

Salvus Capital Advisors Pvt. Ltd

A research report on

Investment in the Indian Education Sector

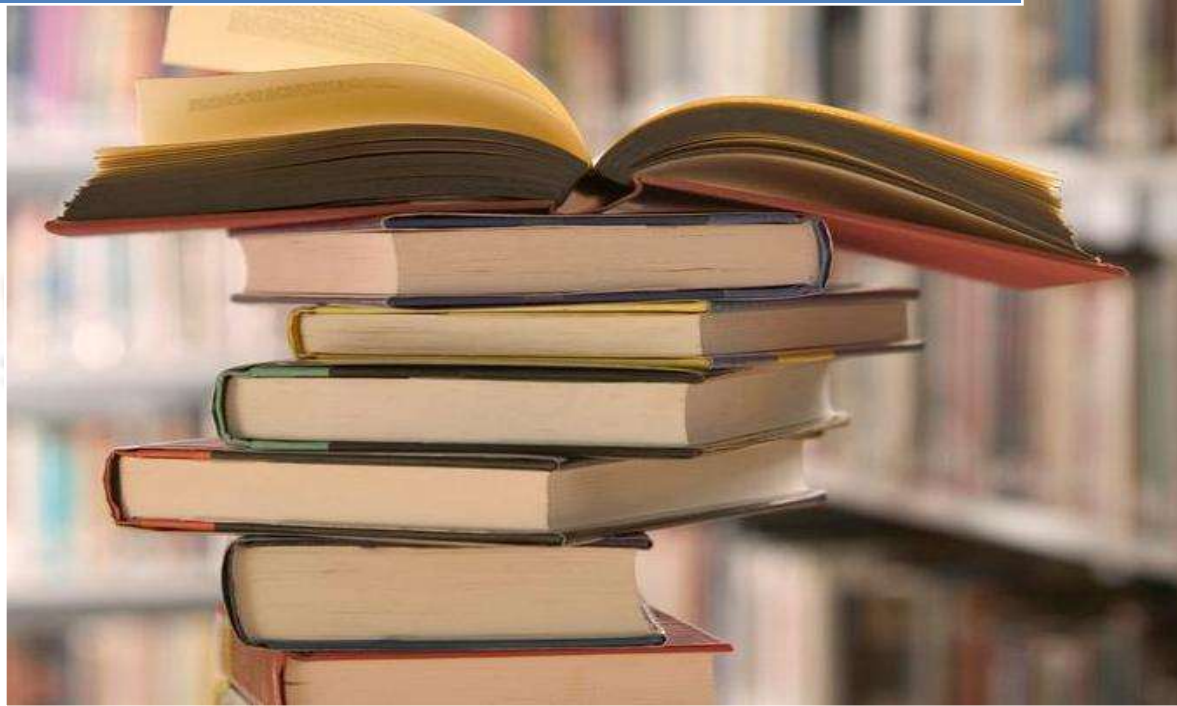
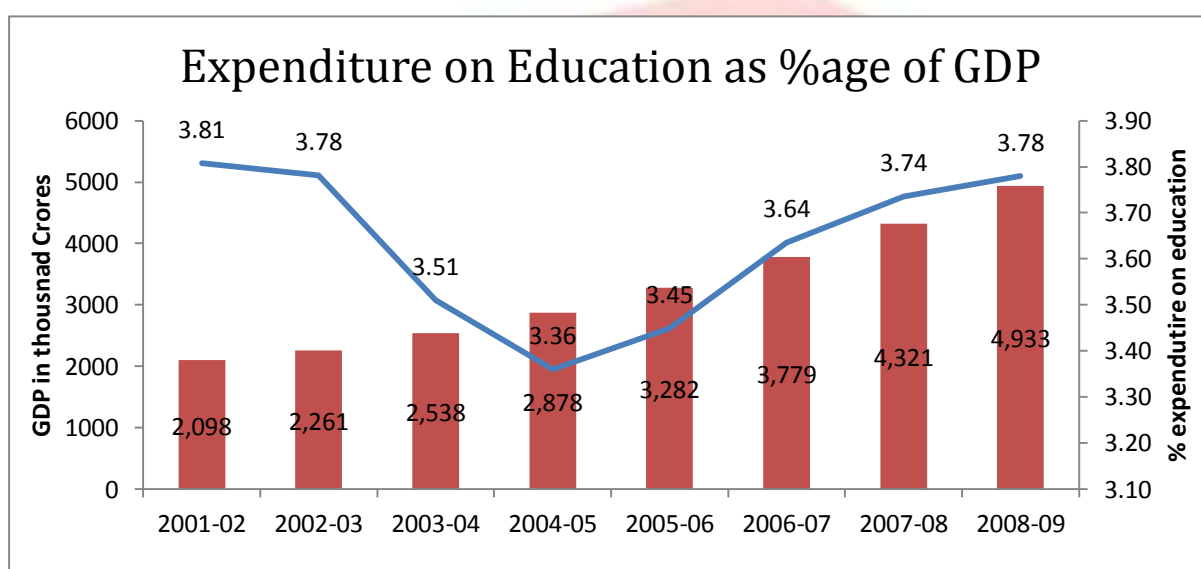


