

## CL EDUCATE - SCALING THE EDUCATIONAL LADDER



**E**ducation sector of the country has been thriving on the back of rising demand as India has the largest youth population as per United Nations report. India has a literacy rate of 74.04 per cent. Digital India, Sarva Shiksha Abhiyan and various other educational schemes are a boon to the industry. In this report, we will be looking at the forthcoming IPO of CL Educate, the education industry pioneer having experience of about 20 years.

### ABOUT INDUSTRY

The education sector is estimated to reach around ₹7.8 lakh crore in FY17 and has tremendous potential to grow due to a huge demand-supply gap. Apart from the expansion in the conventional public and private sector education system in the form of schools and higher education institutes, the growth will also be backed by the non-formal private education sector like pre-schools, coaching institutes and vocational training centres, among others. There are lot of international collaborations with education institutions, along with joint ventures and merger and acquisitions with both foreign and domestic corporate players, which would further help the sector to grow.

The share of state private universities out of the total universities in the country spiked to 29 per cent in FY15 from around 3 per cent in FY09. The rapid expansion of education sector in India is accompanied by a high student-teacher ratio in both school and higher education segments.

### UNDERSTANDING BUSINESS

CL Educate focuses on diverse segments of education and across learners of multiple age-groups. The company's core ideology is firmly grounded on its focus on academic excellence, technological innovation and domain expertise built over close to two decades. The CL brand has diversified and established itself as a recognized brand in

education sector. CL Educate operates across a broad spectrum of segments in the education industry, including test preparation, K-12 education and vocational training.

CL Educate has diversified operations across six business segments spanning the education value chain, across learners of multiple age-groups. Led by a team of qualified professionals including IIT-IIM alumni, CL Educate has focused on shaping the lives and careers of many students in the twenty years of its existence.

### IMPROVING FINANCIALS

On the financial front, CL Educate's revenue increased 4.1 per cent to ₹295

### PEER COMPARISON

The education sector in the country is becoming digital and fiercely competitive. The peers of the company have been compared in the table below.

|              | TTM P/E | P/B  | EPS   | Book Value | Dividend Yield (%) |
|--------------|---------|------|-------|------------|--------------------|
| Career Point | 12.40   | 0.56 | 9.02  | 198.68     | 0                  |
| CL Educate   | NA      | NA   | 18.18 | 199.12     | 0                  |
| Aptech       | 54.14   | 2.8  | 3.06  | 59.22      | 0.6                |
| MT Educare   | 14.5    | 2.77 | 8.05  | 42.14      | 1.71               |
| NIIT         | 19.75   | 1.65 | 4.06  | 48.58      | 0                  |
| ZEE Learn    | 82.84   | 4.99 | 0.47  | 7.8        | 0                  |

# Marching Towards IPO: Emerging Trend In Education Enterprises

**Nikhil Mahajan**, Executive Director and Chief Financial Officer, CL Educate



In an exclusive interaction with Nikhil Mahajan, the Chief Financial Officer and Executive Director, CL Educate, speaks in greater detail about the company, its firm foundations, its diversified portfolio, its growth prospects and the reasons behind its intent to file for an IPO

## What is thriving at CL Educate?

CL Educate has a thriving and diversified business portfolio whereby test-prep segment accounts for only 40-45 per cent of the revenue accrual. The publishing division of CL Educate under the auspices of G K Publications brings about authentic reference and preparatory material for various entrance examinations.

The organisation is working closely with the Governments of Uttar Pradesh, Madhya Pradesh, Chhattisgarh, Jharkhand, Odisha and Gujarat for their skills enhancement programmes, leveraging their ample expertise in the domain of test preparation. The group has seven schools in its kitty, with a total

installed capacity of 6,000 students, expandable to 11,000. The current capacity utilisation is at 50 per cent. Instead of adding new ones, the focus will remain to grow to the full potential.

## To what extent, would you augment your international portfolio?

Not much. The total revenue expectation from the international operations is seen to be not more than 4-5 per cent of the entire revenue inflows.

## What are the underlying reasons for going the IPO way?

Well, the way we look at IPO is more of a landmark or milestone in our company's progression. We have been working for the last 5-7 years preparing ourselves to get listed. It's more of a strategic opportunity for us to create a sizeable stable enterprise in the domain of education.

Offloading the burden of two of our private equity investors, Gaja Capital and HDFC, along with a number of individual benefactors, is also on the cards by way of raising some ₹300-350 crore from the market.

