



Report Date	19th August, 2010	
Company Name	Core Projects & Tech. Ltd.	
Price / Recommendation (Rs.)	₹. 260	Neutral

Company Background

Core Projects & Technologies Ltd. (CPTL) is a leading provider of end-to-end solutions in the education domain worldwide. It is one of the largest education companies; and is rated as the fastest growing IT Company in the State of Maharashtra, India. It is an integrated player providing exhaustive range of products & solutions across the value chain from K-12 education to higher education to vocational education.

Founded in 2003 and headquartered in Mumbai, India, CPTL has a global presence serving 7 states in India, 20 states in the US, 40 institutions in the UK, 8 African and 3 Caribbean nations. The company serves technology enabled education solutions to Government Bodies, Universities, Schools, and students.

CPTL is a CMMi Level3 and ISO 9001:2000 certified company with an employee strength of over 1000 across the globe.

The company offers products & services in Education domain, Logistics domain and ERP domain.

Education Domain:

Core's offerings in the education domain include products and solutions in the areas of School Management Systems, Assessment Systems, Accountability Systems and IT Infrastructure Systems. The offerings cater to the education needs of public education system globally.

CPTL focuses on both segments of the education vertical for IT companies:

- **The management of education:** This enables institutions to efficiently administer their operations – classroom management, assessments, student information systems etc. Typically, this is for K12 to Higher Education applications.
- **The delivery of education:** This includes content development, teacher training, and infrastructure management. This mostly finds application in vocational education.

Logistics Domain:

CPTL also has a presence in the logistics domain. Core Projects is focused on providing RFID and GPS based tracking solutions, asset management and smartcard based solutions with a focus on industries including retail, Manufacturing, logistics, and healthcare.

ERP Domain:

In the ERP domain, CPTL caters to Fortune 500 customers offering onsite & offshore solutions, development & production support and project staffing. The prized clientele includes SAP, Oracle, PeopleSoft, and JD Edwards.

Acquisitions:

Core Projects acquired a number of companies in the US and the UK for consolidating its position as a dominant player in the education sector. These acquisitions bring with them complementary solutions and services, ensuring CPTL becoming an end-to-end solutions provider in the global education space. Key acquisitions were:

- CORE Education (USA) – This Company (earlier known as ECS) was the first US product company acquired by CPTL. The acquisition, in 2005, marked CPTL's entry into the US market. This company expertises in client-server, web-based development and data warehousing concepts
- KC Management Group – Acquired in 2007, the company is one of the top US Education Management companies who are key trusted advisors to many states and local school districts.
- Hamlet Computer Group (HCG) – Founded in 1973 and acquired in 2007 by CPTL, HCG has a wealth of experience in the providing high quality I.T. Systems to high profile organisations around the world.
- Aarman Inc. – The US based company was acquired in 2007. It has a strong presence in the ERP segment.
- Emacs Technologies Inc. – The Company, acquired in 2007, focuses on the healthcare and logistics businesses.
- K12 Division of Princeton Review Inc. – The division was acquired in 2009 with the objective of expanding its offerings in the US education market.

Subsidiaries:

Core Projects & Technologies operates along with various wholly owned subsidiaries:

- CORE Education & Consulting Solutions Inc., USA
- CORE Education & Consulting Solutions (UK) Ltd.
- CORE Education Infratech Ltd.
- CORE Projects & Technologies FZE. UAE
- HCL Systems Inc.
- Symbia Ltd.
- Hamlet Computer Group Ltd.

Key Alliances:

The company has key alliances with various organizations for providing better services.

Focus	Organization	Features
Strategic Alliance		
	IBM	Access to customers: IBM is the Prime vendor in many states
	Microsoft Gold Partner	MSFT ISV & Gold certified partner
Teacher Training		
	Oxford University	Path breaking tie-up for Teacher Capacity Building
Curriculum		
	IGNOU	Content Certification Partner
	IL&FS-IETS	Jointly working on projects
	National Teacher.org	Development and online delivery of video instruction
Technology		
	Center of Higher Learning – NASA	Enabling research and training in a fully immersive Virtual Environment
	BECTA Accreditation	One of three companies to have all BECTA accreditations: VLE, Security, Infrastructure, Hosting

