

December 23, 2011  
Mumbai

## CRISIL Research assigns IPO grade '4/5' to MT Educare Limited

CRISIL Research has assigned a CRISIL IPO grade of '4/5' (pronounced 'four on five') to the proposed initial public offer (IPO) of MT Educare Limited (MT Educare). This grade indicates that the fundamentals of the IPO are above average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned grade factors in MT Educare's strong brand resulting from its established track record and dominant position in Mumbai coaching industry. The company has evolved from offering a limited number of courses in a few Mumbai-based branches into a corporate entity offering a plethora of courses across 106 branches (with 85 in Mumbai alone) in Maharashtra, Karnataka and a few other states. The company is expected to benefit from its strong presence in the Maharashtra coaching market, which is expected to grow at a healthy rate of 11.6 % to Rs 51 bn over the next four years. The grade also takes into account the cash rich and non-recessionary nature of the education industry. The company's process driven operations ensure scaling of the business without any dilution in the quality of coaching and provide a competitive advantage, especially over unorganised players. The grade also factors in the company's plans to further diversify by adding more products and entry into newer geographies. It has recently forayed into MBA coaching and plans to enter into the management of a pre-university (PU) college. The successful execution of the new projects, most of which are at a nascent stage, will accelerate the company's growth. The grade is also supported by a strong and professional management team.

However, the company's geographical concentration and the intense competition offered by the highly unorganised industry moderate our grade. Nearly 80% of its 106 branches are in Mumbai, hence any adverse structural change in the education system or regulatory action in the region may hamper its performance. The low-capital intensive nature of the industry is an encouragement for local teachers to start their own centers to coach students which leads to the intense competition. Being cash rich, the company's ability to identify and integrate future acquisitions with itself remains a key monitorable.

### About the company and the issue

MT Educare, promoted by Mr Mahesh Shetty, provides educational coaching services for classes 9 and 10 (state boards, CBSE and ICSE), classes 11 and 12, graduation (commerce), preparatory/entrance tests (engineering, medical and MBA) and professional courses such as chartered accountancy under the brand name "Mahesh Tutorials". Its 106 branches are located across Maharashtra, Karnataka, Gujarat, and Tamil Nadu. Today, MT Educare is one of the largest coaching service providers in India; it has coached ~58,000 students during 9MFY11.

MT Educare has posted revenue of Rs 840 mn and EBITDA of Rs 196 mn as on 9MFY11. It has reported PAT of Rs 96 mn and an EPS of Rs 2.8 for 9MFY11. The company is debt free as on 9MFY11.

Out of the total planned IPO proceed of Rs 350 mn, MT Educare will utilise Rs 200 mn for the construction of a pre-university college in Mangalore, Karnataka; this will be leased to a trust for 30 years who will run the college. The company is also planning to open branches in 20 locations across Mumbai and Pune for which it will deploy Rs 50 mn from the IPO proceed.

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Last updated: March 31, 2011

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