
W13318

EDUCOMP: SHAPING EDUCATION IN THE NEW MILLENNIUM

Professor Sanjay Dhir, Professor Amita Mital and Sonjoy Mohanty wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Shantanu Prakash was the chief executive officer and managing director, Educomp Solutions Limited (ESL), India's largest education technology company.¹

ESL's major business focus was to provide product-based learning solutions for private and government schools in India by introducing technology in the Indian education system.

In 2012, the government of India proposed changes in its education policy to curb outsourcing of work related to digital content and resources in information communication and technology (ICT). This proposed change coupled with an uncertain macro-environment, a depreciating currency, high interest costs and reduced GDP growth, threatened to erode the competitive advantage that ESL had gained over the years.

Prakash mulled over the possible future strategy for ESL, particularly for the next two years. It would definitely need to focus on the mass consumption of ESL's products, especially its SmartClass offering, through a reduction in price. He was contemplating a three-pronged strategy that involved: 1) expanding into the untapped Indian rural market segment with school learning solutions; 2) creating a virtual learning solution that included open source content for students; and 3) investing further in R&D in order to develop innovative products to penetrate the Indian education market. However, Prakash was well aware that these alternatives would not only provoke the reaction of competitors, they would also require substantial financial investments. As he pondered over ESL's future strategy, he was struck by the realization that over and above all the external challenges, an internal threat — complacency — was a vice against which he had to guard his company.

INDIAN EDUCATION SECTOR: AN OVERVIEW²

The Indian education sector was among the largest in the world. In 2006, it comprised 426 million students, which was 42 per cent of the total population in the age group of 5-24. The market was quite

¹ Company annual reports.

² Ministry of HRD annual reports.

under-penetrated, with a low literacy rate of 62-63 per cent in India as compared to 90-95 per cent in other emerging markets such as China and Brazil and significant upside for future growth. The expected growth rate for the sector was 10-15 per cent for the decade 2011 to 2020. With improving demographics, India's GDP was also expected to grow at 6.5-8.5 per cent in 2011-2012. Structural changes in the economy, migration to a knowledge economy and a strong government focus were the key growth drivers in the Indian education sector. In 2006, about 360 million students were in the school-going bracket in India, but only 212 million were actually in school due to non-enrolment, high dropout ratios, poor quality of education in public institutes and the demand-supply gap.

The Indian education sector comprised five segments: pre-school, K-12, higher education, vocational training and test preparation, and tutoring and supplemental education (see Exhibit 1). The sector's turnover was estimated to be US\$50 billion in March 2011. School education—the kindergarten to Class 12 (or K-12) segment—comprised half that amount, and higher education, including vocational education, made up the other half (see Exhibit 2). The share of private institutions in Indian school education was 28 per cent for primary education and 32 per cent for secondary education. Private institutions were set to grow significantly with the entry of corporate funding, with institutions planning not one or two new schools, but big chains with corporate-style management. Moreover, the sector was highly concentrated, with 95 per cent of the market share held by the unorganized sector consisting of a few large players such as ESL, Core Education and Technologies Ltd, Everonn Education Ltd, NIIT, Compucom Software Ltd. and Aptech.

The regulatory environment in the Indian education sector posed a barrier to private sector investment in education. Till 2010, foreign universities could offer degree courses in India only in collaboration with Indian universities. However, the Foreign Education Institutions Bill, expected to get legislative assent in 2012, would open the doors to foreign universities seeking to set up base in India.

In the first decade of the 21st century, the average private K-12 school was experiencing double digit growth. The Right to Education Act (April 2010), which mandated the compulsory reservation of 25 per cent of the seats in all schools for economically weaker sections of society, emerged as a fresh threat as the Act directed state governments to reimburse the tuition costs of children from the economically weaker sections from whom the schools were unable to collect fees. However, educationists feared that the government would never pay up. Big corporate schools were worried that there may be greater regulation in the future, including a cap on fees, that could make it unviable to set up and run quality schools.

It was also evident that schools and higher education institutes in India were different in several respects. While the majority of schools were government run, private players funded by business and foreign investors owned about 80 per cent of higher education institutions. Regulatory worries among higher education providers related to proposals by the All India Council for Technical Education (AICTE)³ or the University Grants Commission (UGC),⁴ which appeared to be an attempt by these bodies to micromanage matters related to curriculum and fee structure.

Although there were several regulatory bodies for higher education, there was no umbrella regulation or uniform law for K-12 schools. The charitable and missionary character of some of India's earliest "private" schools and the socialistic model of governance that prevailed for the first few decades after the country's independence had led to a mindset that Indian education should not be "commercialized." Education was

³ All India Council for Technical Education (AICTE) is the statutory body and a national-level council for technical education in India, under the Department of Higher Education, Ministry of Human Resource Development. AICTE is charged with proper planning and coordinated development of the technical education and management education system in India.

⁴ The University Grants Commission (UGC) of India is a statutory organization set up by the Union government in 1956, for the coordination, determination and maintenance of standards of education. It provides recognition for universities in India and provides funds for government-recognized universities and colleges.

regulated at both the central and state government levels and sometimes differed radically from state to state. For example, the state of Delhi frowned on the “commercialization” of education, while Maharashtra, Haryana and Gujarat permitted “for profit” schools. Leading politicians and the National Knowledge Commission⁵ were in favour of stimulating private investment in education.

With the introduction of the Foreign Education Providers Regulation Bill (2010), the central government came out in favour of greater foreign direct investment (FDI) in Indian education. The tide was turning in favour of liberalization, but it would take a while to reach the K-12 segment. Private players in the K-12 space were likely to remain locked in a two-tier structure, where profit was derived not from the school itself but through its consumption of hardware, intellectual property and services.

