

**November 19, 2012**

**BSE Code:** 533287      **NSE Code:** ZEELEARN      **Reuters Code:** ZEEE.NS      **Bloomberg Code:** ZLL:IN

Zee Learn Ltd (ZEELEARN), incorporated on 4th January 2010, is one of the leading companies in terms of education in India with the fastest growing chain of K-12 Schools. The company operates through its various brands, namely, Mount Litera Zee School, Kidzee, Braincafé, Zee Institute of Creative Art (ZICA) and Zee Institute of Media Arts (ZIMA) so as to impart better education to today's youth. It helps in realizing children their unique potential through their state-of-the-art, infrastructure and facilities, well trained teachers, and a proprietary pedagogy. Moreover, the company is considering generating higher revenues by entering into the mass segment. The company might enter the new segment through the public private partnership (PPP) route. Besides, it has launched a new channel, ZeeQ which delivers differentiated shows, which is a necessity with an increased number of channels in a digitized environment.

### Investor's Rationale

ZEELEARN, a leading player in core education, reported a dismal performance in Q2FY'13 on the back of robust investment it has made to earn higher revenues in the coming future. The company posted a standalone net loss of ₹25.0 million due to a rise in interest cost by 371.7% YoY to ₹14.7 million. However, top-line grew by 42.1% YoY at ₹188.4 million assisted by rise in services of education and sale of education goods & equipments.

ZEELEARN has launched a new channel, ZeeQ in a move to foster the curiosity amongst children through fun and entertainment. Further, the new channel is likely to generate higher revenues as the channel delivers differentiated shows which have become a necessity with the advent of digitization. So, the company is likely to earn huge subscription revenue with the launch of new channel for the niche market.

ZEELEARN has been quite bullish on the investment front in Q2FY'13 as it has invested considerable resources in developing learning designs, student learning materials and e-content for pre-schools and K-12 schools with the help of its education models i.e. Litera OCTAVE and iLLUME and is expected to continue the trend in FY'13 too.

ZEELEARN has entered into a partnership agreement with local educational trusts under various operating models. The range of offerings and solutions provided by the firm under these partnerships varies from school set-up assistance, teacher-training, assessment, teaching materials, student learning resources, branding, innovative schooling solutions and also enrolment assistance.

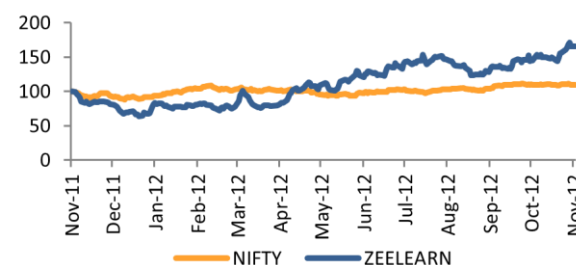
### Market Data

<b>Rating</b>	<b>BUY</b>
<b>CMP (₹)</b>	31.0
<b>Target (₹)</b>	<b>38.0</b>
<b>Potential Upside</b>	~22.6%
<b>Duration</b>	Long Term
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52 week H/L (₹)	32.0/11.8
All time High (₹)	101.0
Correction from 52WH (%)	3.7
Rise from 52WL (%)	161.0
Beta	1.1
Mkt. Cap (₹ mn)	8.0
Enterprise Value (₹ mn)	8.6

### Fiscal Year Ended

Y/E	FY11A	FY12A	FY13E	FY14E
Revenue (₹mn)	437.0	619.1	865.0	1,224.6
Net Profit	18.5	(275.8)	(79.5)	11.3
Share Capital	122.7	262.7	262.7	262.7
EPS (₹)	0.2	(1.0)	(0.3)	0.04
PE (x)	204.2	-	-	770.0
P/BV (x)	5.8	5.8	4.1	2.9
EV/EBIDTA(x)	121.3	(41.2)	453.7	58.0
RoCE (%)	1.9	(8.6)	(0.7)	1.5
RoE (%)	2.8	(19.7)	(4.0)	0.4

### One year Price Chart



Shareholding Pattern	Sep'12	Jun'12	Diff.
<b>Promoters</b>	73.0	73.2	(0.2)
<b>FII</b>	11.7	11.7	-
<b>DII</b>	3.2	3.8	(0.6)
<b>Others</b>	12.1	11.3	0.8

