

# Stock Note

## Aptech Ltd.

July 31, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Educational Training & Testing	Rs 324.7	Buy in the band of Rs 320-328 & add more on dips to Rs 290-295 band	Rs 355	Rs 385	2-3 quarters

HDFC Scrip Code	APTLIMEQNR
BSE Code	532475
NSE Code	APTECHT
Bloomberg	APTR IN
CMP Jul 28, 2023	324.7
Equity Capital (Rs cr)	58.0
Face Value (Rs)	10
Equity Share O/S (cr)	5.8
Market Cap (Rs cr)	1,883
Book Value (Rs)	44.2
Avg. 52 Wk Volumes	485,888
52 Week High	422.8
52 Week Low	156.4

Share holding Pattern % (June 2023)	
Promoters	47.4
Institutions	7.5
Non Institutions	45.1
Total	100.0



HDFCsec Retail research  
stock rating meter

for details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

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### Our Take:

Aptech Ltd is a pioneer in vocational skilling and non-formal academic curriculum based training programs. Having an experience of over three decades, the company provides industry/job relevant training programs in media & entertainment (AVGC space), beauty & styling, aviation, hospitality and retail, IT, banking & finance and pre-school segment amongst others. Aptech's core strength is in course/content job development, student engagement through events & competitions, job placement support and collaboration with universities & institutions. It also caters to re-skilling, hobby, and entrepreneurship segments. Its focus is on delivering superior ROI and faster payback for students by maintaining competitive edge in the skilling space. It operates through franchise-based business model which has allowed to successfully scale up its operations.

The Animation, VFX, Gaming, Comics and Extended Reality (AVGC XR) industry has witnessed unprecedented growth rates in recent times, with many global players expressing interest in the Indian talent pool to avail offshore delivery of services as India is now seen as the primary source for high end, skill based activities in the AVGC XR sector. As per experts, the AVGC sector can witness a growth of 14-16% CAGR in the next decade. Aptech Ltd is at the fore-front player in the AVGC skilling space with its core brand (Arena & MAAC); and well positioned to work with the Government to achieve its goal of youth employment.

Through its network of branded learning centres, primarily operating through a business partner/ franchise model, it offers non-formal vocational skilling through its multi-brands - Arena Animation, Maya Academy of Advanced Cinematics (MAAC), Lakmé Academy Powered by Aptech (LAPA), Aptech Learning, Aptech Aviation Academy and Aptech International Preschool. With all these verticals, the company has expanded its target segment based on the philosophy of identifying large employment potential, addressing the same through formal training and are scalable with franchise model.

### Valuation & Recommendation:

Aptech enjoys a leadership position by investing in innovation, integration and initiation of new ideas across verticals. It plans to enter into new domains where there is large employment potential. Given the strong balance sheet and healthy cash position, the company is open to add new verticals through acquisitions as well. It has paid equal attention to all segments across the value chain in vocational training space. Job focused training courses, student engagement through events & competitions, job placement support and collaboration with universities & institutions are strong moats of the company, which has helped in building a strong brand name.



Healthy operational numbers on the retail side coupled with aggressive expansion plan to add 100 new centres in FY24, strong order book in enterprise business (Rs 250cr) improves the growth trajectory going ahead while maintaining healthy operational margins. The company has healthy cash position of Rs 237cr as of Mar'23, which includes student advances. The business model is highly profitable, cash generating and would benefit from operating leverage as it scales up its retail presence. **We think the base case fair value of the stock is Rs 355 (18x FY25E EPS) and the bull case fair value is Rs 385 (19.5x FY25E EPS) over the next two-three quarters. Investors can buy the stock in the band of Rs 320-328 and add more on dips to Rs 290-295 band (14.75x FY25E EPS). At CMP, the stock trades at 16.4x FY25E EPS.**

### Financial Summary

Particulars (Rs cr)	Q4FY23	Q4FY22	YoY-%	Q3FY23	QoQ-%	FY21	FY22	FY23P	FY24E	FY25E
Total Operating Income	178.5	64.7	175.7	117.5	51.9	118.1	226.1	456.9	743.1	945.2
EBITDA	35.0	9.7	261.3	22.7	54.3	15.6	41.6	75.8	121.1	148.0
PAT	33.4	25.5	30.6	17.8	87.7	12.5	49.8	67.8	94.8	114.7
Adjusted PAT	33.4	25.5	30.6	17.8	87.7	12.5	49.8	67.8	94.8	114.7
Diluted EPS (Rs)	8.1	6.2	30.4	4.3	87.7	2.2	8.6	11.7	16.4	19.8
RoE-%						5.9	26.5	29.1	33.5	33.3
P/E (x)						147.4	37.7	27.8	19.9	16.4
EV/EBITDA (x)						117.0	43.6	23.7	14.6	11.8

(Source: Company, HDFC sec)

### Q4FY23 Result Review:

Aptech Ltd reported healthy topline growth of 175.7%/51.9% YoY/QoQ to Rs 178.5cr on the back of sharp growth in revenue bookings in the enterprise business. Enterprise business posted revenue of Rs 104.8cr (+296.2%/141.8% YoY/QoQ). It executed large assessment project of 3.2 million+ exams in 580+ centers (200+ cities) over 48 shifts. Enterprise business is typically lumpy business and would see such wide variation quarter to quarter. Global Retail business clocked topline of Rs 73.7cr (+92.5%/flat YoY/QoQ). Change in accounting, from earlier royalty income method (net basis) to Student delivery method (gross basis) would have impacted reported revenue in Global retail segment as more franchisees shifted to the new method of student delivery. Accounting as per old accounting method, Global retail business posted revenue growth of +19.3%/-7.8% YoY/QoQ to Rs 40.1cr. In Q4FY23, Booking/Billing/Enrolments of Global Retail segment grew 12.5%/20.8%/8.6% YoY respectively (up 56.4%/35.2%/20.2% over pre-covid Q4FY20). The company posted EBITDA of Rs 34.9cr (+261.3%/54.3% YoY/QoQ). EBITDA margin stood at 19.6% vs 19.3% in the previous quarter. Company's profitability was impacted YoY as there was tax write-back of ~Rs 14cr in Q4FY22. Aptech Ltd reported PAT of Rs 33.4cr, up 30.6%/87.7% YoY/QoQ. The company has healthy cash position of Rs 237cr.



## Key Triggers:

### **Leader in AVGC space - well positioned to tap opportunity in this high growth segment:**

The Indian Media and Entertainment sector is expected to grow at 8.8% CAGR to reach USD 53.75 billion in 2026. The Animation, VFX, Gaming, Comics and Extended Reality (AVGC XR) segment, as a part of the larger media and entertainment sector, has evolved as a growth engine and offers immense potential to employ youth. The AVGC XR industry has witnessed unprecedented growth rates in recent times, with many global players expressing interest in the Indian talent pool to avail offshore delivery of services as India is now seen as the primary source for high end, skill based activities in the AVGC XR sector. As per experts, the AVGC sector can witness a growth of 14-16% CAGR in the next decade.

