

Investment trends in the Indian education market

Strategy Briefing

Listed Indian education companies

Company	Market Cap (USD mn)
Core Projects	762
Educomp	302
Everonn Education	66
Navneet Publications	263
NIIT	102
Tree House	156

Source: Estimates based on Reuters' data



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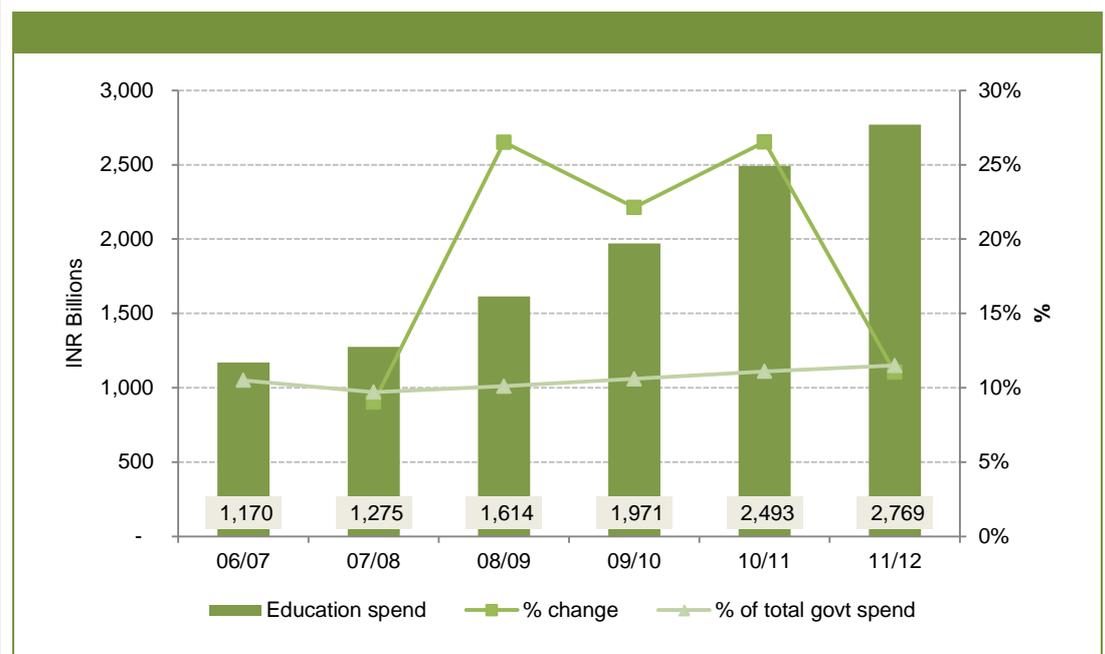
India's current economic issues are relatively minor when set against the excellent long term prospects the country presents to both strategic and institutional investors. Among the most attractive sectors, education definitely sits in the top 5 (alongside retail, food production and distribution, healthcare and infrastructure).

More specifically, in the pre-school and K-12 segments, there are a number of structural trends which are driving strong demand for pre-school and school places, private tuition and study materials. In addition to India's continuing population growth, increased urbanisation and the growth of two 'working parent' families, is creating both a demand for education but also providing parents with the financial means to bypass the relatively poor state education system.

In terms of government policy, the education sector has enjoyed double digit annual increases in spending coupled with initiatives to support students from poorer communities. These have helped to widen access to education, but still have much to do to improve the quality of teaching.

Our objective in this briefing is to look specifically at the education publishing sector. We address three questions: what are the key trends impacting the sector; what kind of investments are being made by education publishing groups and private equity investors; and thirdly, where are the opportunities, in the next 3-5 years.