Financial Result:

Core Projects & Technologies reported its first quarter (FY2011) result recently. The highlights are as follows:

- Core Projects reported 17.5% growth in Net Sales to ₹220 Crore in Q1FY11 compared to ₹187 Crore in the corresponding quarter a year ago. This was primarily on account of high growth in EOU Development segment. This segment posted a growth of over 230% to ₹115 Crore in its gross revenue over the review period. Sales contribution from this segment increased from 16% in Q1FY10 to 48% in the first quarter.
- Earnings Before Interest & Depreciation (EBITDA) increased over 50% to ₹80 Crore in first quarter as against ₹52 Crore in first quarter a year ago. EBITDA margin improved to 36.3% in Q1FY11 compared to 28% in Q1FY10 – an increase of over 8 percentage points. This was primarily because of EOU Development segment performance. The segment posted an increase of over 170% in its operating profit over the review period.
- CPTL posted a Profit after tax (PAT) of ₹43 Crore this quarter against ₹40 Crore in Q1FY10 – registering an increase of just over 7%. The lower growth compared to EBITDA growth was primarily because of ₹10 Crore other income in Q1FY10 on account of restatement of foreign currency liabilities and assets. In addition, absorption of some interest on account of the Foreign Currency Convertible Bond (FCCB) raised in early May 2010, affected the net profit adversely. PAT margin stood at 19.7%.

Investment Rationale

- **Acquisition Drive:** CPTL has followed inorganic growth strategy for expanding its business. Since Dec'05, the company has acquired around 9 companies and businesses. These acquisitions helped CPTL to venture into new geographies including the US & UK; expand its products & solutions portfolio; and acquire new clients.

- The company has recently announced its intention to acquire two more companies/businesses in the US & UK. The company has marked US\$ 30-40mn for this. CPTL has already raised US\$ 75mn funds via foreign currency convertible bonds (FCCBs) in May'10 for the expansion and for capex requirement.
- **New Orders Boost Order Book:** The Company bagged a few contracts recently which would boost up the sales. Current order book stands at ₹695 Crore including the below mentioned orders.
 - CPTL bagged a multi-year contract from Los Angeles Unified School District (LAUSD), the second largest school district in the US, for US\$ 24mn to design and implement a comprehensive assessment program for nearly 700,000 students.
 - Core Projects bagged a 5-year contract from the Government of Maharashtra to implement Information & Communications Technology (ICT) programs in 947 schools across Mumbai, Pune & Kolhapur. The contract is worth ₹120 Crore and began in May'10. The ICT program implementation includes setting up of computer infrastructure, deploying & running school management software, provision of multimedia educational software and teachers training.
 - The Company has been participating in ICT tenders in other states in India. They are front runners in two of the states. However, it will take another 2 months before arriving at the final winner.
- **US Market see Revival in RFPs:** During the slowdown in FY09, Requests for Proposals (RFPs) were not coming out. However now, there is revival in the market and more and more RFPs are coming out. A lot of traction is seen in California, Texas & Florida – three of the largest states of the US (in terms of student population). These states are strong enough to drive company's sales. Even the company management is optimistic on these markets and expect a revenue growth (in dollar term) of about 25% in FY11. However, we have been slightly conservative on our projection.
- **Increasing Government Spending on Education:** Government spending in key markets for CPTL – US, UK & India, is on increasing trend; thus providing a consistent growth opportunity for the company.
 - US Government spending on education has seen a consistent increase over the last 15 years. Historically, the spending has been independent of government changes or economic cycle. The public school spending in 2010 is expected to be over \$1 trillion.
 - UK Government spending on education has also been on the similar trend as that of the US. It stood at £83bn in 2009. There are approximately 4,000 secondary schools in the country.
 - Indian Government spending on education is budgeted at ₹42k Crore for 2010-11 compared to ₹36.4k Crore for 2009-10. The key government projects include Sarva Shiksha Abhiyan (SSA), Rashtriya Madhyamik Shiksha Abhiyan, and Mid-day Meals scheme.
- **Growing Indian Market to Improve Indian Contribution:** Private education sector in India is expected to grow to a US\$ 42bn market by 2015 – around three-fold increase over US\$ 16bn in 2008. Strong growth is

anticipated on account of increasing spending on private schooling and higher education along with increased private participation in government spending.

