

UBS Investment Research

Educomp Solutions

Five questions on Educomp Solutions

■ Is revenue growth for *smartclass* sustainable?

Despite the strong volumes reported in *smartclass* (multimedia-based classroom learning aid) in the past few quarters, investors remain concerned about its long-term growth potential. Our analysis indicates that this segment is likely to grow at a 25% revenue CAGR in FY10-25, and we expect Educomp to outpace the market given its leadership position.

■ What are the sustainable margins for the *smartclass* segment?

We believe that the recent change in business model (from Build-Operate-Own-Transfer to upfront licence fees) will help Educomp sustain margins in *smartclass*. We expect incremental content costs to be lower, leading to margins sustaining at 58-60% levels over the medium term. We see no credible price competition in this segment at present, which should help maintain near-term margins as well.

■ Why are debtor days still high despite the recent business model change?

Educomp's management attributed the increase in debtor days in Q1 FY11 despite the business model change to over 1,000 schools that are yet to be securitised; it expects this to decline over the next few quarters. We view this as a critical delivery aspect for the company in Q2 FY11, and believe that this would be necessary to build credibility on the new business model.

■ Valuation: maintain Buy; Q2 FY11 performance key to stock price moves

We believe that the longer-term business fundamentals remain strong for Educomp. We expect the stock price to remain range-bound over the near term, and believe that margin performance and reduction in debtors remain key deliverables for Q2 FY11. We maintain our Buy rating with a DCF-based price target of Rs775.

| Highlights (Rsm) | 03/09 | 03/10 | 03/11E | 03/12E | 03/13E |
|-------------------|-------|--------|--------|--------|--------|
| Revenues | 6,371 | 10,405 | 12,301 | 15,701 | 21,030 |
| EBIT (UBS) | 2,212 | 3,721 | 4,319 | 6,035 | 8,611 |
| Net Income (UBS) | 1,322 | 2,713 | 3,006 | 3,833 | 5,686 |
| EPS (UBS, Rs) | 15.21 | 29.33 | 31.66 | 40.36 | 59.87 |
| Net DPS (UBS, Rs) | 0.70 | 1.00 | 2.00 | 2.00 | 2.00 |

| Profitability & Valuation | 5-yr hist av. | 03/10 | 03/11E | 03/12E | 03/13E |
|---------------------------|---------------|-------|--------|--------|--------|
| EBIT margin % | - | 35.8 | 35.1 | 38.4 | 40.9 |
| ROIC (EBIT) % | - | 18.3 | 14.5 | 18.1 | 23.3 |
| EV/EBITDA (core) x | - | 14.4 | 10.4 | 7.9 | 5.8 |
| PE (UBS) x | - | 24.5 | 18.2 | 14.3 | 9.6 |
| Net dividend yield % | - | 0.1 | 0.3 | 0.3 | 0.3 |

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs576.15 on 18 Aug 2010 23:39 HKT

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Global Equity Research

India

Consumer Services

12-month rating **Buy**
Unchanged

12m price target **Rs775.00/US\$16.69**
Unchanged

Price **Rs576.15/US\$12.41**

RIC: EDSO.BO BBG: EDL1 IB

19 August 2010

Trading data (local/US\$)

| | |
|--------------------------|--------------------------------|
| 52-wk range | Rs999.48-452.05/US\$21.13-9.48 |
| Market cap. | Rs55.0bn/US\$1.18bn |
| Shares o/s | 95.4m (ORD) |
| Free float | 50% |
| Avg. daily volume ('000) | 940 |
| Avg. daily value (m) | Rs551.4 |

Balance sheet data 03/11E

| | |
|----------------------|------------|
| Shareholders' equity | Rs18.8bn |
| P/BV (UBS) | 2.9x |
| Net Cash (debt) | (Rs13.1bn) |

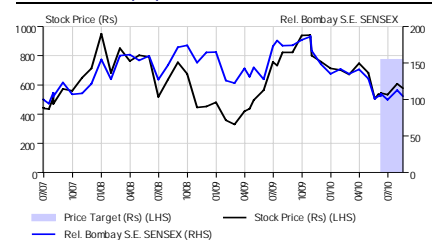
Forecast returns

| | |
|-----------------------------|--------|
| Forecast price appreciation | +34.5% |
| Forecast dividend yield | 0.3% |
| Forecast stock return | +34.8% |
| Market return assumption | 12.6% |
| Forecast excess return | +22.2% |