Figure 1. Government investment in education¹



¹ Planning Commission of India

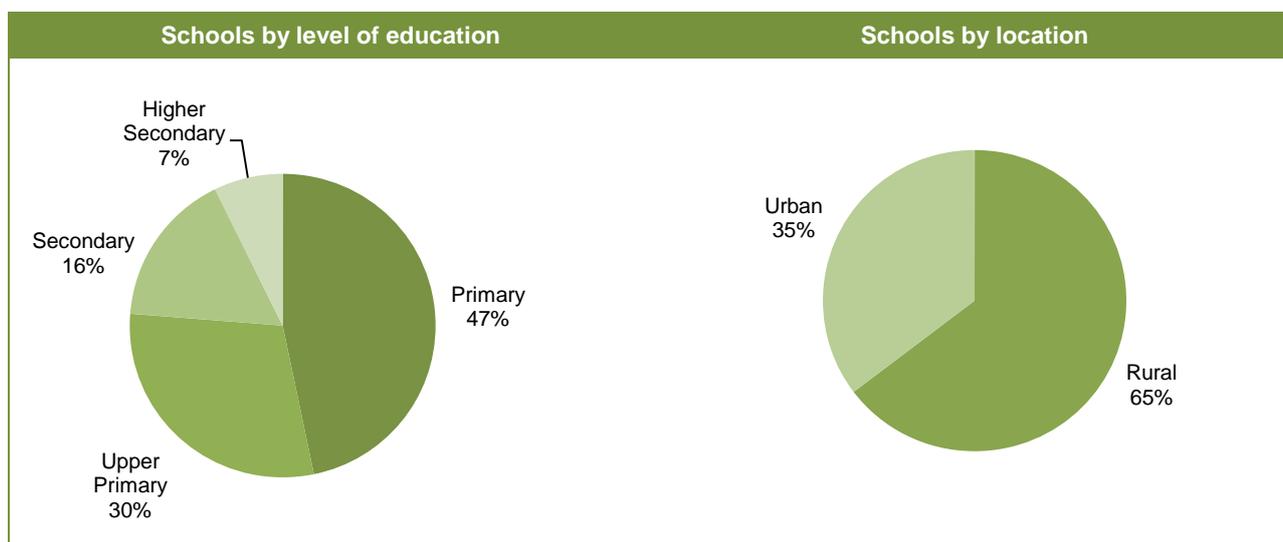
The education opportunity

India has approximately 1.6 million schools (7th AIES survey)

Education policy is formulated and implemented by a combination of the national government (Ministry of Human Resource Development), national bodies with responsibility for development of key areas such as curricula and teacher training and state education boards. This creates a considerable amount of bureaucracy and potential opportunities for corruption (in the procurement of services and study materials).

Rules and regulations on private sector involvement in the provision of K-12 education are restrictive and have held back much needed investment. Most of the schools operating within India's private sector are owned and managed by religious trusts such as the Rashtriya Swayamsevak Sangh (RSS). Commercial operators have tended to place legal ownership of schools into a trust and then manage them through a service contract with the trust.

Figure 2. School segmentation²



Gross Enrolment Ratio in secondary schools is 60%

In terms of curricula, Indian schools either follow a national curriculum (such as CBSE and ISCE) or teach according to a curriculum set by the state education board (international curricula such as the IB are also taught, but at a relatively small number of schools). At present, well over 90% of schools teach according to a state level syllabus (though this can be based on materials published by a national body such as the CBSE). Another degree of complexity is added by India's wide range of languages; national curricula are based on English and Hindi, but in many states, teaching in regional languages such as Tamil and Telugu is the norm.

In order to improve education access among India's poorest children, the national and state governments employ a number of policies covering funding for schools meals, uniforms, text books and stationery.

The fragmented nature of state-level curricula, diversity of languages and regionalised education policies has led to a highly fragmented market for text books. Each state follows a different policy in the text book and study

² Seventh All India Education Survey (NCERT)

materials market. Some states produce and distribute their own materials to schools and students whilst others maintain a list of accredited third party publishers. Text books are in some cases provided free to students via websites where they can be downloaded or in traditional print versions; in some states, free distribution is reserved for the poorest students whereas in others all students receive free books.

Key trends impacting the education sector

Most of the trends impacting the education publishing industry point towards attractive growth in the medium to long term. India's economic and demographic changes indicate that there will be a large, young population prosperous enough to purchase education services and products from pre-school to university.

In terms of regulatory changes, the implementation of the Right to Education Act 2009 and changes at the state level, are likely to ease further private sector involvement in the education sector. Public-Private Partnerships are becoming increasingly common.

