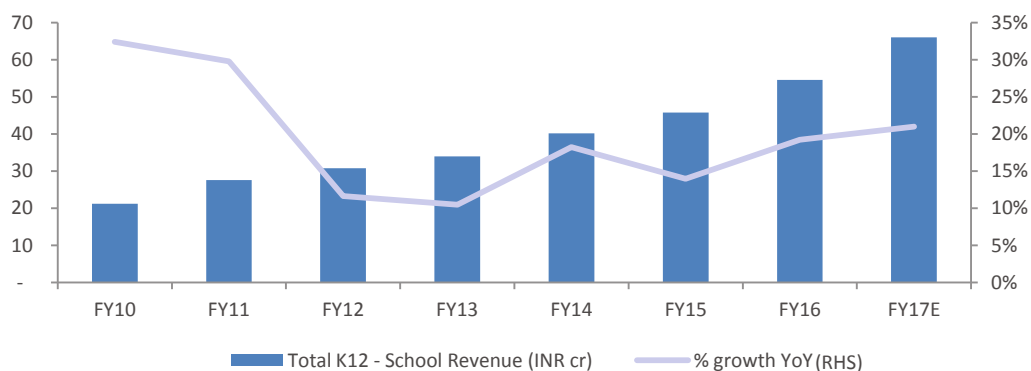
| | |
|--|---|
| Private Schools adopting franchise models | <ul style="list-style-type: none"> Various operating models like a mix of franchisee and owned-schools are being used by the private players to ensure their economic viability |
| Emergence of International School Segment | <ul style="list-style-type: none"> With increasing awareness, private Indian players are collaborating with International brands to provide international standard quality education |
| Increasing Use of Technology | <ul style="list-style-type: none"> Schools are investing in information and multimedia education technologies to provide better education to students Increase in technology has also influenced the education sector due to which smart classes are gaining acceptance |
| Increasing in the number of recognised Educational Institutions | <ul style="list-style-type: none"> Number of recognised educational institutions are expected to rise from 7,485 in 2011 to 7,906 in 2014 |
| Key Challenges | <ul style="list-style-type: none"> Enrollment rate across the senior classes is quite low, while the girls dropout rate have witnessed increase in comparison to that of boys in the primary and secondary levels. |

Mount Litera (K-12 Schools) – growth continues...



Source: Company, Edel Invest Research.

Mount Litera (K-12 Schools) – Sales



Source: Company, Edel Invest Research.

School (K12) Segment Outlook

| Market | Growth Drivers | Key Challenges |
|--|--|---|
| <ul style="list-style-type: none"> • 2012 Market Size ~ Rs 83850 crore • Expected CAGR 17% • Expected Market by 2020 ~ Rs 294450 crore • Private schools account for 42% of enrolments(2010-11) • Total no of schools – 14 Lakh • Govt Schools – 11 Lakh • Private Schools – 3 Lakh • Private Aided - 80,000 • Private Unaided – 2.3 Lakhs • Private Unaided premium (15k+fees) - 70,000 | <ul style="list-style-type: none"> • Huge market potential (population) • Private schools preference by parents • Higher stickiness (10 yr commitment) • GER in elementary expected to reach 100% by 2016 • Govt push for private players to enter the market • IB schools – growing the premium segment (900 schools by 2020) | <ul style="list-style-type: none"> • Demand vs supply gap (private schools) • 20000-25000 'Quality' schools required (NCERT) • GER in India 16% whereas in developed nations like UK is 85% (Secondary section) • Over regulated • Teacher quality |

ZLL: Strong brand equity boosting dominance

ZLL is a well-recognised brand in the education sector, particularly in the pre-schools and K-12 segments. The company's brand image and reputation are amply bolstered by its sound corporate philosophy, business ethos, quality courses and result-oriented, innovative & differentiated pedagogy. Ergo, we believe ZLL is well-positioned to capitalise on its brand equity and expand its franchise distribution network and product & service offerings across the education value chain.

Focused strategy towards digital content + growth + efficiency

ZLL has invested considerable resources in developing learning designs, student learning materials and e-content for pre-schools and K-12 schools. This education content is consistent with the company's pedagogy of Litera OCTAVE and iLLUME, equipping ZLL with the entire education suite for pre-schools and K-12 schools. We believe, it is imperative for ZLL to expand the footprint of its pre-schools and K-12 schools if the company has to take its path-breaking pedagogies and learning materials to the most number of students.

ZLL is expanding the footprint of its preschools and K-12 schools through franchise model and as brand & schools maturing student enrollment would multiple in coming years which will bring pricing action as well for ZLL schools mainly in MLZS. With increasing scale and rationalising of vendors, the company has been able to manage its cost of goods while improving quality. It is constantly focused on assessing its operations and re-engineering processes to become more efficient. We believe, these initiatives will improve its operating and profitability margin in the coming years.

Outlook and Valuations

Rising disposable incomes, parents prioritising childrens' education, growth of school age population and prudent franchise (in K-12 and pre-school) additions over FY16-19E position ZLL to deliver 44% earnings CAGR, which will spur healthy cash flows and return ratios. At CMP of INR48, the stock is currently trading at 24x/19x FY18E/FY19E EV/EBITDA, respectively. We initiate coverage on the stock with **'BUY'** recommendation and target price of INR80, valuing it on discounted cash flow (DCF).

To value ZLL, we have used 2 methodologies: (i) discounted cash flows (DCF); and (ii) EV/EBITDA valuation. We prefer the DCF valuation as the company has mostly annuity revenue and the K-12 business getting traction after 6-7 years of operation.

DCF analysis

In our DCF calculation, we have forecasted ZLL's business until FY26 based on its current expansion plans and operational efficiency. We have assumed 18%, 24% and 41% CAGR over FY16-20E in revenue, EBITDA and EBIT, respectively.

We have assumed a terminal growth rate of 5.0% and calculated a weighted average cost of capital of 10.8%. Based on our DCF calculations and various assumptions, we have arrived at net present value (NPV) of INR80 per share.

DCF assumptions

| | |
|--------------------------|------|
| Beta (x) | 0.9 |
| Risk free rate (%) | 8.0 |
| Risk premium (%) | 4.0 |
| Cost of equity (%) | 11.6 |
| Cost of debt (%) | 10.2 |
| WACC (%) | 10.8 |
| Terminal growth rate (%) | 5.0 |

DCF calculation

| (INR cr) | FY17E | FY18E | FY19E | FY20E | FY21E | FY22E | FY23E | FY24E | FY25E | FY26E |
|----------------------------------|-----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| NOPAT | 38 | 51 | 61 | 77 | 93 | 111 | 133 | 160 | 192 | 230 |
| Dep/amort. | 9 | 6 | 6 | 7 | 8 | 8 | 9 | 10 | 11 | 12 |
| NWC | -7 | 2 | 2 | 3 | 3 | 3 | 3 | 4 | 4 | 5 |
| Capex | 25 | 20 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 |
| FCF | 66 | 79 | 95 | 112 | 128 | 148 | 171 | 199 | 233 | 273 |
| PV | 59 | 64 | 70 | 74 | 77 | 80 | 84 | 88 | 93 | 98 |
| Total PV | 2,580 | | | | | | | | | |
| Net Debt | 27 | | | | | | | | | |
| Equity Value | 2,552 | | | | | | | | | |
| Fully diluted no. of shares (cr) | 32 | | | | | | | | | |
| Fair Value (INR) | 80 | | | | | | | | | |

EV/EBITDA valuation

ZLL is trading at 24x FY18E and 19x FY19E EV/EBITDA with 10% RoCE and 13% RoE in FY19E. We have valued ZLL at 30x FY19E EV/EBITDA, given the huge opportunity in the domestic education sector and the company's positioning as the one of the largest players in the pre-school segment and a leading player in K-12 schools and ZLL expected to clock robust earnings growth of 44% over FY16-19E. We initiate coverage on the company with **'BUY'** recommendation and target price of INR80.

