

## Tree House Education : Average Issue IPO Note: Growing Business but P/E Ratio high Rating\*\*

### Issue details

Price band (Rs)	Rs.135 - 153
IPO Opening Date	10/08/11
IPO Closing Date	12/08/11
Issue Size	Rs.113.83 - 129.01 Crore

### Valuations & Recommendation

At a price band of Rs.135 to Rs 153 per equity share of Rs 10 face value, the P/E at the lower band works out to 49.5 times and at the upper band it works out to be 56.1 on EPS of Rs 2.7 for FY 2011 on expanded equity of Rs.33.72 crore. There is stiff competition in the segment because of low entry barriers and low investment required in the segment, also operating pre-schools is currently unregulated but the governments may introduce a regulatory framework which may adversely affect the operating revenues of the company.

Keeping in view the product and client profile, high growth prospects of the company we recommend to enter in the stock at lower level after 2-3 quarterly numbers. Presently it offers shares at high premium while other comparable company like Educomp Solution, Everonn System and Carrier Points Infosystems are trading between 8.5 and 19.4 PE.

### Highlights

- ◆ The company had 177 pre-schools under the brand name of 'Tree House' across 23 cities in India.
- ◆ High PE ratio of 56.0.
- ◆ CRISIL has assigned an IPO Grade 3 to Tree House Education IPO.
- ◆ The number of students in its self-operated pre-schools increased from 51 in 2003 to 5355 students on March 31, 2011
- ◆ The average fee per student is around Rs 25000 per annum.
- ◆ The aggregate of the contingent liabilities on March 31, 2010 and March 31, 2011 was Rs 8.2 crore and Rs 23.9 crore, respectively
- ◆ Stiff competition in the segment because of low entry barriers and low investment required in the segment

### Company Introduction

#### Company Profile

Tree House Education & Accessories was originally incorporated as a private limited company on July 10, 2006. Tree House Education & Accessories is the leading providers of educational services in India. It operates the largest number of self-operated pre-schools in India. As of December 31, 2010, the company had 177 pre-schools under the brand name of 'Tree House' across 23 cities in India. Of 177 pre-schools, 108 are operated by the Company, or self operated, and the rest are operated through its franchisees. The self-operated pre-schools serve more than

5,000 students, which does not include the students at the franchisee operated pre-schools, primarily in the age group of 1.5 to 6 years.

### Focus on self-operated pre-schools

The Company's business model is focused on operations primarily through self-operated pre-schools. As of June 15, 2011, the company had 223 pre-schools under the brand name of 'Tree House', of which 149 were self-operated which represents 66.82% of company's pre-schools. The company principally opens self-operated pre-schools in metro cities within India. According to CRISIL research, company-owned model of pre-schools have certain key advantages over the franchisee model. The company-owned model helps a company to maintain quality, hygiene and safety control

### Industry Overview:

India spends nearly 3.5% of its gross domestic product on education. The central government has been investing in promoting literacy and education; however its efforts remain largely focused on elementary schooling. Secondary and higher education have not been key priorities for the central government as in the opinion of the central government it is necessary to first create adequate infrastructure and provide incentives to universalize elementary education.

### Dependence on rented property for pre-schools

Of the 149 self-operated pre-schools of the company, 148 self-operated pre-schools, constituting 99.33% of the total number of selfoperated pre-schools, operate from rented properties, including premises which have been taken on rent from the Promoters.

### Proceed is being used for:

The Company intends to utilize the proceeds of the Issue, after deducting Issue expenses for the following objects:(a) Expansion of its pre-school business;(b) Acquisition of office space;(c) Procurement of exclusivity rights to provide educational services;(d) Construction of infrastructure for educational complexes in Rajasthan and Gujarat;(e) Repayment of loan; and(f) General corporate purposes



[www.treehouseplaygroup.net](http://www.treehouseplaygroup.net)

Particulars	1103(12)	1003(12)	0903(12)
Net Sales	39.24	21.38	10.27
OPM (%)	43.1	32.8	20.1
PAT	9.20	2.60	0.51
EPS (Rs)	2.7	0.8	0.2

Annualised on post-issue equity of Rs 33.72 crore

### RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

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