

## Tree House Education & Accessories

### Issue Details :

|                             |   |
|-----------------------------|---|
| <b>Issue Price</b>          | : Rs. 135 – 153*  |
| <b>No. Of Shares</b>        | : 8.43 million  |
| <b>Issue Size</b>           | : Rs 114 – Rs. 129 million                                |
| <b>Issue Opens – Closes</b> | : 10 <sup>th</sup> August – 12 <sup>th</sup> August, 2011 |
| <b>Listing</b>              | : BSE & NSE   |
| <b>Market Cap</b>           | : Rs. 4,552 – 5,158 million                               |

\* Discount of Rs. 6 per share will be offered to Retail Investors on the final issue price

### Background :

- Tree House Education and Accessories is a school management company that operates pre-schools across India
- As on June 15th 2011, the company operated 223 pre-schools under the brand name 'Tree House' across 33 cities in India of which 149 are operated by the company (self-operated) and the rest, through its franchisees. This makes it one of the largest owned pre-school operators in the country.
- As on March 31, 2011, the self-operated pre-schools served more than 5,000 students excluding those from franchisee operated schools.
- The company has also ventured into providing educational services to K-12 schools and caters to 12 schools with 5000 students, located in 4 cities
- At present, the company has a team of 378 teachers in its self-operated pre-schools
- It has proposed to launch 120 new pre-schools across the country by FY2014, to be directly operated by the company.

### Why is the Company making the IPO ?

- To expand its pre-school business
- Acquisition of Office Space
- Procurement of exclusivity rights to provide educational services
- Construction of infrastructure for educational complexes in Rajasthan & Gujarat
- Re-payment of loan
- For General Corporate purposes
- To list shares of the company on BSE and NSE.

### From the Research Desk of [theIPOguru.com](http://theIPOguru.com)

- Focus on self operated Pre-Schools, which accounts for two third of the total schools (149 of 223).
- Franchisee model can enhance reach without any significant capital infusion. But, there is a risk of quality dilution as the franchisee operator may not adhere to quality standards laid down by the company.
- Highly scalable business segment as pre-schools business operate in a non-regulated space within the Education sector. A relatively low capital investment requirement (even in case of self operated play groups as compared to other educational institutions) and hence shorter payback period, the business (industry) is less affected by the availability of quality faculty.
- However, there are also very low entry barriers into this industry. As a result, the number of companies focusing on a franchisee business model in the pre-school market is set to grow.
- A clear trend is discernible as some of the already listed players seem to be aggressively expanding their scope of operations into this segment (e.g. Zee Learn - Kid Zee, Eurokids, Camlin - Alpha Kids, Billabong - Kangaroo Kids)
- Tree House's pre-schools are largely concentrated in the states of Maharashtra, Gujarat, Karnataka, Rajasthan and Andhra Pradesh. However, more than 40 per cent of its operations are in Mumbai.
- Operating pre-schools and providing educational services to K-12 schools is currently unregulated.
- There is also strong competition in the business of pre-school from various players like Kidzee, Euro Kids, Roots to Wings and Kangaroo Kids.
- The trademark "From roots to wings" is owned by the company as under the Trademarks Act. However, a similar mark is being used by its competitors (Educomp - Root to wings). There are also some international players that use the same for promotion and have been operating even before the company (Tree House) was formed.

- Lastly, the company plans to use almost Rs.250 million to acquire land in Jhunjhunu, Rajasthan to set up an educational complex. However, 63 per cent of the land is meant for agricultural use and the company is yet to get an approval for non-agricultural use.
- Post issue the promoter shareholding would reduce to less than 30 per cent. While the public holding will increase to 25 per cent, the balance will be held by institutions.
- The company has a limited financial and operating track record and hence even though the CAGR growth rate is exponentially high, it is on account of a lower base.
- The outstandings for more than six months account for more than 50 per cent of the total outstanding amount for FY2011.
- There are Audit remarks for the previous fiscals over delayed payment of tax and the office premises being purchased are also from the Promoters.
- Tree House has limited operating history in providing educational services to K-12 schools as it commenced this business only in 2008.
- The total outstanding debt for FY2011 was Rs 466 million and the company plans to repay Rs 286 of outstanding debt through the issue proceeds.
- The net worth as on FY 2011 stood at Rs. 1266 million and the debt to equity post issue will come down from around 0.40 times to almost debt free (considering the equity dilution) levels.