In June 2012, while the country was being enabled by digital infrastructure such as high-speed broadband, wireless broadband and 3G, a central government committee recommended that the practice of outsourcing work related to digital content and resources in information communication and technology (ICT) programs being implemented in government schools be discouraged. It favoured the use of open-source material and the development of educational content by states through their own pools of teachers, a model that had been successfully implemented in Kerala. However, private players in the education sector hoped that the final decision of the government, following a discussion of the proposal with state education ministers and the central advisory body on education (CABE), would promote public-private partnership in education owing to the fact that ICT projects in schools were continuing to impact the lives of millions of children across the nation.

EDUCOMP SOLUTIONS LIMITED

Company Background

Educomp Solutions Limited (ESL) was established in September 1994 as a private limited company by Shantanu Prakash, an alumnus of the Indian Institute of Management, Ahmedabad and Anjee Prakash, an educationist with a Ph.D. in cognitive sciences. ESL was inspired by the fact that parents in India had consistently proved that, given the right education quality, they were willing to spend a large share of their disposable income on educational services. Prakash’s vision for Educomp had been to cater to the entire education lifecycle of a student, providing products and services that delivered real value at every stage. He said:

We look forward to a day when every parent can simply enrol a student in an Educomp pre-school at age three and forget about how his or her education journey evolves; we want to be the single trusted brand for a parent, delivering customer delight at every touch point . . . We believe that there is immense benefit in becoming an education ecosystem company where we can acquire the student at a very early stage (as early as pre-school) and stay with the student till he is 25.

By 2011, it had become India’s largest education technology company, reaching 33,000 schools and 19 million learners and achieving a net worth of INR 21,600 million (see Exhibit 3). From its inception to 1999, ESL invested in setting up and maintaining computer labs in private schools under a Build-Own-

⁵ On June 13, 2005, the Prime Minister of India, Manmohan Singh, constituted the National Knowledge Commission to advise on policies that might sharpen India’s advantage in knowledge-intensive service sectors, particularly policies related to education, research institutes and reforms.

Operate-Transfer (BOOT)⁶ model and in government schools under a subcontract awarded by the government.

In 2011, ESL's business could be categorized into two broad areas: the B2B division, comprising School Learning Solutions (SmartClass and Edureach); and the Retail & Consulting division, comprising K-12 schools(pre-schools and high schools), higher learning solutions, and online and retail, including vocational courses (see Exhibit 4).

ESL focused on product-based learning solutions for Indian private and government schools. It generated close to 90 per cent of its revenues from schools in 2012. However, until 2012, ESL's market penetration, even in SmartClass, its largest business, was in the low single digits. Thus, there was a huge opportunity for ESL in the Indian education market, as it had already created an educational platform on which it could continue to build the business (see Exhibit 5). Indian middle class customers were hungry for quality education and were willing to invest a substantial amount of their income in their children's education. With the use of technology in the education sector gaining popularity, education boards such as the Central Board of Secondary Education (CBSE) were encouraging schools to adopt multimedia content and materials. The government was increasingly looking at public-private partnership (PPP) models to address some of the critical challenges in education. The stage was set for ESL to continue its rapid growth.

Main Businesses

B2B Division

SmartClass

ESL launched its flagship brand SmartClass in 2003. The system brought technology into the classroom with a vast repository of digital modules on every subject, including mathematics, science, English, environmental studies, social studies, physics, chemistry, biology, history, geography, economics and business studies. The concept behind SmartClass was to set up a knowledge centre inside a school, equipped with a server loaded with digital instruction and assessment materials mapped to the school's curriculum. It comprised 2D and 3D animations, graphics, audio and video, which the teacher could easily access and project in the classroom. Every chapter had a set of multiple choice questions designed to assess learning achieved at different cognitive levels for that specific lesson. SmartClass adopted an assessment methodology that utilized wireless handheld devices. It aimed to provide a 360 degree learning experience whereby students could access content through the Educomp Online portal from their homes. In 2011, 8,000 schools followed the SmartClass system and it was growing at 10 schools a day. ESL implemented SmartClass in schools on a turnkey basis. The company provided all the elements required for its implementation, such as the hardware, library of digital content, training to teachers and periodic support, including a full-time trained person inside the school to ensure the smooth functioning of the program. Any school could adopt SmartClass by entering into a contract with ESL and paying a subscription fee of INR 5-6 million for schools with 30-40 classrooms, which was almost on par with the competition.

ESL aggregated and continuously developed the repository of SmartClass digital instruction materials in-house at ESL's state-of-the-art Digital Products and Solutions (DIPS) group, located in Noida Export Processing Zone (NEPZ) and Bangalore. In 2009, ESL undertook a comprehensive re-engineering and upgrade of the system and launched a new version that it rechristened SmartClass CTS (Class

⁶ The Build-Own-Operate-Transfer (BOOT) model is one where all assets are transferred to the school at a nominal residual value at the end of the contract period.

Transformation System). Through continuous reinvention and innovation, ESL launched multiple new products within its SmartClass segment, including DTS (Digital Teaching System) and Educomp Live. SmartClass DTS was a fully integrated, one-switch digital interactive teaching system designed and moulded into a single compact unit to enhance efficiency, convenience and durability and reduce installation time. Educomp Live was a VSAT⁷-based education delivery model that offered various remedial/skill development and teaching programs to schools located across the country in live mode. The product was based on a five-year annuity model.

