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PE funds go back to school

Reeba Zachariah / TNN

Mumbai: The evergreen and recession-proof character of the education sector is drawing interest among private equity firms. Billed to be a \$80-billion market, the number of private equity deals in the education space has grown fourfold in the last four years.

According to Venture Intelligence, a Chennai-based research firm focused on PE and M&A, eight deals worth \$121 million were sealed in 2009, compared with just two deals worth \$73 million in 2006.

The first educational institute to get venture capital funding in India was Career Launcher from Intel Capital as early as in 2000. And last week, India Equity Partners invested Rs 172 crore for a 26% stake in IL&FS Education and Technology Services, which provides training to schools, colleges and to the government and corporate sector.

Unlike other sectors such as steel and auto that bore the brunt of economic slowdown, the education sector stood out as many professionals chose to go back to school to wait out the gloomy scenario. Moreover, the government's thrust that every child should have the right to education and the higher outlay to develop infrastructure reflect the growth potential of the sector.

Also, education occupies a top slot in a typical Indian household budget. A cursory glance around any neighbourhood would highlight the mushrooming of educational institutes and coaching centres in the last few years. Says Rajesh Singhal, managing partner, Milestone Religare Investment Advisors, "The sector offers investment opportunities across the entire value chain, from basic to higher education, training and skills development."

Milestone Religare has invested in IMS Learning Resources, a test preparation firm for aspiring students across management, engineering and law streams. According to Singhal, the annualised return on investment could be 25-30%. Funds typically have an investment horizon of 5-6 years.

PE funds are betting big on both virtual and offline models. These investors, despite the regulatory challenges, are looking at innovative business models from vocational training institutes to tutorials. Indian rules don't permit FDI in mainstream education but allows investment in coaching firms.

"The challenge is to overcome the regulatory structure that makes it less predictable. But haven't we seen the cellular industry creating multi-billion market capitalisation despite regulations," said Bharat Banka, MD & CEO, Aditya Birla Private Equity. The fund, which raised Rs 675 crore, has identified education as an area for investment. Also, education companies are relatively less represented on the bourses. The prominent ones being NIIT, Aptech, Educomp Solutions and SQL. Recently, Birla Shloka Edutech tapped the market through an FPO.