The demand for animation & VFX effects has expanded with the increase in children's broadcasting viewership, availability of low cost internet access and growing popularity of OTT platforms. According to estimates by NITI Aayog, the animation and VFX sector in India was valued at USD 1.131 Bn. The domestic online gaming segment grew by 28% in 2021 to reach USD 1.9 billion. This exceptional growth is fuelled by demographic factors, change in media consumption habits, as well as innovations by the industry during the past few years. It is expected to reach 3 times in value and reach USD 3.9 billion by 2025.

Hon'ble Finance Minister had announced the formation of the AVGC Promotion Task Force during the Budget Speech 2022-23. The Promotion Task Force was constituted in the Ministry of Information and Broadcasting in April 2022. The National Policy for growth of AVGC XR Sector in India aims to provide an all-encompassing policy framework catering to the needs of different stakeholders of the sector. The policy aims to Make India a global hub for products and services being delivered in the AVGC XR sector, increase the share of the Indian AVGC XR sector in the international market and generate employment opportunities in this sunrise sector for the youth in the country.

Currently, the country suffers from a shortage of talent and inefficiency of programs offered by institutions in AVGC space. The number of universities providing the courses have been increasing but there still are very few prominent colleges. There are just 139 AVGC Educational Institutions in India (FICCI Estimates 2021). Most of the programs offered by various AVGC institutes in India are purely academic in nature. The government needs to work together with the industry players and educational institutions to keep up with technology change and required skills sets to meet industry demand. The Ministry also has plans to introduce new subjects pertaining to AVGC XR in schools in alignment with the new National Education Policy. Aptech Ltd, leader in vocation education in the AVGC space, is working with government and conducting awareness sessions about its courses in many schools across many states, including Gujarat, Karnataka, Maharashtra, Delhi. Aptech Ltd also helps in filling the skill gap required to land a job by providing practical experience with the latest tools & technology, arranging events and competitions to bring out the creative side of the students. There are around 2 lakh jobs in AVGC sector annually, and the company supplies 30,000-35,000 trained candidates. Realising the sharp growth in gaming industry, the company recently launched Gaming designing vertical under Arena, which constitutes 10%+ of the new course bookings in FY23. Aptech Ltd is at the fore-front player



in the AVGC skilling space with its core brand (Arena & MAAC); and well positioned to work with the Government to achieve its goal of youth employment.

**Strong brand image - targeting multiple segments in vocational training space (media & entertainment, beauty & styling, retail, IT etc):**

Aptech Ltd, over the years, has been building brands and businesses in the vocational skilling and non-formal academic space. The company provides industry/job relevant training programs in media & entertainment (AVGC space), beauty & styling, aviation, hospitality and retail, IT, banking & finance and has pre-school segment. Aptech has uniquely positioned as a 'Branded Lifecycle Learning Platform' within the Non-formal Education space.

Arena Animation, a pioneer in non-formal academic curriculum within the Media & Entertainment space has now completed 25 years of training, skill building and enabling careers in India. Maya Academy of Advanced Cinematics (MAAC), founded in 2001, is India's leading training institute for high-end 3D Animation, Visual Effects, Gaming and Multimedia. MAAC offers industry relevant career courses on 3D Animation, Visual Effects, Gaming, Multimedia, Broadcast, VR & AR. Lakmé Academy Powered by Aptech (partnership between Lakmé and Aptech Ltd) is India's foremost institute offering hands-on training to students in the field of Beauty & Wellness. The company offers its Digital & Information Technology programs under Aptech Computer Education brand. It offers its BFSI segment trainings and learnings under the brand Aptech Banking and Finance Academy. Aptech Aviation offers programs in aviation, hospitality, tourism, retail and event management. The company expanded its target segment by entering into the preschool segment and day care centers through partnership with existing chain of preschool, Montana. Aptech Limited entered the EdTech space with its latest brand addition – ProAlley .com – which is self-paced online learning platform in graphic design, animation, VFX and game design courses. Aptech's training solutions transcend borders in the non-formal vocational training business. With all these verticals, the company has expanded its target segment based on the philosophy of identifying large employment potential, addressing the same through formal training and are scalable with franchise model.

Based on the recent trends in AVGC segment where Gaming, Immersive Media and Metaverse are getting a lot of traction, Aptech launched multiple career programs at MAAC & Arena Animation which cover various aspects of Game Art & Design process along with an in-depth understanding of Gaming and Real-time 3D technology which is pivotal for the world of Meta and Multi verses. These courses are developed in line with the current industry job requirements addressing the skill gap. Arena and MAAC's Gaming and Immersive Media courses contributed 14% of the new course bookings in FY23. In VFX and 3D Animation courses, it incorporated new modules of emerging technologies like Virtual Production, Real Time Rendering, Interactive Visualization in the curriculum. It is in the process of setting up a centre of excellence in VFX and virtual production in Mumbai with latest technology. Aptech IT Careers powered by HCL Technologies provides career-oriented programs to IT aspirants and make them job-ready professionals. This tie-up with HCL failed to bring decent traction; the company is reworking its courses and is engaging in active discussion with HCL.



Aptech enjoy a leadership position by investing in innovation, integration and initiation of new ideas across verticals. It plans to enter into newer domains where there is large employment potential. Given the strong balance sheet and healthy cash position, the company is open to add new vertical through acquisitions as well. Job focused training courses, student engagement through events & competitions, job placement support and collaboration with universities & institutions are strong moats of the company, which has helped in building strong brand name. Aptech Computer Education was recognized as the leading IT Education & Skill Development brand and Arena Multimedia as the leading Multimedia & Animation training brand at the World Education Summit 2023, Dubai. It has won an award for its contribution to AVGC education at the EduSpark Summit & Awards 2022. Strong brand name supports asset-light franchise expansion in India and abroad.

Business	Industry	Founded	Skill Areas	Events	Course Fee Range (Lower & Upper range) (Rs)	Average Course Fees (Rs)	Average Duration in months	Average annual entry level Salary/income after taking the course (Rs)	Top Recruiters
Arena Animation	Media & Entertainment	1996	Graphic Design, Web Design, Photography, 2D & 3D Animation, Visual Effects, Gaming, Web & Graphics, UI & UX	Orbit Live, Creative Minds, National Student Meet (NSM), Animation Camp, Kalakari	Rs 21,500-425,500	1,58,500	14	2,28,500	RED CHILLIES VFX, YRF STUDIOS, BYJU'S, CREATIOSOFT, DREAMFOOT, EQUINOXX DESIGN STUDIO, ZENCOM
MAAC (Maya Academy of Advanced Cinematics)	Media & Entertainment	2010 (Acquisition)	2D & 3D Animation, Visual Effects, VFX, Film Making, Augmented & Virtual Reality, Game Designing	24FPS International Animation Awards, 100 Hours, Maac Creative League (MCL), National Students Meet (NSM)	Rs 27,500-395,000	2,48,000	21	2,38,500	MPC, Prime Focus, Amazon, Red Chillies Entertainment, Accenture, DQ Entertainment, Green Gold Animation, Maya Digital Studios, Trace VFX, Vertex Volt
Lakmé Academy Powered by Aptech	Beauty & Styling	2015 (Partnership)	Skin Care, Make-up, Hair Style, Nail Care, Cosmetology, Salon Management	Style A Look, Backstage Drama, The Cover Girl, Glamathon, No Filter	Rs 27,550-341,500	1,45,000	4	2,24,500	Lakmé Salon, Nykaa, Bobbi Brown, Sephora, Colorbar, Kaya Skin Clinic, MAC, The Body Shop, Kama Ayurveda, UrbanClap, Inglot, Bath & Body Works, Philips, Dyson, Estee Lauder, L'Oréal
Aptech Learning	Information Technology and Financial Services	1986	Software Development, Hardware Engineering, Network Management, Software Administration, IT Management, English Language Learning, Financial Administration and Accounting	Smartechie	Rs 6,000-290,000	55,500	10	1,80,000	TCS, Accenture, Capgemini, KPMG, Infosys, Siemens, Dell, HDFC Bank, Godrej, HCL, IBM, Datamatics, Tisco

