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Left to right:
Shantanu Prakash, Managing
Director of Educomp Solutions,
Vijay K. Thadani, CEO of NIIT,
and Ashok K. Chauhan, Founder
President of Amity University

The Advent of **EDUPRENEURS**

New entrepreneurs are rushing into the sector and old ones are expanding frantically. Is education finally a recognised business? PG 40





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Thumb Rules for Investment in Private Education

The private sector has been playing an increasingly important and influential role in India's education sector over the past few years. In fact, at last count, over 50 per cent of the country's educational institutions were privately run (in the US, the private sector's share is 32 per cent and in China, it is 25 per cent). As an industry, private educational institutions in India were worth \$40 billion in 2008, a figure that is projected to grow to \$70 billion by 2013 and \$115 billion by 2018 from a demand growth perspective, if supply keeps pace.

The problems, however, are two-fold: a large demand-supply gap and average to poor quality of most privately-run institutions. There is clearly an opportunity, therefore, for more private players to enter the education space. While schooling and higher education institutes are required to be set up as 'not-for-profit' ventures, with mandatory registration as a Trust or Society, quality private institutes are the need of the day. Entrepreneurs and companies wanting to invest in education, therefore, need to follow certain thumb rules.

Market Assessment: A pragmatic assessment of the "catchment" in each segment of education is important, from the standpoint of achieving required student enrollment, before planning an investment. The catchment (in this case the travel time to and from the institute) for a pre-school student should be 30 minutes, for a K-12 day school 60 minutes, and for a residential school, this would be five hours. Demand for a vocational training institute originates from within city premises, with few students travelling across cities for enrollment. A university or a higher education institute would ideally attract students from all parts of India as well as South Asia, the Middle East and Africa and, therefore, matters would be being dictated by the quality of education on offer and the reputation of the institute.

Key Financials: Setting up an educational institution requires access to large amounts of cap-



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ital. A regular K-12 school, built over 2 acres of land with a capacity of 2,100 students, would require an investment of around Rs 15 crore and so would an MBA institute spread over 1.5 acres with a capacity of 240 students. An engineering college with a capacity of 1,600 students spread over 10 acres of land, on the other hand, would require an investment of Rs 100 crore. Similarly, the project cost for setting up a private university over 300 acres of land, with a capacity of 40,000 students, may be around Rs 1,500 crore. In these ventures, financial returns are attractive, with EBITDA levels of over 30 per cent and project IRRs ranging from 25-35 per cent levels.

Regulation: Shortage of quality educational institutions is a result of India's tightly controlled regulatory structure. Education is regulated at both the Central and state government levels. Higher education has several regulatory bodies, including AICTE and UGC, but there is no umbrella body to regulate K-12 schools nor a uniform law for schools. There are considerable entry barriers and regulations that need to be met, and a thorough understanding of these would, perhaps, lead to better and quality institutions. ☉