Tree House Education & Accessories Ltd. (Tree House)

Result Update

Equity Research
February 15, 2012

RESULT UPDATE

Rating Matrix	
Rating	BUY
CMP	Rs. 241
Target Price	Rs. 282

Stock Data	
Bloomberg Code	THEAL IN
NSE Code	TREEHOUSE
BSE Code	533540
Sensex	19,468
Market Cap (Rs. mn)	8,571
52 Week H/L (Rs.)	295/190
Equity Capital (Rs. mn)	356
Face Value (Rs.)	10

Shareholding Pattern	31 Dec 2012
Promoters	28%
Institutions	12%
Others	60%

Analyst Name

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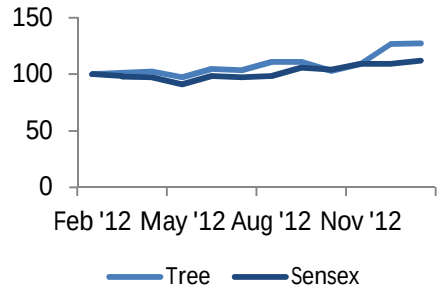
Relative Price Performance Chart



Q3FY13 PERFORMANCE

Quarterly Highlights

Tree House's Q3FY13 performance was in line with our estimates

- Net sales for the quarter were up 36.5% Y.o.Y to Rs. 291 mn.
- EBIDTA for the quarter was up 24.0% Y.o.Y to Rs. 128 mn. EBIDTA margins increased from 51.7% in Q3FY12 to 56.1% in Q3FY13.
- Company added 35 self operating and 5 franchise centers during the quarter. Company also added 74 teachers during the quarter.
- Other income was down 6.5% Y.o.Y to Rs.13 mn.
- Depreciation for the quarter was up 50.4% Y.o.Y to Rs. 34 mn.
- Interest expenses for the quarter were up 29.8% Y.o.Y to Rs. 22 mn.
- Reported PBT for the quarter was up 42.2% at Rs. 120 mn.
- PAT for the quarter was at Rs. 81 mn up 31.5% Y.o.Y.

OUTLOOK AND EVENT UPDATE

The company during the quarter allotted 4,50,000 shares to existing shareholder 'ON Mauritius' and 14,00,000 shares to new shareholder 'Aditya Birla Pvt. Equity – Sunrise Fund' at Rs. 222.60 per equity share.

Financial Snapshot

Year-end March	FY10A	FY11A	FY12A	FY13E	FY14E
Net Revenues (Rs. mn)	214	392	772	1,199	1,584
EBITDA (Rs. mn)	71	171	420	644	865
Adjusted PAT (Rs. mn)	26	92	217	345	479
Adjusted EPS (Rs.)	1.5	3.8	6.4	9.7	13.5
P/E (x)	-	-	-	24.8	17.9
P/B (x)	-	-	-	2.5	2.2
EV/EBITDA (x)	-	-	-	12.7	9.6
RoCE (%)	5.1	10.3	14.2	14.7	17.0
RoNW (%)	3.7	9.6	11.4	11.6	13.3

Source: Company, Prime Broking; (A) Actuals; (E) Estimated

The company also allotted 18,00,000 warrants to the promoters i.e. Rajesh and Geeta Bhatia. These warrants are convertible into equal no. of equity shares at Rs. 222.60 per share. We have assumed conversion of these warrants in FY15.

The company has taken over all the rights and liabilities relating to the play school division of MT Educare. It has also taken over assets, intellectual property rights and all ancillary and consequential rights arising out of it.

The company is planning to start playschool for urban poor under the brand "Global Champs" . It will be located in and around major slums of Mumbai. The company plans to open its first centre in Q2FY14. The fees per child for the same will be around Rs. 12,000 p.a. This venture is expected to be ROCE accretive at company level. Initially the company is planning to start six centers. We have not factored in any upside from this initiative in our estimates.

For FY13, we expect Tree House to post revenues of Rs. 1,199 mn with EBIDTA margins @ 53.7% and PAT of 345 mn.

For FY14, we expect revenues of Rs. 1,584 mn with EBIDTA margins @ 54.6% and PAT of 479 mn.

VALUATION

The EPS of the company is expected to grow by 45% CAGR over FY12 – FY14. We **very conservatively value Tree House based on PEG model giving it 0.5 multiple**, which gives us a PE of around 22. Thus we give a **BUY** on the stock with a **target price of Rs. 282** based on FY14 diluted EPS.