EPS (UBS, Rs)

| | 03/11E | 03/10 | Actual |
|--------|--------|-------|--------|
| UBS | 31.66 | 29.33 | 29.33 |
| Cons. | 32.34 | 29.33 | 29.33 |
| Q1E | 5.70 | - | 4.38 |
| Q2E | 6.96 | - | 13.18 |
| Q3E | 8.55 | - | 6.78 |
| Q4E | 10.45 | - | 6.38 |
| 03/11E | 31.66 | 32.34 | |
| 03/12E | 40.36 | 43.06 | |

Performance (Rs)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 8.

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1. Is revenue growth in *smartclass* likely to slow?

We believe that the recent change in business model in *smartclass* has raised questions such as:

- (a) Does the change in business model imply slowing revenue growth potential for *smartclass*?
- (b) Is the company's FY11 target of 25,000-30,000 classroom additions realistic?

We believe that revenue growth potential for *smartclass* is high

Multimedia-based course content has gained significant traction over the past few years, as a means to increase effectiveness of classroom curricula. We believe this segment is still in the early stages of adoption, with less than 3% of the market penetrated so far. As product awareness and income levels increase, we envisage a strong 25% CAGR growth in the market over 2010-2025 for such products.

Table 1: Multimedia content in schools offer strong growth opportunity

| | 2010 | 2015 | 2025 |
|--|---------|---------|---------|
| Total private schools (nos) | 249,920 | 253,837 | 257,713 |
| Assumed penetration | 3% | 15% | 30% |
| Schools adopting content (nos) | 6,248 | 38,076 | 77,314 |
| Classroom using content (nos per school) | 5 | 8 | 10 |
| Total classrooms (nos) | 31,240 | 304,605 | 773,138 |
| Revenue per classroom (Rs) | 300,000 | 330,000 | 363,000 |
| Total revenue (\$ m) | 208 | 2,234 | 6,237 |
| Revenue CAGR (2010-2025) | | | 25.4% |

Source: DISE, company data, UBS estimates

We believe that Educomp's early-mover advantage in this segment through its *smartclass* offering will help the company stay ahead of competition in this fast-growing market. The company has recently ramped up sales force in this segment from 220 in FY10 to over 380 at present, which we believe will help the company penetrate Tier 2 and Tier 3 towns in India. Post the recent ramp-up in sales force, *smartclass* seems to be on track to meet management's full-year guidance of 25,000-30,000 classrooms (Q1 FY11 addition of 6,750).

2. How does the new model for *smartclass* work?

From FY10 onwards, Educomp has started selling its *smartclass* content on an upfront basis to private schools, while EduSmart, a third-party entity, will provide maintenance services. This approach is different from the Build, Own, Operate, Transfer (BOOT) model adopted earlier, which required Educomp to invest Rs100,000 per classroom upfront and collect revenue over a five-year period. Under the new contract, Educomp will provide hardware and content to classrooms and receive 75% of the contract value over a two-year period from

Edusmart. Edusmart will securitise the contract (55% of contract value securitised at present) and pay Educomp over a two-year period. Edusmart will be responsible for maintenance services and receive revenue from the schools over a five-year period.

Table 2: *Smartclass*—new business model

| | | |
|--|---------|--|
| Total contract value (Rs) | 394,000 | |
| Revenue accruing to EduSmart (Rs) | 98,500 | 25% of contract value |
| Revenue accruing to EduSmart - Year 1 (Rs) | 206,850 | 30% of contract value for hardware + 22.5% for content |
| Revenue accruing to EduSmart - Year 2 (Rs) | 88,650 | 22.5% of contract value for content |
| Margins accruing to Educomp – Year 1 | 45% | On account of hardware pass through |
| Margins accruing to Educomp – Year 2 | 90% | Only content revenue |

Source: Company data

3. Does Q1 FY11 point towards a steady decline in *smartclass* margins?

The new model is margin-neutral, we see margins being steady

The disappointing margin performance in Q1 FY11 has raised concerns on margins being sustainable in this segment. With Educomp parting with 25% of revenue towards maintenance services to Edusmart, there are concerns that margins will be lower on a sustainable basis. However, our analysis of margins in *smartclass* suggests that the cost savings would more or less compensate for the revenue loss of 25% shared with Edusmart. Therefore, we believe that *smartclass* margins should be sustainable at 58-60% levels.