- The company is foraying into school management and is planning tie ups with some leading educators from the Indian education industry. CPTL plans to set-up very high end schools across India.
- **Increasing FII Interests:** Interests of Foreign Institutional Investors are rising in the company which is clear with the FII holding in the company.

Particulars	Jun 10	Mar10	Dec09	Sep09	Jun09	Mar09	Dec08	Sep08	Jun08	Mar08
Foreign Institutional Investors	17.63%	15.60%	15.39%	15.44%	9.55%	7.95%	8.03%	7.88%	6.75%	6.66%

- **Interest by A. V. Birla Group:** TGS Investment & Trade Pvt. Ltd., the private equity arm of A. V. Birla Group, was issued 450,000 convertible warrants on preferential basis in Feb'08. The group has nominated a director on the board. The group, in case of exercise of option, will have a holding of around 0.4% of the total capital. The exercise price is ₹ 305.
- **Dividend Paying Stock:** The Company has been consistently paying dividends on yearly basis since last FY2005. We expect that CPTL will continue paying dividends in near future.

Peer Analysis

Core Projects & Technologies is primarily in Education domain. Owing to the nature of business, we have identified Educomp Solutions, NIIT and Everonn Education as peers. However, these players have a dominant revenue share from Indian market while Core Projects has over 90% revenue contribution from the US & UK.

Peer Analysis (ttm ending Jun'10)	Core Projects	Educomp	Everonn	NIIT
Financial Analysis:				
Equity	21	19	15	33
Sales	880	1074	325	1199
PBDITM %	35.7%	43.4%	33.2%	12.3%
PATM, %	19.9%	26.3%	14.6%	3.2%
EPS (₹)	17.1	29.5	31.3	2.3
Face Value(₹)	2.0	2.0	10.0	2.0
Valuations (as on 20 Aug 2010)				
CMP(₹)	260.0	574.8	596.8	66.8
Market Cap	2693	5486	902	1102

P/E (x)	15.2	19.5	19.1	29.0
M.Cap/Sales (x)	3.1	5.1	2.8	0.9
EV/EBITDA (x)	16.0	12.7	9.1	10.8

CPTL margins are decent enough however Educomp – the largest player – has better margins. In terms of valuation, CPTL is fairly valued when compared to the above peers.

Risk and Concerns

- Education sector is highly dependent on the Government regulations and policies in most of countries. Any measure to curtail the education spending in the countries of operations, would adversely affect the revenue of the company.
- The company faces stiff competition in its major markets – the US and UK. With the presence of large players in these markets, margins of the company might get affected. However, being an integrated player with cost competitive offshore deliver centre in India, CPTL is expected to maintain its margins.
- Over 90% of the company's revenue comes from the US (85%) and UK (9%) markets. Any loss of market share in the US, would adversely affect the company's revenues.
- CPTL has operations in various countries and so in various currencies. Any adverse movement in exchange rate could affect the realization for the company.

Valuations and Recommendation

Core Projects & Technologies is one of the largest education companies from India. The company has expanded through inorganic route to become an integrated player with products & solutions offering across the value chain from K-12 education to higher education to vocational education. With good order book position, plans for acquisition and new school management business in India; company is positively looking out for business growth. At CMP of ₹260, CPTL trades at a P/E of 14.7x on FY11E EPS of ₹17.7. We initiate the coverage on Core Projects with a neutral view.

Disclaimer: This report, which contains information based on research carried by or on behalf of Bonanza Portfolio Limited, is neither advice nor any offer to sell or a solicitation to buy any securities, it contains information for the intended recipient only and no other person. Further the intended recipient is also advised to exercise restraint in placing any dependence on this report, as the sender, Bonanza Portfolio Limited, neither claims or guarantees the accuracy of any information contained herein nor assumes any responsibility in relation to losses arising from the errors of fact, opinions contained herein or the dependence placed on the same. The information herein may change any time due to the volatile market conditions, and may not be accurate, complete or exhaustive, the recipient therefore is advised to use his own discretion and judgment, while entering into any transactions, whatsoever. Further, Bonanza, its directors employees and associates may or may not have trading or investment positions in the securities mentioned herein.