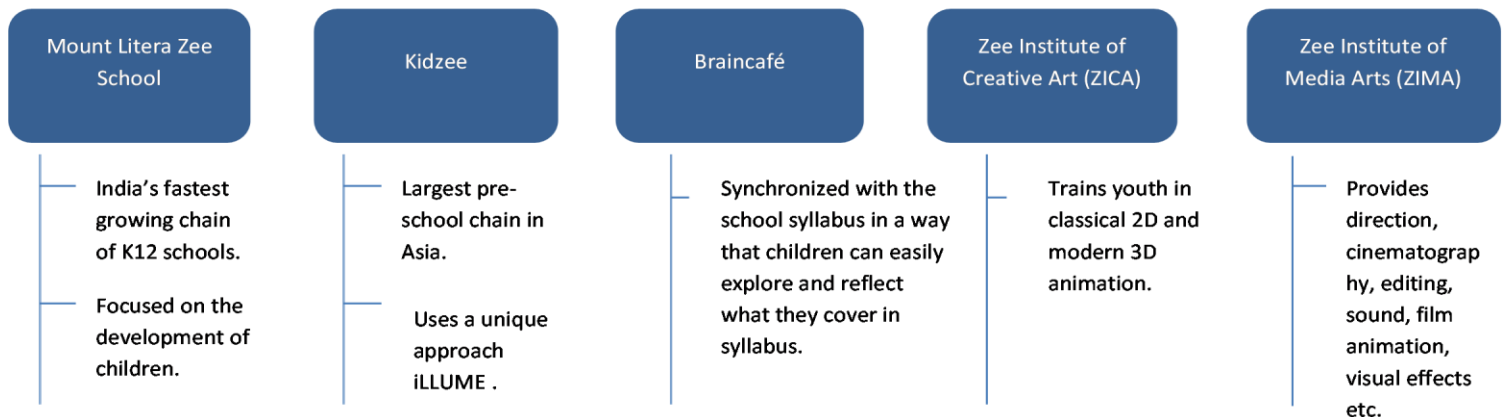
## Company Profile

One of the leading companies with the fastest growing chain of K-12 Schools

Operates through its five brands, namely, Mount Litera Zee School, Kidzee, Braincafé, Zee Institute of Creative Art (ZICA) and Zee Institute of Media Arts (ZIMA).

Zee Learn Ltd (ZEELEARN), incorporated on 4th January 2010, is one of the leading companies in terms of education in India with the fastest growing chain of K-12 Schools. In order to impart better education to today's youth, the company runs programs in early childhood education, school education, activity based learning centers and vocational training in media and design through partnerships/franchising and through running its own institutes with the help of its various brands, namely, Mount Litera Zee School, Kidzee, Braincafé, Zee Institute of Creative Art (ZICA) and Zee Institute of Media Arts (ZIMA). Its brand, Mount Litera Zee School's main focus is on the development of children through an integrated approach in order to help children realize their inner potential through its unique Litera OCTAVE education model which has been tried and tested over years of research and development. These schools provide a good learning experience which impacts the child during his/her learning and development in school. The purpose is to help children realize their unique potential through their state-of-the-art, infrastructure and facilities, well trained teachers, and a proprietary pedagogy. Kidzee, one of India's favorites preschool, is the largest pre-school chain in Asia and was established in 2003. It uses a unique approach iLLUME which helps parents and teachers spot the unique potential in each child and help them realize it. Braincafé, aims to develop Higher Order Thinking Skills (HOTS) among students through the route of Science.

## Company's Brands



Considering entering into mass media segment through PPP route.

These centres are established inside the schools and are synchronized with the school syllabus in a way that children can easily explore and reflect what they cover in syllabus. ZICA is the nation's first full-fledged Classical and Digital Animation Training Academy that trains youth in classical 2D and modern 3D animation. It provides training to the youth by creating a stimulating environment for its curriculum. It operates in 31 centres in more than 16 major cities with 1185 students across India. Lastly, ZIMA, the leading film institute in Mumbai, provides direction, cinematography, editing, sound, film animation, visual effects and the training of other high end software. Moreover, the company is considering generating higher revenues by entering into the mass segment. The company might enter the new segment through the public private partnership (PPP) route. Besides, it has launched a new channel, ZeeQ which delivers differentiated shows, which is a necessity with an increased number of channels in a digitized environment. By sensing the opportunity, the company is taking steps in order to expand its base by launching various niche channels due to their immense potential.

