Education Industry - Where is the biggest opportunity?
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Executive Summary

India’s demographic dividend is both a boon and a curse. With an ever growing population and increasing global demand for workforce, India is the destination where Education is taken as a synonym for Value addition. If however the Indian youth remains uneducated and unskilled, it will be one of the biggest time bombs in the world.

- India has the world’s largest population in the age bracket of 5 to 24 years of ~450 million which highlights the importance and key role of the education sector.
- The working population (age bracket of 25 to 59 years) is ~500 million and is expected to increase continuously making India a major potential supplier of work force to the whole world.
- Currently, the literacy in India stands at 75% as compared to 12% at the time of the British rule in 1947, but is still well below the average of the World’s literacy rate of 85%.
- Over the past 5 years, the spending on education has risen by 21% which indicates the ever rising consumption pattern of households towards education.
- More recently, the Indian Education Sector has made a shift from a mere knowledge based education economy to a skill based one in order to prepare its people for the job-market.
- At present, the sector is at a developing stage whereby huge potential lies ahead but the key to growth remains improvement in terms of course-content, teacher training, infrastructure and private sector involvement.
- The public and private sector play overlapping roles in the K-12, Higher Education and Vocational training segments.
- However, the private sector holds a substantial grip over the ancillary education sector which includes coaching, tutorials, multimedia and technology etc.
- Vocational training has emerged as an important segment that helps in bridging the huge gap of demand–supply in the manufacturing sector for the blue-collar employees, which is a key to reviving the manufacturing sector and the overall Indian economy.
- If India can solve its education and vocational training challenges, it will be on its way to becoming a global super power in terms of talent and skills, otherwise such a large uneducated and unskilled population can become a global threat and burden.
Industry Overview
The Education Sector in India

Overview

Industry Statistics

- The market size of the Indian education sector was ~US$ 54.20 billion in FY 2012 and the industry is expected to reach ~US$ 95.80 billion\(^1\) by FY 2015 growing at a CAGR of 20.91%.
- There is a huge demand for upgradation of education and skills as India is expected to have an additional 47 million people in the working age group by 2020.
- The sector is considered as one of the key areas of investment by both public and private enterprises, with a strong focus on the upgradation of the quality of education and reach across the country.
- As a result, the formal education (K-12 and higher education) and the informal sector (including coaching institutions, pre-schools and vocational institutions) are witnessing rapid growth and attention.

Segment Statistics

<table>
<thead>
<tr>
<th>Segment</th>
<th>Key Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12</td>
<td>• Segment was ~US$ 15 billion in 2012 and is expected to reach ~US$ 20 billion by the year 2015 growing at a CAGR of 10.60%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>• Segment was ~US$ 21 billion in FY12 and grew at a CAGR of 18.13% during FY04-FY10</td>
</tr>
<tr>
<td>Ancillary</td>
<td>• Segment is ~US$ 15 billion and is expected to grow at an average pace of 15.40% and to touch ~US$ 40 billion in the next 7 years</td>
</tr>
<tr>
<td>Vocational</td>
<td>• Segment was ~US$ 3.7 billion in the FY 2012 and is expected to reach US$ 7.3 billion in FY 2015</td>
</tr>
</tbody>
</table>

Indian Education “Segments”

- Schools(k-12)
  - 1.3 Mn
  - Govt 1.04 mn
  - Private 0.26 mn
- Colleges-33023
  - Universities-646
  - Govt 8000
  - Private 25023
- Vocational Training Centres-18000
  - ITI-2250
  - Polytechnic 8350
  - ITC-7200

Overview of Education Infrastructure\(^2\)

Additional Requirements

- 200,000 Schools
- Colleges:35000 Universities-700
- 40 million Seats

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\(^1\) IBEF article on education sector in India, September 2013
\(^2\) Technopak Analysis, July 2012
Current level of literacy in India

Total Population - 1210 mn

- Illiterate: 432 mn
  - Eligible illiterate: 274 mn
  - Children age group 0 to 6 years: 158 Mn
  - School upto 5th standard: 234 mn

- Literate: 778 mn
  - School 6th to 9th standard: 358 mn
  - School 10th to 12th standard: 108 mn
  - Graduate and above: 78 mn

Source: Technopak Analysis, July 2012
Growth Drivers and Challenges in the Education Sector

**Drivers**
- Consumer preferences for private schools
- Growth of service sector
- Private players entering education
- High student teacher ratio in schools which is accompanied with lack of attention on individual students
- Increasing competition for professional courses
- Demand of skilled labour on the increase
- Low employability levels in the system

**Challenges**
- Low gross enrollment ratio and high drop-out rates
- Low penetration of technology and multimedia content in schools
- Low gross enrollment ratio
- Low public spending on higher education
- Not-for-profit mandate of the government
- Fragmented and person centric business
- Inadequate teaching talent
- Lack of government and financial support
- Poor perception of vocational diplomas
- Lack of adequate financial support for students
Current Trends in Education Sector

K-12
- Growing competition for entrance exams
- Leveraging Technology and satellite based classes
- Shift of educational trend from mere academics to application based education
- Increasing complexities in syllabus

Trends that are changing dynamics of the Education sector in India

Overall Market Size
- Amount in US$ Billions
- FY 12: 54.2
- FY 15E: 95.8
- CAGR: 20.91%

Higher Education
- Collaboration with foreign players
- Multi Campus Model
- Increasing adoption of technology
- Indian players expanding abroad
- Stricter policy landscape

Ancillary
- Growing interest of PE/VC firms
- Rise of online and correspondence courses
- Partnerships between corporate and institutes
- Focus and Facilitation by government
- Upgradation of quality of education

Vocational
- Growing interest of PE/VC firms
- Rise of online and correspondence courses
- Partnerships between corporate and institutes
- Focus and Facilitation by government
- Upgradation of quality of education
Government Initiatives in Education Sector
Steps and Anticipated Benefits

