

Education firms are finding it difficult to reinvent themselves as they struggle to overcome three rudimentary challenges that are holding them back to exploit the opportunities in the sector, reports Shelley Singh

\$80 billion education puzzle

That's the size of the sprawling education landscape, which is ripe for expansion and upgrades of a few billion dollars, as per research and consultancy firm Technopak. There are schools, colleges & coaching centres to be run, course content to be created, online learning to be offered and educational aids to be sold. "Private venture totals no more than \$750 million of this," says Srikanth Iyer, CEO of Pearson Education India, a global education services provider. "They have not even scratched the surface."

Worse, in the mere act of trying to scratch the surface, every segment of the vast landscape that makes up the education business is being tested, on different fronts. In the past three months, CARE Ratings, a credit rating agency, has lowered the credit worthiness of three early success stories: Educomp and Core Education (from low risk to moderate risk) and Everonn Education (from below investment to default). The market value of the largest private education services provider, the 19-year-old Educomp Solutions that went public in 2006, has tumbled below ₹1,000 crore, from ₹7,000 crore in 2009. Venture capital and private equity funds prefer a ringside view to backing education start-ups. According to VC fund Canaan Partners, of the \$800 million invested by VCs in India in 2012, less than 5% went to education ventures. Another VC Helion Venture Partners has just two education start-ups in its list of 45 investments. "Education is not a top priority for the venture industry as bellwethers shape sentiment and they are struggling. I can't see secular growth in the education business," says Sanjeev Aggarwal, managing director of Helion. Private initiatives have barely written their prologue on the education opportunity, and are being tested on four broad fronts.

TEST 1: REGULATION

The biggest part of this \$80 billion opportunity is schools: running them or supplying educational aids to them. There are 1.3 million schools in India, of which 1.1 million are government. According to the Planning Commission, India's gross enrolment ratio (GER) — percentage of eligible population with access to education — is just 14 percent, compared to 70 percent in developed countries and 23 percent in Asian countries. In order to keep costs under check, government rules distinguish private players from running schools and colleges by disallowing profits to be taken out of the entity running these institutions. "A business group can't set up a for-profit degree college or a CBSE school," says Dhiraj Mathur, leader, learning practice, PricewaterhouseCoopers (PwC) an audit and consultancy firm. "They have to do it via a trust." This route is messy, operating on the edges of regulation. The trust pays other group companies for services provided to the school, and thus profits are transferred. "Funds like to invest in sectors where regulation is well-defined and profit taking is not looked down upon. In education, you have to work within the constraints of regulation," says Rahul Khanna, managing director of Canaan Partners, a venture fund. "This makes education different from a regular business," adds Gaurav Kachru, founder of Ideas, a \$10 million venture fund that is keen on the education sector.

TEST 2: PAYMENT & GOVERNANCE

As a result, according to Shantanu Prakash, CMD of Educomp, about 70% of the industry's revenues from schools come from being a vendor: setting up computer labs, or supplying computer-based learning kits and content. Imagine a teacher making a photosynthesis lesson come alive via videos. Private players have sold such kits to about 30,000 schools: Educomp sells them under the brand SmartClass and HCL DigClass. The government is their largest customer, and getting paid on time is proving to be a challenge. Everonn Education's receivables shot up 87% to ₹390 crore in 2011-12, even as the average time taken to realise these payments rose from 180 days in 2010-11 to 348 days in 2011-12. The fear also is that companies may not recover some of this money. "Receivables is a challenge," says Prakash of Educomp, which is facing similar stress. "There is a two to six months delay, but you do get paid." HCL Infosystems, which entered this space about two-and-a-half years and has built a ₹150 crore business, has circumvented the payments challenge by looking beyond government work. It means giving a miss to 96% of the market, but it's easier on payments. "You have to find schools that are willing to pay for content," says Rohin Bhattacharya, executive vice-president, strategy, mergers and acquisitions and marketing, HCL. "Our NPAs are less than 2% compared to those with government school exposure of 40% plus." All the three big listed companies in this business — Educomp, Everonn and Core Education — have seen unusual movements in their share prices, raising corporate governance concerns. For instance, Core Education, 80% of whose business comes from setting up computer labs in government schools, saw its stock sink 80% in just three days in February,

talking heads



Sanjeev Aggarwal
MD, Helion
Venture Partners

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Meena Ganesh
Co-founder,
TutorVista

