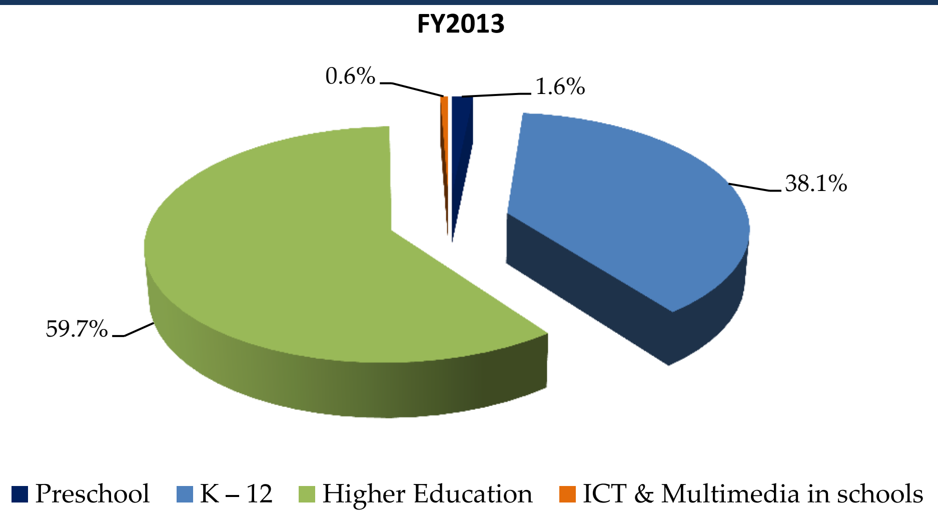
Education Industry – Expanding reach and growing awareness to fuel industry growth

The network of Indian education industry ranks amongst the largest in the world; with more than 1.4 million schools and 35,000 higher education institutes. Rising income levels, rapid urbanization, coupled with increasing awareness about importance of quality education have resulted in robust growth of the Indian Educational Industry. With the increasing role of private sector in education in setting up of institutes, especially in the K-12 and Higher Education segment, the market size of the Indian Education industry aggregated to Rs. 3,833.1 billion during FY2013. Further, over the years, the penetration of educational segments such as preschool, Information & Communication Technology (ICT) in schools etc has been increasing significantly.

Segment wise market share

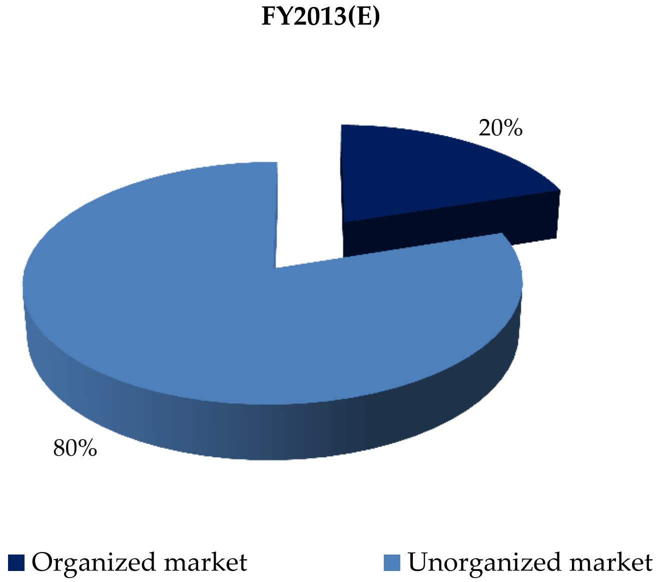


Source: CARE Research

Preschool – 'in bright spot'

Preschool, the fastest growing segment of the Indian education industry, is experiencing a shift towards growing organized players in the recent past. The new players who have sufficient resources are entering the organized space to establish their brands and the existing ones are leveraging on the established brands through franchisee model, enabling faster returns by way of royalty. They are also taking advantage of the minimal capital requirements and absence of regulatory guidelines in the segment.

Share of organized preschool segment



Source: CARE Research Estimates

CARE Research has compared the profitability of city based franchisee and owned preschool models. Owned model is usually run in the form of standalone neighbourhood preschool. Hence, average annual and admission fees, teaching staff salary etc are generally lower in the case of such owned preschool model. Better profit margins are earned by owned preschool model compared to franchisee model. Also, a franchisee has to pay for the ongoing royalty to the franchisor. However, the franchisee model is more preferred by preschool players over owned model because of access to better course structure, teacher training and well known brand name.