## Where do you see the maximum action happening in the education section?

For us at CL Educate, we are expecting a double-digit growth across all our business portfolios. We have always stood for a balanced growth, though the revenue mix varies for historical reasons. In such a vast country, with progressive demographic trends, education sector happens to be one of the largest one and is slated to grow by leaps and bounds. The Achilles heel, however, remains the utter disorganization and non-systematic unprofessional governance of educational enterprises. This has brought some disrepute to the sector, when it comes to public offering.

## What are the core operational strengths at CL Educate?

We have evolved as an entirely process driven organization, with sound technological fundamentals. All our centres are connected through a dedicated in-house ERP system. Our testing platform is again our in-house creation which empowers our core business vertical. We have moved towards a cloud-based governance ecosystem and content dissemination regime. Our mobile apps are a big sensation amongst our students at large. Though the direct revenue from the online sales is pegged at 5 per cent but its support system has helped us scale and sustain the momentum of our growth.

## OUTLOOK FOR EDUCATION SECTOR IN 2017

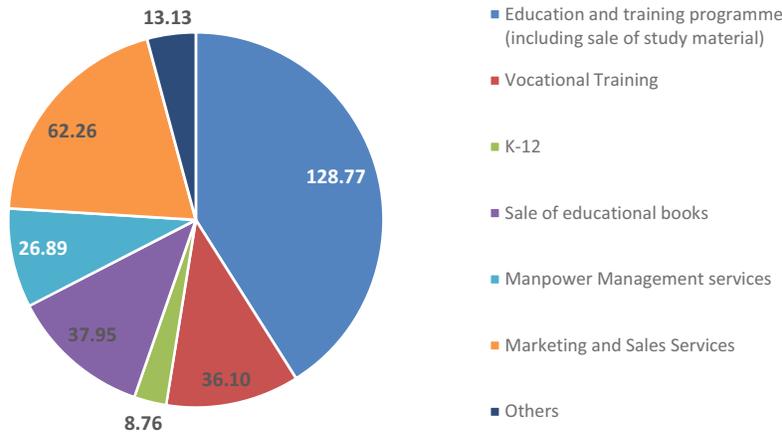
As part of a post-demonetisation gift, the government could increase spending for the coming financial year on health, education, women and child development and related social sector schemes by 10-12 per cent. Meanwhile, this would run concurrently with the increased layout on social sector by state governments, after the Fourteenth Finance Commission (FFC) recommended that the state governments should spend more on schemes in health, education and other social sectors. The FFC had increased the devolution of taxes to states from the divisible pool, from 32 per cent to 42 per cent. However, it had reduced non-tax transfers.

crore in FY16 as compared to the previous financial year. The company's EBITDA too rose 2.61 per cent to ₹37.97 crore on a yearly basis. However, its EBITDA margin also contracted by 19 basis points to 12.88 per cent in FY16 as compared to the previous fiscal. CL Educate's PAT increased 2.27 per cent to ₹21.46 crore in FY16 on a yearly basis. The company's PAT margin contracted 13 basis points to 7.28 per cent in FY16 as compared to the previous fiscal.

On considering financials of previous five years of CL Educate, the company's topline has increased 23.6 per cent at CAGR in FY12-FY16. Its EBITDA too rose 23.66 per cent CAGR in the last five financial years ending with FY16. CL Educate's bottomline has increased tremendously from a net loss of ₹5.8

# Special Report

CL Educate Revenue Drivers in (Rs Crore)



crore in FY12 to net profit of ₹21.46 crore in FY16.

On the segmental revenue front, CL Educate has earned 15.04 per cent from sales of products, 79.02 per cent from sale of services and the remaining 5.94 per cent from others in FY16.

## CONCLUSION

There are lot of ongoing developments

and initiatives taken by the government to improve education system in the country. At the same time, there are expectations from Finance Minister Arun Jaitley to announce massive reforms for the sector.

The industry demand will remain intact on the back of awareness about education in the rural areas. There is lot of competition amongst students to get



entry into top colleges for their graduation and post-graduation. Career Launcher, backed by its strong experience in the industry, is coming up with an IPO. The fundamentals of the company are strong, its leverage is healthy and its total debt-to-equity ratio stands at 0.29x in FY16. The price band for the IPO has not been fixed, so we cannot value the company right now.



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