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OVERVIEW

Education is the key to unlocking and building lasting value in a robust economy. For any country to grow and prosper, a well-positioned educated young population is the fundamental requirement to meet the demands of an increasingly global economy and productive value creation. India has amongst the largest student population in the world and a low literacy level of 74.04% (2011)¹. According to census 2011 figures, over 35.3% of the 1.21 billion people are between the age group 0-14 years. Additionally, there is shortage of employable manpower in various industry segments. In order to meet this existing and emergent demand, there is huge need of investments in the Indian education sector. Currently, education is primarily handled by the government through its infrastructure and budget outlays. But given the small budget outlays and complex regulatory structure, supply is lagging far behind the demand of education.



Source: Ministry of Human resource and Development (MHRD), Government of India

REGULATION

India's tightly controlled regulatory structure is the primary reason for shortage of quality education institutions. Being in "Concurrent list", education is being governed by both Central and State government with huge variations amongst the state regulations. Currently, the government regulates who you can teach, what you can teach them and what you can charge them. Some of the key bodies regulating education in India are:-

- Schooling
 - Department of School Education and Literacy - MHRD
 - Central Board of Secondary Education (CBSE)
 - Various State Boards
 - National Council of Educational Research and Training (NCERT)

¹ Census of India, 2011

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- Higher Education
 - Department of Higher Education - MHRD
 - University Grants Commission(UGC)
 - All India Council of Technical Education (AICTE)
 - Statutory Councils
 - Medical Council of India (MCI)
 - Bar Council of India (BCI)
 - National Council of Teacher Education (NCTE)
- Voluntary Education and Skill Development
 - National Council for Vocational Training (NCVT)
 - National Skill Development Corporation (NSDC)

In order to overcome this overlapping nature of various governing bodies especially in higher education, government is planning to come up with National Commission for Higher Education and Research (NCHER). This commission would work as a single regulatory body which would determine, co-ordinate and maintain standards in promotion of higher education and research. It will subsume regulatory bodies such as UGC, NCTE and AICTE, thus making the process more streamlined.

KEY POLICY/ACT

- Foreign Educational Institutions(FEIs)
 - Allows FEIs to setup multi-disciplinary campuses and award degrees
 - Mandates FEIs to reinvest surplus from Indian operations
 - Mandates FEIs to invest at least 51% of capital expenditure required
 - Regulates the admission process, fee structure, period of operation of FEIs
- Right to Education
 - Makes access to primary education a fundamental right
 - Mandates 25% reservation for underprivileged students in schools

BUDGET 2011 HIGHLIGHTS

- Allocated an amount of Rs 52,057 Crores for universalizing access to secondary education
- Allocated an amount of Rs 21,000 Crores for Sarva Shiksha Abhiyan
- Increased the total allocation by 24% over the previous year
- Lack in allocation of funds for Teacher improvement and training
- Lacked emphasis on the K-12 sector in terms of school improvement, quality control etc.

