

Growth on track

Strong FY11 Smart Class outlook; Retain Buy

Post 3Q we retain Buy with PO of Rs1000. We largely maintain our estimates after factoring in higher Smart Class school additions, offset by assumption of two year recognition of content revenues vs. one year assumed earlier. Forecast strong earnings CAGR of 42% over FY10-12E. Our PO is at .9 PEG FY10/10-12E, and implies target multiple of 22x FY11E.

Channel checks positive

Our channel checks with competitors such as Edurite (emerging player in K-12 content) and schools indicate increasing acceptance of the product by schools, particularly in Tier2/3 cities. Consequently we now raise our assumption for Smart Class school additions for FY11 & FY12 to 2,000 and 2,700 from 1,500 and 1,700 earlier. Recent management guidance of adding 2500 schools in FY11e and reaching 20,000 schools over next 5-6 years also reaffirms our positive stance.

Accelerated growth ahead

We see accelerated growth ahead given 1) robust pipeline of 1,500 schools in Smart Class and 2) benefits from its advertisement promos. We believe the new model will help improve penetration levels as Educomp need not fund the capital expenditure required for the project. Banks have already sanctioned Rs4.2bn to third party vendor towards securitization and additional Rs2-3bn is under consideration for sanctions.

3Q : Steady quarter, new initiatives remain a concern

Educomp implemented 350 Smart class schools in line with our estimates. Revenues grew 37% YoY to Rs2.6bn and PAT grew 92% YoY, driven by 400bps margin improvement YoY. Key concerns: Losses in new initiatives, higher than anticipated cut in Smart Class pricing.

Estimates (Mar)

(Rs)	2008A	2009A	2010E	2011E	2012E
Net Income (Adjusted - mn)	707	1,429	2,739	4,514	5,511
EPS	7.11	14.38	27.56	45.42	55.45
EPS Change (YoY)	146.3%	102.2%	91.7%	64.8%	22.1%
Dividend / Share	0.586	0.618	0.618	0.618	0.618
Free Cash Flow / Share	(19.93)	(45.04)	(11.39)	11.52	25.64

Valuation (Mar)

	2008A	2009A	2010E	2011E	2012E
P/E	99.05x	48.99x	25.56x	15.51x	12.70x
Dividend Yield	0.083%	0.088%	0.088%	0.088%	0.088%
EV / EBITDA*	55.14x	22.22x	13.52x	9.24x	7.74x
Free Cash Flow Yield*	-2.46%	-5.56%	-1.62%	1.64%	3.68%

* For full definitions of *iQmethod*SM measures, see page 12.

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Stock Data

Price	Rs704.45
Price Objective	Rs1,000
Date Established	2-Nov-2009
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs266.20-Rs1,020
Mrkt Val / Shares Out (mn)	US\$1,516 / 99.4
Average Daily Volume	1,972,838
BofAML Ticker / Exchange	EUSOF / BSE
Bloomberg / Reuters	EDSL IN / EDSO.BO
ROE (2010E)	27.7%
Net Dbt to Eqty (Mar-2009A)	135.5%
Est. 5-Yr EPS / DPS Growth	20.0% / 20.0%
Free Float	35.0%

Key Changes

(Rs)	Previous	Current
2010E EPS	28.31	27.56
2011E EPS	46.30	45.42
2012E EPS	54.96	55.45
2010E EBITDA (m)	5,454.4	5,164.5
2011E EBITDA (m)	8,024.2	7,556.1
2012E EBITDA (m)	9,371.9	9,025.3

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iQprofileSM Educomp Solutions Ltd.

Key Income Statement Data (Mar)	2008A	2009A	2010E	2011E	2012E
(Rs Millions)					
Sales	2,861	6,371	10,616	17,172	19,870
Gross Profit	1,575	4,205	7,994	10,492	12,602
Sell General & Admin Expense	(301)	(1,061)	(1,443)	(1,349)	(1,690)
Operating Profit	935	2,329	4,011	6,749	8,302
Net Interest & Other Income	129	(41)	935	174	183
Associates	NA	NA	NA	NA	NA
Pretax Income	1,065	2,289	4,945	6,922	8,484
Tax (expense) / Benefit	(351)	(773)	(1,635)	(2,215)	(2,715)
Net Income (Adjusted)	707	1,429	2,739	4,514	5,511
Average Fully Diluted Shares Outstanding	99	99	99	99	99