**Efforts to establish a firm footing in the learning center space through huge investments caused losses in Q2FY'13**

The education service provider has witnessed losses in its second quarter results mainly on account of huge investments the company has made. Despite a massive rise in other income by 546.9% YoY to ₹6.0 million, the company posted a standalone net loss of ₹25.0 million in Q2FY'13 backed by a rise in financial cost by 371.7% YoY to ₹14.7 million. However, the performance was quite satisfactory in terms of its top-line which rose by 42.1% YoY to ₹188.4 million. The surge in top-line was mainly on account of rise in services of education and other services and sale of education goods and equipments by 67.9% and 6.6% YoY to ₹130 million and ₹58.2 million respectively.

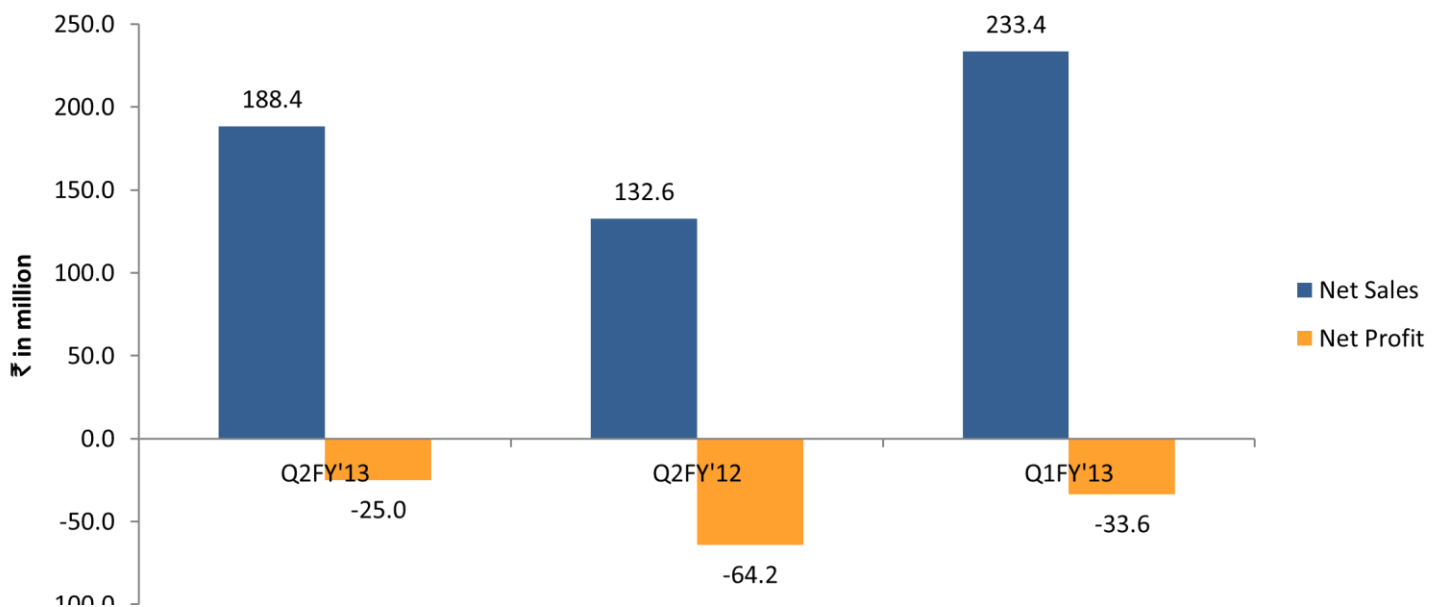
Moreover, the company posted a standalone net loss of ₹275.0 million in FY'12 on higher investments. However, the company's sales grew to ₹610.0 million in the same period. In order to have a firm footing in the learning space, the company is making significant investments in establishing strong brands. During FY'12, the company's pre-school chain, Kidzee has added 310 schools and has consolidated its position in pre-school segment. Further, its Braincafé business which has set up its learning centres in 418 schools is still in investment mode so as to establish a firm footing in the learning center space. Moreover, ZEELEARN's business in animation (ZICA) & film/TV training (ZIMA) have also contributed by taking the number of institutes to 33 in FY'12. The company is targeting a CAGR of over 40.0% over the next five years with an investment of ₹8,000.0-10,000.0 million in its preschools, schools and content development. Further, the company has incurred huge operating costs including cost of materials at ₹173.0 million, which is another reason for losses in the financial year ended 2012. The personnel cost and other expenses stood at ₹252.0 million and ₹403.0 million respectively while interest and depreciation cost stood at ₹35.2 million and ₹30.2 million respectively.