Table 3: *Smartclass*—details of the new model

| | Old Model | New Model | Comment |
|------------------------------|---|---|---|
| Revenue | 100% of revenue accrues to Educomp over 5 years | 75% of revenue to Educomp - 52.5% in Year 1 and 22.5% in Year 2 | Revenue share of 25% to Edusmart |
| Cost savings | NIL | 6.0% | Due to lower operational costs |
| Tax savings | NIL | 10.8% | Due to move from service tax to VAT on account of the new model |
| Interest cost savings | NIL | 3.6% | Assuming interest rate at 13% |
| Depreciation-related savings | NIL | 5.6% | |
| Net savings/loss | NA | 1.0% | |

Source: Company data, UBS estimates

We expect price realisations to be stable

Another reason for margin concern is the possibility of lower price realisations in the *smartclass* segment given: a) the potential of increasing competition in this segment; and b) lower ability of schools to pay for *smartclass* in Tier 2 and Tier 3 towns in India. While we do not rule out competition pricing products lower than Educomp's present pricing, we note that competitors such as NIIT launched its e-Guru product at a higher price (Rs180-200 per student per month versus Rs150 for Educomp) about two years ago. We believe this is due to the

higher cost of investments for a new entrant to build an extensive content library (Educomp currently has over 16,000 modules comprising the entire syllabus from K-12). It is possible that other competitors could offer lower pricing, but we believe that the market is large enough for multiple product sub-segments and price points to comfortably co-exist.

We expect pricing to remain stable as the company starts selling *smartclass* in Tier 2 and Tier 3 towns. Instead, we expect lower adoption in terms of number of classrooms per school, which could depend on the schools' ability to pass on the fees to students. Educomp has already reported a drop in the average number of classrooms per school from 15-20 earlier to 8 at present.

Margins likely to bounce back from Q2 FY11

Educomp's management attributed the lower margins in Q1 FY11 to partial implementation in over 1,000 classrooms during the quarter, for which costs were booked in the P&L in Q1 FY11 and revenue would be recognised on full implementation in Q2 FY11. Q1 FY11 also did not have any content revenue deferred from the previous year since the transfer to the new model started only from Q2 FY10 onwards. Management has guided for Rs3bn of deferred content revenue to be booked in FY11, which will start from Q2 FY11 onwards. Since this would come at over 90% margins (Table 2), we expect margins to rise to guided levels of 55-60% over the next three quarters.

4. Why are debtor days still high?

One of the key criticisms post Q1 FY11 is the increase in debtor days to 183 from 154 in Q4 FY10. We expected this number to trend down post the implementation of the new business model, which would shrink the working capital cycle and lower debtor days. While management attributed this to the 1,000-plus schools that are yet to be securitised, we remain disappointed at the lack of guidance for the same at the beginning of the year. Management expects to securitise these assets over the next quarter, which should lower the debtor days. We view this as a critical delivery aspect for the company in Q2 FY11, and we believe this would be necessary for the company to build credibility over the new business model.

5. Why does EduSmart's debt have recourse to Educomp's balance sheet?

Our channel checks indicate that banks are open to lending without recourse to Educomp

The securitisation of schools contracts done by EduSmart has recourse to Educomp's balance sheet though a corporate guarantee at present. This raises the contingent liability to Educomp in the event of a potential default by EduSmart. Our channel checks suggest that banks view education sector receivables as high quality assets with low default rate. In our interactions, Educomp's management has indicated that it is seeking lenders without recourse to Educomp and is confident of tying up such lines of credit over the next few quarters.