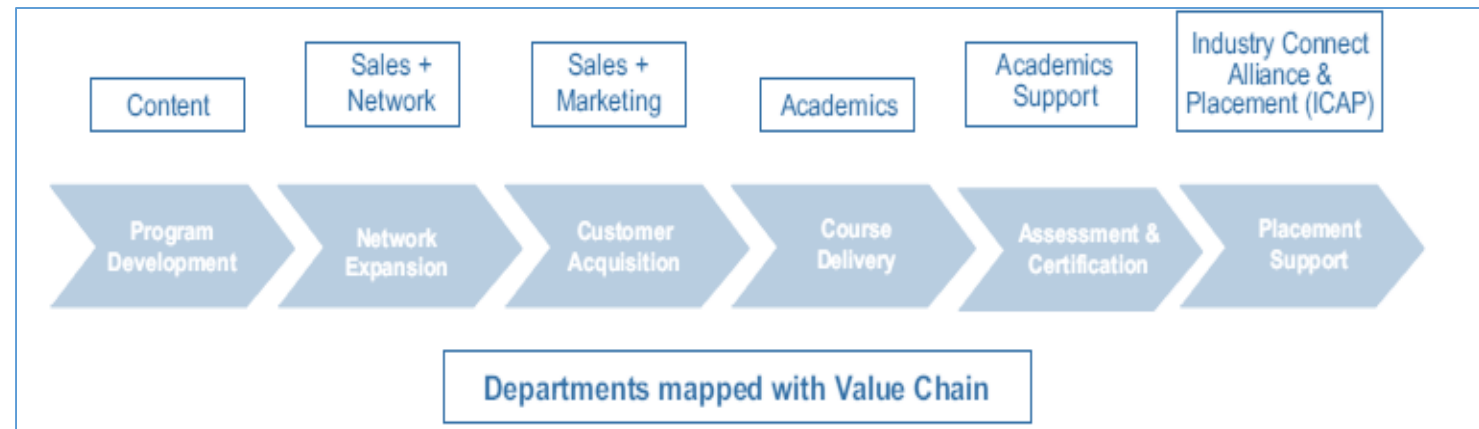


Aptech Aviation	Aviation, Hospitality, Travel & Tourism and Organized Retail	2006 (Acquisition)	Customer Service, Airport Management, Ticketing, Hotel Management, Tourism, Retail Store Management, Merchandising, Distribution	Career Wings, Take Off	Rs 12,000-165,000	90,000	11	1,92,000	Trident Flight Handlers, Indigo, JET Airways, JW Marriott, Global Aviation, AVA Hospitality, Thomas Cook, many airport locations
Aptech International Preschool	Early Childhood Care & Education segment (ECCE)	2016 (Partnership with Montana International Pre School)	Mother-toddler, Pre-nursery, Nursery, Kindergarten-1, Kindergarten-2, Childcare and Activity centres	-	-	-	-	-	-

(Source: Company, HDFC sec)

**All round focus across entire value chain of retail business:**

Aptech’s focus on content, course development, quality control & processes, student engagement & initiatives and job placement support has helped to maintain leadership position. It has paid equal attention to all segments across the value chain in vocational training space. All the brands are focused on job enablement by offering courses ranging from one week to three years in duration. The company’s expertise lies in bridging the skill gap between industry requirement and job aspirants in multiple sectors and associates it with existing network or developing new partner network. The primary demographic target group of the company’s courses in employability focused brands is the Young Adult with age group from 17 – 23 years who want training for their first job. It also caters to re-skilling, hobby, and entrepreneurship segments. Its focus is on delivering superior ROI and faster payback for students by maintaining competitive edge in the skilling space.



(Source: Company, HDFC sec)



### Course development & Training Programs - continuous feedback and updation from industry experts

The training programs created in consultation with the industry experts which allows every student to imbibe skills that in turn enhance their job prospects through Industry Connect Alliances & Placement (ICAP). The course design and pedagogy involve equal emphasis on theory and practical sessions. The company has adopted a holistic approach by blending in-class training with out-of-class supplementary inputs through online mode. Online learning platform “OnlineVarsity” is the mode through which out-of-class content and standard courseware as e-books are provided to the students. The other major IT platform used by the company to manage the business processes across the entire student lifecycle is “Aptrack,” a cloud-based centralized ERP system for learning centre management.

### Faculty, Training & Quality Control

The company has developed detailed manuals, faculty aids and other SOPs to ensure that a standard level of consistent quality is maintained in delivering courses across all its centres and there is minimal dependence on an individual qualified trainer’s teaching abilities. Faculties/ teachers are supposed to give exams to be eligible to teach specific courses. Regular training and development of trainers is conducted to ensure that the new technology driven courses launched are delivered as per required standards.

### Events, Programmes & Industry Connect - to make students job ready

To ensure that its students are industry ready, Aptech has introduced multiple student development programs like Spotlight Club, 100 hrs, Creative enabling futures with futuristic technologies and skillsets Minds etc, which help students to get an exposure of practical industry relevant assignments and working under defined timelines. The multitude of events, competitions, seminars, masterclasses, and workshops gives them exposure to the latest industry trends, simulate the experience of working under deadlines and help them develop as a well-rounded professional with desirable personality attributes. Some of the key events/ platforms executed by all brands to keep the students engaged are ‘Style A Look’, ‘Backstage Drama’ and ‘The Cover Girl’ by Lakmé Academy, ‘Animation Camp’ by Arena, ‘Career Wings’ and ‘Take Off’ by Aptech Aviation, ‘24FPS International Animation Awards’ and ‘MAAC Creative League’ by MAAC. 24FPS International Animation Awards was well-organized and saw healthy participation. Cresouls is web platform to showcase student projects to peers, business partners/franchisees and more importantly to recruiters. This social career platform saw increase in active users and student base in FY23 across MAAC, ARENA Animation and Lakmé Academy brands.

