

Mr. Pramod Maheshwari
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Dear Sir,

May 18, 2010

IPO Grading


Please refer to our letter dated May 17, 2010 on the above subject.


2. The rationale for the grading is attached as an **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our quarterly journal, 'CAREVIEW'.
3. A write-up on the above grading is proposed to be issued to the press shortly. A draft of the press release is enclosed for your perusal as Annexure - II.
4. We request you to peruse the Rationale and Press Release and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by May 25, 2010 we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,


[Sonam Doda]
Analyst


[P.N Sathees Kumar]
Chief General Manager

Encl.: As above

Annexure-I

Grading Rationale

Career Point Infosystems Limited

Grading Assigned

Instrument	Amount (Rs. crore)	Grading ¹	Remarks
IPO	115	'IPO Grade 3'	Initial Grading
Total Facilities	115		

Grading Rationale

The grading derives strength from the experience of the promoters in the business, strong brand image, diversified course offerings, comfortable financial parameters, presence across 12 states, qualified and experienced faculty, increasing demand of coaching institutes for professional studies and diversification into the formal education system through Education Consultancy and Management Services (ECAMS) model.

The grading is however constrained by intense competition in the business, risk in terms of retention and hiring of experienced faculty, low entry barriers, plagiarism of course content which forms the core of the business, presence of bigger brands, lack of standardisation at the franchisee centres which leads to student dissatisfaction affecting the brand image of the company, risk of introduction of a regulatory framework.

Background

Career Point Infosystems Limited (CPIL) provides tutorial services to high school and post high school students for various competitive entrance examinations including All India Engineering Entrance Examination, Indian Institute of Technology – Joint Entrance Examination and All India Pre-Medical and Pre-Dental Test. The promoters of the company entered into the business of tutoring for competitive entrance examinations in 1993 and the business was being administered under the

¹ Complete definition of the grading assigned is available at www.careratings.com and in other CARE Publications

proprietorship firms of the promoters. CPIL was incorporated as a Public Limited Company on March 31, 2000. It provides tutorial services through classroom training programmes conducted through a network of company operated training centres and franchisee centres. CPIL also offers distance learning programmes comprising correspondence and test series courses. CPIL has developed a Synchro-School programme to synchronize preparation for competitive examination with formal school education. The company has recently forayed into Education Consultancy and Management Services ('ECAMS'), catering to K-12 and Higher Education segments. Through ECAMs the company has diversified into the formal education segment. This diversification was carried out to provide an additional source of revenue for the company in the coming years as the competition in the coaching industry is intense with a few organised and a large number of unorganised players in the market and new players entering the market regularly owing to the low entry barriers in this industry.

Management

Mr. Pramod Maheshwari, the Chairman, Managing Director and CEO of CPIL has been associated with the company since its inception. He has over 15 years of experience in the field of education. The two other promoters Mr. Om Prakash Maheshwari and Mr. Nawal Kishore Maheshwari also have over 15 years of experience in the field of education. Apart from the promoters, CPIL is supported by an experienced and qualified team of senior management.

Corporate Governance

CPIL has eight directors, of which the chairman of the board is an executive director. According to the requirements of clause 49 of the Listing Agreement, a company is required to have fifty percent independent directors on the board, if the chairman of the board is also an executive director of the company. Accordingly, CPIL has three executive directors and five non-executive directors, including four independent directors. The company has an audit committee, shareholders/investor grievance committee, remuneration committee and compensation committee in place. These committees were constituted on November 01, 2007. The company also has in place an IPO committee constituted by its Board of Directors on January 01, 2010 to approve, implement, negotiate, carry out and decide upon all activities relating to the IPO.

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Litigations

CPIL is involved in a total of 89 cases. Out of these, there are 48 civil cases mainly concerning consumer dissatisfaction with the services provided at the company's franchisee centres. There are 19 civil cases against the promoters which are mainly revenue cases involving payment of service tax and income tax. The company and its promoters have filed 22 criminal cases mainly against the owners of franchisees for non payment of royalty and study material charges. There are no criminal cases against the company or its promoters.

There are no litigations against the subsidiaries, associates and group companies of CPIL.

Operations

CPIL currently operates in two core business areas namely Tutorial services and ECAMS.

Tutorial Services

The various course offerings under the tutorial segment for competitive entrance examinations include IIT JEE, AIEEE, SLEEE, AIPMT, NTSE, KVPY and Science Olympiad. The company operates the tutorial service business through four delivery platforms:

- (a) The classroom training program which is operated through company operated training centres and franchisee centres;
- (b) Distance learning programme;
- (c) Synchro-school programme; and
- (d) Career Point Knowledge Labs.

As at December 31, 2009 CPIL had 14 company operated training centres and 18 franchisee centres spread across 12 states with 30,538 students enrolled at its various centres. CPIL had a team of 210 faculty members as on December 31, 2009 (excluding faculty members of franchisees) comprising graduates in engineering and science. The company hires qualified and experienced faculty and also plans to provide certain incentives to its existing faculty members in the form of ESOPs so as to mitigate to a certain extent the trend of faculty attrition which is extremely widespread in the coaching industry. The company has built a content repository of over 10,000 pages of text content and over 12,000 minutes of video content for

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various tutorial services offered by the company. The video content is available only to the students enrolled at their centres and is not widely distributed.