KEY RISKS

The key downside risks are as follows:

1. Pre Schools have very low entry barrier. Increase in competition leading to price wars may affect the business of the company adversely.
2. Operating pre-schools and providing educational services to K-12 schools is currently unregulated but the governments may introduce a regulatory framework. Any such government regulation may adversely affect the performance of the company.
3. The Company has limited operating history in providing educational services to K-12 schools, and may not have sufficient experience to address risks frequently encountered in that business.

Annexure 1: Quarterly Performance

(Rs. Million)	Q3FY13	Q2FY13	Q3FY12	QoQ Chg	YoY Chg
Net Revenue	**6,726**	**8,676**	**9,412**	**-22.5%**	**-28.5%**
Expenditure	5,338	6,602	7,021	-19.1%	-24.0%
EBITDA	**1,388**	**2,074**	**2,391**	**-33.1%**	**-42.0%**
EBITDA Margin (%)	*20.6*	*23.9*	*25.4*		
Depreciation	574	555	558	3.5%	2.8%
EBIT	**814**	**1,519**	**1,833**	**-46.4%**	**-55.6%**
Other Income	195	257	124	-24.1%	56.9%
Interest Expenses	363	289	322	25.5%	12.9%
Exceptional Items	36	236	(161)		
PBT	**609**	**1,250**	**1,796**	**-51.3%**	**-66.1%**
Tax	206	434	442	-52.6%	-53.5%
Tax Rate (%)	*33.8*	*34.7*	*24.6*		
PAT	**403**	**816**	**1,354**	**-50.6%**	**-70.2%**
Net Margin (%)	*6.0*	*9.4*	*14.4*		

Source: Company reports, Prime Broking

Annexure 2: Profit & Loss Statement

(Rs. mn)	FY10A	FY11A	FY12A	FY13E	FY14E
Operating Income	**214**	**392**	**772**	**1,199**	**1,584**
Growth (%)		*83.6*	*96.8*	*55.2*	*32.2*
Expenditure	**142**	**222**	**352**	**555**	**719**
EBITDA	**71**	**171**	**420**	**644**	**865**
Growth (%)		*138.5*	*146.4*	*53.2*	*34.3*
EBITDA Margin (%)	*33.4*	*43.5*	*54.4*	*53.7*	*54.6*
Depreciation	29	40	78	124	153
EBIT	**42**	**131**	**342**	**520**	**712**
Other Income	5	19	37	37	37
Interest Expenses	6	13	65	62	62
Exceptional Gain / (Loss)	(1)	(1)	2	-	-
PBT	**40**	**136**	**316**	**495**	**687**
Tax	14	44	99	150	208
Tax rate (%)	*35.2*	*32.5*	*31.4*	*30.2*	*30.2*
PAT	**26**	**92**	**217**	**345**	**479**
Minority Interest	-	-	-	-	-
Profit from Associates	-	-	-	-	-
PAT After Minority Interest	**26**	**92**	**217**	**345**	**479**
Growth (%)		*253.8*	*135.6*	*59.4*	*38.8*
Net margin (%)	*12.2*	*23.4*	*28.1*	*28.8*	*30.3*

Source: Company, Prime Broking; (A) Actuals; (E) Estimated

Annexure 3: Balance Sheet Statement

(Rs. mn)	FY10A	FY11A	FY12A	FY13E	FY14E
Equity Capital	174	240	337	356	356
Reserves & Surplus	524	986	2,227	3,026	3,466
Networth	**698**	**1,226**	**2,564**	**3,382**	**3,822**
Minority Interest	-	-	-	-	-
Total Loans	**120**	**476**	**514**	**514**	**514**
Net Deferred Tax Liability	4	18	33	56	88
Total Liabilities	**821**	**1,721**	**3,111**	**3,952**	**4,424**
Net Fixed Assets	**635**	**1,288**	**1,704**	**1,951**	**2,169**
Investments	**10**	**26**	**62**	**62**	**62**
Inventories	3	15	37	57	75
Sundry Debtors	69	18	58	90	119
Cash & Bank Balance	103	289	727	890	790
Loans & Advances	50	208	763	1,263	1,673
Other Current Assets	4	15	15	15	15
Current Liabilities	54	138	255	377	479
Net Current Assets	**176**	**406**	**1,345**	**1,939**	**2,193**
Total Assets	**821**	**1,721**	**3,111**	**3,952**	**4,424**