Education needs capital that is willing to wait. It takes five to seven years to make money. A focus on quarterly results won't lead to best behaviour



Shantanu Prakash
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a movement that is currently being probed by capital market regulator. "Quite a few education ventures are run by people who have nothing to do with education," says P Phani Sekhar, fund manager, portfolio management services, Angel Broking. "They are more into stock price manipulation. At a level, it is as bad as the real estate business, where transactions are not clear." Meena Ganesh, co-founder of online coaching venture TutorVista, points out that the pursuit of quarterly profits is also to blame for the governance problems associated with the sector. "Education needs capital that is patient and willing to wait. It takes at least five to seven years to make money," she says. "A focus on quarter-on-quarter (q-o-q) performance won't lead to best business behaviour. This leads to governance challenges." TutorVista was founded in 2006, broke-even in three years and was sold to Pearson. "It was an attractive offer," says Ganesh. She credits the quick growth to an asset-light model — by comparison, hardware involved locking in capital — and students paying upfront for the coaching. This model has been followed by others, including InfoEdge-funded Meritnation,

which began in 2009 and charges ₹3,000-₹4,000 per student per year for its online school content.

TEST 3: INNOVATION

Even as the industry blames external factors for its struggles, it faces issues within, chiefly an inability to innovate. "There are enough copy cats and no new models," says Khatay Kabir, associate vice-president & head, education, Technopak Advisors. "People have a perception that you can easily make money in education. Most companies have some version of a computer-based teaching, which Educomp started, or an NIIT type teaching institute." Alternatively, they find comfort in the unregulated space, in the tried-and-tested business of running pre-schools and coaching institutes. These, too, have barriers. "You need scale to make money," says Aggarwal of Helion. "In the coaching part, it is very single city centric, like IIT coaching in Kota. The advantage is it's a negative working capital business (all money is collected upfront from students). The disadvantage is lack of ability to scale as educationists run it rather than businessmen." Kabir points to innovations like MOOCs (massively open online courses) in the US. These are essentially online courses that also enable student-teacher interaction over the Internet. Coursera is the largest MOOCs company. He also points to lack of innovation in using YouTube or social media in education in India, like Edmodo in the US, which is kind of a Facebook for schools, bringing together parents, teachers and students online. Prakash of Educomp says such critique belies local realities. "Broadband penetration in India is limited and it's too early to use social media for education," he says. Companies are taking small initiatives. Educomp, for example, is bundling tablets with course content in partnership with Intel. Another company AISECT, which is into education, training and skill development, recently started offering school learning on a pen drive, retailing between ₹1,000 (single language and single-class content) and ₹20,000 (all classes from I to XII). "The penetration of multimedia in schools is less than 2%," says Pallavi Rao Chaturvedi, director, sales & marketing, AISECT. "Besides, India easily needs more than 20,000 new schools in the next few years. There's plenty of headroom for growth."

Elsewhere, Pearson is diversifying from publishing books to technology-based business lines. For example, its consultants, backed by a software, help streamline a school's timetable and build its brand. Pearson is doing this currently for 30 schools and plans to increase it to 100 by this year. The company will soon launch tablet-based learning courses, on Micromax and Samsung tablets.

CRACKING THE CODE

Despite the challenges, companies believe this is a business for the future. "If you stay away from a valuation game, it is the best business to be in," says Bhattacharya. "Today, the education business is largely content for classrooms. It will follow the child from school to home — content, test preparation, assessments, remedial path." According to Jyotsna Gadgil, joint general manager, corporate ratings, CARE, some firms adopted aggressive growth strategies and are over-leveraged. "But the overall outlook for the education business remains positive," she adds, pointing to programmes like the Sarva Shiksha Abhiyan (education for all) and the Madhyamik Shiksha Abhiyan, for which the government has earmarked ₹31,000 crore. The general consensus seems to be to avoid capital-intensive businesses for now. "Companies that focus on asset-light models — like supplying technology or training to schools — and steer clear of ambiguous areas will see a lot of opportunity," says Aggarwal of Helion. Sekhar of Angel Broking, who feels the early success of Educomp created a lot of hype, says it's tougher for listed companies. "You need to show cash flows," he adds. "But the faster you grow, the more debt you accumulate. And slowing down will hammer your stock. It's a double whammy. A lack of innovation adds to the woes." His advice to education businesses is to avoid government contracts and not go for scale straight away. "In this business small is beautiful, as margins are good."