### Job Placement, Collaborations & International Tie-ups

The company’s programs are focused on combating “Unemployability” and it has turned around its strategy from “Enrolment Driven Employment” to “Employment Driven Enrolment” in the last few years. Industry Connects, Alliances & Placements (ICAP) is Aptech’s dedicated placement cell that becomes a bridge between industry’s talent requirements and the aspirants taking up course with Aptech.





Arena Animation and MAAC conducts a Virtual Job Fair in association with the Media and Entertainment Skills Council (MESCC) of the National Skill Development Corporation (NSDC). There are almost 2500 recruiters who hire from Arena & MAAC, and the company supplies ~30-35% of industry demand. Many leading names from various industries, who are recruiters, such as Amazon, Green Gold, Xentrix Studios, Splat Studios, Cimpres India, etc., collaborated with the company to hold webinars or release video testimonials for proactive outreach to its students. Industry expert sessions on career and placement orientation sessions help students choose and perform better during the placement process. A student either takes up an entry level job or gets into freelancing or plans to pursue a formal degree. A job aspirant bags an entry level job with a monthly salary of Rs 15-35k depending on the course and the company has over 90% placement track record. Aptech has strong alliance partners which allow students to pursue a formal degree with direct admission typically to the 3rd year of a degree program in countries like the UK, Canada, Malaysia, and Australia.

The company has alliances with many internationally reputed institutions. There are credit transfer programs where a student can possibly do a 2-year program at any of the Aptech centers which is closer to their home and thereafter move on to do a degree course with any of the University tie-ups. Aptech offers programs in association with Middlesex University (UK), Lincoln University College (Malaysia), Bolton University (UK), Vancouver Centre of Entertainment Arts (Canada). Business associates and students benefit from these strong alliances and connections.

<b>Fast Pay Back (&lt; 1 year) and High ROI (Avg. CTC of 3X fees)</b>	<b>Working with Teams and Deadlines</b>	<b>Events &amp; Industry Connect</b>	<b>Study on-the-go Learning Platform</b>	<b>Social Career Platform; Marquee Recruiters</b>
<b>Equal Emphasis on Practical Sessions</b>	<b>Masterclass &amp; Seminars by Industry Experts</b>	<b>100hr Employability Enhancement Program (Free)</b>	<b>Latest Courses &amp; Curriculum with AR-integrated</b>	<b>Alliances for Formal Ed Pathways</b>

(Source: Company, HDFC sec)



### Asset light franchisee –led business model of expansion:

Aptech Ltd operates through franchise-based business model which has allowed to successfully scale up its operations. The company initially enters into five-year contract with its franchise partners for ‘right to use’ respective brand name in a specified territory against an upfront payment or a sign-up fee (Rs 5-20 lacs depending on the location). The major revenue streams for Aptech from a franchisee are fees paid for sign-up (upfront payment), renewal, ongoing student delivery/ royalty (a percentage of student fees), courseware, exams and events. In addition, there may be additional revenue from other fees such as Train-The-Trainer programs, marketing, alliance fees, and others. Out of Rs 100 fees paid by the student, Rs 25-26 is pocketed by Aptech. All the expenses related to rental, staff cost, faculty teaching staff and other operating expenses are borne by the franchisee partners. Aptech Ltd helps the franchisee partner in securing leads; ~30-35% of student admissions are provided centrally from enquires. It also supports in marketing in the region and faculty hiring. Franchisee partner could achieve breakeven with 18-24 months. Feedback mechanism from franchise partners and faculties in terms of course development, online delivery, digital counselling and online marketing improves the company’s & centers’ bookings.

### Unit Economics of Arena Franchise Centre in Tier 2 city

<b>Investment by Franchise Partner (Rs)</b>	<b>30,00,000</b>
One-time Upfront Fees	10,00,000
Equipments, Interiors, Electricals, Furniture & Fixtures	20,00,000
Average Annual Course Fees (Rs)	1,20,000
No. of Students	65
<b>Annual Revenue (Rs)</b>	<b>78,00,000</b>

Particulars (Rs)	Franchisee Partner	Aptech
<b>Revenue Share (75%/25%)</b>	<b>58,50,000</b>	<b>19,50,000</b>
Employee Exp (4 Employees)	19,20,000	
Rent (monthly rent of Rs 60,000)	7,20,000	
Marketing + Other Exp (5% of total revenue)	3,90,000	
Corporate Overheads per franchisee		1,50,000
<b>PBT</b>	<b>28,20,000</b>	<b>18,00,000</b>
<b>PAT</b>	<b>21,09,360</b>	
<b>Pay-back period (in years)</b>	<b>1.42</b>	