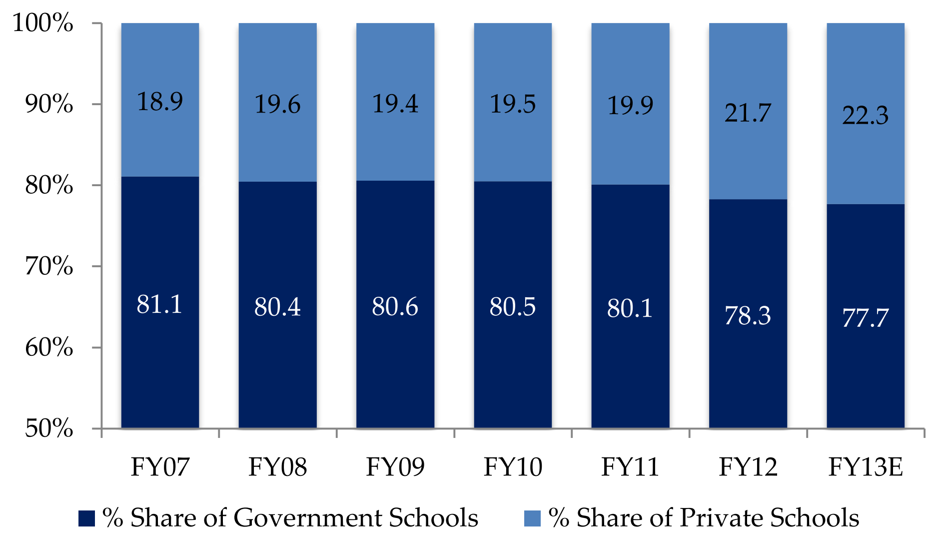
K – 12- 'private spend propels to new heights'

The potential of K-12 segment remains healthy with higher growth coming from private spending owing to consistent shift towards private schools in India. This shift has been taking place due to growing awareness of importance of quality education and enhanced affordability. Also various government initiatives such as Right of Children to Free and Compulsory Education (RTE) Act 2009, Sarva Shiksha Abhiyan (SSA) and Mid-day Meal scheme are playing an important role in driving the growth in K-12 segment.

The share of government schools in the total no of schools in India is declining due to the below mentioned reasons:

- Growing interest amongst the corporate entities / trusts / organisations etc to enter into the K-12 education space in the view of the huge target market and profit potential
- With the growing disposable income of the Indian households, education from private schools is preferred as compared to the government schools
- Slow roll out of the government schools as compared to the private schools due to tighter government finances.

% Share of Government and Private Schools



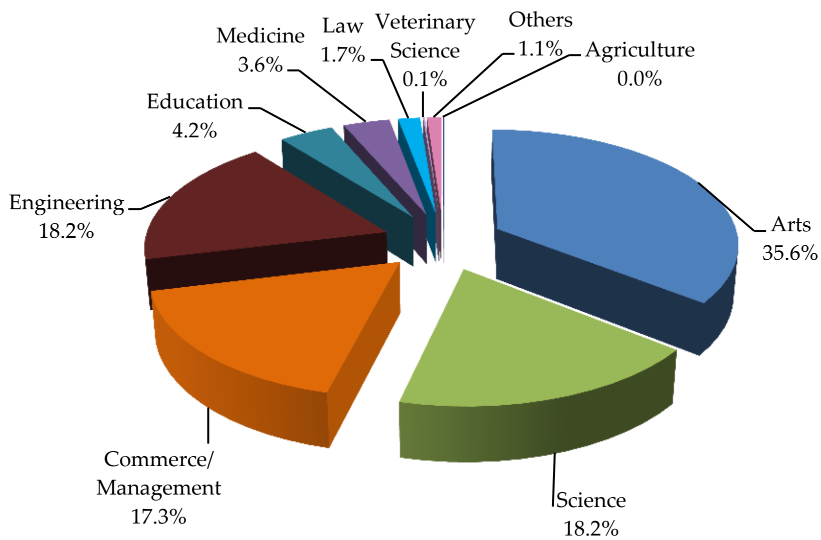
Source: DISE and CARE Research Estimates

Despite high growth in enrolments, the margins of K-12 players remain stable, as the not-for profit segment is highly regulated.

Higher Education (HE) – 'the big daddy'

The strong growth in Higher Education, the largest contributor to the industry revenue, is fuelled by higher degree of specialization in course content coupled with increasing no. of courses offered and higher fees. However, the segment is facing the issues pertaining to intake of students, quality of education, employability etc.