NIIT Takes Campus to the Cloud

If NIIT is offering courses on the cloud, and going beyond IT, there is both a pull and push, reports Shelley Singh

In one of its most significant shifts in business model, computer education major NIIT will offer courses directly on student's tablets and desktops, via what it calls a cloud campus. Besides, in the next three years, it sees non-IT courses like banking, design and social media marketing account for about one-third of its revenues. This branching out into an alternative medium, as well as diversification drive, is about both a pull and push. "We are using the slowdown opportunity to shift to cloud," says Rajendra S Pawar, chairman of NIIT. "It will redefine how education is delivered." NIIT will offer about 50 courses via the cloud. Among the new ones are social media marketing, which will train students on how to use Facebook, LinkedIn, Twitter and blogs for marketing. There's also digital media marketing, online marketing, business & financial services for commerce graduates to make them job-ready for sectors like banking and insurance. This shift also comes at a time when the core business of this 32-year-old company, IT training, is facing a squeeze. In an uncertain and changing environment, IT companies are hiring less and are looking to do more with fewer engineers, and there is greater resistance to outsourcing in the US. "IT sector hiring has reduced by 20% this year alone," says Pawar. "It's a volatile environment, reminiscent of the 2002 dotcom crash. IT has been a drag."

NIIT's flagship IT course, the three-year GNITT, which enrolled about 70,000 students a year till 2010, does 50,000 students a year now. "Some of NIIT's once popular courses like GNITT, which was an equivalent of an engineering programme, are less attractive now," says Khatay Kabir, associate VP & head, education, Technopak Advisors, a consulting firm. Revenues from NIIT's career solutions business (CBS), with IT training as its main component, fell to ₹58 crore in 2012-13, against ₹83 crore in 2011-12. At an overall company level, too, NIIT is under pressure, both on the revenue and profit front. (See graphic). NIIT, which says it has trained 35 million people till date, has three other business lines: imparting computer training to employees of companies (like Wai-Mari, Phillips and KFC), providing the same to school students and imparting vocational skills through 34 centres.

The company hopes that cloud learning — with its anytime, anywhere appeal — will bring in more students and complement its 960 classrooms across the country. "It expands the market for us," says Vijay K Thadani, CEO of NIIT. NIIT has invested ₹50 crore in a data centre for its cloud campus. It aims to enrol 5 lakh students at 300 centres via cloud by 2014. For content, it has pacts with institutes like the Digital Marketing International of Ireland and the Internet & Mobile Association of India for social media marketing courses.

"The new areas that NIIT is getting into are not very scalable and won't be able to replace the loss from its IT business, as volumes are unlikely to be that high," says P Phani Sekhar, fund manager, portfolio management services, Angel Broking. "It's true that more banks are opening, but with more reliability on technology, they will need fewer people."

Thadani doesn't think so. In banking, he says, the industry will need 500,000 professionals in the next five years. "The education system is not designed to meet that demand," he says. "We have to create a destination for students at end of school. In India, it is school to college and then a professional course for a job. A services economy needs to give options for jobs much quicker than that."

The Four Types of Businesses

Running Institutions

Business: Pre-schools, K-12 schools, colleges
Players: Educomp, Mother's Pride, Zee Learn
Challenges: Complicated set up as for-profit ventures not allowed

Digital Learning

Business: Teaching aids based on technology (projectors, electronic whiteboards and computers) to K-12 schools
Players: Everonn, Educomp, HCL, Edurite, Teach-Next, Tata Interactive
Challenges: Payment delays, large government exposure

Online Learning

Business: Delivery of educational content online
Players: TutorVista, Meritnation
Challenges: Lack of broadband, protecting IP

Coaching Classes

Business: Coaching for entry into graduate, post-graduate and professional courses
Players: Mahesh Tutorials, Bansal Tutorials, host of players in Kota
Challenges: Taking a local business national

1.3 million schools make up the huge customer base, but, getting payments in time is a big challenge