Figure 3. Industry Trends³

Macro-economic	<ul style="list-style-type: none">▪ Medium to long term GDP growth may reach 9-10% p.a. (currently 6% p.a. because of economic slowdown)▪ Strong growth in population (net growth of 400 million by 2050 to 1.6 billion)▪ Political consensus is on further economic liberalisation and deregulation, though policy changes to encourage foreign direct investment are being implemented slowly▪ Urbanisation drives needs to create non-agricultural employment in cities (requires a workforce with at least basic education)
Education	<ul style="list-style-type: none">▪ USD 55 billion government spend plus a further USD 30 billion in private spend; 12% annual growth in government spend on education since 2007▪ Right to Education Act 2009 designed to promote quality teaching, fair access for all communities and free and compulsory education to 16 years of age (age extended to 16 in 2011)▪ Sarva Shiksha Abhiyan (SSA) scheme to provide free elementary education for all▪ Significant public investment in schemes to drive up enrolment rates (free meals, uniforms, books and stationery)▪ Incentives to increase private sector investment in development of new schools
Education Publishing	<ul style="list-style-type: none">▪ A USD 2 billion market with annual growth of ~ 10% (up to 20% per annum for materials for English medium teaching)▪ Market is highly fragmented with significant state involvement in textbook publishing in public schools. Domestic publishers typically have a strong local franchise in one or more states (e.g. Navneet Publications in Gujarat and Maharashtra)▪ The provision of English medium textbooks and study materials for CBSE/ISCE curricula is an increasingly attractive segment▪ Growing shift to delivery of educational content using digital platforms (e.g. Smart Class)

³ G2Mi Industry Analysis

International publishers in India

Leading education publishers have been active in the India for many decades (over a century in the case of Oxford University Press), as the government has not applied any foreign investment restrictions to the sector.

Figure 4. Activities of leading education publishers in India⁴

Company	Key details
Cambridge University Press	<ul style="list-style-type: none"> Relative recent entrant (when compared to its peers such as OUP) Acquired control of Delhi publisher, Foundation Books in 2006 Arguably at an early stage of building its presence in the Indian market
Harper Collins	<ul style="list-style-type: none"> Harper Collins India is joint venture between Harper Collins (40%) and the Indian publishing company, Rupa & Co. (60%) Harper Collins also works with groups such as Ratna Sagar to distribute books such as Collins Dictionaries
Houghton Mifflin Harcourt	<ul style="list-style-type: none"> Joint venture with Indian education publisher, S Chand. Primarily focused on the K-12 segment Developed new learning programmes called RISEKIDS and RISE and has established pre-school learning centres
John Wiley & Sons	<ul style="list-style-type: none"> Active in India since 1965 and has a strong presence in higher education and academic titles In 2006, completed the acquisition of its joint venture, Wiley Dreamtech (India) from Infocom Books India Private Ltd.
MacMillan (Holtzbrinck)	<ul style="list-style-type: none"> Operating in India since 1892 Major publishers across K-12 and higher education as well as reference books Publishes textbooks for national curricula (CBSE, ICSE) and state boards (Tamil Nadu and Maharashtra) 22 offices across India and a network of 200 distributors Relationships with 15,000 schools
McGraw Hill Education	<ul style="list-style-type: none"> Operating in India since 1970 Started as a joint venture between the Tata Group and McGraw Hill Companies Publishes materials for CBSE and ICSE curricula but the same are used for some state board education as well (especially for Pre Primary to Standard V).
Oxford University Press	<ul style="list-style-type: none"> Operating in India since 1912; has over 600 employees and a national presence Publishes over 450 titles annually across various languages Covers national (CBSE, ICSE) and state curricula (Tamil Nadu Matriculation Board)
Pearson	<ul style="list-style-type: none"> Operating in India since 2000 (its Penguin imprint has been active in India for much longer) Has made major investments across K-12, private tuition and online learning (acquisition of TutorVista and IndiaCan joint venture with Educomp) Publishes textbooks for the CBSE and ICSE curricula Has launched partnership with CBSE to launch an R&D facility to evaluate and improve CBSE's curriculum (August 2012)
Scholastic Corporation	<ul style="list-style-type: none"> Entered India in 1997, targeting private schools in Delhi. Has approx 200 employees In 2009, introducing textbooks, for the first time, starting with English and Math curriculum textbooks

⁴ G2Mi Industry Analysis

Deal activity

Mergers and acquisitions

Much of the M&A activity sector has involved Indian education services companies expanding their presence into international markets or acquiring businesses that extend their product offering.