Faculty wise enrolment (%) FY2013E



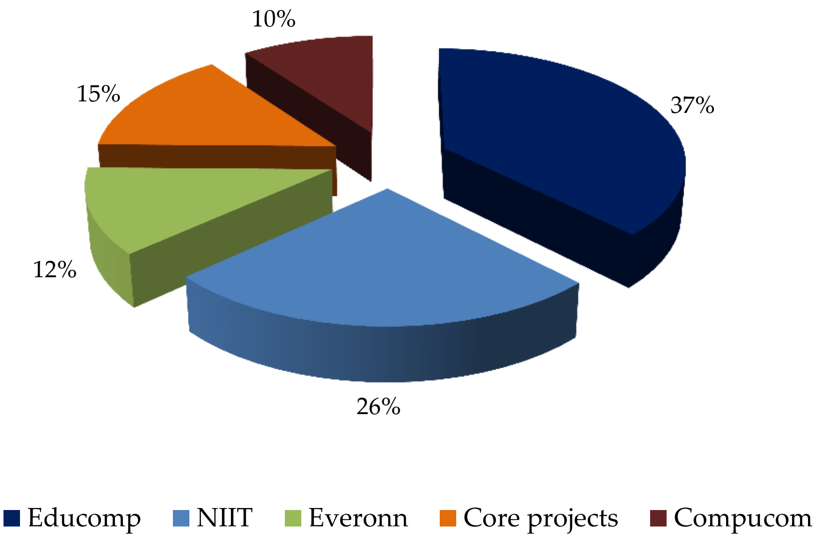
Source: CARE Research Estimates

ICT and Multimedia in Schools – 'intense competition'

- **Intense competition resulting in commoditization of content**

The ICT and multimedia segment is witnessing an intense competition due to the entry of many new players including individuals, corporate entities, trusts etc. The scope for product differentiation in terms of content has been declining gradually, due to commoditization arising from fierce competition in the segment. As per CARE Research analysis of top five ICT & Multimedia companies, Educomp has the largest market share in terms of total no. of schools covered, followed by NIIT. The other three companies, Everonn, Core Projects and Compucom, together, account for 37% of the consolidated market share of these five companies.

Market Share (%) FY2013E



Source: CARE Research Estimates

- **Albeit coverage is increasing, realizations are tapering**

The network of ICT and Multimedia players is expanding moderately in terms of no. of schools covered on the back of GoI's thrust to provide computer literacy in schools through programmes such as 'ICT@ schools' and increasing use of technology in private K-12 institutions. However, the price realizations in the segment are witnessing a declining trend over the past few years due to intense competition and lower product differentiation. Even the renewal of ICT contracts has become extremely competitive. Significant increase in receivables from private and government schools and rising pricing pressure are leading to visible stress on the balance sheet of these companies.

- **Higher penetration of ICT in private unaided schools**

The per student cost of providing ICT and multimedia services in schools is very high, hence the penetration of the segment is higher in private unaided schools as compared to government and private aided schools. Using modern techniques like ICT/ Multimedia helps private unaided schools in enrolling more students, and achieving scale; and serves as a marketing and branding tactic.

- **Asset light model increasingly preferred**

The ICT and Multimedia companies which diversified their business by setting up schools, colleges through leveraging have witnessed pressures on their margins. Hence, these companies have started de-leveraging their balance sheets by selling off their non-core assets. The players are increasingly adopting asset light business model to mitigate their debt burden.

- **ICT going through a churn, marketing strategies evolving**

In the back drop of increasing competition in the segment, the ICT and multimedia players are changing their marketing strategies in order to maintain their existing market share. For instance, many players are in the process of developing an online web portal and giving students free access to online portals.

- **GoI's increased focus on providing computer literacy in schools**

With the National Policy on education emphasizing on increasing use of computer related technology for the betterment of education; the government spending related to ICT has correspondingly increased by 53.2% to Rs. 340 Cr in the Union budget 2013-14. The Ministry of Human Resource & Development (MHRD) has proposed an outlay of Rs.11,000 Cr during the XIIth plan period for National Mission in Education through Information Communication and Technology (ICT). State wise fund released under ICT in school scheme amounted to Rs. 35,404 Cr in FY2012 (up to Feb 2012).

Education sector - Changes in regulatory landscape act as catalyst for growth

The government has an ambitious plan to introduce reforms in the education space so as to encourage more private investment and enhance the quality of education. Laws such as Higher Education and Research Bill, 2011; Universities for Research and Innovation Bill, 2012; and National Accreditation Regulatory Authority for Higher Educational Institutions Bill, 2010 provide for new regulatory structures to encourage more private players in areas such as higher education and research. The government's existing efforts focused on K-12 coupled with the passing of these new laws would provide robust growth to the industry.

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