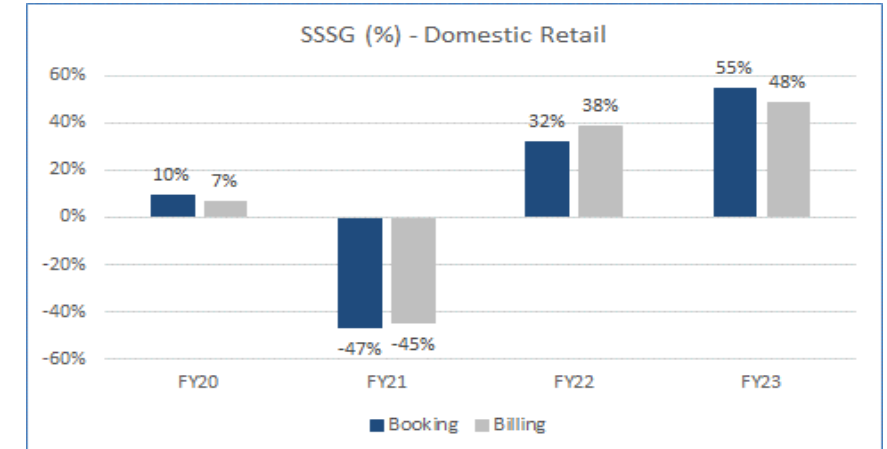
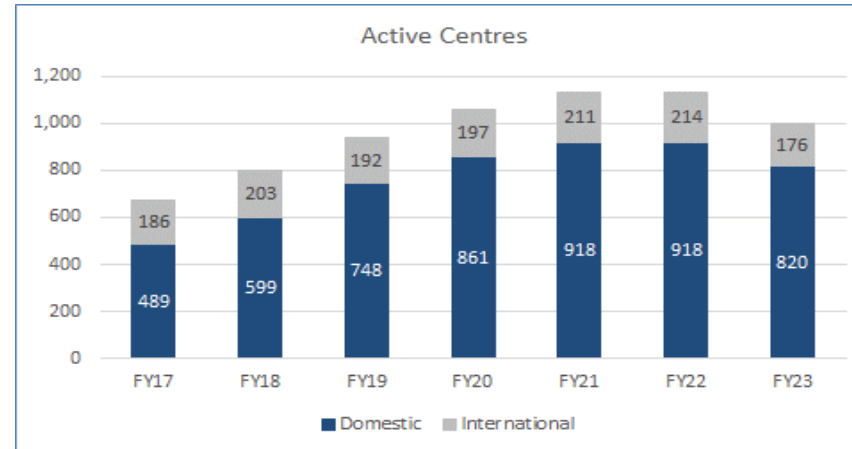
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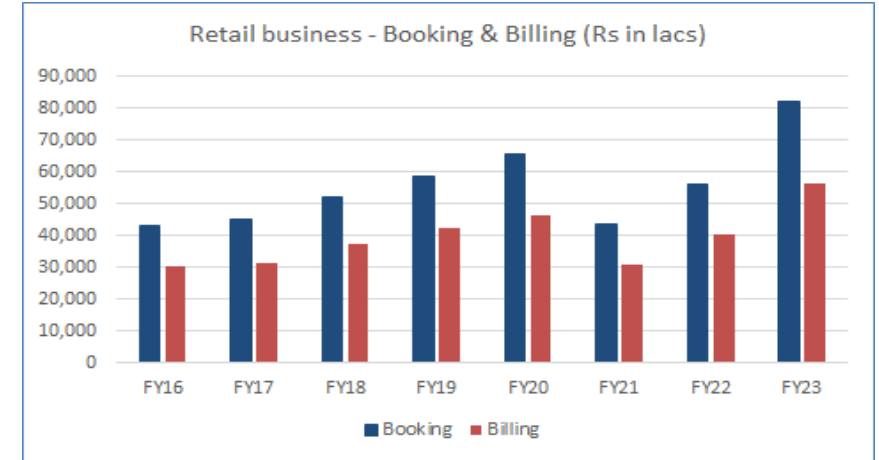
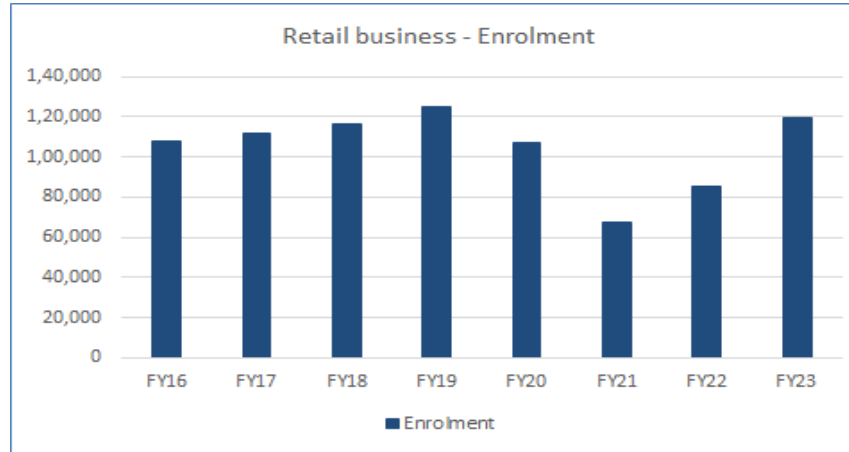


### Healthy growth in retail business supported by high SSSG coupled with Phygital mode of expansion:

Aptech had been aggressively adding centres through asset-light franchise model during FY17-20. Post covid, the count of active centres have not moved up substantially as some weak performing centres rescinded the contract. New centre additions in the last three fiscal have been ~80 annually in domestic market. As of Mar'23, the active centres have fallen to 996 compared to 1131 centres a year back. The company would have terminated the contracts with centres which are not adhering to its contract clauses in terms of quality, spending, infrastructure, governance among others, while non-performing centres would have also faced termination of partnership. This reflects the company's policy of cleaning up the weak-links which could have an impact on its brand image. SSSG in bookings saw robust growth in FY23. In international markets (~8% of topline), the company saw decent topline growth. Vietnam and Nigeria, the top two international markets, showed growth of 35% YoY and 60% YoY respectively in FY23. Aptech entered Zambia with an Arena Multimedia centre in partnership with ZCAS University, Lusaka. It has identified another 10 more countries within Africa, where there is huge scope for expansion. SSSG would moderate and much of the future growth would come from expansion. It plans to open 100+ centres in FY24E.

From the earlier 100% classroom-based course delivery, the company has taken steps to move to a "Phygital" model of course delivery for the courses offered through learning centres. Aptech will deliver some of the sessions centrally on the online platform, while some sessions and practicals will be carried out at the center level. New phygital business partner model would help penetrate in Tier 3 & below cities and towns. Hybrid learning with competitive course pricing, lower investments to franchise partner due to smaller area occupied for offline coaching would improve the economics for franchise partner and support growth. The company is focused on increasing network expansion especially in Tier 3 & below cities. Lack of availability of decent faculties in these areas supports the rationale to move to phygital model of course delivery. Given the industry demand and tailwinds, the management expects to clock sustainable growth of 25%+ over the medium term.





(Source: Company, HDFC sec)

### ProAlley – Edtech startup venture:

Aptech Ltd decided to enter the Edtech space with the launch of a new brand, ProAlley, in Sep'21 that would provide self-paced online courses offering a similar value proposition as its other job-enablement courses. It targets the re-skilling and upskilling market for working professionals. The courses launched, in the initial period, cater to the Media & Entertainment vertical. The platform has gradually added more courses in skills across Graphic Design, Visual Design, Game Design, Video Editing and Animation segments of the Media & Entertainment vertical, including few courses in Hindi. The primary target segment for ProAlley courses is an existing Media & Entertainment professional looking to upskill and/ or re-skill by learning at their own pace to improve their career prospects. The company is not able to gain decent traction in this business and is working out ways to scale up enrolments in this space. Unlike other companies in the edtech space, the company does not plan to burn cash and is focused on building sustainable growth in this venture. It has invested ~Rs 10cr in this venture and has not able to make profit. It has plans to take ProAlley International, where pricing is more favourable.

