

## PE firms target lucrative education sector

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**Mumbai:** A clutch of private equity (PE) firms, including BlackRock, Apollo Alternative Assets, Gray Ghost Fund and Sequoia Capital, is looking at investing in India's education sector, a \$40-billion market catering to 460 million children.

Some players, like Sequoia, already have exposures in segments like e-learning, but there is fresh PE interest in the higher education segments like engineering and polytechnic, and even in schools, say industry sources.

Although investments in schools can be made only through trusts, some PE players are keen to route their investments to management companies providing services to the institutions, in order to circumvent the current regulations. A change of guard at the Union HRD ministry and promise of reforms in education have made the sector more exciting for these PE players.

According to a 2008 report by CLSA Asia Pacific Markets, the Indian education market is estimated at \$40 billion, spanning Kindergarten to grade 12 (at \$20 billion), private professional colleges (\$7 billion) and tutoring (\$5 billion), vocational training (\$1.4 billion), test preparation (\$1.7 billion) and pre-schools (\$1 billion). An IDFC-SSKI report estimates that private spend in education in India is growing at a CAGR of 14% and will touch \$80 billion by 2012.

"The education sector, which is three to four times bigger than the healthcare segment, has been fairly defensive amidst the turmoil," says Deepesh Garg of private equity firm O3 Capital. "The predictability and sustainability of profits is higher in the sector," he adds. There is a high return on the capital employed and Ebitd margins of up to 50%. The client is locked in for a long period, attrition levels are low, and pricing is largely in the management's control.

PE and venture capital firms have made over 30 investments worth over \$300 million in education-related companies in India in recent years. These firms are closely watching the reform proposals put forward by the new HRD minister Kapil Sibal.

US firm Apollo, founded in 1990, has around \$41.5 billion worth of assets under management as of September 2008. Gray Ghost is a for-profit portfolio of microfinance fund investments created in late 2003 by philanthropist Bob Pattillo.

BlackRock had assets under management of \$1.28 trillion as of March, 2009. Sequoia has a presence in India, with the Silicon Valley-based firm merging with WestBridge Capital to form Sequoia Capital India in 2006.

Although PE firms would prefer to remain invested for four to five years in the education sector,...

they are open to longer terms since they consider it strategic, like healthcare. As for the exit route, a strategic partner can be roped in easily, since the foreign interest in the sector is very high.

According to Arun Natarajan of Venture Intelligence, regulatory hurdles are a major deterrent to the free flow of investments into the education sector. "Non-profit requirements of schools and colleges, requirement of certification/affiliation to boards like AICTE, restrictions on foreign

investments in higher education and a lack of clarity on what is allowed and what is not, are concerns for investors,” says Natarajan.