Maintain Buy; Q2 FY11 critical to stock price upside

We believe that the longer-term business fundamentals remain strong for Educomp given the strong macro growth expectations. However, we expect the stock price to remain range-bound over the near term, given the recent disappointment in Q1 FY11 earnings. We believe margin performance and reduction in debtors remain key deliverables for Q2 FY11 that will determine stock price upside. We maintain our Buy rating with a DCF-based price target of Rs775.

Educomp Solutions

| Income statement (Rsm) | - | 03/07 | 03/08 | 03/09 | 03/10 | 03/11E | % ch | 03/12E | % ch | 03/13E | % ch |
|--|---|-------|---------|---------|---------|---------|-------|---------|-------|----------|-------|
| Revenues | - | 1,101 | 2,861 | 6,371 | 10,405 | 12,301 | 18.2 | 15,701 | 27.6 | 21,030 | 33.9 |
| Operating expenses (ex depn) | - | (595) | (1,595) | (3,344) | (5,546) | (6,713) | 21.0 | (8,306) | 23.7 | (10,965) | 32.0 |
| EBITDA (UBS) | - | 506 | 1,266 | 3,027 | 4,859 | 5,588 | 15.0 | 7,395 | 32.3 | 10,065 | 36.1 |
| Depreciation | - | (96) | (331) | (814) | (1,138) | (1,269) | 11.5 | (1,360) | 7.2 | (1,454) | 6.9 |
| Operating income (EBIT, UBS) | - | 410 | 935 | 2,212 | 3,721 | 4,319 | 16.1 | 6,035 | 39.7 | 8,611 | 42.7 |
| Other income & associates | - | 59 | 175 | 220 | 1,161 | 369 | -68.2 | 785 | 112.7 | 1,051 | 33.9 |
| Net interest | - | (14) | (48) | (268) | (489) | (648) | 32.6 | (784) | 21.0 | (724) | -7.7 |
| Abnormal items (pre-tax) | - | (23) | (50) | 0 | 0 | 0 | - | 0 | - | 0 | - |
| Profit before tax | - | 432 | 1,011 | 2,164 | 4,393 | 4,040 | -8.0 | 6,036 | 49.4 | 8,938 | 48.1 |
| Tax | - | (170) | (351) | (773) | (1,626) | (970) | -40.4 | (2,113) | 117.9 | (3,129) | 48.1 |
| Profit after tax | - | 262 | 660 | 1,391 | 2,767 | 3,070 | 11.0 | 3,923 | 27.8 | 5,810 | 48.1 |
| Abnormal items (post-tax) | - | 4 | (2) | 2 | 0 | 0 | - | 0 | - | 0 | - |
| Minorities / pref dividends | - | (1) | (3) | (68) | (54) | (64) | 19.0 | (90) | 40.4 | (124) | 37.8 |
| Net income (local GAAP) | - | 265 | 655 | 1,324 | 2,713 | 3,006 | 10.8 | 3,833 | 27.5 | 5,686 | 48.3 |
| Net Income (UBS) | - | 283 | 708 | 1,322 | 2,713 | 3,006 | 10.8 | 3,833 | 27.5 | 5,686 | 48.3 |
| Tax rate (%) | - | 39 | 35 | 36 | 37 | 24 | -35.1 | 35 | 45.8 | 35 | 0.0 |
| Pre-abnormal tax rate (%) | - | 37 | 33 | 36 | 37 | 24 | -35.1 | 35 | 45.8 | 35 | 0.0 |
| Per share (Rs) | - | 03/07 | 03/08 | 03/09 | 03/10 | 03/11E | % ch | 03/12E | % ch | 03/13E | % ch |
| EPS (local GAAP) | - | 3.31 | 7.74 | 15.23 | 29.33 | 31.66 | 10.8 | 40.36 | 27.5 | 59.87 | 48.3 |
| EPS (UBS) | - | 3.55 | 8.35 | 15.21 | 29.33 | 31.66 | 7.9 | 40.36 | 27.5 | 59.87 | 48.3 |
| Net DPS | - | 0.48 | 0.60 | 0.70 | 1.00 | 2.00 | 100.0 | 2.00 | 0.0 | 2.00 | 0.0 |
| Cash EPS | - | 4.75 | 12.27 | 24.58 | 41.63 | 45.01 | 8.1 | 54.69 | 21.5 | 75.18 | 37.5 |
| BVPS | - | 14.38 | 33.54 | 48.87 | 170.16 | 198.48 | 16.6 | 235.77 | 18.8 | 292.33 | 24.0 |
| Balance sheet (Rsm) | - | 03/07 | 03/08 | 03/09 | 03/10 | 03/11E | % ch | 03/12E | % ch | 03/13E | % ch |
| Net tangible fixed assets | - | 831 | 2,714 | 8,126 | 11,794 | 14,061 | 19.2 | 16,415 | 16.7 | 18,779 | 14.4 |