### Enterprise business - Strong order book supported by healthy margins:

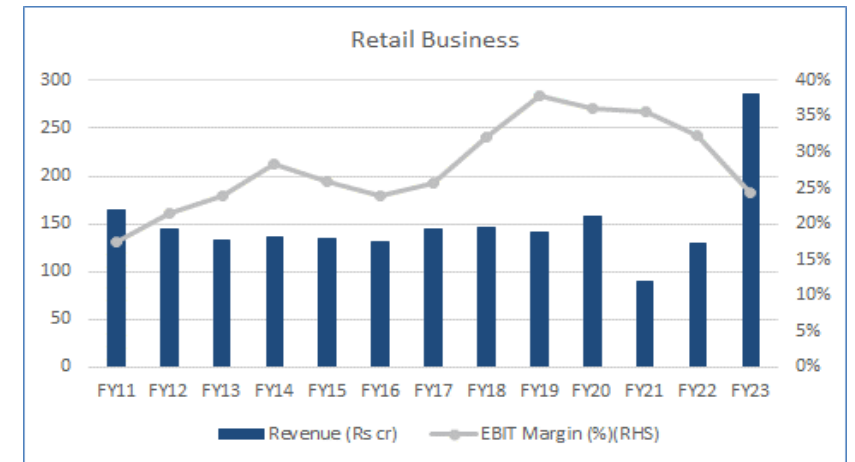
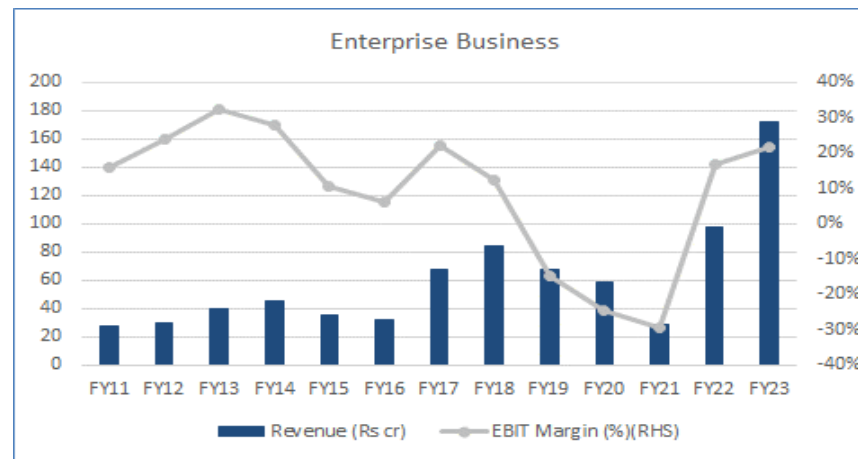
The Institutional segment consists of two main divisions, viz. Assessment & Testing and Training Solutions. Aptech offers Assessment, Testing and Corporate Training needs of institutional customers such as Government departments, quasi-government institutions, educational institutions, private and public sector companies. The primary offering of the Assessment & Testing division was tests using different formats such as Computer-based Tests, Internet-based Tests, and OMR-based Tests.

Aptech had planned a potential exit from the Institutional business segment (Enterprise Business Group-EBG) in FY21 and were looking for suitable offers from prospective buyers. The board, however, reconsidered its decision on sustained turnaround in the business



performance, order wins from private players (de-risking reliance on Government clients). This segment reported topline growth of 77% YoY to Rs 171.9cr in FY23 and posted EBIT margin of 21.8%. Segment’s profitability increased at a higher rate than the revenue because the fixed costs were further rationalized to ensure the breakeven level for the business reduced significantly. It added 23 new customers in FY23, with 75% of the total revenue contributed by new customers. Securing orders in this business has long lead time, but are recurring in nature (typically 3 years). The company upgraded its exam software to incorporate many state-of-the-art safety features and other additional features such as support for 10 unique question types.

The Assessment and Testing division has conducted many significant examinations for its customers including admission exams and recruitment exams for an autonomous national institution in the Electronics and Information Technology space, the premier Testing agency of the Central government, a state-level vocational training body, High Court and many more customers. The Corporate Training division within the Institutional segment saw a recovery in demand with the business signing up many new customers for the IT Training course offering. Aptech is not only adding new customers in the enterprise business; but also focused on widening and broadening its customer base to reduce dependency on top customers. Reducing reliance on Govt clients would improve its working capital. The company has strong order book of Rs 250cr, most of which is billable in FY24 and expects Rs 20-30cr additional orders to be delivered in FY24E.



(Source: Company, HDFC sec)

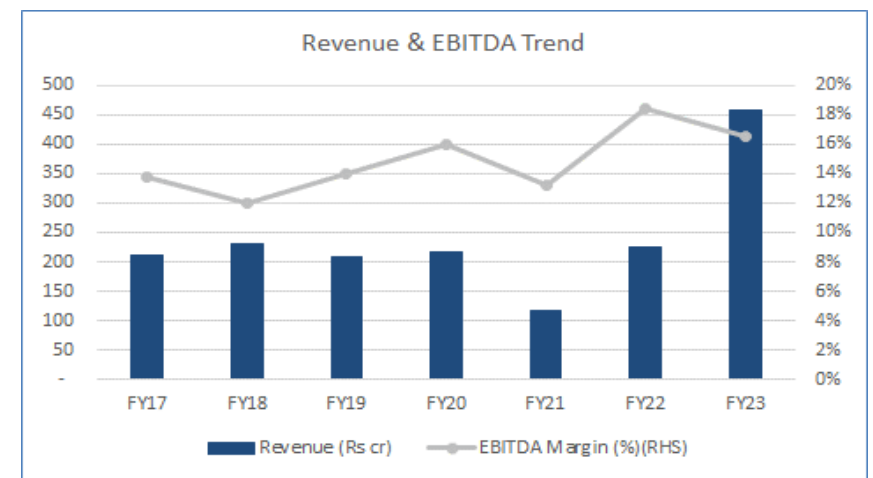
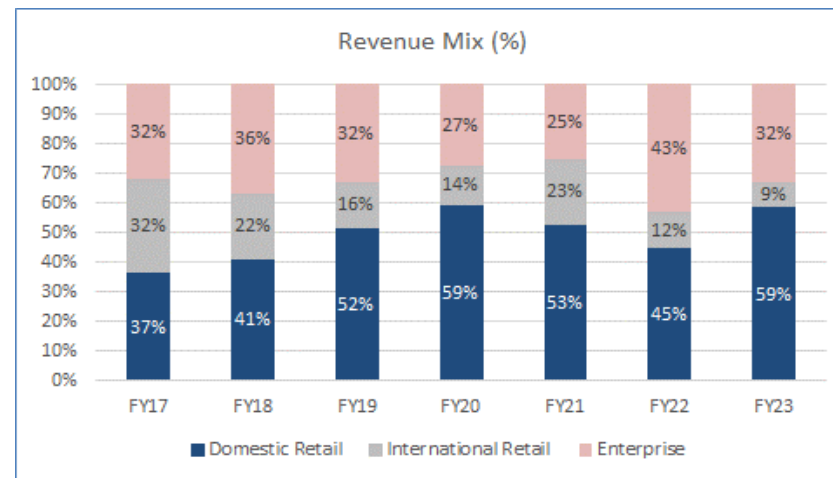
### Healthy financial and strong balance sheet:

Retail & Enterprise business posted topline growth of 15%/21% CAGR over FY19-23. In FY23, Retail business recorded healthy growth on the back of strong bookings & billings supported by SSSG of active centres. Execution of large assessment projected lifted the numbers of enterprise business. Consolidated EBITDA margins remain ~16%+ over last few years, despite the drag from institutional business and covid



pandemic. Asset light mode of expansion is feeding into higher return ratios. Healthy operational numbers on the retail side coupled with aggressive expansion plan to add 100 new centres, strong order book in enterprise business would improve the trajectory going ahead while maintaining healthy operational margins. The company has healthy cash position of Rs 237cr as of Mar'23, which includes student advances.