In 2011, ESL was the biggest player in the smart class market providing digital education in schools, with Everonn Education, NIIT, Core Education & Technologies and Compucom in close competition. The trend in schools in Tier II and Tier III cities⁸ to increasingly adopt the latest technology attracted many other new entrants to the market, including HCL Infosystems, Learn Next, Tata Interactive Systems, Mexus Education, S. Chand Harcourt (India) and iDiscoveri Education. However, by 2011, when the potential market size for SmartClass in India comprised 75,000 public schools and was growing by 5,000 every year, ESL was a dominant player in the industry, reaching 8,000 schools and eight million learners.

Edureach

Introduced in 2005, Edureach (previously ICT) aimed to partner with central and state government schools to bridge the digital divide in the Indian education system. The major objective of Edureach was to provide IT infrastructure in government run schools by introducing computer education and computer-aided education in schools. Over the years, ESL partnered with the governments of Assam, Karnataka, Orissa, Tripura, Gujarat, Uttar Pradesh, West Bengal, Tamil Nadu, Haryana, Jharkhand, Rajasthan, Punjab, Chhattisgarh and Andhra Pradesh, covering more than 14,500 government schools and benefiting 7.9 million students. Edureach also created content in regional languages for these projects, which was a combination of computer literacy and curriculum-based content. Edureach's strongest competitors were Everonn and NIIT; however, none could claim to derive any advantage on account of differentiation by use of technology in this segment.

Retail & Consulting

K-12 Schools

This segment of ESL comprised of its pre-school business, including Roots-to-Wings, Little Millennium and EuroKids, and its high school chains under the subsidiary Educomp Infrastructure and School Management Limited.

Pre-Schools

In 2008, ESL entered into a partnership with EuroKids International Private Ltd, formerly known as Egmont International (India) Ltd (EIL). EIL, a Danish company, started its operations in India in 1997 as a joint venture with the Indian Express Group⁹ to publish well-known and popular children's books. The

⁷ VSAT, or Very Small Aperture Terminal, is a ground satellite station used in communications of data, voice and video signals.

⁸ Tier II cities in India are cities with a population ranging from one to five million; Tier III cities are those with a population of less than one million.

⁹ Indian Express Ltd is among the leading news media publishing companies in India.

company had access to abundant pre-school learning content and wanted to use its expertise to bring quality content to Indian students. This set off a process that led to the establishment of an organized pre-school chain with the commencement of franchising in 2001. In 2004, the Indian management team affected a management buyout (MBO) after the exit of Egmont Imagination (P) Ltd. EuroKids International Ltd was born. In 2008, the company entered into a strategic and financial tie-up with Educomp Solutions Ltd.

In 2006, ESL launched Little Millennium, a structured and process driven franchise model, and had 240 franchisee schools operational by 2011. Little Millennium's "seven petal approach" focused on building the skills of pre-school children in the areas of language development, cognitive development, fine and gross motor development, personal awareness, socio-economic development and individual potential development. It adopted eclectic educational methods, such as the project method, multiple intelligence, play way, Montessori method and thematic approach. Little Millennium subscribed to a "roots to wings" philosophy, which held that once children's roots were strong, they would emerge strong, confident and creative and be able to take wing and fly.

Euro Books, a division of EuroKids International Limited, was also introduced and brought many internationally recognized brands to the Indian market. By 2011, ESL was the largest pre-school company in India, with 839 pre-schools—579 under EuroKids and 240 schools under Little Millennium—for the age group of 2-5 years.

High Schools

The high school segment was the fastest growing segment of ESL, which became the number one corporate player operating brick and mortar K-12 schools in India under the umbrella of Educomp Infrastructure & School Management. It operated 83 schools, including land sites, under construction sites and dry management, as well as joint ventures. ESL provided educational infrastructure services, content/IP services and other allied services to various non-profit organizations that had schools under multiple brands, including Millennium schools, Takshila schools and Universal Academy, and co-branded schools, including Shriram schools, Sri Kanchi Sankara Universal Academy, PSBB schools and Vasant Valley School (see Exhibit 6). Apart from this, ESL launched an international curriculum school brand called "Le Mont High" in Lavasa.¹⁰ ESL resolved the key bottleneck of land acquisition for K-12 via synergistic alliances with realty players and secured 60 school sites. By taking over land acquisition, infrastructure management, intellectual property inputs and overall school management, ESL located its business where it could legally profit, rather than remain in the still foggy space surrounding profits at the level of school trusts.

Higher Education and Vocational Training

In 2008, ESL formed a joint venture called Educomp Raffles Higher Education Ltd (ERHEL) with Raffles Education Corporation, Singapore, which was the largest private education group in the AsiaPacific. ERHEL was to provide high quality education in India under its brands Raffles Millennium International, JRE Group of Institutions and Millennium Academy of Professional Studies. Raffles Education Corporation had established its first college in Singapore in 1990 and by 2008 had grown to operate 33

¹⁰ Lavasa is a planned city being developed near Pune, in Western India, by Hindustan Construction Company, a unit of Lavasa Corporation.

colleges in 30 cities across 13 countries in the AsiaPacific. ERHEL offered management, engineering and design of courses in India and had seven campuses across the nation.

ESL also launched a 50:50 joint venture, IndiaCan, with Pearson, an international education and information company, to support vocational learning in India in 2009.¹¹

ESL also worked with various state governments to run and manage various Industrial Training Institutes (ITIs) across the country. The company aimed to improve the employability of college graduates through its subsidiary, A-Plus Education, under the brand “Purple Leap.”¹² (See Exhibit 7.)