Education Consultancy and Management Services (ECAMS)

CPIL provides consultancy and management services to schools, colleges and universities through the ECAMS model. The company enters into ECAMS contracts with educational institutions. Under ECAMS, the company provides necessary management services which include laying strategic plans, human resource management services, administrative services, advisory services and information technology related services. Presently, the company provides ECAMS to the Global Public School situated at Kota, off-campus of Singhania University situated at Kota and Gopi Bai Foundation Trust Kota (Raj.) for their proposed university at Kota named Career Point University.

IPO Details

CPIL proposes to make a public offer of equity shares at face value of Rs.10 each aggregating to Rs.115 crore. The proceeds from the issue are intended to be deployed towards:

- Construction and development of an integrated campus facility;
- Expansion of classroom infrastructure and office facility;
- Acquisitions and other strategic initiatives;
- Meeting expenses towards general corporate purposes.

Financial Analysis

During the years FY07-FY09, the total operating income of CPIL grew at a CAGR of 25 percent. The total operating income of the company increased by about 19% in FY09. This was mainly due to an increase in the fees for the various courses offered by CPIL. During FY09, the company had about 27,710 students registered for its various classroom training and distance learning programs as against nearly 28,016 students registered during FY08. The reduction in the number of students was primarily due to a decrease in the enrollments at the franchise centres which was in line with CPIL's objective of focusing on select key performing franchisees and termination of the franchisees not performing upto the company's expectations.

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CPIL's royalty from franchisees declined by 14% to Rs.4.2 crore in FY09 as compared to Rs.4.9 crore in FY08 as the company reduced its dependence on non-performing franchisees.

The equity share capital of the company increased as on March 31, 2008 owing to the issue of 60,000 equity shares of Rs.10 each fully paid up at a premium of Rs.390 per share and an issue of 90,000 equity shares of Rs.10 each fully paid up at a premium of Rs.310/- per share in satisfaction of unsecured loans taken from directors. In addition to this the company had also made an issue of bonus shares as on June 10, 2007

The company had no outstanding term liabilities other than an outstanding overdraft facility of Rs.5.22 crore as on March 31, 2009. The sanctioned limit of the overdraft facility had been enhanced to Rs.9 crore in August 2009 however the sanctioned limits had not been utilized by the company till September 30, 2009. The PBILDT margin declined in FY09 mainly due to an increase in the employee cost and selling expenses. The PAT margin also declined in FY09 due to a slight increase in the interest costs apart from the falling PBIDT margins. As a result, the ROCE of CPIL declined in FY09. The EPS of the company declined in FY08 owing to an infusion of equity however it improved slightly in FY09. The average collection period of CPIL increased to 16 days for FY09 and mainly consisted of royalty fee receivable from its various franchisee centres.

The inventory days also increased for FY09 and inventory is mainly the study material for the various courses conducted by it.

As per the audited results for the half year ended September 2009, CPIL registered an operating income of Rs.31.58 crore (growth of 30 percent over H1FY09) with PBILDT and PAT margins of about 40 percent and 33 percent respectively.

Industry Review

The Indian education system broadly comprises of formal and informal education segments.

a. Formal Education:

Formal education comprises of K-12 (mainly schools) and higher education. This segment is highly regulated by various statutory bodies formed by central and state Governments.

K-12 Education:



K-12 education in India is delivered through various schools that are affiliated with CBSE, ICSE, state boards and other international boards. These schools are either run by the Government or by the private sector. The Government of India has taken various initiatives for increasing the scalability and improving the infrastructure for primary education. It has implemented various programmes like Sarva Shiksha Abhiyan, Mid Day Meal Scheme and National Literacy Mission.

Higher and Technical Education:

Higher education is governed by UGC, comprising graduate/ medical/ engineering courses. As on March 31, 2009, there were 471 universities comprising of 268 state universities, 40 central universities, 125 deemed universities, 5 institutions established under state legislations and 33 institutes of national importance established by central legislation. In addition, there are 22,064 colleges including around 2,260 colleges for women. At the beginning of the academic year 2008-09, the total number of students enrolled in universities and colleges has been reported to be 12.38 millions.

Apart from above, as on December 11, 2009, there are 53 private universities established under various States with state of Rajasthan having majority of private universities.

The technical education system in the country can be broadly classified into three categories, viz. Central Government funded institutions, State funded institutions & Self-financed institutions. In 2008-09, there were 63 Centrally funded institutions of technical and science education besides two Apex level Councils, namely, All India Council for Technical Education (AICTE) and the Council of Architecture

b. Informal Education:

Informal education includes coaching classes for various competitive entrance examinations, pre-schools and vocational training. This type of education is not governed by any regulatory authority.

Growth Drivers in Education Sector:

Increasing population and lower literacy rate: Increasing population and constitution of 32.6% of population in the age group of 0 to 14 years will lead to an increase in the number of schools, colleges and universities.