Peer Comparison

| Company | P/S(x) | | P/E(x) | | EV/EBITDA(x) | | EBITDA Margin (%) | | Sales Growth (%) | EBITDA Growth (%) | EPS Growth (%) | PEG | ROE (%) | |
|---------------------------|--------|-------|--------|-------|--------------|-------|-------------------|-------|------------------|-------------------|----------------|------|---------|-------|
| | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY17E | FY18E | FY16-18E | FY16-18E | FY16-18E | | FY17E | FY18E |
| TAL Education Group | 6.5 | 4.3 | 52.7 | 34.5 | 40.1 | 24.7 | 15% | 16% | 60% | 58% | 46% | 0.8 | 25.5 | 30.2 |
| Raffles Medical Group Ltd | 5.4 | 4.8 | 36.0 | 32.1 | 25.7 | 22.7 | 21% | 21% | 15% | 10% | 6% | 5.5 | 11.5 | 12.0 |
| Bumrungrad Hospital PCL | 7.2 | 6.7 | 36.2 | 34.5 | 23.0 | 21.1 | 31% | 31% | 7% | 9% | 3% | 10.8 | 26.5 | 25.2 |
| MT Educare Ltd | 1.6 | 1.4 | 14.8 | 13.8 | 9.4 | 8.3 | 19% | 18% | 25% | 17% | 7% | 2.1 | 19.3 | 17.4 |
| NIIT Ltd | 1.1 | 1.0 | 18.2 | 10.4 | 16.9 | 11.2 | 8% | 10% | 10% | 35% | 33% | 0.3 | 7.7 | 13.3 |
| Zee Learn | 8.6 | 7.4 | 46.3 | 40.8 | 31.1 | 23.5 | 32% | 33% | 17% | 26% | 58% | 0.7 | 12.4 | 12.4 |

Key Risks

Not for profit status

K-12 schools must be operated as not-for-profit entities either as Public Trusts, Societies or as Section 25 companies. The not-for-profit mandate is a key deterrent to active private interest and flow of capital from the corporate sector. In several other countries such as the US, not-for-profit models coexist with for-profit models.

Complex regulatory environment

There are multiple regulatory agencies with overlap of functions and mandates. Education as a subject features in all 3 Constitutional lists i.e., Union, State and Concurrent. This has resulted in both central and state government agencies regulating education, making the set-up of new universities difficult.

Public school infrastructure

Poor infrastructures in government schools and lack of good teachers have forced the Indian middle class to withdraw their children from government schools and enroll them in private schools. While private schools account for 20% (0.26mn) of the total number of schools (1.3mn), they provide education to more than 30% of students. Rising demand for quality education is also backed by the willingness to pay for it. Land prices in metros like Delhi and Mumbai are high and almost no vacant education land parcels, thereby limiting capacity expansion. A state-wise analysis of the need gap indicates a shortage of schools in Chandigarh, Kerala and Delhi/NCR. In places like Delhi, this situation is expected to remain unchanged due to high land costs and unavailability of new school land parcels.

Company Description

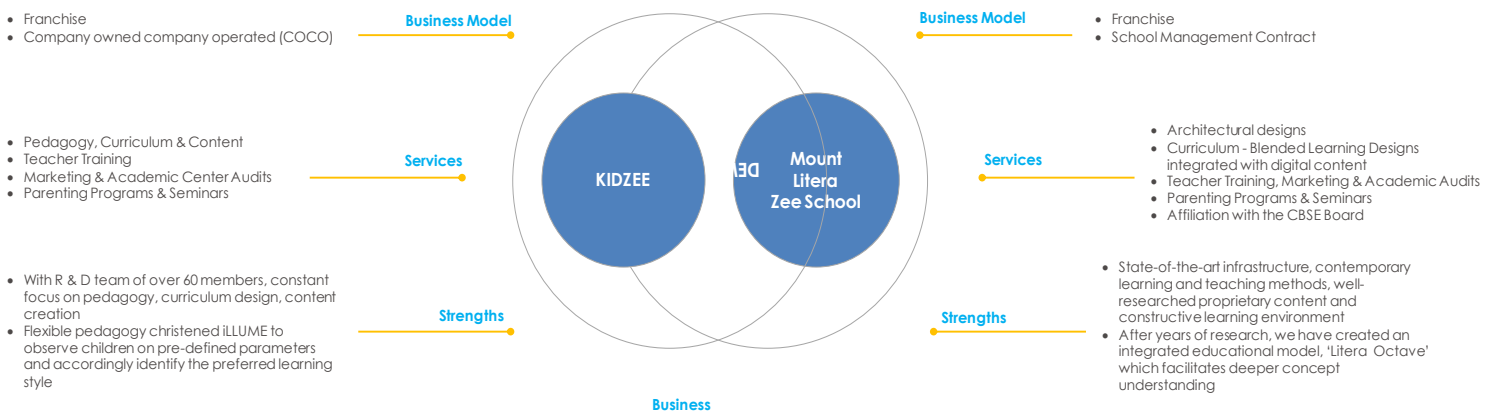
ZLL is India's leading company in the education segment with the fastest growing chain of K-12 schools—Mount Litera Zee School and Asia's No 1 chain of pre-school network Kidzee in its portfolio.

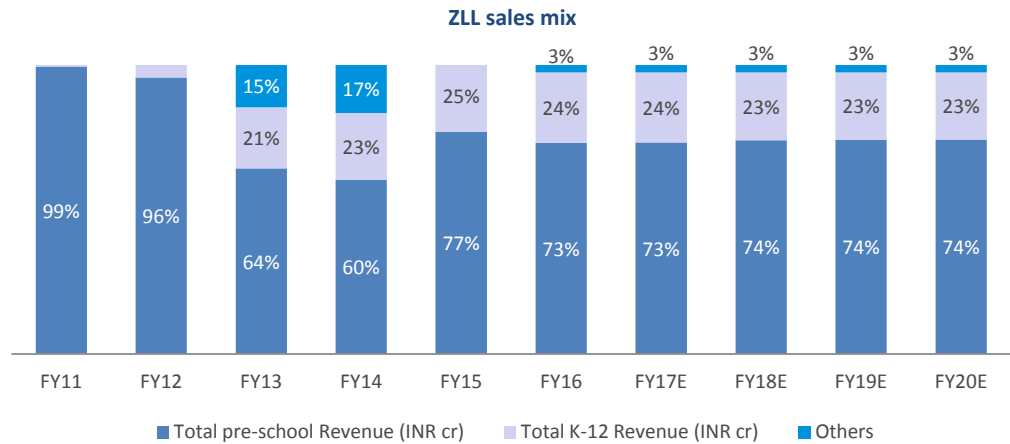
The company also has a chain of pre-schools Kidzee with more than 1,550 plus operational pre-schools in over 550 cities across India. Kidzee has so far touched the lives of more than 450,000 children since inception in 2003.

Zee Learn School Innovations works with existing schools to improve their student outcomes and efficiency through a school audit that identifies improvement areas.

Youth today is looking for vocational education outside the ambit of traditional higher education. Acknowledging this fact, ZLL has developed Zee Institute of Media Arts (ZIMA), a TV and film training institute, in Mumbai that offers diploma courses in direction, acting, sound, editing, production and cinematography. Another offering from the company Zee Institute of Creative Art (ZICA) is the nation's first full-fledged classical and digital animation training academy offering training in classical 2D, modern 3D animation and VFX in over 15 cities across India.