Key Cash Flow Statement Data

Net Income	711	1,447	3,220	4,514	5,511
Depreciation & Amortization	331	814	1,154	807	724
Change in Working Capital	(730)	(1,023)	(1,338)	(859)	(897)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	193	1,118	70	674	824
Cash Flow from Operations	505	2,357	3,107	5,137	6,162
Capital Expenditure	(2,224)	(6,249)	(4,239)	(3,986)	(3,584)
(Acquisition) / Disposal of Investments	85	(367)	0	0	0
Other Cash Inflow / (Outflow)	141	150	0	0	0
Cash Flow from Investing	(1,998)	(6,467)	(4,239)	(3,986)	(3,584)
Shares Issue / (Repurchase)	0	0	4,800	3	4
Cost of Dividends Paid	(40)	(58)	(61)	(62)	(62)
Cash Flow from Financing	3,461	3,872	6,422	860	426
Free Cash Flow	(1,719)	(3,892)	(1,132)	1,151	2,579
Net Debt	862	6,786	(409)	(1,020)	(2,975)
Change in Net Debt	(1,634)	4,238	(3,205)	(611)	(1,954)

Key Balance Sheet Data

Property, Plant & Equipment	2,714	8,126	11,212	14,390	17,250
Other Non-Current Assets	318	1,966	1,955	1,955	1,955
Trade Receivables	1,157	2,765	3,981	4,669	5,356
Cash & Equivalents	2,912	1,902	7,183	9,194	12,198
Other Current Assets	570	1,833	1,653	1,932	2,250
Total Assets	7,671	16,592	25,984	32,140	39,009
Long-Term Debt	3,773	8,688	6,774	8,174	9,224
Other Non-Current Liabilities	210	639	639	639	639
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	586	2,214	2,327	2,434	2,541
Total Liabilities	4,569	11,542	9,740	11,247	12,404
Total Equity	3,078	5,007	16,444	21,090	26,798
Total Equity & Liabilities	7,647	16,550	26,184	32,337	39,202

iQmethodSM - Bus Performance*

Return On Capital Employed	16.1%	17.0%	20.1%	19.8%	19.3%
Return On Equity	35.1%	40.3%	27.7%	25.4%	24.2%
Operating Margin	32.7%	36.6%	37.8%	39.3%	41.8%
EBITDA Margin	44.3%	49.3%	48.6%	44.0%	45.4%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.7x	1.6x	1.1x	1.1x	1.1x
Asset Replacement Ratio	6.7x	7.7x	3.7x	4.9x	5.0x
Tax Rate (Reported)	33.0%	33.8%	33.1%	32.0%	32.0%
Net Debt-to-Equity Ratio	28.0%	135.5%	-2.5%	-4.8%	-11.1%
Interest Cover	19.5x	8.7x	10.0x	14.0x	14.7x

Key Metrics

* For full definitions of iQmethodSM measures, see page 12.

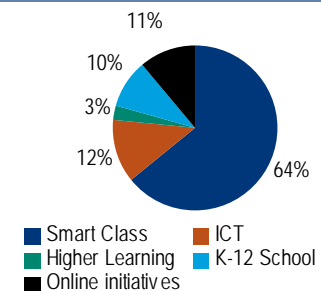
Company Description

Set up in 1994, Educomp is India's largest provider of technology driven education solutions. It provides end to end solutions for K12 through licensing of digital content to enhance the teaching process. It aims to be a comprehensive provider of solutions in India's school education economy and has expanded its offerings to cater to pre schools, online tutoring, professional development for teachers etc.

Investment Thesis

We expect Educomp to be one of the fastest growing companies in our universe. Key positives include growing adoption of technology-based education in K-12 (Kindergarten to Class12) private schools, low market penetration of under 5% among private schools in India and increased spending by state governments on technology adoption in public schools. Moreover, revenue visibility will be enhanced as the company enters into five-year contracts with private schools.

Chart 1: 3Q Revenue Split



Source: Educomp

Stock Data

Price to Book Value

4.5x

Strong FY11 Smart Class outlook; Retain Buy

Post 3Q we retain Buy with PO of Rs1000. We largely maintain our estimates after factoring in higher Smart Class school additions, offset by assumption of two year recognition of content revenues vs. one year assumed earlier.