EDUCATION IN INDIA

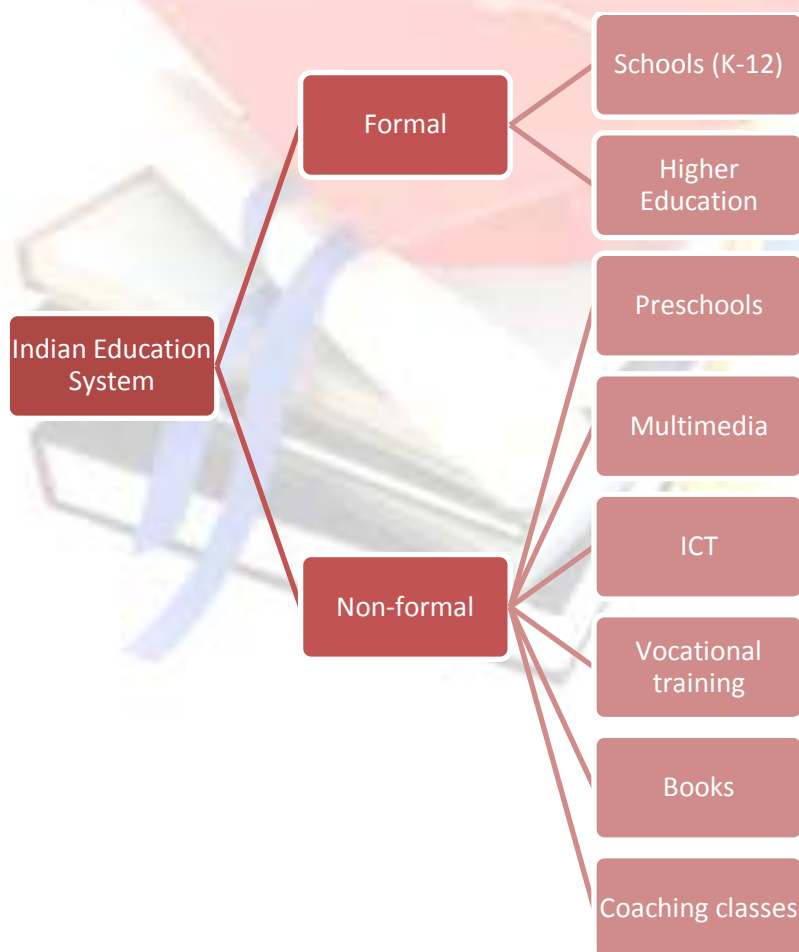
Indian education sector has witnessed a series of changes in the last few years, which resulted in a significant increase in market size of the education industry. With economic growth and enhanced technology it has become necessary to develop the Indian education sector. Funds are a major concern in the market to meet this demand. The government has taken many initiatives for the development of education infrastructure which needs to be supplemented led by private players. The government has also opened the doors for foreign universities by passing Foreign Educational Institution (Regulation of Entry and Operation) Bill, 2010, which will help in shaping the education industry structure specially pertaining of higher education in India.

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About 185,000 Indians study overseas and spend USD 4 billion annually. This is almost 10% of the private spend on education, coming from a very small 0.001% segment of the student population. A number of these students are now returning to India after completing their studies, as job markets in India are more attractive, especially in contrast to weak macro scenarios in the western markets. Entry of leading foreign institutions will enable some of this USD 4 billion spend to stay in India, and also provide a much needed boost to quality.

