

**Educomp Solutions Ltd****Q3 2009 Result Update****Education—IT****January 28, 2009**

Recommendation	BUY
CMP	Rs 1,778
Target	Rs 3,570
Upside Potential	101 %

BSE code :	532696
NSE Symbol:	EDUCOMP
Bloomberg :	EDSL@IN
Reuters :	EDSO.BO

Key Data

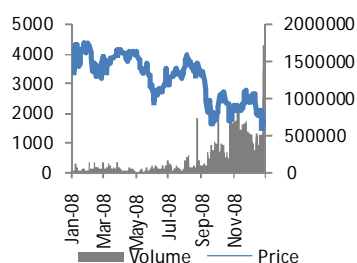
Sensex :	
52 week H/L	5678.70/1520
Outstanding Shares (mn) :	17.28
Avg. Wkly Volumes (shrs) :	539,430
Market Cap (Rs mn.) :	41,633
Face Value (Rs.) :	10

(Source :CMIE)

Share Holding Pattern (%)

Promoters :	55.03
Institutions :	0.88
FII's/NRI's :	37.65
Non Promoter Corp. Hold. :	2.08
Public & Others :	4.36

(Source : BSE)

Price Volume Analysis

(Source : Capitaline)

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Educomp Solutions Ltd (ESL) is the largest technology driven innovative education company in India. ESL's is the India's leader of K-12 education (Kindergarten to Class 12), led by their competency in curriculum design and teacher education space to develop applications and products. The company leverages information technology and the internet to deliver new age learning to people.

Investment Rationale:

Standalone Results: Educomp Solutions Ltd announced its results for the quarter ended 31st December 2008. The company recorded 103.1% growth in Sales Revenue from Rs 713 million to Rs 1,453 million. The surge in revenue was seen due to higher contribution from Smart class segment. ESL's now has 1.7 million students in 1,479 schools in its Smart Class business segment. On annual basis this business segment has grown by 152.3%.

The EBIDTA was up to Rs 668 million registering a growth of 100.1%. EBIDTA margins were marginally low to 46% vis-à-vis 46.7% recorded the same period previous year. The net profit grew by 65.9% for the period. Smart class accounted from 60.29% of the total revenue, ICT accounted for 25.82%, Professional development 5.91% and retail accounted for 7.98% of the total revenue. We understand that the smart class business segment will be the major business driver. There are over 75,000 private schools in India with around 90 million students underlining huge opportunity for Educomp Solutions Ltd. Presently, the company is leader in IT education domain in India and has only 1% market share.

Consolidated results: On consolidated basis the sales revenue grew by 130.7% to Rs 189.6 crore. EBIDTA margins when compared with previous year fell by 640 bps (6.4%) to 38% resulting in EBIDTA growth of 97.3% to Rs 720 million. Bottom-line grew from Rs 197 million to Rs 318 million registering growth of 61.3% on consolidated basis.

Majority of the revenues are recorded in the 4th quarter of the financial year: As per the company presentation the company is well in position to perform better than the guidance after assuming the seasonal nature of the company's revenue generation. The historical evidence of the company's annual results shows that approximately the first quarter of financial year amounts to around 10-12% of total revenue, second quarter amounts to 18-20% of total revenue, third quarter amounts to 25-30% of the total revenue and the fourth quarter amounts the balance, ie, 38-47% of the total revenue. After assuming that the company's 4th quarter will account for 38% of the total revenue the sales revenue for FY 2009E could touch Rs 6,577 million.

This is above the company's consolidated sales revenue guidance for the year of Rs 5,500 million. This will make ESL one of the fastest growing company in India with an annual sales revenue growth of ~151%. We also analyze the company to outsmart its net profit guidance of Rs 1,440 million.

Segment Performance:

In Smart class business segment the company now has 1.7 million students and 1,479 schools. During the third quarter the company has signed 212 additional schools of which 182 schools are under BOOT agreement and the balance are bought outright. On YOY basis smart class recorded 152.2% revenue growth with EBIT margin of 59.2%. Capital expenditure for the quarter was Rs 606.4 million.

Professional Development: The company has trained 1.3 million teachers in total. For the quarter ended 31st December 2008 the company trained 105,333 teachers registering a growth of 50.3% on YOY basis (teachers trained). In revenue terms the company grew by 30.8% (YOY). EBIT margins stood high at 61% and demanded zero capital expenditure indicating the cash richness of this business segment.

ICT: the ICT solutions business segment of the company has reached 9,970 schools and 5.5 million students end of the quarter ended 31st December 2008. The sales revenue from this segment grew by 57.1% and recorded EBIT margin of 22.8%.

Retail and Consulting segment on consolidated basis recorded Sales Revenue of Rs 559 million and EBIT of Rs 74 million (EBIT margin of 13.23%). Subsidiaries contributed Rs 443 million to the consolidated revenues.

As per information publicly made available by the company - it has filed a complaint with the Economic Offences Wing of the Delhi police against malicious and anonymous reports regarding the fudging of its accounts. The company has approached SEBI to investigate against the bear cartels behind the stock hammering. It has also approached Department of Company Affairs to investigate against the rumors in order to protect the interests of its shareholders. Against such rumors the company have provided document certified by its Company Secretary intending to present the true state of the company's balance sheet. We believe in the growth story of Educomp Solutions Ltd and expect the company to stay in high growth orbit for more years at the given competitive advantage.

Discussions for Appointment of Auditors: Company is in discussions with Grant Thornton for their appointment as the internal auditors of Educomp Solutions Ltd and statutory auditor of Educomp Infrastructure & School Management Services Ltd. from the next fiscal year

Disclosure of Shareholding & Intention to Sell: Disclosure of the intention of sale of shares (if any) in advance and shareholding at the end of every quarter by the Promoter Group

Disclosure of Share Pledging: Approaching NSDL & CDSL/Depository or any other applicable authority to get a certificate to confirm non-pledging of any of its shares

Expansion of the Board: Expansion of the Board of Directors to include prominent educationists & other eminent persons as independent directors
(Source: Company)

Outlook: We have added Educomp Solutions Ltd in our favorites list as Out-performers for 2009 with a target price of Rs 3,750 per share. We have maintained our target price and will reinstate the coverage after observing the budgetary education allocation. Our initial estimates show that public spending on education to be Rs 1650 billion for FY 2008-09E and Rs 1,970 billion for FY 2009-10E. We remain positive on the company.

Financials

Year	Net Sales	EBIDTA	PAT	EPS	EPS growth	P/E
2007	1,067	556	286	16.78	50.40%	115.61
2008	2,621	1,395	701	40.51	141.40%	47.89
2009E	5,500	2,810	1,400	78.13	92.87%	24.83
2010E	8,250	4,130	2,060	119.21	52.58%	16.27

Source: Bloomberg, ULJK Research)

Research Desk

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Institutional Sales Desk

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Disclaimer Appendix

ULJK Group investment rankings: (Time range– 12 months)

BUY (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks and 30% or more for High-Risk stocks); **ACCUMULATE** (expected total return of 5%-15% for Low- Risk stocks, 10%-20% for Medium-Risk stocks and 15%-30% for High-Risk stocks,); **REDUCE** (expected total return of less than 5% for Low Risk stocks, less than 10% for Medium Risk stocks and less than 15% for High Risk stocks) and **SELL** (expected total return of -5% or less for Low-Risk stocks, -10% or less for Medium-Risk stocks, -15% or less for High-Risk stocks, and -20% or less for Speculative stocks).

Analyst(s) holding in the Stock : Nil**Analyst Certification**

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