Forecast strong earnings CAGR of 42% over FY10-12E. Our PO is at .9 PEG FY10/10-12E, and implies target multiple of 22x FY11E.

Channel checks positive

Our channel checks with competitors such as Edurite and schools indicate increasing acceptance of the product by Schools. We note that demand environment is particularly strong with schools in Tier2/ Tier3 cities, given higher aspirations amongst schools to increase deliverables to students.

While there are more than 75000 private schools, we believe Educomp could easily target over 25000 schools in its initial phase.

Consequently we now raise our assumption for Smart Class school additions for FY11 & FY12 to 2,000 and 2,700 from 1,500 and 1,700 earlier.

Tier one markets remain strong

One of the key investor concerns has been on growth from tier one markets. Educomp continues to see strong interest for its offerings from Tier one cities. Even during 3Q, around 30% of the school additions came from Tier one markets.

Given sales conversion cycle in Tier one cities are relatively longer than Tier 2/3, the mix is likely to tilt in favour of tier two. On an accelerated growth trajectory we have assumed at least 25% of school additions to be from tier one cities, with balance been from Tier 2/3 cities.

Table 1: Smart Class mkt potential

Target Market	Schools (nos)	Comment
Tier one	~7000	Strong traction. Launched advertisement promos to further penetrate this segment.
Tier two	~13000	To focus extensively on tier 2/3 cities. Educomp is seeing faster turnaround in this segment. Even Edurite is seeing strong interest from this segment
Tier three	~5000	

Source: BofAML Global Research estimates

Educomp geared up for growth

We believe the company is well geared up for growth given:

#1. Robust pipeline of schools...

It currently has strong pipeline of over 1500 schools across Tier one and Tier two cities. These are prospects which are in advanced stage of negotiation and would see closure over next 2-3 quarters.

...Likely to reflect in 4Q numbers

We expect benefits from the new model to reflect from 4Q onwards. While school additions have already picked from 3Q onwards, implementation numbers continue to lag. During 3Q Educomp announced 355 school implementations and has now guided at 500 implementations for 4Q.

Educomp targets schools with a fee structure of Rs400pm to Rs7000pm and would sign up at least 15 class rooms in a school

#2. Funding program in place

Funding availability for securitization is in place as banks have already sanctioned Rs4.2bn and additional proposals for Rs2-3bn is being considered currently. Approval from banks in our view is critical for success of the project.

Table 2: Funding arrangements for securitization

Term sheet sanctioned from	Rs.bn	Comments
ICICI Bank	2.50	
Standard Chartered Bank	1.00	Rs2.45bn already disbursed.
Punjab National Bank	0.75	Documentation work for
	4.25	Rs1bn to be completed soon.
Under Proposal		
State Bank of India, Axis Bank, Indusind Bank, Canara Bank	Rs2-3bn	

Source: Educomp

#3. Benefits from advertisement promos

We see potential benefits from advertisement promos initiated by Educomp recently. Educomp recently started advertising in National and regional entertainment channels. Through advertising Educomp intends to reach out to parents and students as well thus completing the entire eco system. This should particularly help in Tier one cities, where sales cycle is longer.

It has also strengthened its sales force during the quarter and currently has ~230 employees present in over 135 cities across the country.

Encouraging mgt commentary; Guidance raised

Management surprised the street with extremely strong school addition guidance for FY11. It expects to add at least 2500 Smart Class schools in FY11 a yoy increase of over 120%.

And over the next five years, the management expects to reach out to 20,000 Smart Class schools. Our channel checks with emerging players such as Edurite support our thesis of strong demand for Smart Class.

Key changes in our assumption

While we raise our assumptions for Smart Class school additions we tweak estimates marginally to factor two year recognition of content revenues vs one year earlier

Under the new model, we had earlier assumed revenues to be recognized in one year given Educomp is selling both hardware and content upfront to Edu Smart (Third party vendor). However as management plans to upgrade the content to interactive model over next 18 months, it has now adopted the policy of recognizing content revenues over two years instead of one.

We believe this is prudent given Educomp would be expensing the key cost (hardware) in year one itself. It will also be providing for sales/ academic support cost which will be required over the next 4-5 years in the first two years. We have now adjusted our numbers for Smart Class accordingly to factor the change.