Segment-wise description





Note: Television content revenue in FY13 & FY14; Source: Company, Edel Invest Research

ZLL reported 57% profit growth on standalone basis in FY16, which has sustained in 9mFY17 and operating EBITDA jumped 27% in FY16. Similarly, consolidated profit catapulted 52% and consolidated operating EBITDA 41% in FY16.

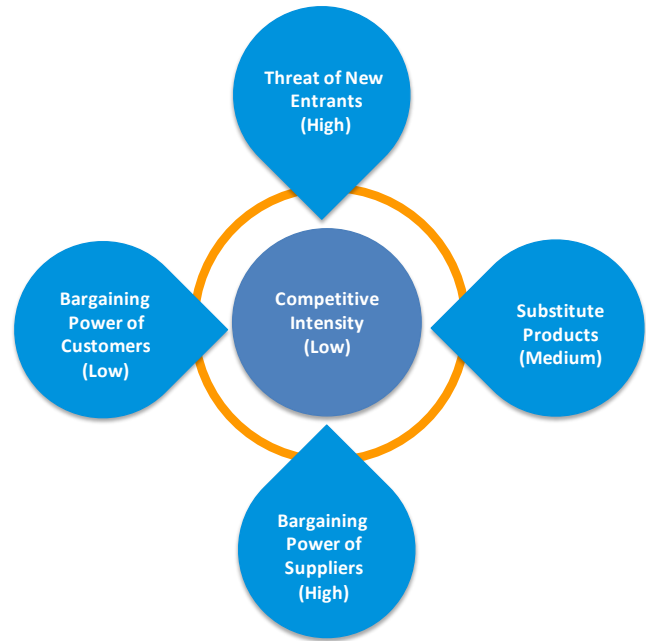
Zee Learn portfolio, across various genres in the Indian market, includes:

- PreSchool: Kidzee
- K-12: Mount Litera Zee Schools
- Vocational courses: ZICA and ZIMA

The ZEE Group is one of the most diversified premium education groups which delivers learning solutions and training through its multiple products viz., Kidzee, Mount Litera Zee Schools, Braincafe, Mount Litera World Pre-school, Zee Institute of Media Arts (ZIMA), Zee Institute of Creative Arts (ZICA) and E - Learning Online Education and Testing. The Group is also engaged in production/acquisition of television content and providing and servicing school infrastructure on long-term agreements.

Porter Five Forces Analysis

| Low competitive intensity | |
|---|--|
| <ul style="list-style-type: none"> ➤ Lower competition among existing players because of the demand supply gap ➤ With limited number of institutes offering quality education, institutes compete to attract best students to their respective campuses | |
| Threat of New Entrants | Substitute Products |
| Minimal infrastructure requirements allow startups to venture into the pre school and vocational study sector | With many Schools, its easy for students to switch to new , but quality education restricting it |
| Bargaining Power of Suppliers | Bargaining Power of Customers |
| <ul style="list-style-type: none"> ➤ Bargaining power of quality education institutes remain high ➤ Significant shortage of teachers has increased the bargaining power | High demand- supply gap has weakened the bargaining power of the students |



Management details: Strong and experienced leadership

ZLL is led by a management team that comprises senior professionals with sound expertise and knowhow. They possess a proven track record in the industry and have been instrumental in driving the company's strategy and growth.

Key management personnel

Mr Himanshu Mody, Chairman

Mr. Himanshu Mody is currently heading Group Finance & Strategy for the Essel Group. He has almost 16 years of rich experience.

Mr. Debshankar Mukhopadhyay, Chief Executive Officer

Mr. Debshankar Mukhopadhyay has 20 years of experience in educational and financial sectors across South Asia. Network and channel development is his forte, along with effective leadership in business and operational management. Prior to this, he was the Head of Educational Sales – Financial Services & Insurance at Manipal Global Education Services. Mr. Mukhopadhyay's previous stints have been with Max Life Insurance, Western Union, Scholastic India, Zee Interactive Learning Systems and DHL Worldwide. He is a Commerce Graduate from Kolkata University and has done Post Graduate Diploma in Business Management, IISWBM, Kolkata. He has also completed various professional workshops like Management Development Program from Jamnalal Bajaj Institute of Management, Service Excellence Training at Western Union, Rome, Certificate course from Indian Institute of Management, Kolkata, in Project Management and Transformational Leadership Program at Indian School of Business, Hyderabad.

Mr. Umesh Pradhan, Chief Financial Officer

With 25 years of experience in the key management position, Mr. Umesh Pradhan is a highly accomplished accounting & finance management professional with skills in achieving greater organizational efficiency & profitability with reducing organisational risk. He has worked with the Essel Group (ZEEL) for 13 years from 1994 to 2007. He is a Commerce graduate from Mumbai University and a Cost Accountant.

Major milestones

2008

Merger and amalgamation of ETC Networks Limited with Zee Interactive Learning Systems Limited, and consequently:

- the business of ETC Networks Limited was merged and transferred to Zee Interactive Learning Systems Limited,
- the resultant entity was engaged in the education as well as the media and entertainment business,
- the resultant entity was renamed as ETC Networks Limited, and was listed on exchanges

2012

Kidzee crossed 1250 centres in India

1994

Started education related business activities as a division of Zee Entertainment Enterprises Limited (ZEEL)

1999

ZEEL education related business activities were transferred to Zee Interactive Learning Systems Limited, a wholly owned subsidiary of ZEEL

2010

Incorporated as a public limited company on January 4, 2010, with the name Zee Learn Limited. A composite scheme of amalgamation and arrangement provided for Merger of ETC Networks Ltd with Zee Entertainment Enterprises Limited with effect from March 31, 2010 and upon the aforesaid merger, demerger of education business undertaking of ZEEL and the transfer / vesting of the business undertaking to Zee Learn Limited on and from April 1, 2010.

2011

The scheme of amalgamation and arrangement for merger of Essel Entertainment Media Limited with ZLL was approved by the High Court of Judicature at Bombay vide an order dated June 17, 2011, whereby the entire business of EEML was transferred to ZLL. Pursuant to the aforesaid scheme being effective, DVPL became a wholly owned subsidiary of ZLL.

Subsidiaries

Digital Ventures Private Limited

Digital Ventures (DVPL) owns, develops and leases school infrastructure and ancillary assets required in the education business.

| Sr. No | Locations | Area | Peak Student Capacity | School Status for Academic Year 2016 | Facilities |
|--------|-----------|---|-----------------------|--------------------------------------|--|
| 1 | Bhatinda | Spread across 8 acres - appx. 1,33,000 sq.ft. built up Land taken on long term lease | c.1800 | Upto Class 10 | Multipurpose Hall, Sports ground, Science Lab, Computer Lab, Art and Music rooms, swimming pool, tennis court |
| 2 | Nagpur | Spread across 7.8 acres - appx. 1,25,000 sq.ft. built up Land taken on long term lease | c.1800 | Upto Class 9 | Multipurpose Hall, Sports ground, Science Lab, Computer Lab, Art and Music rooms, swimming pool, tennis court |
| 3 | Patiala | Spread across 5.73 acres - appx. 1,25,000 sq.ft. built up Land taken on long term lease | c.1800 | Upto Class 9 | Multipurpose Hall, Sports ground, Science Lab, Computer Lab, Art and Music rooms, swimming pool, tennis court |
| 4 | Karnal | Spread across 5.48 acres - appx. 1,25,000 sq.ft. built up Land taken on long term lease | c.1800 | Upto Class 8 | Multipurpose Hall, Sports ground, Science Lab, Computer Lab, Art and Music rooms, swimming pool, tennis court |
| 5 | Goa | Spread across 5 acres appx. 1,35,000 sq.ft. built up Own Land | c.1800 | Upto Class 10 | Multipurpose Hall, Sports ground, Science Lab, Computer Lab, Art and Music rooms, swimming pool, tennis court |
| 6 | Mumbai | Spread across 1.45 acres – appx. 274,000 Sq ft. built up Land taken on long term lease | c.1376 | Upto Class 8 | Basket ball court, badminton court, yoga room, gymnastics room, squash court, table tennis room, mini soccer field and outdoor play area, wifi campus, multi-media library, music and activity room, ICT and science lab, preview theater, ergonomically designed furniture, state of art class rooms, ipad/tablet enabled class room lectures |