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Description</th>
<th>Anticipated Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Right to free and compulsory education bill</td>
<td>Education as a fundamental right to children in the age group of 6-14</td>
<td>• Fall in drop out rates&lt;br&gt;• Higher General enrollment Ratio in higher education</td>
</tr>
<tr>
<td>Private Public Partnerships</td>
<td>Tender awarded in a Build-Own Operate-Transfer (BOOT) model for infrastructure and IT education</td>
<td>• Improvement in Information &amp; Communication Technology (ICT) infrastructure</td>
</tr>
<tr>
<td>Mid Day Meal Schemes</td>
<td>Mid-day meal to students in the I-VIII standards</td>
<td>• Improvement in attendance rate&lt;br&gt;• Fall in drop out rates</td>
</tr>
<tr>
<td>Sarva Shiksha Abhiyan</td>
<td>Overall thrust to universalize elementary education by:</td>
<td>• Improvement in teacher quality&lt;br&gt;• Fall in drop-out rates&lt;br&gt;• Higher GER</td>
</tr>
<tr>
<td>Increasing Public Spending</td>
<td>70% of the education budget is focused on schooling</td>
<td>• Adequate funding for initiatives</td>
</tr>
<tr>
<td>Establishment of National Commission for Higher Education and Research (NCHER)</td>
<td>An apex regulatory body to replace UGC and AICTE</td>
<td>• Fall in drop out rates&lt;br&gt;• Higher General enrollment Ratio in higher education&lt;br&gt;• Better coordination &amp; improvement in various aspects of the institutes</td>
</tr>
<tr>
<td>Foreign Education Bill</td>
<td>Allow entry of foreign educational institution into the Indian market</td>
<td>• Tighter accreditation norms and better quality institutes&lt;br&gt;• Has attracted US$ 723 million of FDI during FY04-FY10</td>
</tr>
</tbody>
</table>
Segment Analysis

I. K-12 Segment
K-12 Segment

Overview

Segment Statistics

- The K-12 sector covers the schooling segment which consists of enrollment in a school from kindergarten till class XII.
- The private and government sector has around 1.3 million schools in India. Unlike higher education, K-12 is not governed by any regulatory body.
- However, schools need to be affiliated with either State Boards, CBSE or ICSE. These boards while granting the affiliation requires the schools to be managed by trusts and run on a non-profit basis. Formation of a Trust and a management company structure may not be the cleanest way, but has found favour with investors.
- Due to rising levels of income and concern for quality education, expenditure on this segment by households is rising.

Schooling Covered Under K-12

<table>
<thead>
<tr>
<th>School Level</th>
<th>Eligible (Mn)</th>
<th>Enrolled (Mn)</th>
<th>Gap (Mn)</th>
<th>Enrolled Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grades 1-5</td>
<td>118</td>
<td>133</td>
<td>-15¹</td>
<td>113%</td>
</tr>
<tr>
<td>(ages 6-11)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grades 6-8</td>
<td>68</td>
<td>55</td>
<td>13</td>
<td>81%</td>
</tr>
<tr>
<td>(ages 11-14)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grades 9-12</td>
<td>160</td>
<td>49</td>
<td>111</td>
<td>31%</td>
</tr>
<tr>
<td>(ages 14-18)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>346</td>
<td>237</td>
<td>109</td>
<td>68%</td>
</tr>
</tbody>
</table>

Note:¹ The gap is in negative because students who should have been enrolled in Grades 6-8 were enrolled in Grades 1-5.
Porter’s Analysis on K-12 sector in India

### Bargaining Powers of Buyers
- Limited number of K-12 schools
- Even lesser number of schools under private management and control
- Few players providing superior quality education

This leaves a limited number of options for the buyers and hence their power is **low**

### Threats of New Entrants
- High Investment
- Long gestation periods
- Strict regulatory issues
- Conditions under RTE Act

The conditions laid down as regulatory issues and basic nature of long gestation period keeps the new entrant risk factor ranging from **low to medium**

### Bargaining Powers of Suppliers
- Limited number of seats for eligible candidates and strict regulatory issues
- Scarcity of quality teachers and teachers’ training
- Few Schools with sufficient acceptable teaching infrastructure

Considering the above mentioned points, the bargaining power of schools is at **medium** at best

### Threat of Substitutes
- Poor quality of government schools
- Increasing awareness among parents for imparting education to their children
- Very few attend institutes providing quality formal K-12 type of education

Due to remote availability of high quality education, the share of private end schools is increasing and hence this risk falls under **low category**

### Industry Competitors
- High demand for quality education
- Few private players matching the demand
- However, competition is rising in metros and tier 1 cities

Intensifying competition among private schools in metros but high demand for superior education keeps the risk from **low to medium**

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**Overall: Attractive**
Overview of Right to Education (RTE) Act in India
Free & Compulsory Education for Grade 1st to Grade 8th

Overview - Right to Education - RTE Act

- The RTE act is the first central act in the domain of elementary education
- The Act aims at removing financial barriers that may prevent a child from obtaining 8 years of elementary education from neighborhood schools
- The Act also specifies the minimum norms and standards in terms of infrastructure and education
- It also increases the accountability of state governments and local administration towards the goal of making education free and compulsory
- The age of a eligible child ranges from 6 years to 14 years

Features of the Act

- Right of Children to free and compulsory education
  - No child will be liable to pay any kind of fee or charge, which may have earlier prevented him or her from pursuing elementary education in government schools

- Standards for recognition of schools
  - Prescribed norms and standards such as ideal student-teacher ratio and minimum number of working days
  - Certificate of recognition from competent local authority for the operating school
  - Minimum qualification laid down to be appointed as a teacher at the school

Challenges for Implementing RTE Act

- Human Trafficking
  - Every year around 65,000 children fall victim to trafficking which prevents them from enrolling in schools
  - Many children are also involved in child labour which keeps them out of schools

- Lack of community involvement and awareness among people towards government plans and programs
- Lack of coordination among implementing agencies
- Inadequate infrastructure and supply of quality teachers
- Lack of accountability and effective performance-monitoring systems
- Tendency of the people to force their children into work early rather than into education, especially in rural areas (more earnings hands)