Table 3: Smart Class – Key assumptions

	FY11	FY12	Comments
No of Smart Class additions	1985	2679	Expect at least 25% -30% schools to be from Tier one in FY10 & FY11.
Avg Class room additions	18	18	Avg class room additions assuming 25 classroom in Tier 1 and 15 in Tier 2
Avg pricing	135	135	Blended pricing
Revenue recognition	Hardware to be recognized in yr 1, Content to be recognized in two years		
Year 1	52% of contract value (Hardware & half of content)		
Year 2	23% of contract value.		

Source: BofA Merrill Lynch Global Research

Even competitors follow similar model where in they have outsourced Hardware implementation to third party vendors

See merit in new model

Many investors are concerned about Educomp's plan to adopt the new model. We see three key reasons for Educomp to shift to the new model.

- 1) **Addressing implementation issues given growth largely driven by Tier 2, Tier 3 cities.** Given increasing penetration in tier 2 & tier 3 cities which are spread across over 130 cities, implementation was getting critical. Delays in implementation would adversely impact ability of company to bill schools. As school additions are likely to accelerate, it was desirable to rope in third party vendor to take over implementation of schools. Management highlighted that the third party vendor would be governed by service level agreements and would exclusively work for Educomp.
- 2) **Address potential issues linked to service tax charge.** During last budget, the Finance minister expanded the scope of service tax to include "Rights to use goods" category. This includes services in relation to use of goods (machinery, equipment etc) without transfer of right of possession or control. Educomp's Smart Class contract fell under this category as Educomp had signed five year contract with schools to use hardware & content. Also Educomp's contract didn't bifurcate the value of content and hardware separately and was fully liable for services tax charges. This would have required Educomp to pay nearly ~10% of contract value as service tax. Under the new model as both hardware & content is sold upfront to third party vendor Educomp is not liable to pay service tax. It is required to pay 4% VAT on hardware, which is also offset against VAT paid by Educomp to hardware vendor.
- 3) **Addressing concerns on rising debt.** Under the new model Edu Smart will be entering in to securitization agreement with banks. Educomp will provide corporate guarantee to banks, and would be required to show corporate guarantee as contingent liability. Most importantly Educomp will be able to further leverage its balance sheet for growth opportunities as in this case banks have waived off corporate guarantee for computation of Net Debt to EBITDA covenant. This we believe is one of the key reasons for securitization to be done at Edu Smart level instead of Educomp.

3Q: Steady quarter

Educomp implemented 350 Smart class schools in line with our estimates. Revenues stood at Rs2.6bn up 37% YoY with PAT of Rs611mn up 92% YoY. EBIT margins improved by 400bps YoY to 39% driven by changing mix in favor of high margin Smart Class business and SG&A leverage.

Table 4: 3Q analysis

Rs m	3QFY09	3Q FY10	YoY %	3Q FY10 BofMLE	YoY
Net Sales	1896	2601	37%	2502	4%
Total Expenditure	1013	1239	22%	1228	1%
EBITDA	882	1362	54%	1274	7%
Depreciation & Amortisation	210	338	61%	307	10%
EBIT	673	1025	52%	967	6%
Other Income	16	158	911%	110	44%
Forex Losses	-165	-28	-83%	0	nm
Interest	49	139	185%	120	16%
PBT	474	1016	114%	957	6%
Tax	132	160	21%	316	-49%
PAT	318	611	92%	616	-1%
Recurring Profit	318	611	92%	616	-1%
					bps
EBITDA margin	47%	52%	582.4	51%	-145.7
EBIT margin	35%	39%	390.9	39%	-74.1
PAT margin	17%	23%	673.0	25%	113.5

Note : Results are standalone

Segment accounts

	3QFY09	3Q FY10	YoY
Revenues (Rs.mn)			
School Learning Solutions	1279	1987	55%
Higher Learning	89	78	-13%
K-12 Schools	198	251	27%
Online Supplemental & Global	329	285	-13%
Total	1896	2601	37%

PBIT

School Learning Solutions	614	1216
Higher Learning	19	-41
K-12 Schools	90	103
Online Supplemental & Global	37	-47
Total	760	1231

PBIT %

School Learning Solutions	48%	61%
Higher Learning	21%	-53%
K-12 Schools	45%	41%
Online Supplemental & Global	11%	-17%

Source: Company, BofA Merrill Lynch Global Research

Key segmental performance

ICT.. Focus on margins likely

Under ICT it added 363 schools taking the active school base to 14826. Quarter revenues were largely driven by content/boot revenues and hence on QoQ basis was down 50% to Rs315mn. EBIT margins though improved from 17% in 2Q to 23% during the quarter.