COMPETITORS

In India, Educomp Solutions, CORE Education and Technologies Ltd., Everonn Education Ltd, NIIT, Aptech and Compucom Software Ltd were the top six players by sales turnover in the private education business. Other notable companies in this space included K-12 Techno Systems and Essel Group (see Exhibit 8).

CORE Education and Technologies Ltd.

Originally established as an IT company, CORE ventured into the education segment in 2005 and gradually established a global presence. CORE’s major focus was on the K-12 and higher education areas and it offered ICT, e-content, assessments and examination management solutions to government schools and students. CORE also provided teacher professional development courses for other educational institutes and teachers. In FY 2010-2011, CORE’s net sales from its education segment constituted 85 per cent of its turnover.

Everonn Education Ltd.

Everonn, ESL’s biggest competitor in 2010, was established in 2000 in Chennai. As of March 2010, the company had reached three million students through 8,675 learning centres across 27 states and had tie-ups with 16 state governments. Everonn operated in two segments: ICT and Virtual Technology Enabled Learning Solutions (ViTELS), a VSAT-based education and training solution. The former contributed 24 per cent of its revenues and 22 per cent of its total operating profits and the latter accounted for 48 per cent of its revenues and 75 per cent of its operating profits in 2010.

Everonn offered curriculum-based multimedia solutions called iSchool to private schools and set up technology-enabled classrooms. In the retail segment, Everonn Kompass had virtual and learning

¹¹ ESL transferred its vocational education business to Educomp Vocational Education Pvt. Ltd (EVPL), an indirect wholly owned subsidiary (WOS) of the company. These businesses were owned by Pearson Plc., U.K. and Educomp Higher Initiatives Pte Ltd, Singapore, an indirect WOS of the company. IndiaCan was backed by industry standard certifications provided by Edexcel, Pearson’s market leading qualifications and accreditation arm. Pearson contributed its world leading educational content, faculty and assessor development services to IndiaCan.

¹² Central to Educomp’s business strategy were state-of-the-art, online web-based education solutions such as Learning Hour, Mathguru and WiZiQ that were widening access to quality education. Educomp had tutoring centres and was India’s first and largest online math tutor and content portal. It created a web-based platform with audio-video and whiteboard capabilities that allowed students and teachers to discover, transact and deliver educational services and connect in real time. It also provided an Internet learning platform to a social learning network for community building, online tutoring, and web-based learning and digital content.

classroom networks across the country, focusing on industry specific courses. Everonn's subsidiary, EduResources, provided supplies and resources to schools and colleges. The company also entered the engineering and medical test preparation market, and made inroads into the pre-school, animation and online tutoring segments. Everonn's wholly owned subsidiary Everonn School Education Ltd (ESEL) set up schools that would be registered as trusts and located across the country under the KenBridge brand. Tapping into the higher education market, Everonn also established business schools through its subsidiary, Everonn Business Education Ltd (EBEL).

NIIT

Set up in 1981, the National Institute of Information Technology (NIIT) focused on developing, marketing and implementing technical know-how packages for education/training and was one of the first established houses for IT training. In 2010, NIIT's training solutions touched five million learners. NIIT provided computer-based learning to over 15,000 government and private schools. It also operated the "NIITNGuru" range for schools comprising interactive classrooms, math and mobile science labs, IT Wizard and Quick School. To address the vast population of underserved children, it launched an initiative called Hole-in-the-Wall.

For working professionals, NIIT Imperia Centre for Advanced Learning offered executive management education programs in association with premier business schools such as IIM Ahmedabad, IIM Calcutta, IIM Lucknow, IMT Ghaziabad and IIFT Delhi. With its acquisition of Element K, a U.S.-based corporate training business, NIIT gained exposure to the corporate training market.

Aptech

Aptech, established in 1986, had a similar pedigree as NIIT, but its portfolio was largely focused on India and China. It had a 32 per cent share of the Chinese IT training market. In 2010, Aptech had a presence in more than 40 emerging countries through two main streams of businesses —Individual Training and Enterprise Business. Individual Training offered career and professional training through various brands, while Enterprise Business included content development and training and assessment solutions for corporate houses and institutions. It had over 1,305 centres of learning across the world.

Compucom Software Ltd.

Founded in 1990 in New Jersey, U.S., Compucom Software Limited was a multi-million dollar IT company. Compucom started its Indian operations in 1994. The company's portfolio included e-governance, IT training, telecom, e-CRM and power utility management. The company catered to 4,500 schools as part of the Indian government's ICT education and IT services project under its scheme, Sarva Shiksha Abhiyan¹³ (SSA). It had almost 1.5 million learners across North India, and executed an IT BOOT project for government schools in Rajasthan and Chandigarh during 2000-2005. Compucom had strategic alliances with global companies to execute its software services.

¹³Sarva Shiksha Abhiyan ("Education for All" movement) is an initiative of the Indian government which seeks to universalize elementary education" in a time bound manner." The program is being implemented across the country in partnership with state governments.

EDUCOMP SOLUTIONS IN 2012

In 2012, while deferring its plan to expand its current operations, ESL initiated a reorganization of its portfolio to market its business as “capex light”—spending less money to buy fixed assets—which was a trend throughout the service sector. In line with this, ESL downsized 750 employees of its total workforce of 15,000 in July 2012. Furthermore, ESL was facing several new challenges in its current operations. The Indian economy was slowing down, with GDP growth as low as five per cent during the quarter ending March 2012. This raised concerns about India’s economic environment, particularly with regard to high inflation, financial instability and balance of payments. ESL was impacted by this turbulence in the Indian economic environment and thus saw a downtrend in profits due to high interest cost, volatile currency movement and a depreciating rupee, which increased ESL’s cost of goods sold (see Exhibits 9-12). The proposed changes in government policy to curb outsourcing of work related to digital content and resources in ICT posed a major threat to ESL’s ability to sustain the competitive advantage they had gained over the years.