Investments required by states to Implement RTE Act

<table>
<thead>
<tr>
<th>State</th>
<th>Amount (US$ Mn)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>UP</td>
<td>813</td>
<td>(24%)</td>
</tr>
<tr>
<td>Bihar</td>
<td>576</td>
<td>(17%)</td>
</tr>
<tr>
<td>West Bengal</td>
<td>271</td>
<td>(8%)</td>
</tr>
<tr>
<td>Jharkhand</td>
<td>230</td>
<td>(6%)</td>
</tr>
<tr>
<td>AP</td>
<td>169</td>
<td>(5%)</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>237</td>
<td>(7%)</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>135</td>
<td>(4%)</td>
</tr>
<tr>
<td>Gujarat</td>
<td>102</td>
<td>(3%)</td>
</tr>
<tr>
<td>Orissa</td>
<td>135</td>
<td>(4%)</td>
</tr>
<tr>
<td>MP</td>
<td>169</td>
<td>(5%)</td>
</tr>
<tr>
<td>Other States</td>
<td>$576 Mn</td>
<td>(17%)</td>
</tr>
</tbody>
</table>

Diagram showing investments required by 19 major states

Amount - US$ 3387 Mn (For FY 2011-12)
I. Pre-Schools
Market Understanding

Overview

- Pre-schools fall under the sub-segment of k-12 segment of Education sector and cater to the age-group of 1 to 4 years
- It is an informal segment providing sessions of innovative activities of basic nature in a relaxed environment
- Pre-schools sub-segment was valued at US$ 2 Billion in 2012 and is expected to touch US$ 2.9 Billion in 2015 growing at the CAGR of 13%
- Mostly unorganized neighborhood institutions currently dominate this segment
- However, playschool chains like Euro kids, Kidzee etc. are now coming into the picture

Source: Edelweiss Education Sector July 2012

Potential Population for pre-schools

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (1-4 years, ’000)</td>
<td>• Urban - 38268</td>
<td>• Urban – 39818</td>
</tr>
<tr>
<td></td>
<td>• Rural – 90316</td>
<td>• Rural - 87080</td>
</tr>
<tr>
<td>Pre-School enrollment (%)</td>
<td>• Urban - 25</td>
<td>• Urban - 33</td>
</tr>
<tr>
<td></td>
<td>• Rural – 5</td>
<td>• Rural – 5</td>
</tr>
<tr>
<td>Fees (Rs/year)</td>
<td>• Urban - 9000</td>
<td>• Urban - 9600</td>
</tr>
<tr>
<td></td>
<td>• Rural – 2400</td>
<td>• Rural – 2640</td>
</tr>
<tr>
<td>Revenue (US$ Bn)</td>
<td>2</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Business Models

- **Self Owned Model**
  - Greater Quality Control and Cash flow
  - Greater capital expenditure requirement and lower scalability

- **Franchisee Model**
  - Faster Scalability
  - Ready available content
  - No incremental cost in terms of manpower/capital investment
  - Higher revenues but lower margins as major percentage of margin is bagged by the franchisor

Growth Drivers

- Going forward, the growth in pre schools will be driven by increasing paying prosperity and organized supply creating awareness about the importance of preschools
- The pre-school market is non-regulated and hence entails no regulatory barriers for new entrants. Also the growth of the Franchisee model is facilitating the expansion of pre school segment
- As research on teaching methodologies is growing, various new and child-friendly teaching methods are introduced into the preschool curriculum. This is promoting the creativity of the child in a playful manner
- The demand for the preschools is growing considerably in the smaller towns and cities. The common people are well aware of the increased competition in terms of education has fueled the demand of the preschools
# I. Pre-Schools
Organized pre-school market in India - Key Players

<table>
<thead>
<tr>
<th>Player</th>
<th>History</th>
<th>Status</th>
<th>Current Network</th>
<th>Business Model</th>
<th>Key Strengths</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KidZees</strong></td>
<td>Started in 2003</td>
<td>Part of Zee group. Listed under ETCN</td>
<td>~900-pan India</td>
<td>Franchisee Model</td>
<td>Ready access to Kid Zee High – 9 operational, 23 signed up</td>
</tr>
<tr>
<td><strong>EuroKids</strong></td>
<td>1997 – JV between Indian Express &amp; Egmont; 2001 – Egmont International Holdings, Denmark bought back shares of Indian Express in JV; Egmont exited Euro Kids, now an Indian private co.</td>
<td>Private (50% stake acquired by Educomp)</td>
<td>884-pan India across 311 towns</td>
<td>50% publishing, 50% preschools (Franchisee model)</td>
<td>Plans to have K-12 schools</td>
</tr>
<tr>
<td><strong>Kangaroo Kids</strong></td>
<td>Started in 1993</td>
<td>Private</td>
<td>89 centres across India, Dubai and Maldives</td>
<td>JV model. Niche player expanding to a basic model through 'Brainworks' and mall schools through 'Kangaplay'</td>
<td>Strong brand in western urban areas. Opting for a mix of pure franchisee and JV model for better economics, quality control &amp; lower attrition. Ready to access Billabong High schools; 6 operational</td>
</tr>
<tr>
<td><strong>TreePeez</strong></td>
<td>Started in 2003</td>
<td>Private</td>
<td>~450 pan India</td>
<td>Primarily owned model</td>
<td>High operating margins due to accounting for nominal lease (promoter owns property) &amp; ability to compete on pricing</td>
</tr>
<tr>
<td><strong>Amiown</strong></td>
<td>Started in August 2005</td>
<td>Part of the Amity University Group</td>
<td>Currently operates in Delhi, Gurgaon, Ghaziabad and Noida</td>
<td>Owned model</td>
<td>Several other branches in the pipeline and have the well recognized Amity brand</td>
</tr>
</tbody>
</table>
II. K-12 (Grade I to XII)

Market Understanding

Overview

- These schools broadly address education needs of students between the age group of 3-18 years. They are globally known as K12 (Kindergarten to 12th grade), come under the formal education space.