| Net intangible fixed assets | - | 138 | 281 | 1,584 | 1,237 | 1,237 | 0.0 | 1,237 | 0.0 | 1,237 | 0.0 |
| Net working capital (incl. other assets) | - | 1,621 | 4,047 | 4,302 | 14,557 | 17,640 | 21.2 | 17,311 | -1.9 | 21,317 | 23.1 |
| Other liabilities | - | (59) | (210) | (439) | (439) | (419) | -4.6 | (872) | 108.0 | (1,542) | 76.9 |
| Operating invested capital | - | 2,532 | 6,832 | 13,573 | 27,149 | 32,519 | 19.8 | 34,092 | 4.8 | 39,791 | 16.7 |
| Investments | - | 0 | 19 | 329 | 329 | 329 | 0.0 | 329 | 0.0 | 329 | 0.0 |
| Total capital employed | - | 2,532 | 6,851 | 13,903 | 27,478 | 32,848 | 19.5 | 34,421 | 4.8 | 40,121 | 16.6 |
| Shareholders' equity | - | 1,148 | 2,884 | 4,203 | 16,145 | 18,832 | 16.6 | 22,370 | 18.8 | 27,736 | 24.0 |
| Minority interests | - | 128 | 194 | 804 | 858 | 922 | 7.5 | 1,012 | 9.8 | 1,136 | 12.3 |
| Total equity | - | 1,276 | 3,078 | 5,007 | 17,003 | 19,754 | 16.2 | 23,382 | 18.4 | 28,873 | 23.5 |
| Net debt / (cash) | - | 1,255 | 3,773 | 8,895 | 10,475 | 13,094 | 25.0 | 11,039 | -15.7 | 11,248 | 1.9 |
| Other debt-deemed items | - | 0 | 0 | 0 | 0 | 0 | - | 0 | - | 0 | - |
| Total capital employed | - | 2,532 | 6,851 | 13,903 | 27,478 | 32,848 | 19.5 | 34,421 | 4.8 | 40,121 | 16.6 |
| Cash flow (Rsm) | - | 03/07 | 03/08 | 03/09 | 03/10 | 03/11E | % ch | 03/12E | % ch | 03/13E | % ch |
| Operating income (EBIT, UBS) | - | 410 | 935 | 2,212 | 3,721 | 4,319 | 16.1 | 6,035 | 39.7 | 8,611 | 42.7 |
| Depreciation | - | 96 | 331 | 814 | 1,138 | 1,269 | 11.5 | 1,360 | 7.2 | 1,454 | 6.9 |
| Net change in working capital | - | (225) | (730) | (1,023) | (3,934) | (984) | -75.0 | (1,310) | 33.0 | (1,252) | -4.4 |
| Other (operating) | - | 72 | 201 | 950 | 802 | 596 | -25.6 | 707 | 18.6 | 619 | -12.4 |
| Operating cash flow (pre tax/interest) | - | 353 | 737 | 2,954 | 1,726 | 5,200 | 201.2 | 6,793 | 30.6 | 9,433 | 38.9 |
| Net interest received / (paid) | - | (14) | (48) | (268) | (489) | (648) | 32.6 | (784) | 21.0 | (724) | -7.7 |
| Dividends paid | - | (27) | (40) | (58) | (51) | (109) | 115.5 | (224) | 105.3 | (224) | 0.0 |
| Tax paid | - | (174) | (184) | (329) | (1,685) | (1,000) | -40.7 | (1,606) | 60.7 | (2,380) | 48.2 |
| Capital expenditure | - | (675) | (2,219) | (6,227) | (4,805) | (3,536) | -26.4 | (3,714) | 5.1 | (3,818) | 2.8 |
| Net (acquisitions) / disposals | - | 0 | 0 | 0 | 0 | 0 | - | 0 | - | 0 | - |
| Other | - | - | 69 | (1,255) | 372 | (215) | - | 91 | - | 451 | 397.1 |
| Share issues | - | 0 | 0 | 0 | 9,496 | 0 | - | 24 | - | 0 | - |
| Cash flow (inc)/dec in net debt | - | (596) | (1,685) | (5,183) | 4,564 | (308) | - | 578 | - | 2,738 | 373.4 |
| FX / non cash items | - | - | (832) | 61 | (6,144) | (2,312) | -62.4 | 1,477 | - | (2,947) | - |
| Balance sheet (inc)/dec in net debt | - | - | (2,518) | (5,122) | (1,580) | (2,619) | 65.8 | 2,056 | - | (209) | - |
| Core EBITDA | - | 506 | 1,266 | 3,027 | 4,859 | 5,588 | 15.0 | 7,395 | 32.3 | 10,065 | 36.1 |
| Maintenance capital expenditure | - | (101) | (334) | (937) | (721) | (530) | -26.4 | (557) | 5.1 | (573) | 2.8 |
| Maintenance net working capital | - | 0 | 0 | 0 | 0 | 0 | - | 0 | - | 0 | - |
| Operating free cash flow, pre-tax | - | 405 | 932 | 2,089 | 4,138 | 5,057 | 22.2 | 6,838 | 35.2 | 9,492 | 38.8 |