Note: All schools are affiliated/in process with CBSE except for Mumbai school which is affiliated to International Baccalaureate (IB)

Academia Edificio Private Limited

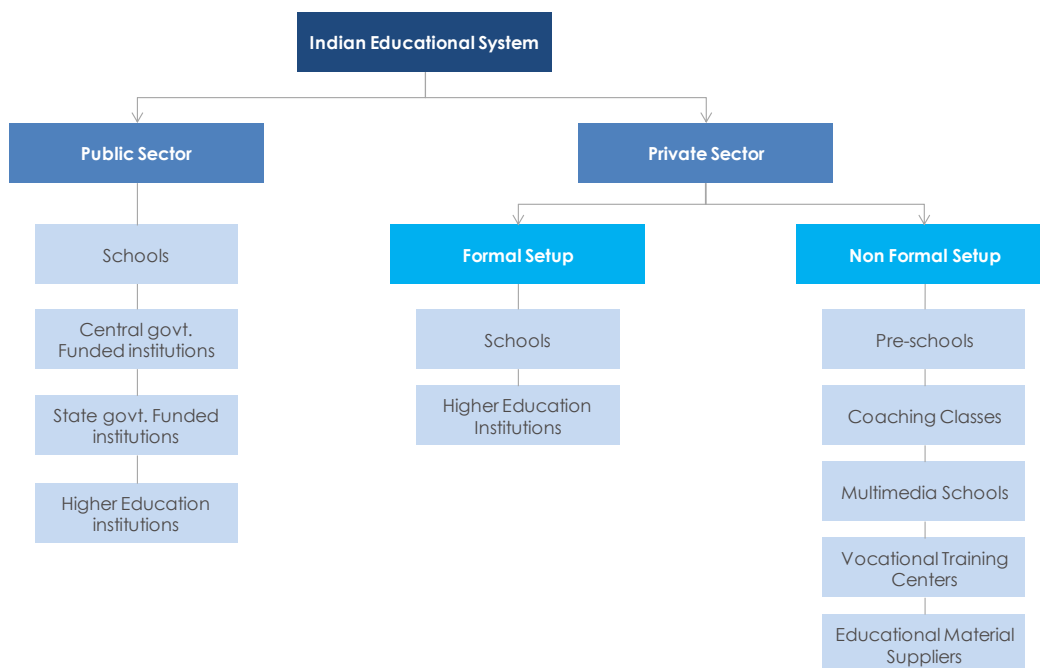
Academia Edificio was incorporated on January 14, 2016, as a wholly owned subsidiary of ZLL to venture into building / constructing / developing educational infrastructure.

Industry Overview

The education sector in India is poised for major growth in the years to come as India will have the world's largest tertiary-age population and second largest graduate talent pipeline globally by 2020 end. In FY16, the education market was worth about USD100bn, up from USD95.8bn in FY15, and expected to touch USD116.4bn in FY16-17. Currently, higher education contributes 58.8% to the market size, school education 38.1%, pre-school segment 2.5% and technology & multi-media the balance 0.6%.

India has one of the largest networks of higher education institutions in the world with 666 universities and 39,671 colleges. It is also the third largest in terms of education enrolment with over 21.5mn enrolments per year. The private education sector, which was valued at an estimated USD96bn in 2015, is estimated to reach USD133bn by 2020.

Education Landscape in India



Government of India thrust of spending on Education sector

Under Union Budget FY16, the Government of India has allocated USD23.3bn for the education sector compared to USD23bn in the previous budget. Of this, while USD13.5bn has been earmarked for general education, USD3.6bn has been allocated for Sarva Siksha Abhiyan, USD1bn for secondary education, USD1.5bn allocated to mid day meal scheme, higher education received USD2.6bn and technical education USD1.09bn.

- **National Knowledge Commission (NKC):** An advisory body National Knowledge Commission (NKC) was set up to guide policy and direct reforms, focusing on certain key areas such as education, science and technology, agriculture, industry and e-governance. NKC recommended increase in the number of universities to 1,500 by 2015 and to increase the gross enrolment ratio to at least 15% by 2015.
- **Government focus on education quality:** In the 12th Five-Year Plan, the government plans to provide enhanced access to higher education by creating 2mn additional seats for each age group. During the Plan, the government will continue to focus on expansion, equity and excellence with a greater emphasis on quality of higher education.

- **Foreign Direct Investment:** The Government of India permitted 100% FDI in the education sector through the automatic route since CY02. Foreign Educational Institutions (Regulations of Entry and Operations) Bill, 2010, was adopted to liberalise the education sector in India. FDI investment in India from April 2000 to September 2015 reached USD1142.69mn.
- **Skill India Initiative – Kaushal Bharat, Kushal Bharat:** Under this initiative, the government has set itself a target of training 400mn citizens by 2022 that will enable them to find jobs. The initiatives launched include various programmes like Pradhan Mantri Kaushal Vikas Yojana (PMKVY), National Policy for Skill Development and Entrepreneurship 2015, Skill Loan scheme and the National Skill Development Mission.

Increase in GER to drive growth in school and higher education segment:

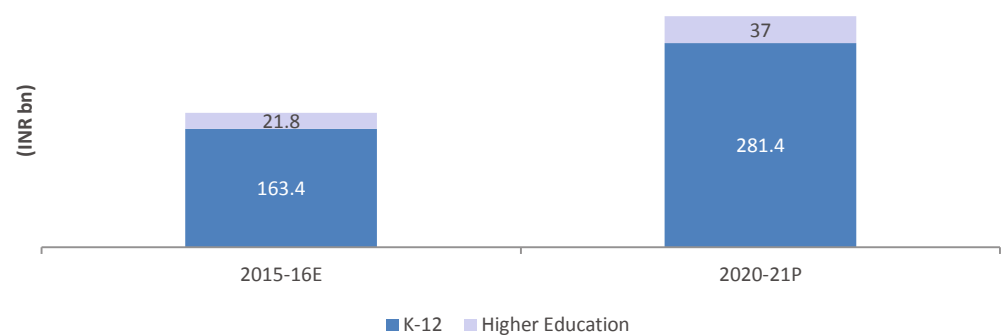
GERs (gross enrollment ratio) in the K-12 segment is expected to increase to 87% by FY20 from 82% in FY16, due to initiatives by Central and state governments. This growth is expected to be driven largely by enrolments in the private segment of K-12, estimated at a CAGR of 6% over FY16-21. Rise in urbanisation, increase in average income levels and growing ability & willingness to spend on quality education have encouraged the shift in preference to private from government schools. Private schools are also expected to attract more students due to better infrastructure, international affiliations and greater flexibility to modify curriculum as per current competitive standards.

Enrolment in the public segment is expected to remain stagnant during the same period. Slow capacity creation in government schools has led to higher enrolments in private institutions. Consequently, the school segment is expected to clock 11-12% CAGR from INR163bn in FY16 to INR281bn in FY21.

In the higher education segment, GER is expected to reach 27% in FY20 from 22.5% in FY16 led by increased enrolments in professional and technical courses compared to general graduation courses.