K-12 Progress on track

Educomp made steady growth in its K-12 business. It currently has 36 live schools including 14 Euro Schools (50% stake). It acquired land for 16 more high schools and has visibility (including live schools) for 59 schools. Number of students under enrolment increased from 16000 in previous quarter to 18000 currently.

Table 5: Edu Infra Financials

	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
No of operational schools	11	20	35	36	36
Revenues	129	89	120	126	156
EBITDA	104	61	94	74	117
PAT	52	32	42	38	69
EBITDA %	81	69	78	59	75
PAT %	40	36	35	30	44

Source: Educomp

New initiatives remain a concern

Its new initiatives comprise of Vocational training (JV with Pearson, JV with Raffles), online supplemental (web initiatives such as Authorgen, learnhub.com and Educomp learning hour). Cumulatively the new initiatives incurred losses of Rs200mn during the first nine months. Most of these initiatives continue to be in investment mode

For e.g. Raffles JV where Educomp is setting up design institute in JV with Raffles, it has currently two centres which are operational and it plans to operationalise 4 more centres during the year. Most of these centres are likely to remain in losses at least for a year.

Its JV with Pearson has now been branded as IndiaCan. There are over 100 vocational training centers already operational in different formats across the country.

Table 6: New Initiatives

New Initiatives	1Q FY10	2Q FY10	3QFY10
Revenues	331	322	364
PBIT	-17	-89	-88

Source: Educomp, BofA Merrill Lynch Global Research

Forays in to supplemental education business

During the quarter Educomp unveiled its plan to enter the supplemental education business. It plans to consolidate its existing investments in supplemental education companies (such as Learnhub, Learninghour, Wiziq.com) into a single entity called Educomp supplemental. Other plans include launching career counseling and assessment product Edulgnite. As per management consumers spend 2 x amounts in supplemental education as compared to school/ college spend.

Management commented that it intends to invest around Rs500mn over next one year in its new initiatives and they are likely to be in investment mode for at least two years.

Financials

Table 7: Profit and Loss Statement

Rs mn (year-end March)	FY08	FY09	FY10E	FY11E	FY12 E
Sales	2861	6371	10616	17172	19870
Other income	177	227	1336	655	749
Total Income	3038	6598	11952	17827	20619
Cost of goods sold	798	1110	1301	4358	5234
Personnel expenses	488	1055	1320	2322	2034
Administration and other expenses	301	1061	1443	1349	1690
Total Expenditure	1594	3227	5451	9616	10845
EBITDA	1267	3144	5165	7556	9025
Depreciation	331	814	1154	807	724
EBIT	935	2329	4011	6749	8302
Finance charges	48	268	401	481	566
EBT	887	2061	3609	6267	7735
PBT	1065	2289	4945	6922	8484
Total Taxes	351	773	1635	2215	2715
Profit after tax, minority interest & pre-acquisition profits	706	1429	2739	4514	5511

Source: Educomp, BofA Merrill Lynch Global Research

Table 8: Balance Sheet details

	FY08	FY09	FY10E	FY11E	FY12 E
Shareholders' funds					
Share capital	172	173	199	200	201
Reserves and surplus	2629	3886	6564	11016	16465
Net worth	2884	4203	15549	20003	25453
Minority Interest	194	804	894	1087	1345
Loan funds					
Secured Loans	622	4689	6774	8174	9224
Term Loan from Bank	438	4315	6400	7800	8850
Total Sources of funds	7061	14342	23657	29703	36462
Goodwill	280	1225	1225	1225	1225
Fixed assets					
Gross Block	2890	6499	10738	14724	18307
Net Block	2342	5164	8250	11428	14288
Capital Work in Progress	372	2962	2962	2962	2962
Total	2714	8126	11212	14390	17250
Investments	36	729	729	729	729
Current assets, loans and advances					
Inventories	18	316	366	416	466
Sundry debtors	1157	2765	3981	4669	5356
Cash	2912	1902	7183	9194	12198
Loans and Advances	490	1138	1287	1515	1781
	4639	6153	12817	15795	19804
Less current liabilities and provisions					
Liabilities	517	1995	2071	2178	2285
Sundry creditors	415	599	649	699	749
Employee payables	36	95	100	105	110
Other liabilities	27	196	198	200	202
Income due but not accrued	0	0	5	5	5
Advance from customers	16	632	632	632	632
Less current liabilities and provisions	610	2251	2327	2434	2541
Net current assets	4029	3903	10490	13361	17263
Total Applications	7061	14342	23657	29707	36469