Effective from April 1, 2021, the company started with phase-wise move over to Student Delivery model from the Royalty Fees model for the Domestic Retail centres (excluding the pre-schools business). In this model, the recognition of income is based on the progress of student service over the course duration, gross student fees are recognized as the Revenue and Business Partner share is recognized as a cost. During the transition phase, there would be both streams of income viz., Royalty and the Student Delivery incomes. The impact on the financials being restricted to revenue and expenses recognition with no change in the cash flow. The change in the business model in Retail from Royalty to Student Delivery model has also helped in reducing the outstanding debtors. Overall margins, at operating level, PBT level would dip as revenue from franchise would be accounted on gross basis.



(Source: Company, HDFC sec)

**Concerns:**

**Business Partner Risk:** Aptech operates in a franchise model business and growth in a franchisee-modelled business is driven by the ability to attract and retain the right-minded business partners. The capabilities, motivation and financial viability of the Franchisee/ Business Partner along with their compliance to processes and directions mandated by the Company are critical for Aptech's success.



**Failure to maintain quality at franchisee centres:** Delivery of content is of utmost importance. Inability of franchisee partners to attract teachers/faculties or maintain the quality of the training program would impact job placements of students and thus on new enrolments and bookings.

**Major changes in regulatory norms:** The Ministry has plans to introduce new subjects pertaining to AVGC XR in schools in alignment with the new National Education Policy. Introduction of new subjects pertaining to AVGC XR in schools and shaping up of formal education institutes could impact Aptech's business materially.

**Course development & related technology risks:** Technological and market evolution keep changing the nature and scale of skill requirements in the verticals serviced by Aptech. When technology change and upgrade is so often, there is challenge in delivering superior quality content & practical tools that meets job requirement.

**Execution Risk in enterprise business:** Training or assessments contributes ~30% of topline. Delivering committed results in time, with quality and within budgeted costs is critical for the success of the company. In the event of a failure of any kind, it may lead to loss of business, imposition of penalties, loss of reputation, etc. for the Company. There have been issues in the past (Jammu and Kashmir Services Selection Board (JKSSB), earlier blacklisted) regarding the same.

**Seasonality:** In the enterprise segment, H2 of any fiscal is typically better than H1 due to higher number of tests/entrance exams in that period.

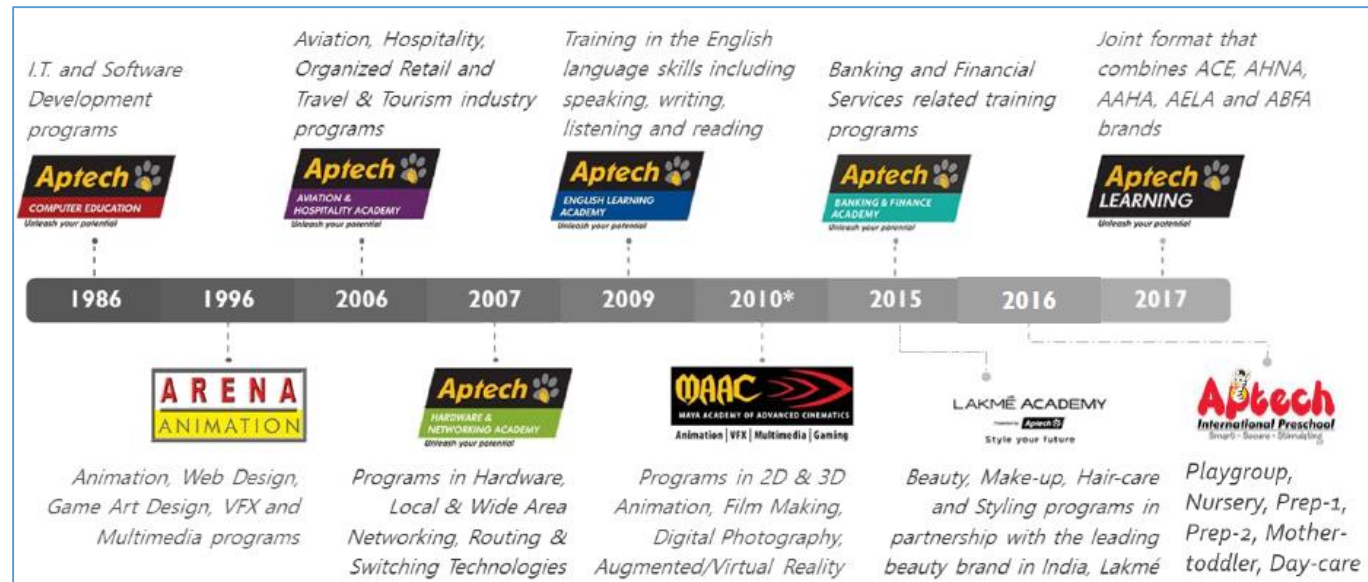
**Lease of absence of MD & CEO:** Dr. Anil Pant has been instrumental in the success of the company. Due to his health condition, he has taken indefinite leave of absence. Meanwhile, the company has appointed Dr. Anuj Kacker as an interim CEO, who is associated with company for last 20 years and was heading the retail business.

### About the company:

Aptech Ltd is a pioneer in vocational skilling and non-formal academic curriculum based training programs. Having an experience of over three decades, the company provides industry/job relevant training programs in media & entertainment (AVGC space), beauty & styling, aviation, hospitality and retail, IT, banking & finance and pre-school segment amongst others. The company has two business verticals – (1) Global Retail, where it provides individual career & professional training and (2) Enterprise business which includes testing and assessment solutions for corporates & institutions. Through its network of branded learning centres, primarily operating through a business partner/



franchise model, it offers non-formal vocational skilling through its multi-brands - Arena Animation, Maya Academy of Advanced Cinematics (MAAC), Lakmé Academy Powered by Aptech (LAPA), Aptech Learning, Aptech Aviation Academy and Aptech International Preschool. It recently launched ProAlley, which self-paced online learning platform in graphic design, animation, VFX and game design courses. The company has extensive network of ~1000 centres in India and 18+ countries. Over the years, Aptech has established leadership position around non-formal education with scalable asset light model through business (franchise) partners. Aptech's core strength is in course/content job development, student engagement through events & competitions, job placement support and collaboration with universities & institutions.



(Source: Company, HDFC sec)





## Financials

### Income Statement

(Rs Cr)	FY21	FY22	FY23P	FY24E	FY25E
<b>Net Revenues</b>	<b>118.1</b>	<b>226.1</b>	<b>456.9</b>	<b>743.1</b>	<b>945.2</b>
<b>Growth (%)</b>	<b>-25.3</b>	<b>91.5</b>	<b>102.1</b>	<b>62.6</b>	<b>27.2</b>
Operating Expenses	102.5	184.5	381.1	622.0	797.2
<b>EBITDA</b>	<b>15.6</b>	<b>41.6</b>	<b>75.8</b>	<b>121.1</b>	<b>148.0</b>
<b>Growth (%)</b>	<b>-38.1</b>	<b>166.4</b>	<b>82.2</b>	<b>59.8</b>	<b>22.2</b>
<b>EBITDA Margin (%)</b>	<b>13.2</b>	<b>18.4</b>	<b>16.6</b>	<b>16.3</b>	<b>15.7</b>
Depreciation	12.5	8.3	6.5	7.7	8.2
<b>EBIT</b>	<b>3.1</b>	<b>33.3</b>	<b>69.3</b>	<b>113.5</b>	<b>139.8</b>
Other Income	7.6	10.7	13.2	11.1	14.2
Interest expenses	1.7	0.2	0.1	0.6	0.6
<b>PBT</b>	<b>9.1</b>	<b>43.8</b>	<b>82.3</b>	<b>124.0</b>	<b>153.3</b>
Tax	-3.5	-6.0	14.6	29.1	38.6
<b>RPAT</b>	<b>12.5</b>	<b>49.8</b>	<b>67.8</b>	<b>94.8</b>	<b>114.7</b>
<b>APAT</b>	<b>12.5</b>	<b>49.8</b>	<b>67.8</b>	<b>94.8</b>	<b>114.7</b>
<b>Growth (%)</b>	<b>-5.5</b>	<b>297.4</b>	<b>36.0</b>	<b>40.0</b>	<b>20.9</b>
EPS	2.2	8.6	11.7	16.4	19.8