- India has the largest population globally in the K12 age group (5.5x USA’s K12 population), however only a mere 37% of the K12 age group are enrolled on school rosters.

- Once a school crosses the elementary level (8th grade), it needs to be affiliated with a Board of Education in order to conduct 10th and 12th grade exams.

- Most schools in India in the K-12 segment are standalone schools and any chains till recently were usually set up by private charitable, political and/or religious groups.

School Boards in India

<table>
<thead>
<tr>
<th>State Education Boards</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBSE (The Central Board of Secondary Education)</td>
</tr>
<tr>
<td>CISC (The Council for the Indian School Certificate Examination)</td>
</tr>
<tr>
<td>NIOC National Open School (stop-gaps for the schooling systems)</td>
</tr>
<tr>
<td>IB International Boards such as IB from Geneva</td>
</tr>
<tr>
<td>IGCSE (International General Certificate of Secondary Education)</td>
</tr>
</tbody>
</table>

Name of Some Reputed Players

- Ryan International School
- Doon International School
- Goenka School
- Omega School
- Apeejay School

Growth Drivers

- Largest population globally (and growing) in the age group of 3 to 18 years.

- Inefficient public schools system in India.

- An increasing number of parents are enrolling children in private schools to get quality education.

- As per NCERT (National Council of Education and Training) 20,000-25,000 “quality” schools are required in the country.

- Various states provide land at subsidized rates for opening up of new schools.

- New opportunities are emerging in the form of PPP structures to manage the schools. Ex- 321 School Mumbai etc.

- Rising levels of income and concern for quality education resulting in better college admissions is also a major growth driver.
II. K-12 (Grade I to XII)
Business Model - Analysis (Case Study)

Challenges for K-12 Schools

- High capital investment and space constraints are two of the biggest problems for setting up schools
- Due to this the payback period stretches up to 8-10 years and often takes 2-3 years to break even at the earliest
- Often it becomes difficult to establish a brand image and have visibility of cash flows or enrollments
- This puts a constraint in establishing schools and hence creates a demand supply mismatch

Business Model for Asset Heavy K-12 School

<table>
<thead>
<tr>
<th>Management Company</th>
<th>Management Fees</th>
<th>School Trust</th>
<th>Land &amp; Building</th>
<th>Infrastructure Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Consulting</td>
<td></td>
<td>Lease/Rent</td>
<td></td>
</tr>
</tbody>
</table>

- Under this structure, instead of investing in their own land & building, a school can be run by entering into a lease agreement with the infrastructure company
- Also, management can be appointed for consultancy services appointing teachers, management of admission procedures etc
- In return, the school shall pay management fees to the management company and lease rent to the infrastructure company
- This will reduce the capital outlay

Franchisee Model of K-12

<table>
<thead>
<tr>
<th>Franchisor</th>
<th>Right to use the name</th>
<th>Royalty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Franchisee</td>
<td></td>
</tr>
</tbody>
</table>

- The biggest advantage of an established brand name is seen in terms of assured cash inflows and enrollments
- Assured cash flows minimize the pay back and the break even period
- However, being in a highly regulated industry and constant royalty payments put a continuous burden on the franchisee

Source: Edelweiss Education Sector July 2012
II. Higher Education Segment
Higher Education

Overview

- Higher education is the segment of the education sector which pertains to education after K-12
- The segment grew at a CAGR of 18% during FY04-FY10 and was ~US$ ~21 Billion in FY-2012
- The Higher Education Segment is further divided into technical and non-technical (general) sub-segments
- In 2012, the segment witnessed whopping enrollments of 21.4 million
- As per the estimate ~4% of the GDP is being spent on education by the Indian government
- Currently Gross-Enrollment Ratio (GER) is at 15% and is expected to touch 30% by 2020

Enrollments/Institutions as per FY-2011-12

<table>
<thead>
<tr>
<th>Particulars</th>
<th>FY 2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universities</td>
<td>574</td>
</tr>
<tr>
<td>Colleges</td>
<td>35539</td>
</tr>
<tr>
<td>Enrollment in the Universities and Colleges (in Lakhs)</td>
<td>203.27</td>
</tr>
<tr>
<td>Enrollment in open Distance Learning (ODL) System (in Lakhs)</td>
<td>38.56</td>
</tr>
<tr>
<td>Enrollment in Post School Diploma/ PG Diploma (in Lakhs)</td>
<td>23.02</td>
</tr>
</tbody>
</table>

Sub-segments

Higher Education

Classroom Based

Higher Education

Distance Learning

Private Players in higher education

1 GER-Gross Enrollment Ratio is the number of individuals enrolled in schools divided by the number of eligible individuals for enrollment in schools
Business Models for Higher Education Sector

**Business Models**

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Classroom Teaching</th>
<th>Distance Learning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>High capex, High working capital and usually takes 8-10 years for pay back</td>
<td>Limited capex to the extent of content creation and negligible working capital requirement</td>
</tr>
<tr>
<td>Enrollments</td>
<td>Enrollments limited to numbers of seats and infrastructure</td>
<td>No limit on enrollments</td>
</tr>
<tr>
<td>Staff</td>
<td>Teaching faculty is the biggest standard asset and differentiator</td>
<td>Biggest staff pool consists of content creators, examiners, marketing</td>
</tr>
<tr>
<td>Preferences</td>
<td>Courses where technical knowledge and full attendance is involved</td>
<td>Preferred where professionals enhance skills while working full-time</td>
</tr>
<tr>
<td>Returns</td>
<td>Takes around 7-8 years to get returns on investment but post this the returns are sustainable (Cash Cow)</td>
<td>Operationally can be profitable from the first year but the returns are volatile as the number of students may vary widely from year to year</td>
</tr>
</tbody>
</table>

