

India Inc. Goes to School

It's simpler than elementary math, really. The next wave of great entrepreneurial activity in India is going to be centered around education. India's 75,000 private schools account for just 7 per cent of total institutions and enrol 90 million students. Of course, there's a slightly larger universe of children, about 129 million, who go to public schools. Still, that leaves 142 million students who are not in the system yet, says a CLSA report on education.

Game for more numbercrunching? The country has nearly 370 universities and 18,000 colleges, 500,000 teachers and the third- largest system in terms of enrolment with more than 10 million students. Whereas, Japan with its nearly 128 million people, has 684 universities, USA with 300 million people has 2,364 universities, and Germany with 82 million people has 330 universities.

Clearly, there is a big gap between India and the US/Japan. The situation is similar in terms of enrolment, says N. M. Kondap, Vice Chancellor, SVKM's Narsee Monjee Institute of Management Studies (NMIMS).

And the appetite for a better tomorrow is only growing as aspiring families seek to give their children the greatest opportunity to succeed and prosper in the new economy. Given this, business opportunities in education are opening up virtually at every level: Kindergarten up to Standard XII (called K-12, for short), coaching classes, business schools, etc. Analysts estimate this industry to be worth \$40 billion. Education is certainly one of the biggest areas of consumer spending, says Gopal Jain, Partner, Gaja Capital. Yet, there are hiccups to this in the form of the regulatory environment, but we'll come to that later.

Training sights

India's education and training sector market is valued at \$40 billion with a potential 16 per cent fiveyear CAGR as per the CLSA report. Bulk of the core education space is around K-12 and there now appears to be a glut in engineering colleges and B-Schools, says Ashish Rajpal, co-founder, iDiscoveri, a company that, among other things, seeks to provide learning aids and training to educators and also business leaders.

And, it is here that many new-age entrepreneurs have trained their sights on, especially after the success of Educomp Solutions, which has become a Rs 4,803-crore company on the stock market since it listed in 2006 (at the height of the market boom in January 2008, its market cap was about Rs 9,750 crore). We have opted for an 'Intel inside' approach and wish to participate in the school curricula by providing intelligent content, and teacher training, says Rajpal.

And the core of primary education, valued at \$20 billion, is being addressed by private players as there's clearly a huge demand for better schools from the country's middle class. In addition, supplementary teaching is another area of growing opportunity: We estimate at least 20 million children take some form of tuition outside the classroom, says Bhavtosh Vajpayee in the CLSA report on education. (Incidentally, Vajpayee was on BT's Best Equity Analysts listing in the issue dated July 27, 2008).

And even as this is ramping up, the market is further being prised open at the pre-school level (i.e., for children aged between two years and four years) where the market size is estimated at around \$900 million. This sector is dominated by regional players and there are very few players with larger vision, though that is beginning to change, says Shantanu Prakash, founder & MD, Educomp, a Gurgaon-based education services company.

As the demand for education grows, so does the demand for the paraphernalia around education. For instance, textbooks (worth \$2 billion annually), stationery (\$1.3 billion) and learning aids such as CD-ROMs (\$120 million) are all recording growth.

But more than mere CD-ROMs, it's the entry of the wired classroom that's going to transform education in the years ahead. Analysts estimate that this market is worth \$30 million at present and with the potential to be a \$800-million market.

Aside from tutoring at school-level, there's an entire market for preparatory classes for students wanting admission in IITs, MBAs, medical colleges and civil services. Millions of Indian parents, eager to see their children get a seat in one of these professional courses, are coughing up sizeable sums of money into prep classes. At last count, prep institutes were pulling in \$1.7 billion a year. Alongside, the opening up of aviation, financial services, telecom and modern retail has seen the market for vocational training soar, which is estimated to be worth \$1.4 billion a year. Just like teacher training and

finishing schools for IT, training for BPOs is another area of demand. Yet, these are just beginning to take off, with an industry size of \$40 million. Issues of decree

Sensing opportunity, PE and VCs have stepped in; last year they invested more than \$90 million in Indian education companies, against the \$17.5 million they invested in 2006. So, it comes as no surprise that education is being billed as the hottest space for growth in 2008.

And the good news: there are no full stops to this growth story. But, still, some investors have adopted a cautious approach. According to Jain of Gaja Capital: Private investments into education cannot boom unless there is a complete revamp of the regulatory framework. Others agree as well. This is an area that requires huge re-engineering to meet the demand of a growing nation and somehow our policy is stuck with controlling inputs to education rather than looking at the quality that's being churned out, says Professor C. S. Venkata Ratnam, Director, International Management Institute. That education is part of infrastructure growth was pointed out in 1998 by the Asian Development Bank. Though the 11th Plan gives attention to the area, a lot of it is around issues like mid-day meals, says Ratnam.

The frustration is apparent. For higher education, an Act of Legislature or Parliament is required to establish a university. Deemed universities that exist require complicated entry methods, and so does the affiliation system under which some 20,000 colleges are affiliated to around 120 universities. Even the current system of accountability of public learning institutions is vague. For K- 12 level, again there's great opaqueness: for instance, schools cannot be run by out-and-out profit-making companies; but then who defines how much surplus is too much or reasonable ? There are restrictions around fee structures. And education is both a state and a Central subject with regulations varying dramatically in different states. So, Delhi does not freely permit commercialisation of education, while states such as Maharashtra, Gujarat and Haryana allow for-profit schools .