STRUCTURE

Indian education system can be divided into formal and informal segments which are further divided into sub-segments. Formal education segment broadly comprises schools and higher education institutes. Schools often classified as K-12(Kindergarten to 12th) caters to '3-17 years' age group. While higher education includes graduate, diploma, professional and post-graduation courses caters to '18-22 years' and above age group. On the other hand, informal education segment comprises of preschools, multimedia, ICT, vocational training, books and coaching classes. This segment is free from regulation as opposed to highly regulated formal education segment.



INTERNATIONAL SCHOOLS

India is home to several well acclaimed International Schools and is increasing rapidly. This demand has been fuelled by parents looking for a new system of education which is more interesting and less stressful. Also, large number of NRIs resettling in India is also contributing to this demand. Being in India these schools have to adhere to certain requirements of the Indian national system irrespective of the examination system adopted by them. Most of the international schools opt for the International Baccalaureate (IB) Board. However, there are other examination systems like the General Certificate of Secondary Education (GCSE) and General Certificate of Education (GCE) examination systems which are also present. The IB is a recognized leader in the field of international education. It is a non-profit, mission-driven foundation that offers three programs for students aged 3 to 19.

- Primary Years Programme (PYP) -For students aged 3 to 12
- Middle Years Programme (MYP) -For students aged 11 to 16
- Diploma Programme -For students aged 16 to 19

In India, most international schools offer IB Diploma Programme. In this students study six courses at higher level or standard level. Students must choose one subject from each of groups 1 to 5, thus ensuring breadth of experience in languages, social studies, experimental sciences and mathematics. The sixth subject may be an arts subject chosen from group 6, or the student may choose another subject from groups 1 to 5. Additionally, the programme has three core requirements that are included to broaden the educational experience and challenge students to apply their knowledge and understanding. The “extended essay” is a requirement for students to engage in independent research through an in-depth study of a question relating to one of the subjects they are studying. “Theory of knowledge” is a course designed to encourage each student to reflect on the nature of knowledge by critically examining different ways of knowing (perception, emotion, language and reason) and different kinds of knowledge (scientific, artistic, mathematical and historical). “Creativity, action, service” requires that students actively learn from the experience of doing real tasks beyond the classroom. Students can combine all three components or do activities related to each one of them separately.

Some of the International Schools in India:-

- Aditya Birla World Academy-Mumbai
- American Embassy School- New Delhi
- Amity Global School-New Delhi
- D Y Patil International School-Mumbai and Nagpur
- Dhirubhai Ambani International School-Mumbai
- GD Goenka World School-Gurgoan
- Indus International School-Bangalore, Hyderabad and Pune
- KiiT International School-Bhubaneswar
- Pathways School-Gurgoan, Noida and NewDelhi
- Stonehill International School-Bangalore
- Sharad Pawar International School-Pune
- Doon School -Dehradun



ANALYSIS OF VARIOUS SEGMENTS BASED ON KEY PARAMETERS

	Growth Prospect	Regulated	Scalable	Possibility to Create Value
Preschool	Yes	No	Yes	Yes
Schools(K-12)	Yes	Yes	Yes	Yes
Higher Education	Yes	Yes	Yes	Yes
Multimedia	Yes	No	Yes	Yes
ICT	Yes	No	Yes	No
Coaching Classes	Yes	No	No	No
Vocational Training	Yes	No	No	No
Books	No	No	No	No

GROWTH DRIVERS

- Demographic advantage
 - As per Census 2011 ,35.3% of the Indian population is under the age of 14
- Increasing awareness
 - Increase in awareness towards education as a priority and essential tool for career growth
 - Increase in job opportunities and salaries offered making investment in education prudent
- Human Resource driven economy
 - Increase in the demand for an educated skilled workforce by services sector
 - Share of service sector in GDP increased from 30% in 1950 to 55% in 2007
- Technology aided delivery
 - Increase in penetration of technology resulting in virtual learning and education delivery
- New employment avenues
 - Newer employment avenues such as KPO, LPO, retail, aviation, animation etc. demanding highly skilled manpower