*Witnessed losses in Q2FY'13 on the back of huge investments.*

*Top-line posted gains on account of rise in services of education and other services and sale of education goods and equipments.*

*Interest cost grew by a triple-digit 371.7% YoY at ₹14.7 million during the quarter.*

**Top-Line vs. Bottom-line Trend**

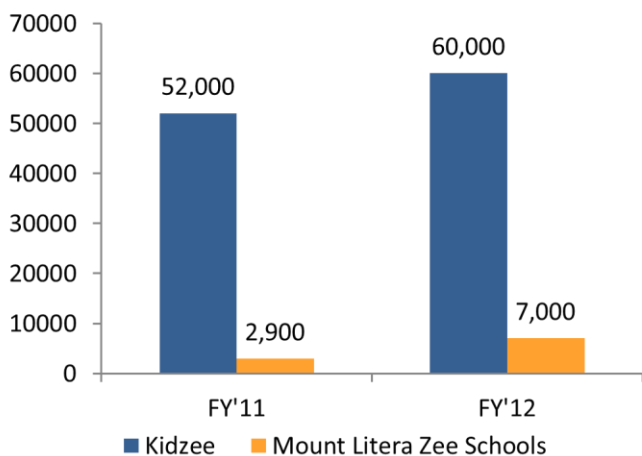


*Signed partnership agreement with local educational trusts under various operating models so as to achieve its objective of reaching 1 million children every year.*

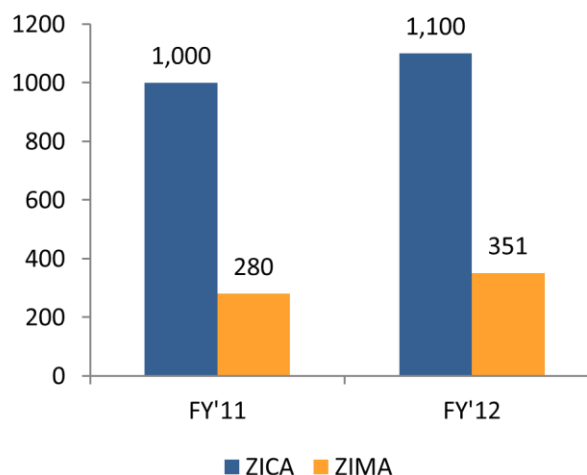
### Expanding its presence across the country

According to a report released by the World Bank and the projections done by the higher government officials, the Indian economy is likely to grow by 7.0%-8.0% during FY'14-15. So, in order to grab the opportunity in the growing economy, ZEELEARN has entered into a partnership agreement with local educational trusts under various operating models. The partnership firm will be able to provide a range of offerings and solutions which will vary from school set up assistance, teacher-training, assessment, teaching materials, student learning resources, branding, innovative schooling solutions and also enrolment assistance. This move will enable the company to take its path-breaking pedagogies and learning materials to a large number of students. The company has taken steps to expand its foot prints of pre-schools, K-12 schools and Learning centres and has added 712 institutes during the current year that includes schools, preschools, learning centres and vocational institutes, in order to achieve its objective of reaching 1 million children every year. The addition of institutes by the company has helped a lot in boosting its performance during the financial year 2011-12. The growth momentum was further supported by the rise in the overall enrollments involving more than 60,000 in Kidzee, over 7,000 enrolments in Mount Litera Zee Schools, 1,100 enrolments in Zee Institute of Creative Arts (ZICA) and 351 enrolments in Zee Institute of Media Arts (ZIMA). The management is continuously emphasizing on assessing the operations and re-engineering processes to bring the plethora of quality programs and channels.