Figure 5. Selected M&A deals in the Indian education sector⁵

Date	Summary
22-Aug-12	Indian online educational service provider Everonn Education acquires Centum Learning from Bharti Family Office.
26-Jul-12	Ma Foi Strategic Consultants acquires online education services provider Axis-V
07-Jun-12	Indian online recruitment solutions provider CoCubes acquires India-based student assessment and campus hiring services provider S Quotient
15-Feb-12	Indian professional education and training service provider Aptech Ltd acquires 8.33% stake in Polish education services provider Syntea SA
14-Dec-11	India-based education services provider CL Educate Ltd acquires India-based educational material publisher GK Publications Pvt Ltd
08-Nov-11	India internet services provider Infotel Broadband acquires 38.5% stake in Indian online education provider Extramarks Education
11-Oct-11	SkillSoft acquires Element K Corporation from NIIT Ltd for USD 110 million in cash.
07-Oct-11	Indian media group Educational Trustee Company Pvt Ltd acquires Metronation Chennai Television Ltd from media company NDTV and The Hindu
11-Sep-11	India based NIIT Technologies Ltd acquires US-based technology solution provider Sabre Holdings' Philippines Development centre
16-Aug-11	NIIT Technologies Ltd acquires Proyecta Sistemas de Informacion SA for a total consideration of USD 7 million
25-May-11	Indian education company Core Projects and Technologies Ltd acquires education recruitment services provider ITN Mark Education Ltd
25-May-11	Indian education services provider DMC Education Ltd acquires education consulting firm Plansteps for USD 10 million
25-Feb-11	Indian education services provider, Educomp Solutions acquires majority stake in GATE preparation company Gateforum Educational Services.
24-Jan-11	Educomp Solutions partners Zeebo Inc & Lakshya Digital to form joint venture named Zeebo India to provide educational content
18-Jan-11	Pearson Plc acquires 59% stake in online tutoring service provider TutorVista Global Pvt Ltd for INR 5.77 billion

Private equity / Venture capital investment

A significant amount of venture capital investment has gone into the India education sector, much of it targeted at companies that are developing IT-based content and assessment services.

⁵ G2Mi Industry Analysis

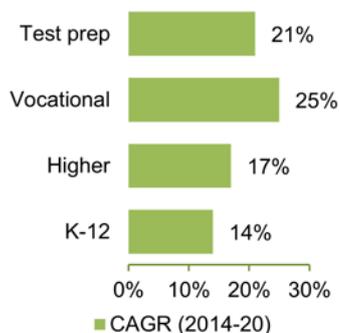
Figure 6. Selected private equity investments in the Indian education sector⁶