INDUSTRY FORECAST

SCHOOLING

Segment	2008	CAGR	2013	CAGR	2018
Pre-School	1,200	20%-25%	3,500	10%-15%	5,800
K-12	21,000	5%-10%	30,800	5%-10%	43,200
Tutorial	5,000	8%-13%	8,000	5%-10%	11,800
Books	1,700	5%-10%	2,400	3%-8%	3,000
Stationery	1,380	5%-10%	2,000	3%-8%	2,600
Education CD-ROMs	120	25%-30%	390	20%-25%	1,100
Multimedia in School	25	60%-70%	320	50%-60%	3,300
Total	30,425		47,410		70,800

(Figures in USD million)

HIGHER EDUCATION

Segment	2008	CAGR	2013	CAGR	2018
Higher Education	6,700	8%-13%	11,200	7%-12%	18,100
Preparatory	1,600	13%-18%	3,200	10%-15%	5,900
Total	30,425		47,410		70,800

(Figures in USD million)

VOCATIONAL EDUCATION AND SKILL DEVELOPMENT

Segment	2008	CAGR	2013	CAGR	2018
Child skill enhancement	740	20%-25%	2,200	17%-22%	5,600
IT training	195	35%-45%	1,050	33%-38%	4,700
E-learning	45	35%-45%	240	33%-38%	1,100
Finishing school	25	50%-60%	235	45%-55%	1,800
Vocational	1,500	15%-20%	3,100	10%-15%	6,200
Teacher training	15	50%-60%	140	45%-55%	1,100
Total	2,520		6,965		20,500

(Figures in USD million)

Source: Technopak report on India Education Sector

INVESTMENT SCENARIO

With an education network of more than one million schools and 20,000 higher-education institutes, the market size of the Indian education system is estimated at more than US\$40 billion² (2009). However, inadequate infrastructure has placed pressure on the sector's overall development. Education sector is unable to cope with growing market demand and global competition due to constrained investments. Increased private investment is imperative to expand infrastructure and provide greater access to quality education. Also, Government is planning to set up an education finance corporation with an investment of around US\$4-5 billion, which aims to provide the education sector with long-term, low-cost financing.

PUBLIC PRIVATE PARTNERSHIP (PPP)

PPP can provide the much needed finance to the education sector while serving as an efficient operating model. Establishing strong partnerships between private and public sector can achieve the growth.