Also, there are restrictions on the entry of foreign educational institutions, and a Bill is pending that seeks to grant them university status and allow exemption from existing laws around enrolment, reservation/admission and fee. Today, the only way as a nation to convert our population into an asset and move towards greater affluence is to have a plan

on education, says Jain of Gaja Capital. But where is the plan? he asks. He points out that the country today is in dire need of educated, employable people. Our country needs more entrepreneurs and innovators and these can only come from a revamped educational system, he adds. There are worrisome issues. Take technical training, for example. While there's a glut in professional engineering colleges because they were opened up for private players years ago, ITI and polytechnics are still out of bounds.

Says Ratnam of IMI: I consult with companies and they tell me that they need six technicians for every engineer that they hire. Are we training enough people to cater to the real estate and the white goods sector that require such services?

Opportunity in constraints

Yet, what some view as a complete failure of public initiative to reach out to the growing needs of the country, others see an opportunity in it. We have sought to creatively understand the regulations, as there's no point in berating the system all the time, says Prakash of Educomp. Only those who have a long-term vision can survive as this is getting to be a very capital-intensive segment.

Hence, Educomp has grown from providing education inputs and training to participating in actually running schools and being accountable for student outcomes. Nearly, 30 per cent of Educomp's revenues come from the public-private partnership model (PPP). So, it is not as if the view is entirely dim. Last year, the National Knowledge Commission Report made some progressive recommendations that sought to recognise and encourage the role of private providers in education. Let's not forget that private players have thrived in this system and made money as well, say Pawan Agarwal, a senior civil servant and Fulbright New Century Scholar on Higher Education. Agarwal has also served as financial advisor and coordinator of new initiatives in the University Grants Commission for two years. His book on education is to be soon released by Sage.

But certainly re-thinking in key areas is necessary, says Agarwal. He even points to the brighter side of the non-profit rule that governs educational institutions: it has actually allowed educational entrepreneurs to grow by ploughing money back into their business. According to him, the key lies in offering quality education, which most of the progressive entrepreneurs seem to have understood.

The key to ensuring quality lies in a robust accreditation system, which so far has meant university affiliations. The coverage of National Assessment and Accreditation Council is poor and we need a more robust mechanism like in the US, where a student cannot move from a non-accredited system to an accredited one and also cannot partake of funding in the former. Education today suffers from information asymmetry and there are no indications on quality, says Agarwal.

What lies ahead

Clearly, only those who have a longterm vision will survive as education is becoming a very capitalintensive segment. Many private players like Educomp are actually making money by participating in PPPs. Indeed, new initiatives are rising with ICT (Information & Communication Technology) in schools becoming an early success story. The space for participation includes involvement in areas such as building schools, colleges, job centres and providing information systems. For instance, IL & FS Education and Technology Service (IETS) is working with Pimpri-Chinchwad Municipal Corporation to provide solutions, even as the Jharkhand government has roped in Core Projects to roll out computer-aided education programme at the local level. These are not stray examples, as many other companies are part of the fray like Tata Steel that has signed an MoU with Jharkhand government to upgrade polytechnics and ITIs.

Already, the right noises are being made and court verdicts too point to greater requirement of schools and higher education institutions. Still, there exists a hazy understanding on the scale of profits that form the core of the debate as education institutions cannot as yet be for-profit, capitalistic entities. In the absence of centralised or regionally-consistent regulation, profit is likely to come from the provision of services such as land leases, intellectual property and school management. Nonetheless, recent policy statements indicate a more liberal and welcoming environment ahead for private participation, says Vajpayee of CLSA.

As the listed companies account for a market cap of \$2.6 billion (on 2008 revenue of \$450 million), national chains are set to emerge. Test prep and tutoring is segmented, with the involvement of small regional players, while areas such as e-learning, teacher training and online tutoring are nascent.

K-12 and private professional colleges are the most scalable segments on offer. In all, the CLSA report estimates that over the next four years (i.e., 2012), the entire education space would be worth nearly \$70 billion, with nearly 40 per cent of the urban children going to pre-schools and some 90,000 private K-12 schools. Among colleges, there would be an addition of 800 engineering, 300 MBA and 60 medical schools in the country.

Encouragingly, many educationists and others associated with the segment are beginning to feel that higher education unlike primary education, which is uniform to all can be offered at different levels, depending upon the need.

Government policy talks of higher education in terms of uniformity of standards and it's clear that the idea has not been understood, says Agarwal. Elitism in education at the higher level is not a bad thing, he says. Especially, if it means that a thousand technical institutes will bloom across India. Showing the way

The Manipal Group today has two universities in India and also has presence in four other countries. The Chairman of Manipal Group, Ramdas Pai speaks to Rahul Sachitanand about the need for reforms in education. View on government regulation I am certainly not against regulation it is absolutely required, without which maintaining a base level or standard will become impossible but a progressive regulatory regime to private sector participation is the need of the hour. Some good intentions are apparent as there are forward- looking regulators and the National Knowledge Commission Report on education reforms is an excellent document. However, there is a considerable section of the system that abhors change and progress and is latching on to status quo. Therefore, hurdles still remain despite the public declarations of intent (including the large outlays detailed in the last Union Budget).

On handling talent crunch Talent crunch is severe and we are at it in many ways. We pay them well above the market rates and have introduced additional bonuses for good performers; we provide them with opportunities for working in our international campuses and offer training and academic enhancement opportunities. For instance, they are given opportunities to pursue research in their areas of interest, since that also dovetails well with Manipal University's increasing accent on research.