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Buy

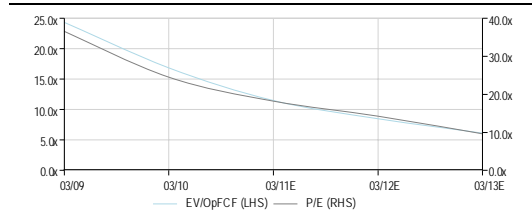
12m price target

Rs775.00

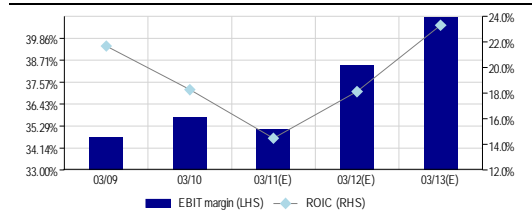
Company profile

Educomp Solutions (Educomp) is India's leading provider of multimedia course content to private schools, as well as a leading education services provider to the public education system. The company also has presence in the kindergarten to twelfth grade and pre-school segments, with more than 40 schools operating under multiple brand names. The company has recently entered the higher education segment through its tie-up with Raffles Education Corp, a Singapore-based provider of educational services. In addition to the above, Educomp has also has interests in online tutoring and vocational training.

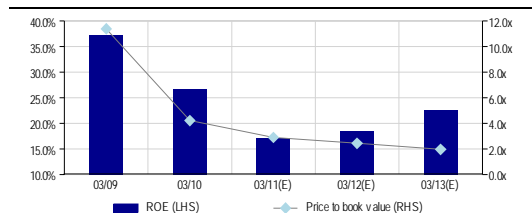
Value (EV/OpFCF & P/E)



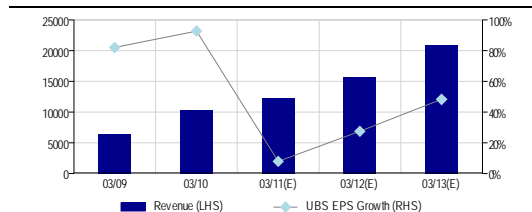
Profitability



ROE v Price to book value



Growth (UBS EPS)