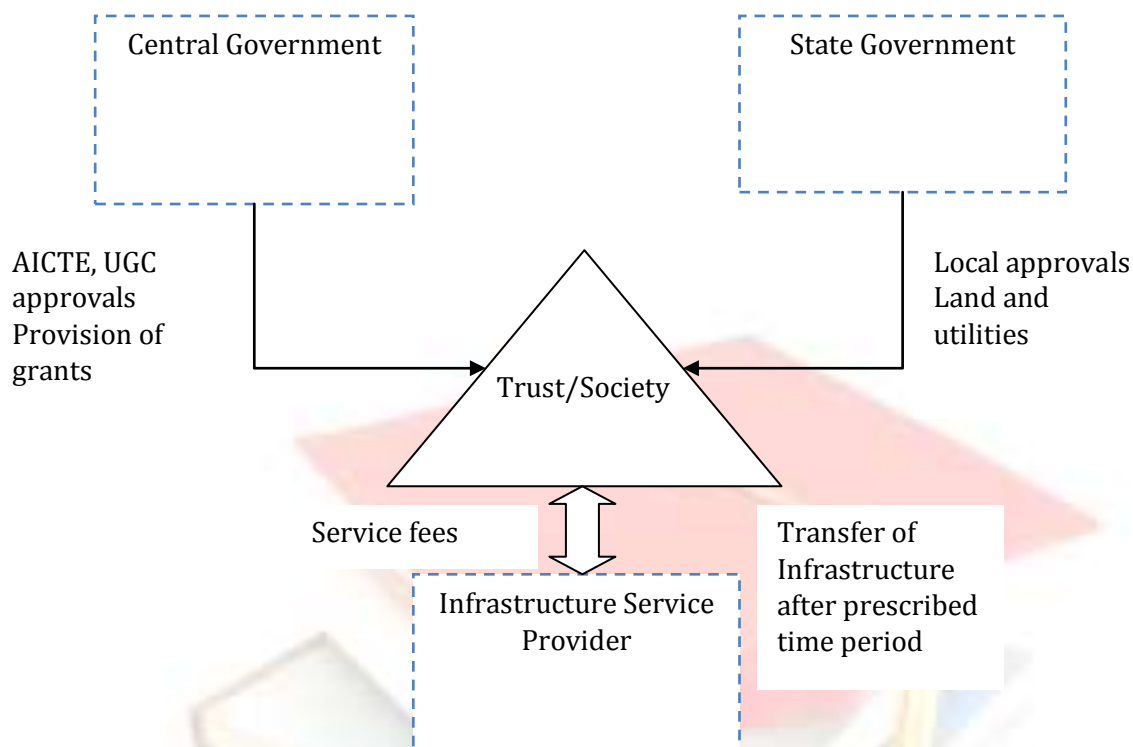
POSSIBLE PPP STRUCTURE

The educational institute (special purpose vehicle) is set up as a Society or Trust, as per applicable guidelines. The UGC, AICTE or some other central regulatory body approves norms and standards of the institute. The state provides applicable administrative and financial support to the institute. Capital outlays are met by an educational services entity which

² E&Y's Private Equity Round Up April-June 2010

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provides infrastructure. The educational services entity charges a fee for use of facilities by the Society or Trust. Finally, the infrastructure facilities are transferred to the institute after a particular time period.



Source:-2009 E & Y - EDGE 2009 report on Private Enterprise in Indian Higher Education

KEY PLAYERS

GLOBAL

- Apollo Group (USA)
- McGraw-Hill (USA)
- Pearson Plc (England)
- Benesse Corp (Japan)
- Devry Inc (USA)
- ITT Educational (USA)
- Strayer Education (USA)
- New Oriental (China)
- Career Education (USA)
- Corinthian College (USA)
- Capella Education (USA)
- Raffles Education (Singapore)
- Mega Study (South Korea)
- SkillSoft (USA)

INDIA

FORMAL

- Preschool
 - Kidzee
 - Euro Kids
- Multimedia in private schools
 - Educomp
 - Everonn
 - NIIT
- Vocational Training
 - NIIT
 - Aptech
 - Frank Finn
- Coaching Classes
 - FIIT-JEE
 - TIME
 - Career Launcher
- Books
 - Tata Mcgraw Hill
 - John Wiley
 - Navneet Publications

INFORMAL

- K -12 (School)
 - Millennium Schools (Part of EduComp)
 - Kids Zee High
 - Billabong High (Part of Kangaroo Kids)
 - GEMS (Dubai based)
- Higher Education
 - Manipal Education
 - Amity
 - IIPM
 - ICFAI