The higher education segment is also expected to post 11-12% CAGR from INR22bn in FY16 to INR37bn in FY21.

The graph below illustrates the expected growth in both K-12 and higher education in India, between 2015-16 and 2020-21



Source: FICCI, Edel Invest Research

K-12 Industry - Overview

Overview of K-12 education structure

K-12 education is part of the formal education system in India, regulated by central and state governments, primarily by the latter via local bodies such as municipal corporations and state-level education departments. The K-12 education structure can be broadly classified on the basis of management, level of education; and board of affiliation, i.e., including CBSE, Indian Certificate of Secondary Education (ICSE) and International General Certification of Secondary Education (IGCSE). Affiliation with a board is voluntary for schools, except when the school is full or partly aided by the state government; in that case, the school must be affiliated with the respective state board.

Market size

GER in the K-12 segment was pegged at 80.5% in FY15 and is expected to touch 87.5% in FY20 driven by rise in urbanisation & disposable incomes, lower dropout rates due to increasing awareness, rising affordability (with more households moving to the middle & higher income brackets) and government schemes to incentivise transition to higher level K-12 education (such as cash rewards for girls transiting to upper primary, secondary and higher secondary K-12 schools). However, the average number of students enrolled per school is expected to be lower as schools strive to rationalise the student-teacher ratio to improve the quality of education. Rising affordability is also expected to boost demand for private schools.

At the elementary level, the share of private K-12 schools is expected to gradually rise from 27% in FY15 to 32% in FY19. At the secondary and higher secondary level, their share is expected to jump from 56% in FY15 to 70% in FY19 due, in part, to slow capacity creation in government schools.

Integrated K-12 institutions are more in demand as they provide students with smooth curriculum transition across grades and greater flexibility to modify curriculum as per current competitive standards. However, the wide demand-supply gap for teachers in the domestic K-12 segment is seen as a critical roadblock, with a shortfall of 2.25mn teachers for India (with a student-teacher ratio of 30:1 in FY15) to meet the developing countries' average (student-teacher ratio of 24:1, compared to a student-teacher ratio of 15:1 in developed countries).

Growth Drivers of K-12 Industry

- Rising urbanisation;
- Rising disposable incomes;
- Consumer preference for private schools;
- Affiliation to various boards; and
- Government initiatives

K-12 Schools – Notable Trends

| | |
|---|---|
| Private Schools adopting franchise models | <ul style="list-style-type: none"> Various operating models like a mix of franchisee and owned-schools are being used by the private players to ensure their economic viability |
| Emergence of International School Segment | <ul style="list-style-type: none"> With increasing awareness, private Indian players are collaborating with International brands to provide international standard quality education |
| Increasing Use of Technology | <ul style="list-style-type: none"> Schools are investing in information and multimedia education technologies to provide better education to students Increase in technology has also influenced the education sector due to which smart classes are gaining acceptance |
| Increasing in the number of recognised Educational Institutions | <ul style="list-style-type: none"> Number of recognised educational institutions are expected to rise from 7,485 in 2011 to 7,906 in 2014 |
| Key Challenges | <ul style="list-style-type: none"> Enrollment rate across the senior classes is quite low, while the girls dropout rate have witnessed increase in comparison to that of boys in the primary and secondary levels. |

Based on the differential geography and income levels of the Indian population, 3 different sub-markets have emerged within the private school segment:

- **High-end schools:** Schools charging fees more than INR60,000 (USD1,000) per annum. Parents of students studying in this segment have high aspirational value on student outcomes.
- **Mid-market schools:** Schools charging fees between INR12,000 (USD200) and INR60,000 (USD1,000) per annum. These schools are based especially in Tier-2 cities and their market share is expected to double in coming years.
- **Affordable private schools:** Fees under INR12,000 (USD200) per annum. These schools primarily cater to the low-income population.

Key policies and initiatives

Grade I to VIII

For elementary education, the Sarva Shiksha Abhiyan and the Midday Meal were launched to drive growth in the K-12 segment. Sarva Shiksha Abhiyan was launched in FY01 to promote and provide universal access to elementary education, eliminate gender and social gaps with regard to school education, improve the quality of learning, facilitate opening of new schools, provide inclusive education to children with special needs and create alternative schooling facilities for out-of-school children and promote computer-aided learning. While the Midday Meal scheme is operational in various states since 1925, it was launched as a centrally sponsored scheme known as the National Program of Nutritional Support to Primary Education in 1995, seeking to incentivise and enhance school attendance and improve nutritional levels among children, especially in grades I-V, from economically weaker sections of the society.

Grade IX to X

The Rashtriya Madhyamik Shiksha Abhiyan was launched in CY09 to enhance access to secondary education and improve quality of education, mandating all secondary schools to follow prescribed norms on eliminating gender, socioeconomic and disability barriers.

Right to Education Act

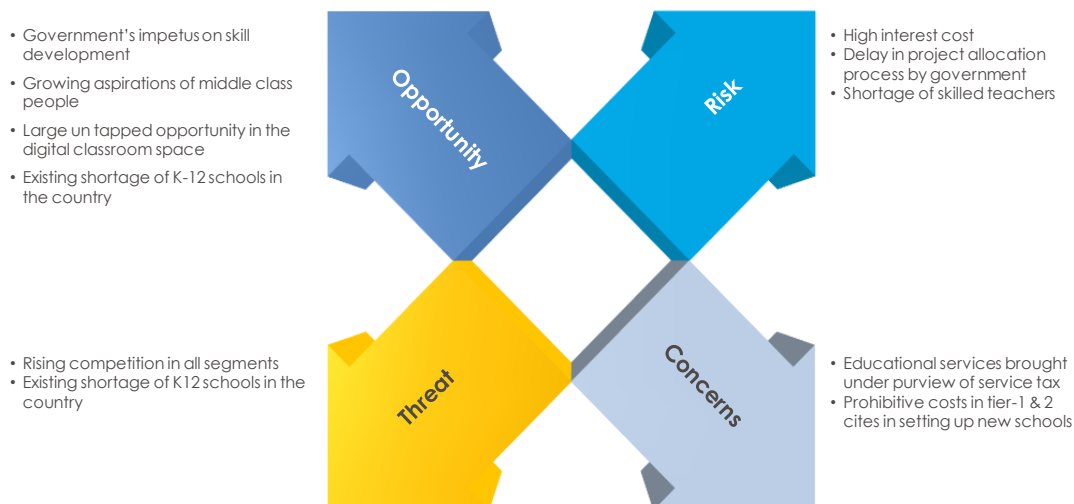
The Right to Education Act was notified in 2009, to provide free and compulsory education to children aged 6-14, requiring all private – aided and unaided – schools to reserve 25% of available seats for children from economically weaker sections of the society.

Information and communication technologies (ICT)

ICT refers to various technological aids used in schools and colleges to facilitate learning and improve the quality of teaching. State governments outsource the installation and maintenance of IT hardware, content and training in public schools to private players, through projects funded in partnership with the central government.