**Business model for distance learning University**

- **UGC/University Trust**
  - Defines Eligibility, Curriculum and approves course material
  - Conducts exams, awards degrees and certifies courses

- **Corporate entity**
  - Mails course material
  - Develops Content
  - Supports in hiring faculty and student placements
  - Appointing Local Correspondents

- **Local Correspondents**: Provides infrastructure at local area and local faculty support for counseling

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**Diagram Description**

- **UGC**
- **University Trust**
- **Corporate Entity**
- **Student**
- **Local Correspondents**
Porter’s Analysis on Higher Education sector in India

- **High Investment**
- **Long Gestation period**
- **Regulatory Issues**

**Threat of new entrants**
- **Risk - Medium**

- **High**
- **Medium**
- **Low**

**Threat of new substitutes**
- **Risk - Low**

- **High**
- **Medium**
- **Low**

**Competitive Rivalry**
- **Risk - Medium**

- **High**
- **Medium**
- **Low**

- **Demand is high**
- **Competition exists in streams like engineering and MBAs**
- **However, students are keen on reliable names**

**Bargaining Power of Suppliers**
- **Risk - Medium**

- **High**
- **Medium**
- **Low**

- **Finding high quality faculty and retaining them is the biggest challenge**
- **Such problems are being addressed by distance learning courses**

**Bargaining Power of Customers**
- **Risk - Low**

- **High**
- **Medium**
- **Low**

- **Limited seats in colleges**
- **Keen towards merit education**
- **Few players providing such merit education**

**Overall: Attractive**

Risk:
- **High**
- **Medium**
- **Low**
Emerging Scenario in Higher Education Segment

**Increasing collaborations with foreign players**
- Increasing affordability and growing demand for quality education is driving the entry of foreign players
- Examples - Appejay University signed a MoU with a Dutch University and the BML Munjal University signed a MoU with Imperial College London recently

**Multi-Campus Model**
- To facilitate scalability, institutes are increasingly adopting the multi campus model
- Example - Private players like Amity, ISB and IIPM have a multi campus model

**Higher adoption of technology**
- Institutes are now deeply investing and engaging Information technology for campus management, admission procedures, maintaining student databases etc
- E-commerce companies like Snapdeal are also entering into the Education sector
- Snapdeal has now opened up a portal to provide classroom teachings, provide test-preparation materials, online courses and certificate courses

**Expanding overseas**
- Recognition of Indian education in a global arena and ability of Indian Players to compete globally has resulted in expansion into foreign geographies
- Example - Manipal University and Amity University have established campuses in Dubai recently

**Stricter Regulations**
- AICTE aims to bring in a new era of accountability and transparency into educational institutes
- Plans to bring in sweeping reforms and mandatory fee disclosure norms (including online disclosure of every institute's fee details, faculty components and admission-related details)
## Key Players in the Higher Education Segment

<table>
<thead>
<tr>
<th>Player</th>
<th>Status</th>
<th>Revenue</th>
<th>Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>MANIPAL UNIVERSITY</td>
<td>12 professional streams; 17 institutions, 28000+ students from 53 nationalities</td>
<td>US$ 214.03 Million</td>
<td>On-campus - Medicine, Engineering, Information Sciences, Allied Health Sciences, Biotechnology, Dental, etc</td>
</tr>
<tr>
<td>Sikkim Manipal University</td>
<td>Located in the north-eastern state of Sikkim; 550+ Learning Centers, 100,000+ students</td>
<td>NA</td>
<td>India’s first university to be built on the PPP Model. Diploma, Bachelors and Masters courses in InfoTech, Management, Allied Health, etc</td>
</tr>
<tr>
<td>AMITY UNIVERSITY</td>
<td>100,000+ students across 240 courses, Expanded campuses in Dubai, London and Singapore</td>
<td>NA</td>
<td>Courses like Engineering, Management, Law, Biotechnology etc are imparted</td>
</tr>
<tr>
<td>IIPM</td>
<td>HQ- New Delhi, branches in Mumbai, Chennai, Ahmedabad, Bangalore, Pune and Hyderabad; Total 9 colleges, 5,100 students (4,500 post grads, 600 undergrads)</td>
<td>US$ 56.30 Million (FY10-11)</td>
<td>Management and Corporate Trainings</td>
</tr>
<tr>
<td>IILM</td>
<td>It has centres in New Delhi, Jaipur, Gurgaon and Greater Noida. Institute offers Courses in Higher Education like PGP, PGR, PGP etc</td>
<td>NA</td>
<td>On Campus – Higher Education Programmes</td>
</tr>
<tr>
<td>GYAN DIJAR</td>
<td>6,000 students in 32 different courses</td>
<td>NA</td>
<td>Engineering, Management (ISBM), Hotel Management, Pharmacy, College of Post Graduation</td>
</tr>
<tr>
<td>ICFAI UNIVERSITY</td>
<td>7 Campuses</td>
<td>NA</td>
<td>Engineering, Law, Management</td>
</tr>
</tbody>
</table>
Segment Analysis

III. Ancillary Segment
The Ancillary Segment

Industry Statistics

- The Ancillary segment of India’s Education Sector is currently estimated to be ~US$ 15 billion and is expected to grow at a CAGR of 15% to touch US$ 40 billion by 2020.
- The segments consists of Education Travel, Education Resources, Tutoring, Transport Management, Test-preps, Uniforms, Stationary etc.
- The Segment is largely unregulated and has various asset-light business models.
- Increasing competition for entrance exams and layers of tests at the K-12 level has paved the way for many coaching institutes.
- The segment is also bringing a slow but steady transformation of education style from a mere school premise to online access(e-learning).