**Kidzee/Mount Litera Zee Schools Enrolment growth**



**ZICA/ZIMA enrolment growth**



*ZEELEARN is likely to extend its business operation in Tamil Nadu with the investment of about ₹2000.0-3000.0 million.*

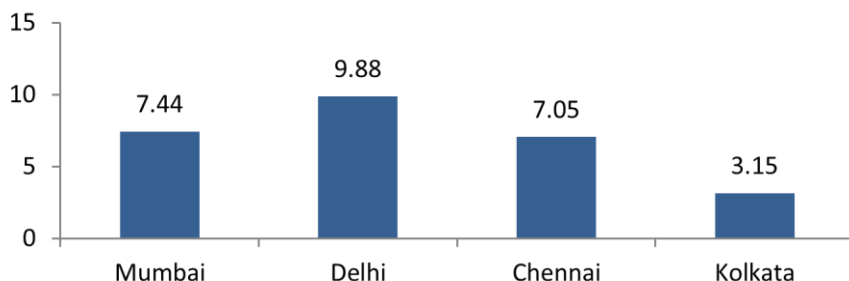
### Expanding its presence in Tamil Nadu and West Bengal

The company is trying harder to make its presence feel across different states of the country. ZEELEARN, which already has 95 Kidzee and 7 Mount Litera Zee schools under its Tamil Nadu portfolio, has plans to add some more schools in the state. Since the State Government has realized the need for primary and upper primary schools, the company is likely to extend its business operation in the state with the investment of about ₹2,000.0-3,000.0 million. The company sees a growth of 25.0-30.0% in its performance following the proposed investment of ₹2,000.0-3,000.0 million. Moreover, ZEELEARN has plans to open around 50 pre-schools in West Bengal by the end of the current year. Besides, under its growth plan it is likely to add another 100 Kidzee and 10-12 Mount Litera Zee schools in Tamil Nadu in partnership with franchisees, education entrepreneurs and real estate players. Thus, with these expansions, it will accomplish its objective to cater to the growing needs of quality education in the state and will also become one of the largest operators in the pre-schools segment in the country. As the company aims to stand out of the crowd, it is trying harder to expand its chain of schools across different states.

*Digitization is likely to open up new revenue streams, as channels would be able to generate more and more subscription revenues by launching new and differentiated shows.*

## Digitization and its impact

Digitization is the process of changing content production, storage, distribution, and consumption from an analog to a digital base. It leads the TV viewers to more qualitative viewing with access to digital picture and High Definition Digital (HDD) sound quality. Recently, the government of India has passed a mandate that all cable services in the four metros be digitized by 30th June, 2012 and if implemented correctly, digitization could prove to be a win-win situation for customers, operators as well as the government. Considering its impact on viewers, they will be allowed to choose channels on their need and requirement and will not be forced to choose whole packages of channels. Moreover, digitization is likely to open up new revenue streams, as channels would be able to generate more and more subscription revenues by launching new and differentiated shows. In order to grab the advantage of this opportunity, the company has launched a new channel, ZeeQ which will be available on leading DTH & Digital Cable Platforms as a paid-for channel. ZEELEARN has taken a step ahead in fostering the curiosity amongst children through fun and entertainment through the launch of this new channel. The launch of this niche channel might turn the negative bottom-line into a positive one as it has become a necessity to deliver differentiated shows with the advent of digitization. ZeeQ will be able to take advantage of this fact by drawing more subscription revenues and by reducing advertising dependence.



***DTH connections in Metros (in Lakhs), as on October 30, 2012.***

*Operates under 5 brands, namely, Mount Litera Zee School, Kidzee, Braincafé, Zee Institute of Creative Art (ZICA) and Zee Institute of Media Arts (ZIMA).*

