

# Treehouse Education

₹ 76

**Merger Magic !****Buy**

Mar 18, 2016

## Company Background

Envisioned by Rajesh and Geeta Bhatia Treehouse Education and Accessories Ltd. (Treehouse) turned the way Upper Middle class Indians looked at Pre-School education. Treehouse emerged as India's largest self operated preschool chain in just a period of 12 years. Today the company boasts of a network of 720 operational pre-schools most of them on a self operational basis. The company has covered over 103 cities in India and manages nearly 24 K12 schools in India. The gamut of services offered by the company are Playgroup, Nursery, Junior KG, Senior KG, Day Care Services, Teacher Training Course, Summer Camp, Hobby/Activity Class. The company has been growing at an unprecedented pace and has been awarded as Fast Emerging PreSchool Brand in western India as per Education Excellence Award by ET Now.

## Key Highlights

- ➔ For the past many years Treehouse has been showing some very impressive growth indicators year on year and has been listed among the top 500 most valuable companies in India by Business Today.
- ➔ As on March 31, 2015 Treehouse has a Networth of Rs 644 Cr which was way more than its nearest competitor Zee Learn, The company has over 85% of the schools run on a self operational basis and therefore also commands a high gross and Net margin.
- ➔ Treehouse Board announced its plans to merge with its nearest competitor Zee Learn which will result in making of the largest Education Chain in India with more than 2000 pre-school centres and over 100 operational K12 schools a proposal which also augurs well for the company.
- ➔ While initially when the merger was announced it was prejudicially unfavourable to the minority investors of Treehouse. However taking into consideration the fact that the prices of Treehouse have collapsed since then in the current scenario it is beneficial to be a Treehouse shareholder than a Zee Learn one.
- ➔ Considering the Exchange Ratio of 53:10 between Zee Learn and Treehouse, a Treehouse share holder will get 53 shares which are currently at the price of 31 for every 10 shares bought today at Rs. 76.

## Key Financials

Year Ended 31 <sup>st</sup>	Mar 13	Mar 14	Mar 15
Revenue (INR mn)	1,213.4	1,590.1	2,145.9
Rev. growth (%)	49.65	31.04	34.95
EBITDA (INR mn)	688.5	909.5	1,273.1
Net profit (INR mn)	333.4	439.2	576.5
Shares outstanding (mn)	36.0	37.2	42.3
EPS (INR)	9.3	11.8	13.6
EPS growth (%)	44.30	27.48	15.32
P/E (x)	24.88	21.90	29.23
RONW (%)	11.00	11.83	10.42
ROCE (%)	9.19	9.85	8.83

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## Info Codes

Reuters	: THEA.BO
Bloomberg	: THEAL@IN
NSE	: TREEHOUSE
BSE	: 533540

## Market Data

52 Wk Range (₹)	: 70 / 470
Shares in Issue (mn)	: 42.3
Mkt. Cap (₹ bn)	: 3.19
BSE 2 Wk Avg Vol	: 31000

## Share Holding Pattern (%)

Promoters	: 20.54
Public	: 79.46
Others	: 00.00

## The Exchange Ratio

Tree House Shareholders will get 53 shares of Rs 1 each of Zee Learn Ltd. for every 10 shares of Rs 10 they hold in Tree House. Currently Tree House quotes at Rs. 76 for a share while Zee Learn quotes at Rs. 31 for a share.

## Investment Theme

The Investment theme in the present scrip is simple. The merger of Treehouse and Zee Learn has been Recommended and Resolved by the Board of Directors of Both respective companies. Taking into the exchange ratio at the current rates. A person who buys 10 shares of Treehouse today spends Rs 760 today. At the same time he is entitled to get 53 shares of Zee Learn after the merger. Looking at the Scrip Price of Zee Learn today he is actually acquiring 53 shares of Zee Learn the cost of which today is Rs. 1643. All this is however subject to shareholder approval and the expectation that share prices of both scrips rise & fall in proportion.

**Buy Because 1643 > 760**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Total Sales + Excise	1,130.6	1,545.7	36.7	2,046.8	32.4
Other Income	80.6	43.1	(46.5)	99.1	129.9
Change in Stocks	0.0	0.0	-	0.0	-
Raw Material Con.	0.0	0.0	-	0.0	-
Employee Exp.	133.1	173.8	30.6	239.0	37.5
Indirect Taxes	0.0	0.0	-	0.0	-
Other Exp.	389.6	505.5	29.7	633.8	25.4
Operating Exp.	522.7	679.3	30.0	872.8	28.5
Operating Profit	607.9	866.4	42.5	1,174.0	35.5
Total Interest	66.2	75.8	14.5	185.3	144.5
Gross Profit	622.3	833.7	34.0	1,087.8	30.5
Net Dep.	135.7	173.3	27.7	282.7	63.1
Total Taxation	153.2	221.2	44.4	228.6	3.3
Net Profit/Loss	333.4	439.2	31.7	576.5	31.3

### 4 Years Balance Sheet

(₹ mn)