Source: Technopak Analysis, Ancillary outlook April 2013

Sub-segments

- Stationary
- Coaching/Test preps
- Multimedia and technology

Ancillary Sector

Segment Statistics (Market Size)

Multimedia and Technology

- Amount in US$ Billions
- FY12: 1.25
- FY15E: 2.4
- CAGR: 24%

Coaching/Tutorials

- Amount in US$ Billions
- FY12: 4.5
- FY15E: 8
- CAGR: 21%

Source: Edelweiss Education Sector July 2012
I. Multimedia and Technology (1/3)

Current views on Technology in Education

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average % of revenue spent on technology</td>
<td>2%</td>
</tr>
<tr>
<td>Parents have expressed satisfaction with school computer labs</td>
<td>49%</td>
</tr>
<tr>
<td>Technological classes are ineffective</td>
<td>13%</td>
</tr>
<tr>
<td>Schools having technological classes</td>
<td>58%</td>
</tr>
<tr>
<td>Computers in labs are ineffective</td>
<td>34%</td>
</tr>
<tr>
<td>Schools have computer labs</td>
<td>69%</td>
</tr>
</tbody>
</table>

Source: Gray Matters Capital, Education Technology in India, 2013

Influential Technology Modes

**Tablets**
- Tablets gained momentum in the Indian Education sector when Datawind Ltd. introduced the Akash Tablet- World’s Cheapest tablet (US$ 100)
- They are perhaps the most portable mode of technology in education as they emphasize on e-book formats and learning on the go
- This also helps in harnessing the audio-visual effects of the lessons

**Satellite Based Classes**
- This is another revolutionary concept to reach a large population of students at the same time
- Using this technology, live teaching is telecasted to a large number of workstations connected to the satellite

**E-learning**
- This is a solely online based learning mode where lessons are imparted in the form of videos on the allocated portal
- The subject matter is uploaded on the portal and the same can be accessed by the given user-ID and password

Opportunity lies in bridging the gap between the number of internet users and education computing devices

Despite an increasing number of internet users in India, a majority do not have computing devices which hampers the potential of technology in education

TRAI pegged the number of Internet Subscribers at 165mn with 7 out of 8 accessing internet from mobile phones
I. Multimedia and Technology (2/3)

Barriers and Benefits

- **Knowledge Gap**

School management is often hesitant to invest heavily in technology upfront. Instead of imparting highly marketable skills like coding, web design etc., teachers are found more involved in basic computer skills.

- **Resource Limitation**

Another barrier that adds to the negatives is the high cost of acquiring and maintaining such technology.

- **Cultural Barriers**

Schools are often involved in resisting such technology training as they fear that their current staff may become redundant.

- **Logistical reasons**

Lack of infrastructure is also a major concern. Institutes are more focused on accommodating more student than investing in space and rooms for computer labs.

- **Audio-Visual**

Technology helps enhance both the audio and visual effects in the subject matter which helps develop a deeper understanding.

- **24/7 Access**

This is the inherent advantage of technology. It helps students to have continuous access to the subject matter and the learning is not limited to attending class.

- **Wide Coverage**

Due to the advent of multimedia and technology, learning is not limited to the school premises anymore. The sources of learning have touched wide horizons and a larger population at a single point of time. Example: Satellite Classes.

- **A bridge for innovation**

Multimedia has also paved the way for further innovation. Due to the development of new learning styles, the emphasis of education is more on “out of the box” thinking and learning.
## I. Multimedia and Technology (3/3)

### Players and the Play

<table>
<thead>
<tr>
<th>Name</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Educomp smartclass** | - The Company was established in 1994  
- Educomp reaches out to 34,500 schools and ~22.8 Million users and educators around the world  
- It also claims to have the largest K-12 digital content library in the country with over 16,000 modules of rich 3D multimedia educational content  
- The company has many tie-ups and partnerships at the higher education level such as with the JRE Group of Institutions, Millennium School of Business etc.  
- It is the largest company in education solutions space |
| **Edutor** | - The company was founded in 2009  
- Edutor has launched a tablet named as student tab which is customizable for a school’s curriculum  
- The tablet has a built in assessments feature and the content is a blend of animations, e-books and videos aggregated from several content partners  
- Edutor has designed tablets that can be used for all the three segments such as K-12, Test-preparations and Higher education |
| **Hurix systems** | - The company was founded in the October 2000  
- Hurix systems is focused on transforming the industry by converting old contents into digital by providing e-books converter, simulation labs, animations etc  
- The company is also engaged in HTML5 Services and developing mobile based apps  
- Hurix has the team of 500+ professionals |

### Partners

<table>
<thead>
<tr>
<th>Partners</th>
</tr>
</thead>
</table>
| Intel  
Raffles College of Higher Education |
| Pearson Education  
Aakash  
Cambridge University Press |
| Kaplan  
McGraw Hill |

---

[Image: Various logos and text related to technology and education companies]
II. Coaching and Tutorials (1/2)

### Industry Statistics

- Coaching is that sub-segment of the Ancillary segment which covers the classes for test-preps, entrance exams, tuitions etc.
- The sub-segment was ~US$ 4.5bn in 2012 and is expected to touch US$ 8bn in 2015 growing at the CAGR of 21%
- This Sub-Segment is highly unregulated and unorganized
- The unregulated nature of the industry has attracted a lot of PE/VC funding
- The coaching industry is basically an Urban Phenomenon accounting for 75% of the total industry
- The success of the players in the industry mainly depends on word of mouth and the prevailing brand image in the market

### Coaching Composition

<table>
<thead>
<tr>
<th>Size-US$ 4.5 Bn</th>
<th>Post Grad test prep - $0.14 bn (3%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grad test prep- $ 0.77 bn (17%)</td>
<td></td>
</tr>
<tr>
<td>Std. VI TO XII - $ 3.6 bn (80%)</td>
<td></td>
</tr>
</tbody>
</table>

### Sub-segments

- **Integrated Classroom**
  - Personalized Coaching
  - Caters to an individual's career needs
  - Example- IMS, Career Point
- **Technology Aided**
  - Replicate real classroom via VSAT/VPN
  - Example- Educomp
- **Portal-based Learning**
  - Operates by bringing together students, alumni, teachers etc on a social network
  - Includes discussion forums, SMS alerts, e-books and news
  - No infrastructure required
  - Based on content creation and posting study materials