## Establishing strong brands to boost the company's performance

ZEELEARN is all set to foster the demand for quality education and expansion. In a view to attain massive growth in each of its education offerings, it has made significant investments to develop strong brands in education. Further, to tap the Indian population under its services it has provided range of unique and established brands in education namely Mount Litera Zee School, Kidzee, Braincafé, Zee Institute of Creative Art (ZICA) and Zee Institute of Media Arts (ZIMA), all having pan India presence. Mount Litera Zee School is aimed at providing Learner Centered, holistic and quality education to help children comprehend their unknown ability. Currently, the company is handling more than 45 Mount Litera Zee Schools. Moving ahead, FY 2011-12 saw the opening of 12 new Mount Litera Zee Schools along with the signing of 28 new schools. Secondly, Kidzee with an investment of around ₹8.8 to 1.2 million, is the pioneer in organized pre-schooling in India having 756 units in over 300 cities. During FY 2011-12, it has enrolled 60,328 students and over 180 new Kidzee have started classes. Thirdly, Braincafé, operational in 6 states in association with Japanese company, Gakken Education to provide science education in schools. Further, it has also covered 1.6 lakhs students during 2011-12 under which 400 schools has signed up. ZEELEARN runs more than 31 ZICA centres in India. ZICA is the nation's first full-fledged Classical and Digital Animation Training Academy. In a view to strengthen its presence, it has launched 4 new ZICA centers in 2012. The company's brand hierarchy is not complete without ZIMA which supports the media education. ZIMA is the leader in direction, cinematography, editing, sound, film animation, visual effects and the training of other high end software like Autodesk, Smoke and Flame.

*Launched a new channel, ZeeQ and a dance academy in Kolkata, Dance India Dance L'il Masters Academy.*

*Plans to set up 300 Kidzee centres in the next five years that would be owned and operated by it and has started working on five schools which would hopefully be completed by the end of this year.*

*Aims to build a healthy top-line and bottom-line over the next two-three years.*

## **New launches by ZEELEARN to boost the performance**

ZEELEARN has launched a new channel ZeeQ which has a mix of programs that its programming team has especially designed and produced to address the educational need gaps through engaging content. The company has announced the launch of this new channel after completing many successful years in Media & Entertainment industry in India. The 24-hour newly launched channel will be able to strengthen the endeavor of ZEELEARN to prepare children for 21st Century by dining much needed knowledge, life skills and values. The company will look after the content and channel management while the broadcast operation will be handled by ZEE. Besides, the company announced the launch of a dance academy i.e. "Dance India Dance L'il Masters Academy" in Kolkata. The dance academy is opened for the children in the age group of 3 to 6 years and 6 to 12 years. All these launches and much more expected offerings to come in the next quarters has raised the hope of the firm to garner heavy revenues which in turn will help to overcome the net losses occurred during the second quarter ended September 2012.

## **All set to launch company-owned per-schools**

ZEELEARN is changing its strategy to operate in the country through the franchisee route and is now concentrating on setting up company owned and operated centres. It plans to set up 300 Kidzee centres in the next five years that would be owned and operated by it and has started working on five schools which would hopefully be completed by the end of this year. These would be over and above the 300 centres it annually adds under the franchisee model. The company is looking at investing ₹1,200 million in the next five years towards these centres, with each an investment of ₹3-4 million in each centre, which will be funded through equity infusion plans announced last year and internal accruals. A larger portion of these investments would be dedicated towards creating the right environment including designing, furniture, play equipment, etc. ZEELEARN also has plans to make big investments in K-12 segment and is planning to set up 400-500 schools under the Mount Litera Zee School banner. ZEELEARN has around 850 operational centres while 250 are in pipeline. Last year Zee Learn signed up over 300 franchise arrangements and has a similar target this year, too. It has also hiked fees by 10.0% on account on inflation. The company, which last year announced a chain of schools for upper tier consumers, would open the first school under the Mount Litera World School brand at Bandra Kurla Complex (BKC) in Mumbai in a few months. The BKC unit will be an integrated education complex comprising school, media management training institute spread over 1.4 acre. The project cost envisaged then was over `500 million.

## **Targets to achieve two-fold growth in revenues in the coming years**

The company aims to build a healthy top-line and bottom-line over the next two-three years, after posting a strong revenue growth of about 38.0-40.0% in the last financial year. The company anticipates a growth of around 25.0-30.0% in its pre-school business. It further anticipates that the rising demand coupled with exploration of the public-private partnership models will surely supplement the revenue. Besides, it is eyeing at a triple-digit topline business in the ₹2,000 million revenue targets. ZEELEARN is planning to raise the huge amount of ₹2,000.0-3,000.0 million through PE route and about \$30.0 million through GDR for expansion. Further, the incremental chunk of the revenue growth is also going to come from pre-school and animation business that is expected to bring 30.0-35.0% of revenue individually which in turn will augment the top-line as well as bottom-line.