Date	Summary
06-Sep-12	India-based online virtual education solutions provider Aurus Network Infotech Pvt Ltd receives investment from Indian Angel Network
27-Aug-12	Indian online professional education and training services provider Simplilearn Solutions receives investment from IndoUS Venture Partners
22-Aug-12	Indian online social learning network Classle Knowledge Pvt Ltd raises USD 500,000 from Chennai Angels
13-Aug-12	Indian educational service provider Mind Edutainment raises INR 27 million (USD 480,000) from group of investors led by Accel Partners.
04-Aug-12	Indian e-learning services provider LIQVID raises investment from SBI Venture Capital
28-Jul-12	Indian education services providing company, Educomp Solutions Ltd raises USD 155 million from IFC, Proparco, Mount Kellett and promoters.
27-Jun-12	HT Media Ltd invests INR 19.5 million in e-learning and software development firm Comp U Learn Tech
04-Jun-12	India-based online training marketplace BookMyTrainings.com Pvt Ltd receives investment from group of investors
14-May-12	Indian virtual education solutions provider LimberLink Technologies Pvt Ltd raises USD 2 million from Accel Partners
26-Apr-12	Indian professional education services provider TalentSprint Educational Services raises INR 200 million from Nexus Venture Partners
20-Mar-12	India-based educational technology solutions developer Edutor Technologies receives INR 20 million investment from Hyderabad Angels
15-Mar-12	India-based online platform for skills workshop searching SkillKindle Learning Pvt Ltd receives investment from i3 Consulting
23-Feb-12	Indian e-learning solutions provider CarveNiche Technologies Pvt Ltd receives INR 10 million investment from Mumbai Angels
16-Feb-12	India-based online education solutions provider Edusys Services Ltd receives USD 7.5 million investment from Sequoia Capital
31-Jan-12	India-based educational software solutions developer eDreams Software Innovation receives INR 50 million in investment from Mumbai Angels
24-Jan-12	Indian online jewellery store BlueStone.com raises INR 250 million in first round of financing from Accel Partners led group of investors
19-Dec-11	India-based digital media and content services provider Trivone Digital Services Pvt Ltd receives investment from Accel Partners
02-Dec-11	Indian online school and education products retailing services provider SkoolShop.com receives investment from group of private investors
15-Sep-11	Indian education services provider K-12 Techno Services Pvt Ltd raises INR 450 million from Navneet Publications
25-Aug-11	Indian educational content and solutions provider InOPEN Technologies Pvt Ltd raises USD 500,000 in seed financing from VenturEast
17-Aug-11	India-based online education recommendation engine YourNextLeap.com receives investment from Nirvana Venture Advisors
27-Jun-11	Indian educational digital solutions provider Classteacher Learning Systems raises USD 15 million in investments from Fidelity Partners
16-Jun-11	Indian online services provider mKay Innovative Solutions Pvt Ltd raises investment from MyFirstCheque
11-May-11	Indian online fashion retail services provider 99labels.com raises USD 3.5 million from Info Edge (India) Lt
26-Apr-11	Indian cloud computing solutions provider E2E Networks Pvt Ltd raises investment in seed funding from Blume Ventures and Freeman Murray
15-Mar-11	Sequoia Capital invests INR 250 million in K12 Techno Services Pvt Ltd.

⁶ G2Mi Industry Analysis

Outlook and investment opportunities

Figure 7. Forecast growth in private sector spend⁸



In our view, education publishers should focus on three key areas/strategies:

Direct to parents sales of both print and online learning materials

This is an obvious target segment, but also a large and growing one in India. Private spend on educational materials is high, as culturally, parents place a high priority on their children's education. Among India's urban middle classes, private tutoring is commonplace and this along with the high penetration of private education among this group, drives substantial spend on study materials.

Partnerships with providers of education technology

Both private and public schools are outsourcing their IT hardware and software services to private providers; companies such as Educomp, NIIT and Everonn are leaders in this segment, which is expected to grow at 15%-20% p.a. Publishers should offer their content (in digital form) in partnership with these IT providers.

Figure 8. Developments in IT-based learning⁷

Product	Company	Key details
Tuition Edge	Agnite Education	<ul style="list-style-type: none"> Portal-based study materials for Standard IX – XII Covers key national and state syllabuses
DigiClass	Pearson	<ul style="list-style-type: none"> ICT solutions for schools (both hardware and content) Used in 2000 schools (Nov 2011); 300% annual growth
Active Teach	Pearson	<ul style="list-style-type: none"> ActiveTeach is available for students of classes 3 to 8 and for English and Science Complements the gap between text books and digital learning in the classroom environment
SmartClass	Educomp	<ul style="list-style-type: none"> Turnkey IT solution providing both hardware and content for classroom-based teaching Used in over 10,000 schools
LearnNext, TeachNext	Next Education	<ul style="list-style-type: none"> Learning and school management solutions; content is K-12, syllabus-based materials Has 7,000 schools using its products Teaching product available in 4,000 classrooms

600,000 teachers in public schools have no training and there is a shortage of a further 1 million teachers

Public-Private Partnerships at state level

Publishers should consider forming 'public-private partnerships' with state governments in order to provide learning materials to schools in the public sector and also to participate in teacher training (an area of increasing investment). There is an increasing appreciation among state education boards that if they are to meet long term goals for access and improvements in the quality of teaching, they will need to grow the role of the private sector in education.

⁷ G2Mi Industry Analysis

⁸ Businessworld Whitebook 2012-13

For further information on this sector

If you are interested in more detailed analysis of this sector, please contact:

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