Source: Educomp, BofA Merrill Lynch Global Research

01 February 2010

Table 9: Cash Flow Statement

Cash flows from operating activities	FY08	FY09	FY10E	FY11E	FY12 E
Net profit before taxation and after prior period items as per P&L	1072	2108	4945	6922	8484
Depreciation	331	814	1154	807	724
interest exps	48	268	401	481	566
Operating profit before working capital changes	1419	3721	6080	8211	9774
Adjusted for :					
Trade & other receivables	-657	-1603	-1215	-688	-688
loans & advances	-426	-613	-148	-228	-266
Trade & other payables	338	1491	76	107	107
Cash Generated from operations	689	2698	4742	7352	8877
Taxes paid (Net of TDS)	-184	-329	-1635	-2215	-2715
Net cash from operating activities	505	2357	3107	5137	6162
Cash flows from investing activities					
Purchases of fixed assets	-2224	-6249	-4239	-3986	-3584
Net cash used in investing activities	-2102	-7215	-4239	-3986	-3584
cash flows from financing activities					
Net proceeds from fresh issue of capital through IPO	0	0	4800	3	4
Proceeds/ repayment of long term borrowings	334	4000	2085	1400	1050
interest on borrowings	-48	-268	-401	-481	-566
Dividend paid	-40	-58	-61	-62	-62
Net Cash from financing activities	3393	3846	6422	860	426
Net increase in cash and cash equivalents	1796	-1011	5290	2011	3004
Opening cash and cash equivalents	1109	2905	1893	7183	9194
Closing cash and cash equivalents	2905	1893	7183	9194	12198

Source: Educomp, BofA Merrill Lynch Global Research

Table 10: Ratios

Year Mar 31 (Rs mn)	FY07	FY08	FY09	FY10E	FY11E	FY12E
Valuation ratios						
P/E (x)	275	111.9	55.3	28.8	17.5	14.3
P/CEPS	166	66	31	20	15	13
P/BV (x)	55	24	16	5	4	3
EV/EBITDA (x)	124	49	20	12	8	7
EV/EBIT (x)	153	67	27	16	9	8
EV/ Revenues	57	22	10	6	4	3
Growth %						
Revenue	98	160	123	67	62	16
EBITDA	89	150	148	64	46	19
EBIT	94	128	149	72	68	23
Net Profit	106	146	102	92	65	22
Profitability %						
EBITDA	46	44	49	49	44	45
EBIT	37	33	37	38	39	42
Net Profit	26	25	22	26	26	28
Return %						
RONW	28.1	35.0	40.3	27.7	25.4	24.2
ROCE	22.7	19.4	21.8	21.1	25.3	25.1
Per Share Data (Rs.)						
EPS -diluted	3	7	14.4	27.6	45.4	55.5
CEPS	5	12	26	39	53	62
DPS	0	1	1	1	1	1
DSO	125	105	112	116	92	92

Source: Educomp, BofA Merrill Lynch Global Research

Price objective basis & risk

Educomp Solu (EUSOF)

Our PO of Rs1000 based on a 2 yr PEG of 0.9x and implies target multiple of 22x FY11e. Our PO reflects potential de rating given Smart Class revenue stream now likely to be volatile. Retain Buy given strong 42% CAGR in earnings FY10-12E, and sharp turnaround in FCF on shift to new business model. Besides Educomp remains the only listed education service provider with offerings in K-12 and is a emerging player in vocational/ supplemental education.

Risks to our valuation are higher losses in new initiatives, higher than anticipated cut in Smart Class pricing, acquisition-related risks and managing multiple growth initiatives.