MAJOR DEALS

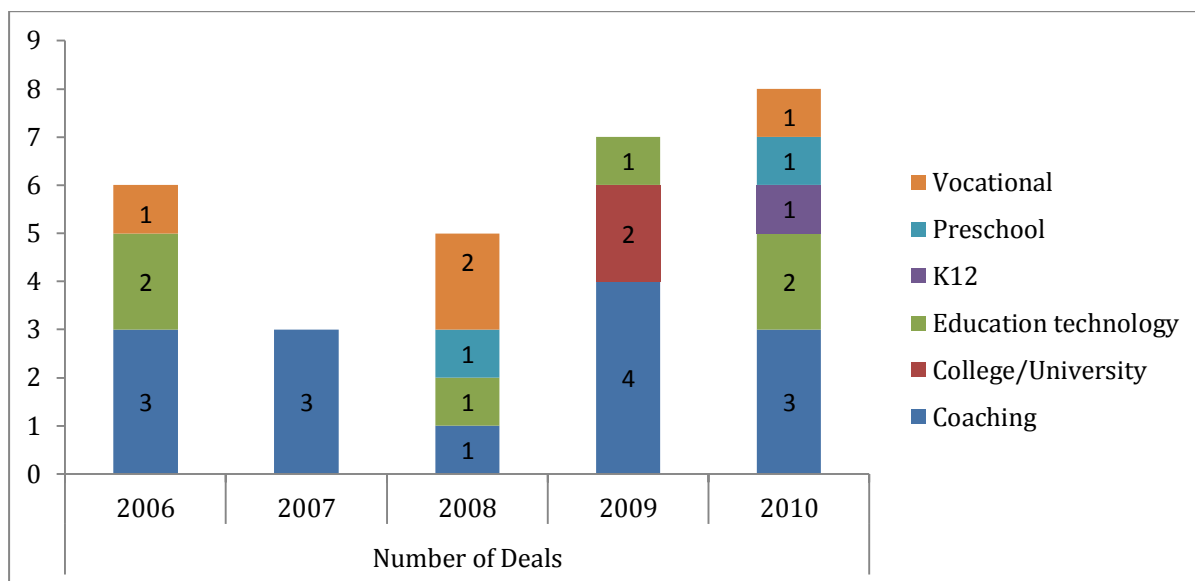
INVESTMENTS

- Rs10 billion investment plan from educational institutes in Haryana's Rajiv Gandhi Educational City (January'11)
- RS 28.08 billion investment for setting up 20 IIITs under PPP route (January'11)
- Everonn Rs 36 billion investment plan to setup 300 K-12 schools by 2015 (July'10)
- Educomp Rs 510 million contract to provide computer education in Bihar's schools (May'10)