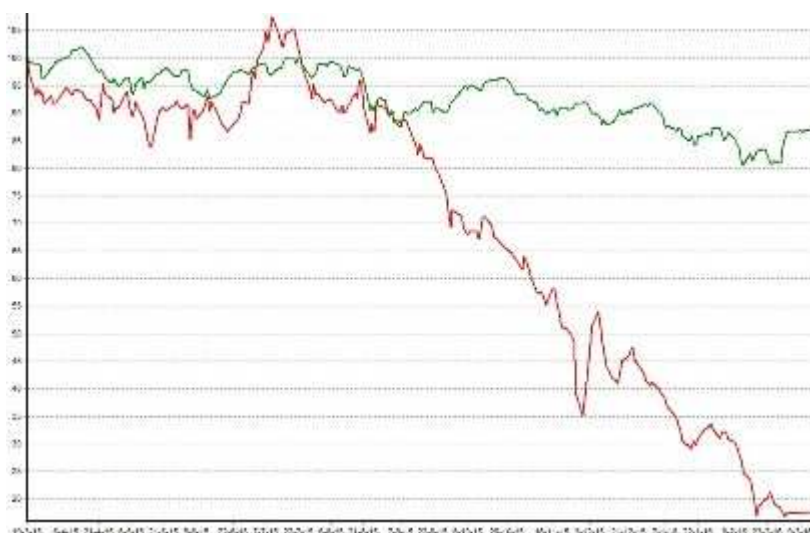
Balance Sheet as on 31 <sup>st</sup>	Mar 12	Mar 13	Mar 14	Mar 15
<b>SOURCES OF FUNDS</b>	<b>3,077.9</b>	<b>4,100.9</b>	<b>4,835.0</b>	<b>7,505.3</b>
Equity Share capital	337.2	359.7	371.7	423.1
Share Application Money	0.0	100.2	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	2,226.7	2,973.8	3,637.0	6,024.0
Long Term Loans	514.0	667.2	826.3	1,058.2
Short Term Loans	0.0	0.0	0.0	0.0
<b>USES OF FUNDS</b>	<b>3,077.9</b>	<b>4,100.9</b>	<b>4,835.0</b>	<b>7,505.3</b>
Gross Block	1,544.2	1,849.6	2,930.8	3,935.6
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	173.7	299.6	462.5	725.7
Net Block	1,370.5	1,550.0	2,468.3	3,209.9
Capital Work in Progress	195.4	397.7	284.9	262.5
Investments	311.7	99.8	114.8	112.4
Current Assets	1,488.5	2,399.8	2,401.2	4,484.8
Less : Current Liabilities	288.2	346.4	434.2	564.3
Total Net Current Assets	1,200.3	2,053.4	1,967.0	3,920.5
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	61.7	99.8	114.8	112.4
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	566.8	401.4	213.6	246.1
Dividend (%)	10.0	12.5	15.0	20.0

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 15	Jun 15	Sep 15	Dec 15
Net Sales	506.8	690.3	572.5	557.8
Cost Of Sales	270.9	248.3	271.0	306.8
Operating Profit	235.9	442.0	301.5	251.0
Other Income	61.7	30.0	31.5	27.1
Adjusted PBDIT	297.6	472.0	333.0	278.1
Financial Expenses	34.5	36.9	45.2	50.6
Depreciation	78.4	96.5	100.4	117.0
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	184.7	338.6	187.4	110.5
Tax Charges	13.5	126.2	60.0	49.3
Adjusted PAT	171.2	212.4	127.4	61.2
Non Recurring Items	0.0	(32.2)	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	171.2	180.2	127.4	61.2

## 52 Week Index Relative Percentage Appreciation



## Treehouse vs SENSEX

## Risks Associated

- ➔ The first and foremost risk faced by the company is that of geographical concentration since the key growth driver of the company is the parents wish to impart good pre-school education to the child coupled with his rising disposable income. The chain has mostly concentrated in Tier I and Tier II Cities where it may face severe competition.
- ➔ Another risk is about the Government Policies, right now the Government does not have any framed policies for the pre-school segment which is the area of operation of the company however any policy restrictions may turn the growth sour.
- ➔ The sector in which the company operates has very low entry level barriers, this brings in a risk of rising competition from other companies which are either new or may be already in the same or similar business.
- ➔ The base of the company is the talent it retains, though it has its own training centers from where its teachers graduate, through which the company has tried to mitigate this risk however a high rate of attrition will ensure that the talent pool required may not be retained in a proper number. This is essential especially when most of the centres run by the company are not on a franchisee model which its competitors apply.
- ➔ Maintenance of the same quality at all the centres may not be possible particularly with so many self run centres, also fee structures across geographies may be uneven.

## Treehouse

### In a Nutshell

Education Sector has long been regarded as the Sunrise Sector in India. Rajesh and Geeta Bhatia encashed upon the concept and started Treehouse Education and Accessories Ltd. The duo reaped the rising disposable incomes of Indians in Tier I and Tier II cities and in just a period of 12 years setup a good class enterprise in the completely un-regulated pre-school segment. Treehouse today boasts of being the largest self operated pre-school chain in India with nearly 720 centres 85% of which are operated by the company itself. This results in more Margins and a high network for the company. Last year Zee Learn which is the largest company by no of centres decided to merge with Treehouse and the merger has already been approved by both the Boards. The resultant entity would be the largest Pre-school service provider in India with literally no competitor in near vision. It would operate more than 100 K12 schools and more than 2000 pre-schools. While initially the merger was prejudicially unfavourable for the Treehouse Investors considering the high network of the company. The prices of Treehouse have dropped to such low levels recently that the whole merger seems to benefit those who buy Treehouse shares today.. Taking into consideration today's prices of both Treehouse and Zee Learn along with the exchange ratio and with the expectation that both scrips will move upward or downward in the same proportion. It is as good as buying Rs 1643 worth of Zee Learn (31 x 53 shares) today at nearly a 54% discounted price of Rs 760 which is the current price of 10 Treehouse shares. This buy therefore looks very lucrative.

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## Rating Interpretation

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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