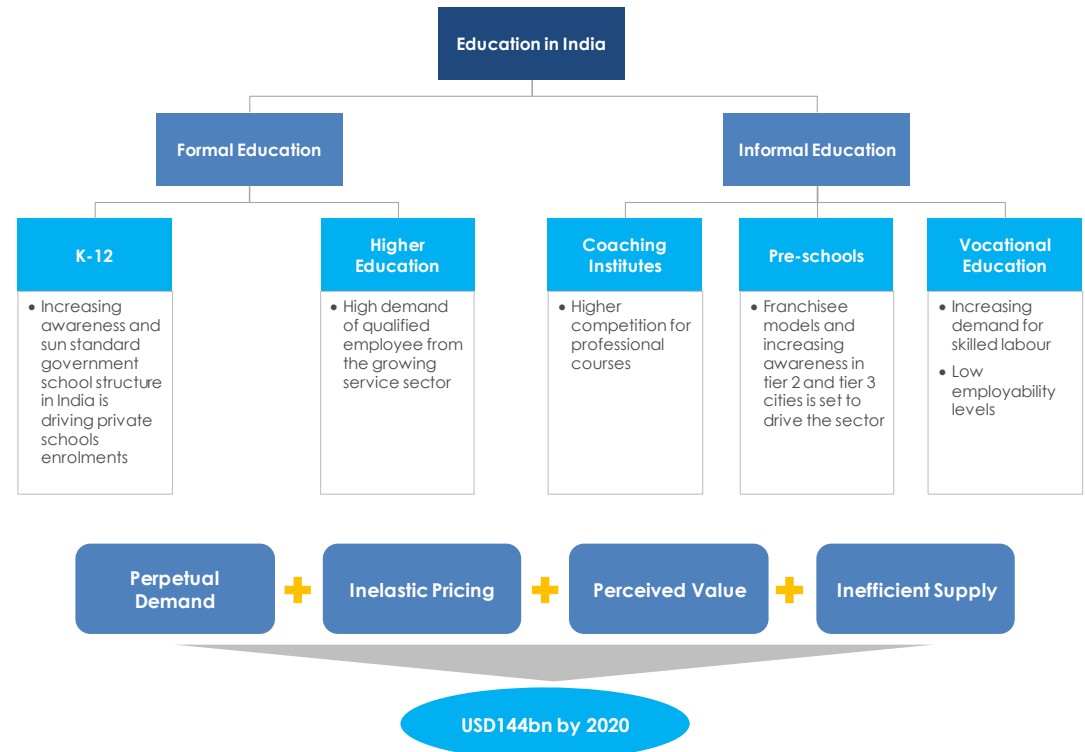
Competitive landscape

Some of the players in the Indian K-12 segment include Delhi Public School, Ryan International School and Bharatiya Vidya Bhavan.



Industry growth drivers

Increasing disposable incomes and willingness of people to spend on education are key drivers of the Indian education Industry.



Immense growth potential

- India has the world's largest population of about 500mn in the age bracket of 5-24 years and this provides a great opportunity for the education sector;
- The Indian education sector is set for strong growth buoyed by robust demand for quality education;
- The domestic education market size is expected to reach USD110bn by FY15.

Policy support

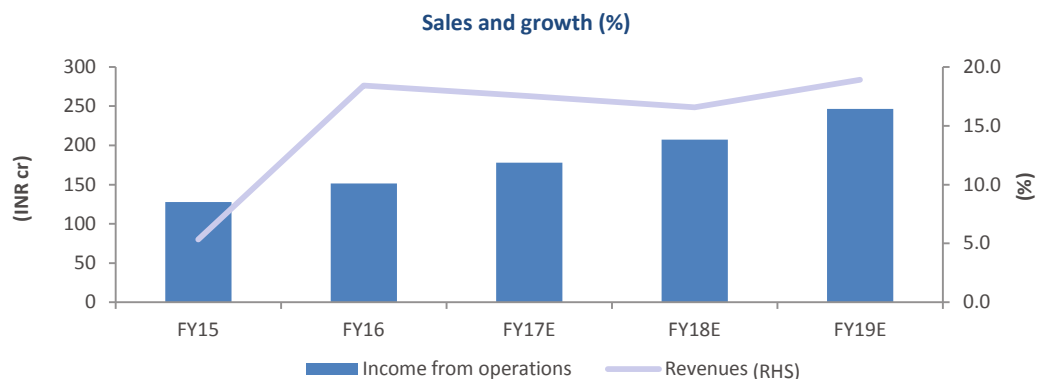
- Government's sustained focus on liberalising the education sector is reflected in the proposed introduction of trend setting bills such as the Foreign Educational Institutions (Regulation of Entry and Operations) Bill, 2010 and the Educational Tribunals Bill, 2010.
- Adoption of "The Model School Scheme" to provide quality education in rural areas by setting up of 6,000 schools.
- The Ministry of HRD launched National Initiative for Design Innovation in the 12th Five Year Plan which aims to link all the schools in the country through 20 new Design Innovation Centres and one Open Design School.

Education segment – looking attractive

| | Current Size | Growth | Non Regulated | Scalability | Value Creation |
|-------------------------------|--------------|--------|---------------|-------------|----------------|
| Preschool | ✗ | ✓ | ✓ | ✓ | ✓ |
| K-12 | ✓ | ✓ | ✗ | ✓ | ✓ |
| HE | ✓ | ✓ | ✗ | ✓ | ✓ |
| Multimedia in private schools | ✗ | ✓ | ✓ | ✓ | ✓ |
| ICT in govt schools | ✗ | ✓ | ✓ | ✓ | ✗ |
| Coaching Classes | ✓ | ✓ | ✓ | ✗ | ✗ |
| Vocational Training | ✗ | ✓ | ✓ | ✗ | ✗ |
| Books | ✗ | ✗ | ✓ | ✗ | ✗ |

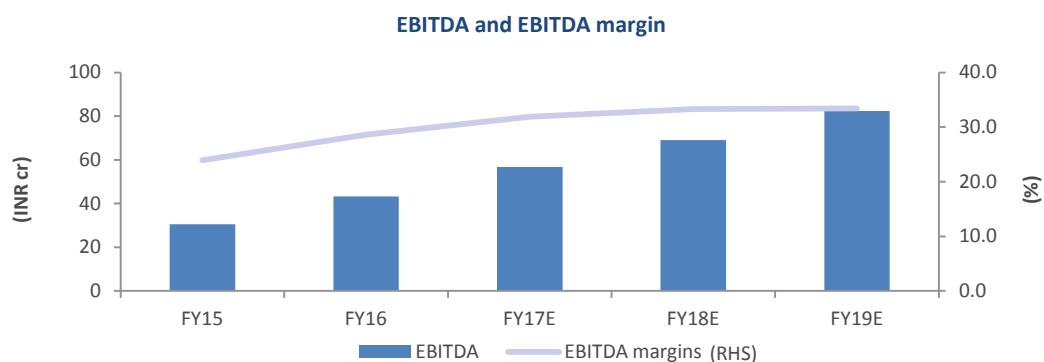
Financial Performance

ZLL's net sales are estimated to clock 18% CAGR over FY16-19E to INR 246cr by FY19E. Healthy growth in both the segments is expected to continue. We expect Kidzee to post 20% CAGR and continue to contribute ~70% and Mount Litera to register 17% CAGR over FY16-19E..



Source: Company, Edel Invest Research

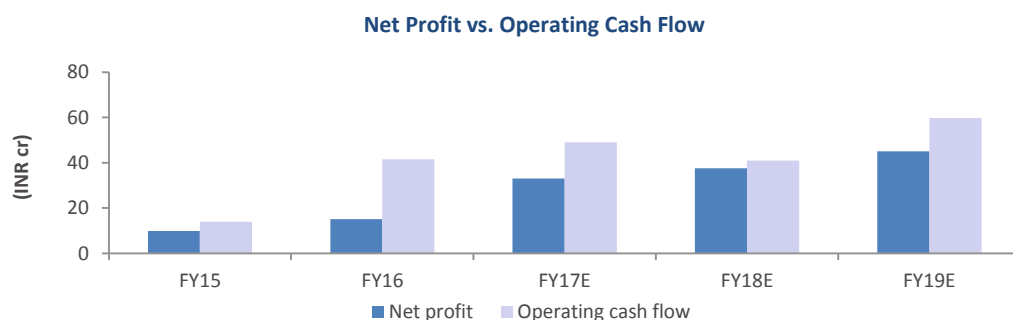
ZLL's margin is estimated to improve with operational efficiency and schools being annuity business.