Prakash reappraised the strategy for the company going forward, knowing that “value created today doesn’t necessarily imply value captured tomorrow.” He contemplated the three-pronged strategy for ESL—rural market penetration with their most popular products SmartClass and Edureach, virtual learning solutions and R&D investments in innovative products.

First, ESL wanted to realize the potential of leveraging ESL’s school learning solutions in rural India’s education market. The Indian rural education sector was still under-penetrated and lagging behind the technological advances made by urban schools. However, the rural infrastructure posed a significant barrier to expansion given the lack of basic amenities, including electricity and development, in rural India. Moreover, rural India had low population density as compared to Indian cities and there was a lack of quality teachers in rural schools. Where quality teachers were available, they resisted the use of modern technologies in education. Lack of affordability of SmartClass products by poorly funded rural schools stood as another roadblock for ESL’s expansion into rural education.

Second, a virtual learning solution presented Prakash with another alternative for reaching out to a vast number of students in India. This open source content would help ESL to establish and standardize their product offerings in bundles and thus further penetrate the Indian market. However, the shifting nature of e-landscapes and technology in this model would require constant upgradation of their process. The training required for teachers to make use of virtual learning solutions also was a mammoth task.

Investment in R&D for the development of innovative products like SmartClass, which would enable them to further penetrate the Indian market, was a third alternative for ESL. However, the tradeoff between the selling costs versus the investment required was the major decision that ESL would have to make, along with a focus on Indian market needs and time to market for these products.

As Prakash contemplated the challenge before ESL, he wondered how ESL would be able to create scalable, sustainable and profitable products and services to (re)shape the new millennium.

EXHIBIT 1: MARKET SEGMENTS OF THE INDIAN EDUCATION SECTOR

1. **Pre-School:** Expected to be a US\$1 billion* market by 2012, with 25-30 per cent of total market with the organized segment.
2. **K-12:** Constitutes the core of the Indian education system and is estimated at US\$20 billion. The government of India has various initiatives to increase scalability and improve the infrastructure for primary education through programmes such as the Sarva Siksha Abhiyan, mid-day meal scheme¹⁴ and the National Literacy Mission.¹⁵ The government also launched the Rashtriya Madhyamik Siksha Abhiyan scheme, set up 6,000 model schools, and sponsored the National Means-cum-Merit Scholarship scheme in its 11th five-year plan as major initiatives.
3. **Higher Education:** Largest in the world with a total of 26,455 institutes. The 11th five-year plan of the Indian government aims at aggressive expansion with the establishment of 30 new universities, eight new IITs,¹⁶ seven new IIMs,¹⁷ 20 new IIITs,¹⁸ five new IISc,¹⁹ two schools of planning and architecture, 10 NITs,²⁰ 373 new degree colleges and 1,000 new polytechnics. Indian higher education sector spending is estimated to be INR 462 billion in 2010, with the private sector accounting for almost 67 per cent of spends.
4. **Vocational Training:** Expected to grow at CAGR of 25 per cent from US\$1.5 billion in 2008 to US\$3.3 billion in 2012. The Indian government has set a target to train 500 million skilled and semi-skilled people by 2022.
5. **Test Preparation, Tutoring and Supplemental Education:** This segment is estimated at US\$9 billion in 2009 and expected to grow to US\$14 billion by fiscal year 2012. The market is growing at 15 per cent year to year led by cut-throat competition for entry into professional colleges.

* US\$1 = INR 55 (as on October 10, 2012)

Source: Ministry of Education Sector Report, 2009.

EXHIBIT 2: INDIAN EDUCATION SECTOR REVENUES (US\$ IN MILLION)*

	Revenues (2009)	Revenues (2012E)	CAGR (%)
Pre-School	408	1,026	36
K-12	22,800	33,779	14
Higher Education	22,400	31,470	12
Vocational Training	1,875	3,362	25
Test Preparation, Tutoring & Supplemental	9,550	14,921	15
Total	57,033	84,558	14

* US\$1 = INR 55 (as on October 10, 2012)

Source: Ministry of Education Sector Report, 2009.

¹⁴ The Mid-day Meal Scheme is a school meal program that provides lunch to children in school to improve enrolment and nutrition.

¹⁵ The National Literacy Mission (NLM) was set up by the Indian Government in 1988 to impart functional literacy throughout the country. NLM targets people in the 15-35 age group.

¹⁶ The Indian Institutes of Technology (IITs) are autonomous public engineering institutes in India, which come under the Institutes of Technology Act of 1961, and offer degrees ranging from B.Tech to Ph.Ds.

¹⁷ The Indian Institutes of Management (IIMs) are autonomous, public business schools in India that offer postgraduate, doctoral and executive education programs.

¹⁸ Indian Institutes of Information Technology (IIITs) are IT institutes established and funded by the central government.

¹⁹ Indian Institute of Science (IISc) is a premier Bangalore-based public research institution founded by J.N. Tata.

²⁰ The National Institutes of Technology (NITs) are public engineering institutes in India.