Source: Company, Prime Broking; (A) Actuals; (E) Estimated

Annexure 4: Cash Flow Statement

(Rs. mn)	FY10A	FY11A	FY12A	FY13E	FY14E
PBT	40	136	316	495	687
Depreciation	29	40	78	124	153
Other Items	328	716	812	100	(672)
Change in working capital	(367)	(754)	(1,077)	(505)	343
Tax paid	(7)	(32)	(65)	(126)	(176)
Cash flow from operations	**23**	**107**	**64**	**87**	**335**
Capital expenditure	(130)	(345)	(819)	(371)	(371)
Investments	(9)	(8)	(263)	22	22
Other items	(148)	(349)	72	15	15
Cash flow from investing	**(286)**	**(702)**	**(1,011)**	**(334)**	**(334)**
Change in Networth	270	873	1,348	512	-
Change in Debt	-	(0)	-	-	-
Other items	76	(93)	(213)	(101)	(101)
Cash from financing	**345**	**780**	**1,135**	**411**	**(101)**
Net change in cash	82	185	188	164	(101)
Opening cash balance	**21**	**103**	**289**	**477**	**640**
Closing cash balance	103	289	477	640	540

Source: Company, Prime Broking; (A) Actuals; (E) Estimated

Annexure 5: Free Cash Flow to Firm Statement

(Rs. mn)	FY10A	FY11A	FY12A	FY13E	FY14E
EBITDA	71	171	420	644	865
Less: Tax	(14)	(44)	(99)	(150)	(208)
NOPAT	**57**	**126**	**321**	**494**	**657**
Capital Expenditure	(130)	(345)	(819)	(371)	(371)
Change in Working Capital	(367)	(754)	(1,077)	(505)	343
FCF	**(439)**	**(973)**	**(1,575)**	**(382)**	**629**

Source: Company, Prime Broking; (A) Actuals; (E) Estimated

Annexure 6: Du Pont Analysis

	FY10A	FY11A	FY12A	FY13E	FY14E
PAT/PBT	0.6	0.7	0.7	0.7	0.7
PBT/EBIT	1.0	1.0	0.9	1.0	1.0
EBIT/Net sales	0.2	0.3	0.4	0.4	0.4
Net Sales/Total Asset	0.3	0.3	0.3	0.3	0.4
Total Asset/Networth	1.2	1.3	1.3	1.2	1.2
RoNW (%)	3.7	9.6	11.4	11.6	13.3

Source: Company, Prime Broking; (A) Actuals; (E) Estimated

Annexure 7: Key Ratios

Profitability ratios (%)	FY10A	FY11A	FY12A	FY13E	FY14E
OPM	33.4	43.5	54.4	53.7	54.6
EBIT Margin	19.7	33.4	44.3	43.4	44.9
Net Profit Margin	12.2	23.4	28.1	28.8	30.3

Return ratios (%)	FY10A	FY11A	FY12A	FY13E	FY14E
RoCE	5.1	10.3	14.2	14.7	17.0
RoNW	3.7	9.6	11.4	11.6	13.3
RoA	3.0	6.7	8.3	9.0	10.4

Per share data	FY10A	FY11A	FY12A	FY13E	FY14E
Book Value Per Share	40.1	51.1	76.0	95.1	107.5
EPS	1.5	3.8	6.4	9.7	13.5
Cash EPS	3.2	5.5	8.7	13.2	17.8
No. of Shares (mn)	17	24	34	36	36

Leverage ratios (x)	FY10A	FY11A	FY12A	FY13E	FY14E
Interest Coverage	7.3	10.5	5.3	8.4	11.5
Debt/Equity	0.2	0.4	0.2	0.2	0.1
Net Debt/Equity	0.0	0.2	(0.1)	(0.1)	(0.1)
Net Debt/EBITDA	0.2	1.1	(0.5)	(0.6)	(0.3)

Valuation ratios	FY10A	FY11A	FY12A	FY13E	FY14E
P/E	-	-	-	24.8	17.9
EV/EBITDA	-	-	-	12.7	9.6
EV/Sales	-	-	-	6.8	5.2
P/BV	-	-	-	2.5	2.2

Source: Company, Prime Broking; (A) Actuals; (E) Estimated

Important Disclosures

Equity Research

TREEHOUSE EDUCATION

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Stock Ownership/Conflict Disclosure	
Prime/Prime Subsidiaries	No
Key Prime Management &/or other employees	No
Any other corporate finance conflict of interest	No

Analysts' Ratings Definitions	
STRONG BUY	Expect >= 25% return
BUY	Expect a return >= 15% and < 25%
Hold	Expect a return >= 5% and < 15%
Sell	Expect < 5% return

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