| Valuation (x) | 5Yr Avg | 03/09 | 03/10 | 03/11E | 03/12E | 03/13E |
|-------------------------|---------|-------|-------|--------|--------|--------|
| P/E (local GAAP) | - | 39.5 | 26.3 | 19.0 | 14.9 | 10.1 |
| P/E (UBS) | - | 36.6 | 24.5 | 18.2 | 14.3 | 9.6 |
| P/CEPS | - | 22.7 | 17.3 | 12.8 | 10.5 | 7.7 |
| Net dividend yield (%) | - | 0.1 | 0.1 | 0.3 | 0.3 | 0.3 |
| P/BV | - | 11.4 | 4.2 | 2.9 | 2.4 | 2.0 |
| EV/revenue (core) | - | 8.0 | 6.7 | 4.7 | 3.7 | 2.8 |
| EV/EBITDA (core) | - | 16.8 | 14.4 | 10.4 | 7.9 | 5.8 |
| EV/EBIT (core) | - | 23.0 | 18.8 | 13.4 | 9.6 | 6.8 |
| EV/OpFCF (core) | - | 24.4 | 16.9 | 11.5 | 8.5 | 6.1 |
| EV/op. invested capital | - | 5.0 | 3.4 | 1.9 | 1.7 | 1.6 |

| Enterprise value (Rsm) | 03/09 | 03/10 | 03/11E | 03/12E | 03/13E |
|---------------------------------|--------|--------|--------|--------|--------|
| Average market cap | 47,893 | 66,755 | 54,982 | 54,982 | 54,982 |
| + minority interests | 804 | 858 | 922 | 1,012 | 1,136 |
| + average net debt (cash) | 2,514 | 2,514 | 2,514 | 2,514 | 2,514 |
| + pension obligations and other | 0 | 0 | 0 | 0 | 0 |
| - non-core asset value | (329) | (329) | (329) | (329) | (329) |
| Core enterprise value | 50,882 | 69,798 | 58,089 | 58,179 | 58,304 |

| Growth (%) | 5Yr Avg | 03/09 | 03/10 | 03/11E | 03/12E | 03/13E |
|--------------|---------|-------|-------|--------|--------|--------|
| Revenue | - | 122.7 | 63.3 | 18.2 | 27.6 | 33.9 |
| EBITDA (UBS) | - | 139.1 | 60.5 | 15.0 | 32.3 | 36.1 |
| EBIT (UBS) | - | 136.7 | 68.2 | 16.1 | 39.7 | 42.7 |
| EPS (UBS) | - | 82.0 | 92.9 | 7.9 | 27.5 | 48.3 |
| Cash EPS | - | 100.4 | 69.4 | 8.1 | 21.5 | 37.5 |
| Net DPS | - | 17.1 | 43.1 | 100.0 | 0.0 | 0.0 |
| BVPS | - | 45.7 | NM | 16.6 | 18.8 | 24.0 |

| Margins (%) | 5Yr Avg | 03/09 | 03/10 | 03/11E | 03/12E | 03/13E |
|----------------------------|---------|-------|-------|--------|--------|--------|
| EBITDA / revenue | - | 47.5 | 46.7 | 45.4 | 47.1 | 47.9 |
| EBIT / revenue | - | 34.7 | 35.8 | 35.1 | 38.4 | 40.9 |
| Net profit (UBS) / revenue | - | 20.8 | 26.1 | 24.4 | 24.4 | 27.0 |

| Return on capital (%) | 5Yr Avg | 03/09 | 03/10 | 03/11E | 03/12E | 03/13E |
|-----------------------|---------|-------|-------|--------|--------|--------|
| EBIT ROIC (UBS) | - | 21.7 | 18.3 | 14.5 | 18.1 | 23.3 |
| ROIC post tax | - | 14.0 | 11.5 | 11.0 | 11.8 | 15.2 |
| Net ROE | - | 37.3 | 26.7 | 17.2 | 18.6 | 22.7 |

| Coverage ratios (x) | 5Yr Avg | 03/09 | 03/10 | 03/11E | 03/12E | 03/13E |
|---------------------------------|---------|-------|-------|--------|--------|--------|
| EBIT / net interest | - | 8.2 | 7.6 | 6.7 | 7.7 | 11.9 |
| Dividend cover (UBS EPS) | - | 21.8 | 29.3 | 15.8 | 20.2 | 29.9 |
| Div. payout ratio (% , UBS EPS) | - | 4.6 | 3.4 | 6.3 | 5.0 | 3.3 |
| Net debt / EBITDA | - | 2.9 | 2.2 | 2.3 | 1.5 | 1.1 |