EXHIBIT 3: MAJOR MILESTONES IN THE HISTORICAL GROWTH OF EDUCOMP

Year	Milestones
1994	Educomp Solutions Limited formed. Began setting up and maintaining computer labs in private schools under BOOT.
1998	Launched eCampus, a student information system.
1999	Launched PlanetVidya.com, an online educational portal.
2000	Started marketing its content with CD-ROMs. Carlyle, a U.S. investment company invested US\$2.10million* for a 15% equity stake in ESL.
2002	Entered the e-learning content management platform with Learning Mate Nhance.
2003	Floated a subsidiary by the name of Learning Mate Solutions Pvt. Ltd. Introduced SmartClass and added educational toys. Set up its fully owned subsidiary, Edumatics Corporation, in the U.S.
2004	Signed a pilot project with Franklin Elementary School in Santa Barbara, California, U.S.
2005	Entered the Asia-Pacific market with pilot projects at Cedar Girls School, Singapore. Launched online tutoring for teaching mathematics to students in the U.S. Carlyle exited from ESL by selling its stake to ESL promoters.
2006	Launched its first pre-school in Delhi under the brand "Roots to Wings." Launched an online math portal, Mathguru.com.
2007	Signed an Memorandum of Understanding (MOU) with Raffles Institution, Singapore Acquired Ask nLearn, Three Bricks E-Services, Savvica Inc. (70.5%) and AuthorGen Tech (51per cent).
2008	Formed a 50:50 Joint Venture (JV) with Raffles Institution, Singapore. Invested in EduInfra and EduManage to set up private K-12 schools and restructured the two subsidiaries into one entity, EduInfra. Acquired 51 per cent stake in learning.com, 76 per cent stake in A-Plus Education Solutions Pvt. Ltd (Purple Leap), 51 per cent stake in Takshila Management Services Pvt. Ltd and 50 per cent stake in Eurokids International.
2009	Announced a JV with Pearson to support vocational learning in India. Converted Mathguru into a free resource. Changed the Smart Class model from BOOT to securitization. Acquired a popular education portal, Studyplaces.com.
2010	Acquired a majority stake in Vidya Mandir Classes, an Indian IITJEE ²¹ test preparation company. Acquired a minority stake in Gate Forum Educational Services Pvt. Ltd, an Indian GATE test preparation company. Entered a joint venture with Zeebo Inc., a Qualcomm funded U.S. company to launch the first wireless educational platform for children in India.

* US\$1 = INR 55 (as on October 10, 2012)

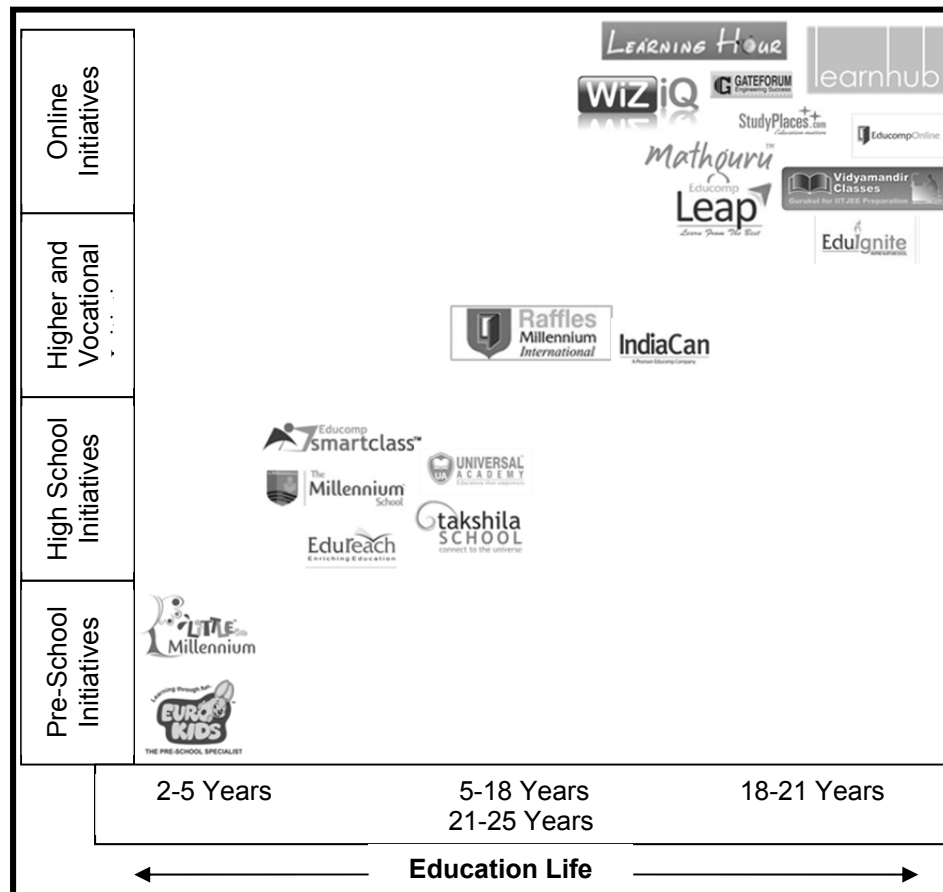
Source: Company data.

²¹ The Indian Institutes of Technology Joint Entrance Examination (also referred to as IIT-JEE or JEE) is a college entrance examination for admission to the Indian Institutes of Technology.

EXHIBIT 4: EDUCOMP SOLUTIONS LTD SEGMENT WISE INFORMATION, FY2011-12 (INR IN MILLIONS)

ESL Divisions	Segments	Sales			
		2012	2011	2010	2009
B2B	SLS (School Learning Solution) <ul style="list-style-type: none"> • SmartClass • Edureach 	10476	9989	8067.6	4322
Retail & Consulting	K-12 (Schools)	14	26	997.1	621
	HLS (Higher Learning Solutions)	136	169	264.5	309.7
	Online & Retail (including Vocational courses)	139	23	1065.6	111..8

Source: Compiled from annual reports.