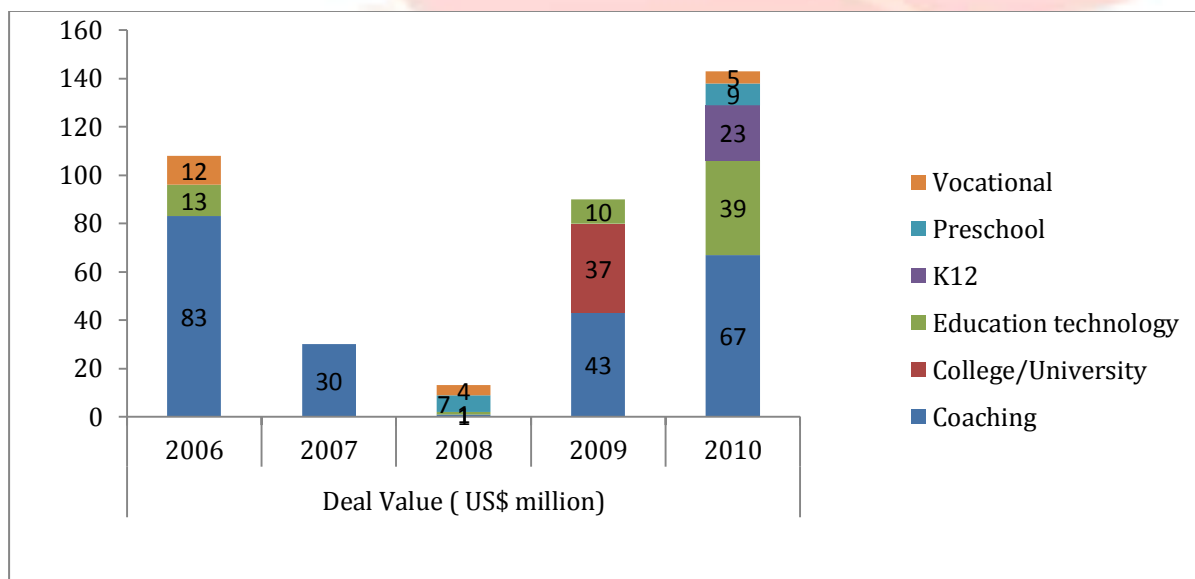
PRIVATE EQUITY DEALS

Education sector has witnessed 29 PE deals (refer Exhibit 1), cumulatively worth US\$381 million, between January 2006 and June 2010 (as per Private equity roundup April-June 2010 by Ernst and Young). The majority of these investments have been in for-profit corporate entities that are not subjected to any government regulations. In future, with increased government spending and expansion plans of private players, the potential for PE investments in the Indian education sector is significant. Additionally, sector's less correlation with the broad economic growth makes it more attractive.

SEGMENT WISE BREAKUP OF PE INVESTMENTS IN TERMS OF NUMBER OF DEALS



SEGMENT WISE BREAKUP OF PE INVESTMENTS IN TERMS OF DEAL VALUE



Sources: Asian Venture Capital Journal; Dow Jones Factiva; ISI Emerging Market

MAJOR ISSUES

- Overregulated and under- governed
- Not for profit structure and all surplus needs to be reinvested
- High involvement of politicians in higher education industry with no willingness to change the existing structure
- High land prices and hoarding of land reserved for educational purposes for resale
- Fragmentation in the sector due to difficulties in achieving scale

EXHIBITS

EXHIBIT-1

MAJOR PRIVATE EQUITY DEALS BETWEEN JANUARY 2006 AND JUNE 2010

Investor	Target	Value (US \$ million)	Date
WestBridge Capital Partners	Brainvisa	5.5	Jan-06
Sequoia Capital	Tutorvista	2.0	Jun-06
Lightspeed Venture Partners & Sequoia Capital	Tutorvista	10	Dec-06
IDFC Private Equity	Manipal Universal Learning	31	May-07
Manipal Education & Medical Group (HSBC Private Equity Asia)	Meritrac	18	May-07
Helix Investments	Mahesh Tutorials	12	Aug-07
SAIF Partners	ICA		Oct-07
Gaja Capital	Career Launcher	8.3	Oct-07
Helion Ventures	Hurix Systems	5.1	Oct-07
SAIF Partners	VETA	10	Dec-07
KPCB, Shepalo Ventures & InfoEdge	Study Places	3.0	Jan-08
Aditya Birla Group	Core Projects	3.5	Jan-08
D E Shaw	Excelsoft	31	Apr-08
Blackstone, New Vernon & Reliance (part of ADAG)	Everonn Systems Ltd.		May-08
Light Speed Venture Partners & Sequoia Capital	Tutorvista	18	Jul-08
Matrix Partners	India Tree House	7.5	Jul-08
Capital 18 (VC arm of Network 18)	24x7 Solutions Learning Pvt. Ltd.	4.0	Oct-08
Intel Capital, Helion Ventures	Global Talent Track	6.5	Jan-09
Navis Advisors	Edutech	30	Apr-09
India Equity Partners	IL&FS Education and Technology Services	30	Jan-10
PremjiInvest	Manipal Universal Learning	43	Feb-10
Reliance Equity Advisors (India) Ltd	Pathways World School	23	Apr-10

ABBREVIATIONS

UGC	University Grants Commission
NCTE	National Council of Teacher Education
AICTE	All India Council of Technical Education
ICT	Information and Communication Technology
K12	Kindergarten to 12th
LPO	Legal Process Outsourcing
KPO	Knowledge Process Outsourcing
BCI	Bar Council of India
MCI	Medical Council of India
CBSE	Central Board of Secondary Education
FEI	Foreign Educational Institution
MHRD	Ministry of Human Resource Development
IIT	Indian Institute of Information Technology
PPP	Public Private Partnership
NCVT	National Council for Vocational Training
NSDC	National Skill Development Corporation



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