| Efficiency ratios (x) | 5Yr Avg | 03/09 | 03/10 | 03/11E | 03/12E | 03/13E |
|--------------------------------|---------|-------|-------|--------|--------|--------|
| Revenue / op. invested capital | - | 0.6 | 0.5 | 0.4 | 0.5 | 0.6 |
| Revenue / fixed assets | - | 1.0 | 0.9 | 0.9 | 1.0 | 1.1 |
| Revenue / net working capital | - | 1.5 | 1.1 | 0.8 | 0.9 | 1.1 |

| Investment ratios (x) | 5Yr Avg | 03/09 | 03/10 | 03/11E | 03/12E | 03/13E |
|-----------------------|---------|-------|-------|--------|--------|--------|
| OpFCF / EBIT | - | 0.9 | 1.1 | 1.2 | 1.1 | 1.1 |
| Capex / revenue (%) | - | NM | NM | 28.7 | 23.7 | 18.2 |
| Capex / depreciation | - | 7.6 | 4.2 | 2.8 | 2.7 | 2.6 |

| Capital structure (%) | 5Yr Avg | 03/09 | 03/10 | 03/11E | 03/12E | 03/13E |
|--------------------------------|---------|-------|-------|--------|--------|--------|
| Net debt / total equity | - | NM | 64.9 | 69.5 | 49.3 | 40.6 |
| Net debt / (net debt + equity) | - | 67.9 | 39.4 | 41.0 | 33.0 | 28.9 |
| Net debt (core) / EV | - | 4.9 | 3.6 | 4.3 | 4.3 | 4.3 |

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs576.15 on 18 Aug 2010 23:39 HKT Market cap(E) may include forecast share issues/buybacks.

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Analyst

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■ Educomp Solutions

Educomp Solutions (Educomp) is India's leading provider of multimedia course content to private schools, as well as a leading education services provider to the public education system. The company also has presence in the kindergarten to twelfth grade and pre-school segments, with more than 40 schools operating under multiple brand names. The company has recently entered the higher education segment through its tie-up with Raffles Education Corp, a Singapore-based provider of educational services. In addition to the above, Educomp has also has interests in online tutoring and vocational training.

■ Statement of Risk

Any slowdown in the broader economy could affect spending levels on education, in terms of inability to increase school fees, lower spending on out-of-school instruction etc, in our view. This, in turn, could impact revenue growth and profitability for Educomp. Any incremental regulations on fee structures or capacity constraints could also adversely impact the company.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

| UBS 12-Month Rating | Rating Category | Coverage ¹ | IB Services ² |
|-----------------------|-----------------|-----------------------|--------------------------|
| Buy | Buy | 54% | 41% |
| Neutral | Hold/Neutral | 37% | 32% |
| Sell | Sell | 9% | 24% |
| UBS Short-Term Rating | Rating Category | Coverage ³ | IB Services ⁴ |
| Buy | Buy | less than 1% | 22% |
| Sell | Sell | less than 1% | 0% |

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2010.

UBS Investment Research: Global Equity Rating Definitions

| UBS 12-Month Rating | Definition |
|-----------------------|---|
| Buy | FSR is > 6% above the MRA. |
| Neutral | FSR is between -6% and 6% of the MRA. |
| Sell | FSR is > 6% below the MRA. |
| UBS Short-Term Rating | Definition |
| Buy | Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event. |
| Sell | Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event. |

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

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UBS Securities India Private Ltd: Diviya Nagarajan.

Company Disclosures

| Company Name | Reuters | 12-mo rating | Short-term rating | Price | Price date |
|-------------------|---------|--------------|-------------------|----------|-------------|
| Educomp Solutions | EDSO.BO | Buy | N/A | Rs576.15 | 18 Aug 2010 |

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Educomp Solutions (Rs)



Source: UBS; as of 18 Aug 2010

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