### Growth Drivers

- Poor quality of teaching in the existing education system
- Shortage of quality formal education institutes - increasing competition for admissions at the graduate and post graduate level
- The market is rapidly growing as the Indian education system lays heavy emphasis on marks scored in an exam. A shortage of quality Higher Education Institutes is further fuelling growth
- Due to the increasing complexities in the professional exams, Coaching centers are now a much needed support system for students
- The size and pace of growth in this segment is huge and it promises to be a large market opportunity

Source: Edelweiss Education Sector July 2012
## II. Coaching and Tutorials (2/2)

### Key Players in the Segment

<table>
<thead>
<tr>
<th>Player</th>
<th>History</th>
<th>Current Network</th>
<th>Revenue</th>
<th>Business Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMS</td>
<td>Started in 1977</td>
<td>185 centers</td>
<td>US$ 6.77 million</td>
<td>Strong focus on MBA test prep, diversifying into Certification Programs, Publications, Language Training &amp; Formal Education</td>
</tr>
<tr>
<td>CAREER LAUNCHER</td>
<td>Started in 1995</td>
<td>135 Centers</td>
<td>US$ 16.61 million</td>
<td>Strong focus on MBA test prep, diversifying into preschools, K12 schools, HE institutes, vocational training to providing coaching and counseling at all levels</td>
</tr>
<tr>
<td>TIME</td>
<td>Started in 1992</td>
<td>150 Centers</td>
<td>US$ 17.26 million</td>
<td>Focus on MBA/ Engg/ MCA entrance tests</td>
</tr>
<tr>
<td>MT EDUCARE</td>
<td>Started in 1988</td>
<td>168 Centers</td>
<td>US$ 25.65 million</td>
<td>Focus on 10th,12th grades (Science and Commerce streams), AIEEE, Engg/ Medical, CET, CA</td>
</tr>
<tr>
<td>Aakash</td>
<td>Started in 1988</td>
<td>96 Study Centres 125 Exam Centres</td>
<td>NA</td>
<td>Focus on medical &amp; engineering entrance exams (well known for IIT entrance training), courses for Olympiads, NTSE are also offered</td>
</tr>
</tbody>
</table>
III. Stationary

Industry Statistics

- Stationary is the sub-segment of the Ancillary segment of the education sector that includes supply of books and other non-paper items used for educational purpose
- In the FY 2012-13, the market size of the school and stationary supplies base was estimated at ~US$ 10-15 Billion
- A huge part of the market is captured by the typical textbooks used in schools such as NCERT, SCERT, State boards’ recommended books
- The segment is highly unorganized and unregulated, which paves the way for a large player to capture market share
- The rise in the number of educational institutes and enrollments is driving the demand in the stationary segment every year

The Barriers and The Growth Drivers

- It is a highly unorganized segment which results in lesser restrictions
- It is deeply involved in every other segment of education which is the major driving force behind its growth
- Private players are highly affected by the monopoly of State boards in terms of text books like NCERT, SCERT
- Reference to class notes and second hand books is also a major limiting factor
- Emerging online contents/portal learning is also making the printed books industry obsolete

Sub-segments

- Stationary
  - Paper (Copies, Registers)
  - Non-Paper (Pens, Pencils etc.)
  - Books
    - Text Books
    - Supplementary Books

Players
Segment Analysis

IV. Vocational Training Segment
Vocational training

Industry Statistics

• Vocational training is that segment of the Education industry that prepares people for a specific trade or career (hard skills)
• The segment is focused on enhancing the employability of trainees at the blue-collar level
• This segment was ~US$ 3.7 billion in 2012 and is expected to touch US$ 7.3 billion\(^1\) by 2015 growing at a CAGR of 25%
• NSDC-National Skill Development Corporation, established by the government in 2009, is a special initiative undertaken to enhance skills of potential human resources to match the ever growing demand for talent
• It is estimated that 150 million more skilled human resources would be required by 2022

Market Size

Projections for human resource requirement till 2022-People In Million\(^2\)

Source: \(^1\)Edelweiss Education Sector July 2012 \(^2\) NSDC Report on Vocational training 2012-13
Porter’s Analysis on Vocational Training in India

- **Threat of new entrants**: Medium
  - Huge demand-supply gap which is paving the way for more players in the market

- **Threat of new substitutes**: Medium
  - Vocational training is itself a substitute for formal education
  - However, practical skills imparted on the job is one of its main competitors

- **Competitive Rivalry**: Medium
  - Several private players have entered the space but are struggling to make $$$

- **Bargaining Power of Suppliers**: Medium
  - Technology is leveraged to provide virtual environment for training
  - Skills are imparted by the students in rural areas as a part – time jobs

- **Bargaining Power of Customers**: Medium
  - Most of the institutes are located in urban areas
  - Buyers prefer the player which offers a placement guarantee and has a good brand name