### Balance Sheet

As at March (Rs Cr)	FY21	FY22	FY23P	FY24E	FY25E
<b>SOURCE OF FUNDS</b>					
Share Capital	40.7	41.4	41.4	58.0	58.0
Reserves	125.7	168.5	214.9	252.6	320.9
<b>Shareholders' Funds</b>	<b>166.4</b>	<b>209.9</b>	<b>256.4</b>	<b>310.6</b>	<b>378.9</b>
Minority's Interest	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.3	0.0	6.0	6.0	6.0
Net Deferred Taxes	-24.5	-36.8	-40.4	-40.4	-40.4
Long Term Provisions & Others	2.5	2.5	2.4	5.0	6.3
<b>Total Source of Funds</b>	<b>144.7</b>	<b>175.6</b>	<b>224.4</b>	<b>281.2</b>	<b>350.8</b>
<b>APPLICATION OF FUNDS</b>					
Net Block & Goodwill	21.5	19.3	23.9	31.3	38.0
CWIP	0.0	0.0	1.6	1.6	1.6
Other Non-Current Assets	40.2	41.7	85.4	74.8	88.9
<b>Total Non Current Assets</b>	<b>61.7</b>	<b>61.0</b>	<b>110.9</b>	<b>107.7</b>	<b>128.6</b>
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	1.7	1.3	1.2	2.0	2.6
Trade Receivables	59.7	73.1	55.8	85.5	108.8
Cash & Equivalents	23.2	65.1	90.9	118.5	139.1
Other Current Assets	53.2	73.5	182.2	274.8	336.7
<b>Total Current Assets</b>	<b>137.7</b>	<b>212.9</b>	<b>330.0</b>	<b>480.9</b>	<b>587.1</b>
Short-Term Borrowings	1.4	0.2	0.9	0.9	0.9
Trade Payables	16.4	26.7	99.3	122.2	142.4
Other Current Liab & Provisions	36.9	71.5	116.4	184.4	221.6
<b>Total Current Liabilities</b>	<b>54.7</b>	<b>98.3</b>	<b>216.6</b>	<b>307.5</b>	<b>364.9</b>
Net Current Assets	83.0	114.6	113.4	173.5	222.2
<b>Total Application of Funds</b>	<b>144.7</b>	<b>175.6</b>	<b>224.4</b>	<b>281.1</b>	<b>350.8</b>



## Cash Flow Statement

(Rs Cr)	FY21	FY22	FY23P	FY24E	FY25E
Reported PBT	9.1	43.8	82.3	124.0	153.3
Non-operating & EO items	0.9	0.0	6.1	10.6	-14.1
Interest Expenses	-1.2	-2.1	-3.4	0.6	0.6
Depreciation	12.5	8.3	6.5	7.7	8.2
Working Capital Change	17.4	11.8	19.4	-29.9	-26.8
Tax Paid	2.6	-16.4	-12.1	-29.1	-38.6
<b>OPERATING CASH FLOW ( a )</b>	<b>41.1</b>	<b>45.4</b>	<b>98.8</b>	<b>83.8</b>	<b>82.6</b>
Capex	-3.6	-6.1	-6.8	-15.0	-15.0
Free Cash Flow	37.5	39.3	92.0	68.8	67.6
Investments	0.0	0.0	0.0	0.0	0.0
Non-operating income	-1.9	5.1	-48.9	0.0	0.0
<b>INVESTING CASH FLOW ( b )</b>	<b>-5.5</b>	<b>-1.0</b>	<b>-55.7</b>	<b>-15.0</b>	<b>-15.0</b>
Debt Issuance / (Repaid)	-25.7	-1.1	-0.9	0.0	0.0
Interest Expenses	-1.7	-0.2	0.0	-0.6	-0.6
FCFE	10.2	38.1	91.1	68.2	67.0
Share Capital Issuance	2.8	4.5	0.3	0.0	0.0
Dividend	0.0	-9.2	-20.7	-40.6	-46.4
Others	0.0	0.0	0.4	0.0	0.0
<b>FINANCING CASH FLOW ( c )</b>	<b>-24.5</b>	<b>-5.9</b>	<b>-20.8</b>	<b>-41.2</b>	<b>-47.0</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>11.1</b>	<b>38.6</b>	<b>22.3</b>	<b>27.6</b>	<b>20.6</b>

## One Year Price Chart:



(Source: Company, HDFC sec)

## Key Ratios

	FY21	FY22	FY23P	FY24E	FY25E
<b>PROFITABILITY RATIOS (%)</b>					
EBITDA Margin	13.2	18.4	16.6	16.3	15.7
EBIT Margin	2.7	14.7	15.2	15.3	14.8
APAT Margin	10.6	22.0	14.8	12.8	12.1
RoE	5.9	26.5	29.1	33.5	33.3
RoCE	1.4	17.6	29.3	39.1	39.7
<b>Solvency Ratio (x)</b>					
Debt/EBITDA	0.1	0.0	0.1	0.1	0.0
D/E	0.0	0.0	0.0	0.0	0.0
<b>PER SHARE DATA (Rs)</b>					
EPS	2.2	8.6	11.7	16.4	19.8
CEPS	4.4	10.0	12.8	17.7	21.2
Dividend	2.3	5.0	6.0	7.0	8.0
BVPS	29.2	36.3	44.2	53.6	65.3
<b>Turnover Ratios (days)</b>					
Debtor days	206	107	51	35	38
Inventory days	6	2	1	1	1
Creditors days	52	35	50	54	51
<b>VALUATION</b>					
P/E (x)	147.4	37.7	27.8	19.9	16.4
P/BV (x)	11.1	9.0	7.3	6.1	5.0
EV/EBITDA (x)	117.0	43.6	23.7	14.6	11.8
EV/Revenues (x)	15.5	8.0	3.9	2.4	1.9
Dividend Yield (%)	0.7	1.5	1.8	2.2	2.5
Dividend Payout (%)	73.0	41.5	36.7	42.8	40.5

(Note: Consolidated numbers, Source: Company, HDFC sec)



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### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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