Source: Company, Edel Invest Research

Healthy cash flow from operations

ZLL is estimated to generate healthy cash flow from operations in the coming years led by robust operational performance. The company's gross debt stood at INR270cr by FY17 end. It is planning to restructure INR150cr debt (against Mumbai BKC – IB School).



Source: Company, Edel Invest Research

Financials

| Income statement | | | | | (INR crs) |
|--------------------------------|------|------|-------|-------|-----------|
| Year to March | FY15 | FY16 | FY17E | FY18E | FY19E |
| Income from operations | 128 | 151 | 178 | 207 | 246 |
| Direct costs | 38 | 41 | 44 | 51 | 59 |
| Employee costs | 25 | 25 | 25 | 29 | 35 |
| Other expenses | 60 | 67 | 77 | 88 | 105 |
| Total operating expenses | 97 | 108 | 121 | 138 | 164 |
| EBITDA | 31 | 43 | 57 | 69 | 82 |
| Depreciation and amortisation | 9.4 | 10.2 | 9.3 | 5.7 | 6.4 |
| EBIT | 21 | 33 | 47 | 63 | 76 |
| Interest expenses | 15 | 20 | 14 | 14 | 14 |
| Other income | 4 | 2 | 3.6 | 4 | 5 |
| Profit before tax | 10 | 15 | 37 | 54 | 67 |
| Provision for tax | 0.0 | 0.0 | 3.7 | 16.1 | 22 |
| Core profit | 10 | 15 | 33 | 38 | 45 |
| Extraordinary items | -0 | 0 | 0 | 0 | 0 |
| Profit after tax | 10 | 15 | 33 | 38 | 45 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Share from associates | 0 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 10 | 15 | 33 | 38 | 45 |
| Equity shares outstanding (mn) | 32 | 32 | 32 | 32 | 32 |
| EPS (INR) basic | 0.31 | 0.47 | 1.0 | 1.2 | 1.4 |
| Diluted shares (Cr) | 32.0 | 32.1 | 32.1 | 32.1 | 32.1 |
| EPS (INR) fully diluted | 0.3 | 0.5 | 1.0 | 1.2 | 1.4 |
| Dividend per share | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend payout (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Common size metrics- as % of net revenues

| Year to March | FY15 | FY16 | FY17E | FY18E | FY19E |
|----------------------|------|------|-------|-------|-------|
| Operating expenses | 76.1 | 71.4 | 68.1 | 66.7 | 66.6 |
| Depreciation | 7.3 | 6.7 | 5.2 | 2.7 | 2.6 |
| Interest expenditure | 11.9 | 13.2 | 8.1 | 6.7 | 5.6 |
| EBITDA margins | 23.9 | 28.6 | 31.9 | 33.3 | 33.4 |
| Net profit margins | 7.7 | 10.0 | 18.6 | 18.1 | 18.3 |

Growth metrics (%)

| Year to March | FY15 | FY16 | FY17E | FY18E | FY19E |
|---------------|---------|------|-------|-------|-------|
| Revenues | 5.3 | 18.4 | 17.5 | 16.6 | 18.9 |
| EBITDA | 151.8 | 41.4 | 31.2 | 21.7 | 19.3 |
| PBT | (609.3) | 52.5 | 143.6 | 46.0 | 25.6 |
| Net profit | (609.3) | 52.5 | 119.2 | 13.6 | 20.2 |
| EPS | (608.2) | 52.2 | 119.2 | 13.6 | 20.2 |

Balance sheet (Standalone)**(INR Cr)**

| As on 31st March | FY15 | FY16 | FY17E | FY18E | FY19E |
|-----------------------------|-------------|-------------|--------------|--------------|--------------|
| Equity share capital | 32 | 32 | 32 | 32 | 32 |
| Preference Share Capital | 0 | 0 | 0 | 0 | 0 |
| Reserves & surplus | 202 | 218 | 251 | 289 | 334 |
| Shareholders funds | 234 | 250 | 283 | 321 | 366 |
| Secured loans | 338 | 361 | 245 | 120 | 120 |
| Unsecured loans | 34 | 26 | 26 | 26 | 26 |
| Borrowings | 372 | 387 | 270 | 145 | 145 |
| Minority interest | 0 | 0 | 0 | 0 | 0 |
| Other liability | 2 | 9 | 125 | 250 | 250 |
| Sources of funds | 608 | 646 | 679 | 716 | 761 |
| Gross block | 116 | 146 | 171 | 191 | 211 |
| Depreciation | 22 | 32 | 42 | 47 | 54 |
| Net block | 94 | 114 | 130 | 144 | 157 |
| Capital work in progress | 444 | 478 | 478 | 478 | 478 |
| Total fixed assets | 539 | 592 | 607 | 622 | 635 |
| Unrealised profit | 0 | 0 | 0 | 0 | 0 |
| Investments | 4 | 10 | 11 | 12 | 13 |
| Inventories | 27 | 11 | 26 | 30 | 30 |
| Sundry debtors | 16 | 30 | 25 | 32 | 41 |
| Cash and equivalents | 16 | 12 | 34 | 54 | 93 |
| Loans and advances | 4 | 21 | 12 | 13 | 8 |
| Other current assets | 0 | 0 | 0 | 0 | 0 |
| Total current assets | 64 | 73 | 97 | 130 | 172 |
| Sundry creditors and others | 75 | 58 | 67 | 77 | 89 |
| Provisions | 0 | 1 | 1 | 1 | 1 |
| Total CL & provisions | 75 | 59 | 68 | 78 | 90 |
| Net current assets | -12 | 14 | 29 | 52 | 82 |
| Net Deferred tax | | | | | |
| Misc expenditure | 77 | 31 | 31 | 31 | 31 |
| Uses of funds | 608 | 646 | 679 | 716 | 761 |
| Book value per share (INR) | 7 | 8 | 9 | 10 | 11 |

Cash flow statement

| Year to March | FY15 | FY16 | FY17E | FY18E | FY19E |
|--------------------------------|-------------|-------------|--------------|--------------|--------------|
| Net profit | 10 | 15 | 33 | 38 | 45 |
| Add: Depreciation | 9 | 10 | 9 | 6 | 6 |
| Add: Misc expenses written off | -5 | 46 | 0 | 0 | 0 |
| Add: Deferred tax | 0 | 0 | 0 | 0 | 0 |
| Add: Others | 0 | 0 | 0 | 0 | 0 |
| Gross cash flow | 14 | 71 | 42 | 43 | 51 |
| Less: Changes in W. C. | 0 | 29 | -7 | 2 | -8 |
| Operating cash flow | 14 | 42 | 49 | 41 | 60 |
| Less: Capex | 77 | 63 | 25 | 20 | 20 |
| Free cash flow | -63 | -21 | 24 | 21 | 40 |