**Risk**: Medium

**Overall**: Attractive
## Key Players in the Vocational Training Segment

<table>
<thead>
<tr>
<th>Player</th>
<th>History</th>
<th>Status</th>
<th>Revenues</th>
<th>Business Model</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NIIT</strong></td>
<td>Started in 1981</td>
<td>Listed</td>
<td>US$ 155 million</td>
<td>IT Training (90% of individual training revenues), IFBI (NIIT has 81% stake; remaining with ICICI) for banking certifications, Imperia (tie-up with IIM A,I,C,L) for management programs, Corporate Training</td>
</tr>
<tr>
<td><strong>APTECH</strong></td>
<td>Acquired Avalon in 2006</td>
<td>Listed</td>
<td>US$ 27.26 million</td>
<td>Retail Business - IT &amp; Multimedia training. Non-retail business - learning services, training and testing solutions. Avalon is currently in the aviation, hospitality and personality development training</td>
</tr>
<tr>
<td><strong>Jetking</strong></td>
<td>Started in 1990</td>
<td>Listed</td>
<td>US$ 5.32 million</td>
<td>110 centers (104 franchisees); Hardware and Networking Training</td>
</tr>
<tr>
<td><strong>ICFA</strong></td>
<td>Founded in 1999-2000</td>
<td>Private</td>
<td>NA</td>
<td>350 centers (30 owned). Focus on Financial Training</td>
</tr>
<tr>
<td><strong>CMS</strong></td>
<td>Started in 1976</td>
<td>Private</td>
<td>US$ 12.80 (FY-2012)</td>
<td>60 centers. Training in H/W, Networking and IT</td>
</tr>
<tr>
<td><strong>veta</strong></td>
<td>Started in 1981</td>
<td>Private</td>
<td>NA</td>
<td>175+ centers; both franchised and owned (expected to go up 100)</td>
</tr>
<tr>
<td><strong>Russel's</strong></td>
<td>Started in 1986</td>
<td>Private</td>
<td>NA</td>
<td>30 centers (25 owned, 5 franchised)</td>
</tr>
<tr>
<td><strong>Franklin</strong></td>
<td>Started in 1993</td>
<td>Private</td>
<td>US$ 9.89 million (FY-2012)</td>
<td>120 centers. Aviation and Hospitality training; ~17,000 students</td>
</tr>
</tbody>
</table>
Where is the Opportunity and Why?
The Opportunity in Vocational training
Skill Shortage and The Potential

Shortage = Unlock the Potential

36% of employers reported the lack of skills caused “significant problems in terms of cost, quality and time”

39% of employers say skills shortage is a leading reason for entry-level vacancies

% of employer respondents

<table>
<thead>
<tr>
<th>Country</th>
<th>Turkey</th>
<th>India</th>
<th>Brazil</th>
<th>United States</th>
<th>Mexico</th>
<th>Saudi Arabia</th>
<th>Germany</th>
<th>United Kingdom</th>
<th>Morocco</th>
</tr>
</thead>
<tbody>
<tr>
<td>% who train</td>
<td>56</td>
<td>53</td>
<td>48</td>
<td>45</td>
<td>40</td>
<td>38</td>
<td>32</td>
<td>30</td>
<td>12</td>
</tr>
<tr>
<td>Average days</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

47% of employers were found unaware about the concept of training Therefore introducing Vocational training can prove to be a boon for their operations

Companies with new hire training

% who train | Average number of days

<table>
<thead>
<tr>
<th>Country</th>
<th>% who train</th>
<th>Average number of days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>41</td>
<td>7</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>64</td>
<td>23</td>
</tr>
<tr>
<td>Morocco</td>
<td>68</td>
<td>19</td>
</tr>
<tr>
<td>Germany</td>
<td>90</td>
<td>23</td>
</tr>
<tr>
<td>United States</td>
<td>93</td>
<td>18</td>
</tr>
<tr>
<td>India</td>
<td>93</td>
<td>31</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>96</td>
<td>26</td>
</tr>
<tr>
<td>Mexico</td>
<td>97</td>
<td>12</td>
</tr>
<tr>
<td>Brazil</td>
<td>97</td>
<td>19</td>
</tr>
</tbody>
</table>

Companies of all sizes state that they would pay an extra 22% on average for training and development

Measuring the Demand & Supply Gap
Changing Rules of the Game and The Emerging Opportunity

**White Collar Workers**
This group consists of managers and the engineers that design and run the manufacturing plants. They are equipped with high standards of technical knowledge from colleges/universities.

**Blue Collar Workers**
This group consists of factory floor workers who operate the machinery and perform any necessary physical work. Most are designated as unskilled labor and few have high school degrees. They form a major portion of the working force in a factory.

**Emerging Class of Workers-Technicians**
Another category of workers emerging consists of the human resources who are responsible for programming, troubleshooting and maintaining the increasing number of computer and network driven manufacturing devices in the contemporary factory.

As per the report of National Skill Development Corporation (NSDC), there will be an incremental requirement of 150 million human resources by 2022 across different sectors in India.

To match this demand-supply gap, it is estimated that 40 million more seats are required across vocational training centers.
## In-house Vocational Programs in the Manufacturing Sector

Initiative taken by Big Private Players

<table>
<thead>
<tr>
<th>Industry</th>
<th>Company Name</th>
<th>Training Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>L&amp;T</td>
<td>• L&amp;T has established Construction Skill Training Institutes (CSTIs) in Chennai, Panvel, Ahmadabad, Bengaluru, Hyderabad, Delhi and Kolkata to impart construction vocational training</td>
</tr>
<tr>
<td>Textile</td>
<td>Vardhman Training and Development Centre (VTDC)</td>
<td>• The group has established the Vardhman Training and Development Centre (VTDC) in Ludhiana to enhance employee skills across all functions</td>
</tr>
<tr>
<td>Electronic Goods</td>
<td>Godrej</td>
<td>• The Godrej group has tied up with The George Telegraph Institute (the pioneer in vocational training in eastern India) to launch specialized courses in refrigeration, air-conditioning and washing machine technology. On completing the course, deserving students will be offered employment with Godrej</td>
</tr>
</tbody>
</table>
| Automotive        | Maruti             | • The company has tied up with ITIs and absorbs students from there for its manufacturing plants  
• MSIL has also setup a Technical Training Centre to cater to the training needs of employees working in the manufacturing domain and train them on the latest technologies |
Blue-collar workers find it very difficult to get jobs because they lack appropriate skills. Also, due to the same reason the pay offered is lower.

Manufacturing companies spend a lot of money, time and effort to train new hiring. This reduces the productivity and also brings reluctance to hire fresh new blue-collar workers.

Vocational Training

- Vocational Training is an effective tool which can help manufacturing concerns in reducing their training time and will also help them to hire people with appropriate skills.
- For Blue-Collar Workers, it can be a boon as it will help them to get better jobs with pay matching their skills.
- Also, the training available for the same purpose is available at affordable prices.

"There exists an opportunity to create a world class Blue-Collar training institute with practical hands on training for solving this huge demand-supply gap and creating win-win situation for workers and employers."
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