**Balance Sheet (Standalone)**

Y/E (₹million)	FY11A	FY12A	FY13E	FY14E
Share Capital	122.7	262.7	262.7	262.7
Reserve and surplus	527.6	1,139.9	1,709.9	2,564.8
<b>Net Worth</b>	<b>650.3</b>	<b>1,402.6</b>	<b>1,972.6</b>	<b>2,827.5</b>
Loan funds (Long Term)	416.0	584.3	813.7	1,133.0
Other Long-Term Liabilities	1.6	3.1	3.2	3.4
Provisions (Long Term)	3.9	9.6	12.4	16.2
<b>Current Liabilities</b>	<b>310.8</b>	<b>773.1</b>	<b>1,082.3</b>	<b>1,506.3</b>
<b>Capital Employed</b>	<b>1,382.5</b>	<b>2,772.7</b>	<b>3,884.2</b>	<b>5,486.4</b>
<b>Total Fixed Asset</b>	<b>159.3</b>	<b>305.5</b>	<b>549.9</b>	<b>879.9</b>
Non Current Investment	0.0	0.1	0.1	0.2
Loans & Advances (Long Term)	1,060.1	1,177.7	1,354.4	1,557.6
Deferred Tax Assets (net)	13.3	13.3	13.3	13.3
Other Non-Current Assets	15.7	25.3	27.9	30.7
Current Assets	134.2	1,250.7	1,938.6	3,004.8
<b>Capital Deployed</b>	<b>1,382.5</b>	<b>2,772.7</b>	<b>3,884.2</b>	<b>5,486.4</b>

**Key Ratios (Standalone)**

Y/E	FY11A	FY12A	FY13E	FY14E
EBITDA Margin (%)	7.8	(33.7)	2.2	12.9
EBIT Margin (%)	6.1	(38.6)	(3.2)	6.9
NPM (%)	4.2	(44.5)	(9.2)	0.9
ROCE (%)	1.9	(8.6)	(0.7)	1.5
ROE (%)	2.8	(19.7)	(4.0)	0.4
EPS (₹)	0.2	(1.0)	(0.3)	0.04
P/E (x)	204.2	-	-	770.0
BVPS	5.3	5.3	7.5	10.8
P/BVPS (x)	5.8	5.8	4.1	2.9
EV/Operating Income (x)	9.7	14.1	10.3	7.5
EV/EBITDA (x)	121.3	(41.2)	453.7	58.0

**Profit & Loss Account (Standalone)**

Y/E (₹million)	FY11A	FY12A	FY13E	FY14E
Total Income	437.0	619.1	865.0	1,224.6
Operating Expense	402.8	827.8	845.5	1,067.2
<b>EBITDA</b>	<b>34.2</b>	<b>(208.7)</b>	<b>19.5</b>	<b>157.4</b>
Depreciation	7.5	30.2	46.8	72.6
<b>EBIT</b>	<b>26.7</b>	<b>(238.9)</b>	<b>(27.4)</b>	<b>84.8</b>
Interest	1.3	35.2	50.0	71.0
Profit Before Tax	25.4	(274.1)	(77.4)	13.8
Tax	6.9	1.7	2.2	2.5
<b>Net Profit</b>	<b>18.5</b>	<b>(275.8)</b>	<b>(79.5)</b>	<b>11.3</b>

**Valuation and view**

In a move to encash the burgeoning opportunities in the recent move of the digitisation in the four metros of the country, ZEELEARN has recently launched a new channel, ZeeQ and is planning to launch new niche content channels going forward, in order to boost its revenues. Further, the company is expanding its footprint across the country while focusing on setting up company owned and operated centres and is also looking at investing ₹120 crore in the next five years towards these centres, which in turn will help to overcome the net losses occurred during the second quarter ended September 2012. At a current CMP of ₹31, ZEELEARN is attractively placed at P/E of ~770.0x FY14E. Considering the above aspects, we rate the stock as 'BUY' with a potential upside of ~22% for the coming 12 months.



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