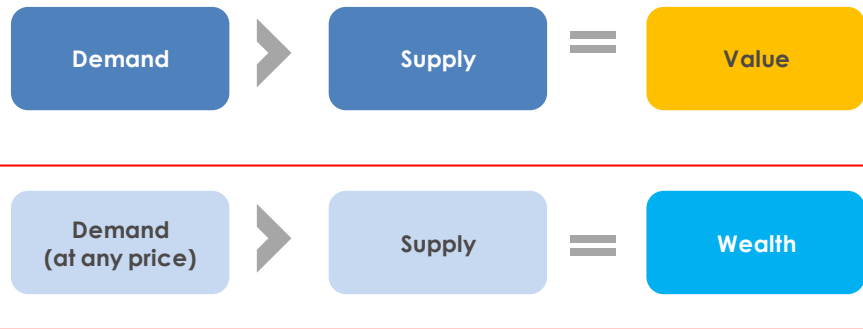
Ratios

| Year to March | FY15 | FY16 | FY17E | FY18E | FY19E |
|------------------------------|-------------|-------------|--------------|--------------|--------------|
| ROAE (%) | 4.3 | 6.2 | 12.4 | 12.4 | 13.1 |
| ROACE (%) | 3.7 | 5.3 | 7.2 | 9.1 | 10.3 |
| Debtors (days) | 46 | 72 | 52 | 57 | 60 |
| Current ratio | 0.8 | 1.2 | 1.4 | 1.7 | 1.9 |
| Debt/Equity | 1.6 | 1.5 | 1.0 | 0.5 | 0.4 |
| Inventory (days) | 78 | 26 | 54 | 53 | 45 |
| Payable (days) | 0 | 0 | 0 | 0 | 0 |
| Cash conversion cycle (days) | 124 | 98 | 106 | 110 | 105 |
| Debt/EBITDA | 12.2 | 8.9 | 4.8 | 2.1 | 1.8 |
| Adjusted debt/Equity | 1.5 | 1.5 | 0.8 | 0.3 | 0.1 |

Valuation parameters

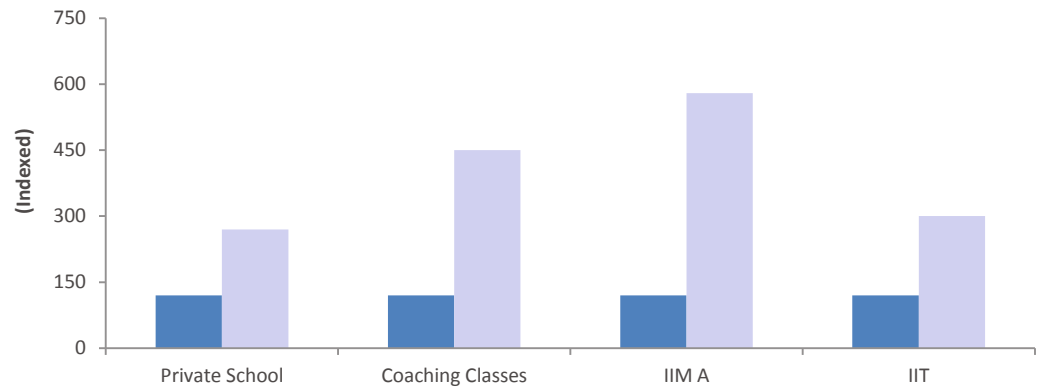
| Year to March | FY15 | FY16 | FY17E | FY18E | FY19E |
|----------------------|-------------|-------------|--------------|--------------|--------------|
| Diluted EPS (INR) | 0.3 | 0.5 | 1.0 | 1.2 | 1.4 |
| Y-o-Y growth (%) | (608.2) | 52.2 | 119.2 | 13.6 | 20.2 |
| CEPS (INR) | 0.6 | 0.8 | 1.3 | 1.3 | 1.6 |
| Diluted P/E (x) | 154.5 | 101.5 | 46.3 | 40.8 | 33.9 |
| Price/BV(x) | 6.5 | 6.1 | 5.4 | 4.8 | 4.2 |
| EV/Sales (x) | 14.7 | 12.6 | 9.9 | 7.8 | 6.4 |
| EV/EBITDA (x) | 61.5 | 44.0 | 31.1 | 23.5 | 19.2 |
| Diluted shares O/S | 32.0 | 32.1 | 32.1 | 32.1 | 32.1 |
| Basic EPS | 0.3 | 0.5 | 1.0 | 1.2 | 1.4 |
| Basic PE (x) | 154.5 | 101.5 | 46.3 | 40.8 | 33.9 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

INDEX I: Indian Education Sector – wealth creator

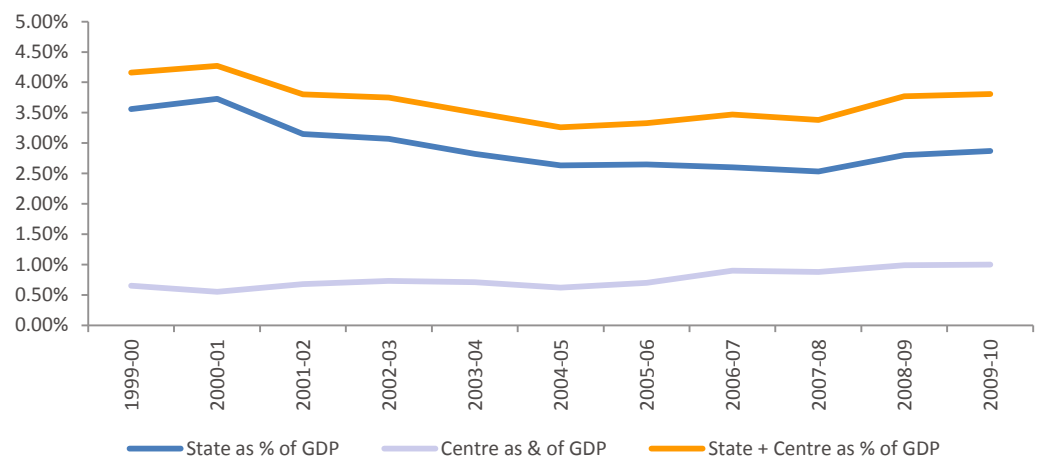
**Example:**

My Education from 1985 – 1999 (Nursery to XII) Costs ~INR 1,00,000 where as now Pre-School + Kindergarten cost is >INR 1,00,000

Price of education has increased by 3-6x over the last decade



Spending – 4% of GDP on Education



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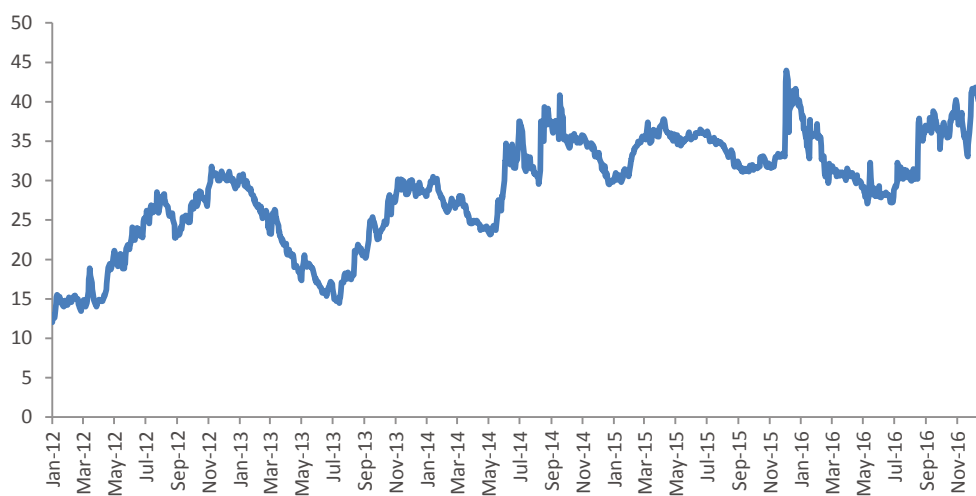
Vinay Khattar

Head Research

vinay.khattar@edelweissfin.com

| Rating | Expected to |
|---------------|---|
| Buy | appreciate more than 15% over a 12-month period |
| Hold | appreciate between 5-15% over a 12-month period |
| Reduce | Return below 5% over a 12-month period |

Zee Learn 5 years price chart



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