EXHIBIT 5: ESL'S INITIATIVES IN THE EDUCATION LIFECYCLE

Source: Compiled from annual reports.

EXHIBIT 6: EDUCOMP'S SCHOOLS AND THEIR DESCRIPTION

Millennium Schools (MLS) is the brand name of the Educomp network of schools. The schools are known for their academic excellence, sports facilities and co-curricular activities. MLS uses advanced audio, visual and kinaesthetic learning techniques. The aim of MLS is to nurture the inherent potential and talent of each child, creating lifelong learners who will be the leaders of tomorrow.

Takshila schools aim to provide a holistic education that includes a focus on culture, environmental awareness and art to nurture the global leaders of tomorrow. The schools have a unique approach to learning called the E-DAC approach, developed by a group of leading educationists and researchers at Educomp's R&D wing.

Universal Academy is an initiative of Educomp Solutions Ltd. The institute was the result of 5000 man days of research about the needs of students, their aspirations, expectations and limitations, their environment and backgrounds. This helped in preparing a learning system that catered specifically to Indian students' needs and aspirations while at the same time propelling them into the mainstream. Universal academy brought a systematic change in the classroom scenario from earlier patterns of rote learning to one where learning happened through fun-filled activities and exercises. At the same time it prepared students for life and a fulfilling future ahead.

The Shriram Millennium Schools, a joint set-up between Shri Educare Ltd (SEL), promoted by the founders of The Shriram Schools, and Educomp Infrastructure and School Management Limited (EISML), a subsidiary of Educomp Solutions Ltd, encourages students to develop sound ethical values and pursue excellence and pride in their heritage. The first school was set up in Noida in 2009 and the next in Faridabad in 2011, both in north India.

A tie-up between Sri Kanchi Kamakoti Peetam and Educomp Solutions, this academy seeks to promote capacity building in the school education space and provide affordable value-based education to the masses in south India.

The PSBB Millennium Group of Schools has been set up by the Learning Leadership Foundation (a public charitable trust) in active collaboration with the Padma Seshadri Bala Bhavan Group of Schools, Chennai, situated in south India. PSBBM is focused on holistic development, human excellence and building "global citizens with Indian values." PSBBM has schools in Chennai, Coimbatore and Bangalore.

Universal Learn Today Pvt. Ltd (ULT), an India Today Group company and promoters of The Vasant Valley Schools (VVS), in partnership with EISML, provide school management services, educational infrastructure and learning systems to 30 Vasant Valley Schools across India.

Source: Compiled from respective institutions' websites.

EXHIBIT 7: DESCRIPTION OF AFFILIATES OF EDUCOMP SOLUTIONS LIMITED

Description
AsknLearn provided products and services for the education industry, including learning management systems, e-learning content, IT, multimedia and video training services, professional IT services, multimedia content development services and school administration tools.
AuthorGEN Technologies provided e-learning software products and services to enable customers to communicate around the globe. AuthorGEN also developed WiZiQ, a portal for teachers and students to connect.
Edumatics Corporation was the developer of Edusmart Science. Edumatics Corporation provided technology-driven solutions to facilitate standards-based learning. The company collaborated with educators across the United States to create products that assist teachers in meeting the many challenges they face in the classroom
EuroKids International Ltd was the largest education services provider in the pre-school segment and one of India's largest children's book publishing companies. EuroKids specialized in early childhood education and pre-school programs.
Learning.com provided web delivered curriculum and assessment and partnered with schools and districts throughout the United States. Learning.com helped K-12 teachers and administrators improve student learning through curriculum solutions and assessments, delivered in their Sky digital learning environment.
PurpleLeap was in the business of providing employment skill training to fresh students so that they could succeed in their careers. PurpleLeap offered the complete talent lifecycle ecosystem of assessment, skill enhancement and industry partnership for talent absorption.
Savvica was an educational technology company with a mandate to improve education on a global scale by lowering the barriers of entry to online teaching and learning. Some of its famous projects were Learnhub, Nuvvo and Languify.
Learning Hour was the largest school tutoring company in India, tutoring students across the world, including the U.A.E., U.K., U.S. and Singapore. The company's objective was to adapt evolving information technologies to transform the way knowledge was disseminated across students, educational institutions and businesses.

Source: Shared by the company.

EXHIBIT 8: COMPARISON OF EDUCOMP SOLUTIONS LIMITED AND ITS COMPETITORS, FY2011-12

Company Name	Sales Turnover (INR in millions)	Net Profits (INR in millions)	Total Assets (INR in millions)	Net Worth (INR in millions)	PAT (INR in millions)	Current Ratio	Quick Ratio	ROCE (%)	PAT/Total Income (%)	D/E Ratio
Educomp Solutions Ltd.	10,765.10	1889	21,482.00	18,103.30	1,889.00	1.39	1.31	15.43	17.29	0.19
CORE Education & Technologies	8783.9	1880.7	17,656.30	9,707.90	1,237.00	0.70	3.58	11.86	23.88	0.82
Everonn Education Ltd.	3038.2	-165.1	10,818.20	6,677.00	-165.10	3.32	3.32	2.18	-5.32	0.62
NIIT Ltd.	7361.3	962.5	5717.3	4833.4	962.5	1.35	1.32	6.46	12.73	0.18
Aptech Ltd.	953.9	182.1	2651	2651	182	5.42	5.37	7.01	17.98	-

Source: Compiled from the annual reports of the respective firms.