Analyst Certification

I, Pratish Krishnan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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India - Software & IT Services Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
BUY	Educomp Solu	EUSOF	EDSL IN	Pratish Krishnan
	Firstsource	FSSOF	FSOL IN	Mitali Ghosh
	HCL	XHCLF	HCLT IN	Mitali Ghosh
	Infosys Tech	INFYF	INFO IN	Mitali Ghosh
	Infosys Tech - A	INFY	INFY US	Mitali Ghosh
	Mphasis Ltd	MPSSF	MPHL IN	Pratish Krishnan
	Rolta India	RLTAF	RLTA IN	Pratish Krishnan

01 February 2010

India - Software & IT Services Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
	Rollta India-GDR	XLROF	RTI LI	Pratish Krishnan
	Tata Consultancy	TACSF	TCS IN	Mitali Ghosh
	Wipro	WIPRF	WPRO IN	Mitali Ghosh
	Wipro	WIT	WIT US	Mitali Ghosh
	Zee Entertainment	XZETF	Z IN	Pratish Krishnan
NEUTRAL				
	Genpact Ltd	G	G US	Mitali Ghosh
	Patni	PATIF	PATNI IN	Mitali Ghosh
	Patni Computer	PTI	PTI US	Mitali Ghosh
	Tech Mahindra	TMHAF	TECHM IN	Pratish Krishnan
	WNS (Holdings) L	WNS	WNS US	Mitali Ghosh
UNDERPERFORM				
	Hexaware Tech	XFTCF	HEXW IN	Pratish Krishnan
	Infotech Enterprises Ltd	IFKFF	INFTC IN	Pratish Krishnan
	Mastek	MSKDF	MAST IN	Pratish Krishnan
RVW				
	Balaji Tele	BLJIF	BLJT IN	Bharat Parekh
	ExlService Holdi	EXLS	EXLS US	Mitali Ghosh
	Sun TV LTD	SUTVF	SUNTV IN	Pratish Krishnan

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

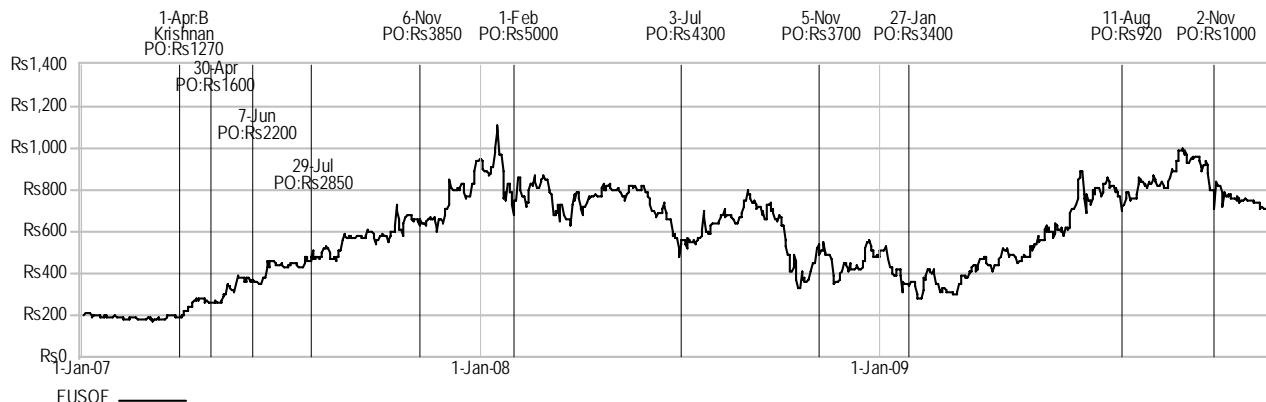
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EUSOF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of December 31, 2009 or such later date as indicated.

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Investment Rating Distribution: Education & Training Services Group (as of 01 Jan 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	14	73.68%	Buy	8	57.14%
Neutral	4	21.05%	Neutral	3	75.00%
Sell	1	5.26%	Sell	1	100.00%

Investment Rating Distribution: Global Group (as of 01 Jan 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1699	50.78%	Buy	904	58.82%
Neutral	841	25.13%	Neutral	491	65.03%
Sell	806	24.09%	Sell	368	49.80%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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