Increasing per capita income: Per capita income at current prices during 2009-10 is estimated to be Rs. 43,749 as compared to Rs. 40,141 during 2008-09, showing a rise of 9%. This would contribute to increase the spending on education.



Migration to Knowledge Economy: India is migrating towards a services driven economy with the contribution of service and industry sectors to GDP increasing year on year. The lateral shift to a services economy is resulting in migration of people to cities and towns leading to mass urbanization. Increasing urban population and demand for skilled workforce creates the need for better quality education.

Prospects

With the increasing population and rising per capita income, India is likely to emerge as one of the largest market for educational services in the world. The increasing level of competition for admission to professional colleges is likely to propel the demand for coaching institutes in the coming years. Also CPIL has plans to foray into the formal education sector which is likely to witness a surge in demand with the increased focus of the Government towards education which involves opening of a number of schools, colleges etc.

Financial Performance (Standalone)

	(Rs. Cr)		
<i>For the period ended / as at Mar.31,</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	<i>(12m, A)</i>	<i>(12m, A)</i>	<i>(12m, A)</i>
<u>Working Results</u>			
Income from fees & Royalty	29.07	38.02	45.15
Total Operating income	29.07	38.02	45.15
PBILDT	18.19	20.70	21.54
Interest	0.01	0.06	0.20
Depreciation	0.10	0.20	0.42
PBT	18.02	23.58	24.80
PAT (after deferred tax)	11.97	15.59	16.24
Gross Cash Accruals	11.98	15.86	16.81
<u>Financial Position</u>			
Equity share capital	5.59	12.07	12.07
Networth	18.46	39.10	51.55
Total capital employed	21.39	39.10	56.77
<u>Key Ratios</u>			
<i>Growth</i>			
Growth in Total income (%)	-	31.27	19.36
Growth in PAT (after D.Tax) (%)	-	32.35	4.15
<i>Profitability</i>			
PBILDT/Total Op. income (%)	62.57	54.73	47.70
PAT (after deferred tax)/ Total income (%)	41.18	41.22	35.97
ROCE (%)	166.83	78.17	52.15
RONW	127.62	53.05	35.83
EPS (Rs.)	25.78	12.92	13.46
Average cost of borrowing (%)	0.80	4.11	7.71
<i>Solvency</i>			
Long Term Debt Equity ratio (times)	0.16	NM*	NM
Overall gearing ratio(times)	0.16	NM	0.10

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For the period ended / as at Mar.31,	2007 (12m, A)	2008 (12m, A)	2009 (12m, A)
Interest coverage(times)	1452.17	340.67	104.94
Term debt/Gross cash accruals(years)	0.25	NM	NM
<i>Liquidity</i>			
Current ratio(times)	1.70	4.15	3.12
Quick ratio(times)	1.68	4.03	3.00
<i>Turnover</i>			
Average collection period (days)	2	9	16
Average creditors (days)	19	33	33
Average inventory (days)	7	18	27
Operating cycle (days)	(10)	(7)	9

*NM: Not Meaningful

DISCLAIMER:

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

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Annexure II

Press Release

CARE assigns 'IPO Grade 3' to the proposed Initial Public Offering (IPO) of Career Point Infosystems Limited

Grading

Instrument	Amount (Rs. crore)	Grading²	Remarks
IPO	115	'IPO Grade 3'	Initial Grading
Total Facilities	115		

Grading Rationale

The grading derives strength from the experience of the promoters in the business, strong brand image, diversified course offerings, comfortable financial parameters, presence across 12 states, qualified and experienced faculty, increasing demand of coaching institutes for professional studies and diversification into the formal education system through the Education Consultancy and Management Services (ECAMS) model.

The grading is however constrained by intense competition in the business, risk in terms of retention and hiring of experienced faculty, low entry barriers, plagiarism of course content which forms the core of the business, presence of bigger brands, lack of standardisation at the franchisee centres which leads to student dissatisfaction affecting the brand image of the company, risk of introduction of a regulatory framework.

Company Profile

Career Point Infosystems Ltd. provides tutorial services to high school and post high school students for various competitive entrance examinations including All India Engineering Entrance Examination, Indian Institute of Technology – Joint Entrance Examination and All India Pre-Medical and Pre-Dental Test. The tutorial services are provided through classroom training programmes conducted through a network of company operated training centres and franchisee centres.

On a total operating income of Rs.45.15 crore in FY09, CPIL earned a PAT of Rs.16.24 crore. The margins of CPIL however declined in FY09 with a PBILDT

²Complete definition of the grading assigned is available at www.careratings.com and in other CARE Publications

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margin of 47.70 %and PAT margin of 35.97% mainly due to increased employee cost and selling expenses and an increase in the depreciation and interest cost respectively. As per the audited results for the half year ended September 2009, CPIL registered an operating income of Rs.31.58 crore (growth of 30 percent over H1FY09) with PBILDT and PAT margins of about 40 percent and 33 percent respectively.

Analyst Contact

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CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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