EXHIBIT 9: BALANCE SHEET OF EDUCOMP SOLUTIONS LIMITED (INR IN MILLIONS)

	Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
Sources Of Funds					
Networth	18,103.30	16,256.20	12,240.40	3975.5	2868.2
Total Debt	3378.6	6713.7	5917.6	5227.1	3672.4
Total Liabilities	21,481.90	22,969.90	18,158.00	9202.6	6540.6
Application Of Funds					
Net Block	1398.2	1280.6	1252.9	3954.2	2113.5
Investments	16,222.60	13,743.50	7866.5	2067.1	709.8
Net Current Assets	3860.8	7909.9	8963.5	2936.2	3516.3
Total Assets	21,482.00	22,970.00	18,158.00	9202.5	6540.8

Source: Compiled from annual reports.

EXHIBIT 10: KEY FINANCIAL RATIOS FOR EDUCOMP SOLUTIONS LIMITED (INR IN MILLIONS)

	Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
Investment Valuation Ratios					
Operating Profit Per Share (Rs)	430.1	571.9	520.7	1782.9	748.5
Net Operating Profit Per Share (Rs)	1552.4	1413.9	1094	3685.4	1658.8
Profitability Ratios					
Operating Profit Margin(%)	27.7	40.45	47.59	48.37	45.12
Profit Before Interest And Tax Margin(%)	20.11	33.4	35.48	34.79	31.9
Gross Profit Margin(%)	20.53	34.22	36.6	35.59	33.54
Adjusted Return on Net Worth(%)	5.48	13.42	11.9	36.18	24.39
Liquidity And Solvency Ratios					
Current Ratio	1.92	0.65	3.05	2.23	5.63
Debt Equity Ratio	0.5	0.67	0.64	2.4	1.35
Management Efficiency Ratios					
Inventory Turnover Ratio	16.4	28.62	28.26	20.15	157.28
Investments Turnover Ratio	16.4	28.62	28.26	20.15	157.28
Fixed Assets Turnover Ratio	1.3	1.31	1.38	1.04	1.04
Total Assets Turnover Ratio	0.55	0.47	0.48	0.53	0.44
Asset Turnover Ratio	1.3	1.31	1.38	1.04	1.04
Cash Flow Indicator Ratios					
Dividend Payout Ratio Net Profit	3.77	2.09	12.06	4.57	7.16

Source: Compiled from annual reports.

EXHIBIT 11: PROFIT AND LOSS ACCOUNT OF EDUCOMP SOLUTIONS LIMITED (INR IN MILLIONS)

	Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
Income					
Sales Turnover	10,765.10	10,206.60	8322.2	5011.7	2621
Net Sales	10,765.10	10,206.60	8322.2	5011.7	2621
Other Income	155.3	325.8	313.3	163.6	148
Stock Adjustments	410	0	0	0	0
Total Income	11,330.40	10,532.40	8635.5	5175.3	2769
Expenditure					
Employee Cost	1769.2	1286.8	908.9	511.5	255.8
Other Manufacturing Expenses	4273.3	2856.8	1481.3	1033.4	797.3
Selling and Admin Expenses	0	800.7	1063.3	559.9	190.8
Miscellaneous Expenses	1499.2	211.3	168.4	155.7	113.8
Total Expenses	7541.7	5155.6	3621.9	2260.5	1357.7
Operating Profit	3633.4	5051	4700.3	2751.2	1263.3
PBDIT	3788.7	5376.8	5013.6	2914.8	1411.3
Interest	902.4	687.2	378.8	141.6	58.2
PBDT	2886.3	4689.6	4634.8	2773.2	1353.1
Depreciation	473.5	411.1	907.4	752.2	323
Other Written Off	0	0	0	0.4	0.2
Profit Before Tax	2412.8	4278.5	3727.4	2020.6	1029.9
Extra-ordinary Items	32	84.9	-9.2	-46.1	0
PBT (Post Extra-ord Items)	2444.8	4363.4	3718.2	1974.5	1029.9
Tax	555.8	474.4	1499.6	658.6	329.4
Reported Net Profit	1889	3888.7	2218.7	1315.9	700.6
Total Value Addition	7541.7	5155.6	3621.8	2260.5	1357.6
Equity Dividend	29	57.6	262	43.3	43.2
Corporate Dividend Tax	4.7	0	43.9	7.4	7.3
Per Share Data (annualized)					
Shares in Issue (INR lakhs)	960.64	955.44	950.15	172.86	172.47
Earnings Per Share (Rs)	196.6	407	233.5	761.2	406.2
Equity Dividend (%)	15	30	137.5	25	25
Book Value (INR)	1884.5	1681.6	1272.8	2216.1	1615.1

Source: Compiled from annual reports.

EXHIBIT 12: CASH FLOW OF EDUCOMP SOLUTIONS LIMITED (INR IN MILLIONS)

	Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
Net Profit Before Tax	2440.8	4363.1	3718.3	2008.2	1030
Net Cash from Operating Activities	1580.9	3271.2	2884.1	849.7	681
Net Cash (used in)/from Investing Activities	-3926.7	-6668.6	-4022.2	-3456.8	-2157.2
Net Cash (used in)/from Financing Activities	1341.3	144.7	6608.8	545.3	3306.6
Net (Decrease)/ Increase In Cash and Cash Equivalents	-1004.6	-3252.7	5470.6	-2061.9	1830.4
Opening Cash & Cash Equivalents	1842.9	6199.1	728.4	2790.3	959.9
Closing Cash & Cash Equivalents	838.4	2946.3	6199.1	728.4	2790.3

Source: Compiled from annual reports.