Custodians of the crèche

After years of observing the opportunities in the Indian education market, global private equity firm KKR jumped at the chance to acquire a majority stake in pre-school and K12 business EuroKids International. **Simone Rensch** speaks to the buyout behemoth about its plans for the investment

Ajay Candade, KKR

Prajodh Rajan, EuroKids

India is one of the largest education markets in the world. With more than 400 million pre-school and school-aged children – a staggering 100 million of which attend private schools – it comes as no surprise that most international operators and investors are intrigued by the opportunity.

Yet, until recently, there was little inbound market activity. With only a handful of scaled assets, variable pricing levels and a regulatory framework that is still evolving, investing in the market was easier considered than done.

Until last month, KKR was just one of the international investors scrutinising the market. In September, however, it announced it had taken a majority stake in one of the few scaled assets in the market, EuroKids International, a pre-school and K12 business.

The deal, pegged at Rs 1,400 crore ($200 million) – said to be one of the largest-ever foreign investments into the Indian K12 market – could be a watershed for the Indian education market. Where KKR goes, others tend to follow.

"For KKR, which is looking to deploy a certain amount of capital, finding the right asset that is scaled and at the right juncture of its evolution, but can absorb the capital that we want to invest, isn't easy in a market like India," says Ajay Candade, director in KKR's private equity team in Mumbai.

The buyout house, which has completed private equity transactions with $610 billion of total enterprise value since it was founded in 1976, identified EuroKids even before it was up for grabs. EuroKids International has a portfolio of brands which include EuroKids, Euro-Kids Day Care, Kangaroo Kids, Euro School and Billabong International. It serves more than 120,000 students across its portfolio of 1,115 pre-schools and 35 K12 schools across 350 cities and five countries, including India, Nepal, the Maldives, Bangladesh and Dubai. Annual fees range from $600 to $3,500 across the portfolio. Candade explains: "When EuroKids came to market, we had already assessed the sector and the industry and it was just a question of doing a deep dive on the company and getting comfortable with the specifics of the opportunity."

The investment was made from its Asian Fund iii, a $9.3bn pot. Given KKR's typical deal size and track record you can expect more capital to be deployed into the investment – not least as the firm is rumoured to have tripled its money in its recent exit of Cognita to Jacobs Holding, in a $2 billion deal.

Law of attraction

One of the characteristics that made EuroKids attractive to the investor was its sheer size. India's education market is highly fragmented and achieving scale can prove difficult. One of the reasons for this is that schools struggle to charge a premium, Danish Faruqui, partner at L.E.K. Consulting, explains. Simply offering English and expat teachers isn't enough to stand out in the market. Schools need to have an offering beyond that and have the right management in place. "There are few businesses like this that are run well and have good management," says Faruqui. "You can literally count them on your fingertips."

India has one of the largest K12 populations in the world with more than 320 million school-aged children and 125 million between the age of two and six. However, of the 100 million students attending private schools in India, just 5% are charged annual fees higher than $1,000, according to EY-Parthenon, which advised KKR on the deal, alongside Cyril Amarchand Mangaldas, Barclays, and Simpson Thacher & Bartlett.

The market for private schools charging more than $1,000 per annum is estimated to be worth as much as $4.5 billion to $5 billion. The EuroKids business has a wide reach, catering to the mid-market, premium mid-market and premium segments. Fees in its EuroKids Pre-Schools range between $600 to $850 per annum, while the premium pre-school Kangaroo Kids' fees are little higher at $800 to $1,200 per year. EuroSchool fees range from $1,800 to $2,400 and the fees of Billabong High International Schools, the premium K12 school, range from $2,500 to $3,500 per annum. This, says Candade, gives parents the opportunity to "access much more than the standard private education in India, including extra-curricular activities and holistic development". ▶

Amitabh Jhingan, partner at EY-Parthenon's emerging markets education practice, explains that the enrolment of this higher fee segment is growing at an annual rate of around 12-13%, higher than other countries where growth averages 6%.

To simply "cater to the [Indian] demand that will arise on the back of income growth", roughly 1,200 new schools in this segment will be needed by 2030, reckons Jhingan, meaning there's scope to set up 100 schools every year. "This is something that most large operators should think more closely about," he says.

KKR and EuroKids are planning to take advantage of this and continue to grow the education empire. Prajodh Rajan, co-founder of EuroKids, who will remain as its chief executive and minority owner of the business, explains that EuroKids is looking to "enter the next phase of growth". KKR's track record with other education companies, such as Cognita, its global reach, resources and expertise, made them an attractive partner to "take us to the next level," he adds. Candade explains that the former investor and management team had scaled the company "quite well" and it is now at "that inflection point". He adds, with excitement: "We aim to help EuroKids achieve its next stage of evolution and scale from 10 to 100."

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It seems like a happy marriage; and it wasn't too bad for the seller, India-focused PE firm Gaja Capital, either. The firm is said to have made a six-times return from the transaction (a figure which is "in the right direction", according to its co-founder and managing partner, Gopal Jain).

It probably comes as no surprise that KKR wasn't the only investor keen to take on EuroKids. Jain, managing director at Gaja Capital, the former lead investor of the school business, says there was "significant interest from bankers and investors". Sources also say General Atlantic, the New-York based growth equity firm, was another "serious bidder".

EuroKids co-founder Rajan says the decision to go with KKR came down to its experience in the education space. And there are some obvious synergies from KKR's previous investments, which have included education brands such as Weld North Education, a platform operator of digital and educational solutions, and Kindercare, a US-based operator of early-education and child care education facilities.

Candade says that the Cognita business started at a different price point and catered to a different demand. But he adds: "The learnings from these assets, such as school openings and working in micro-markets to understand the different local demands are valuable experience. We've learned from our past investments that education is a sector where it is necessary to cater to the local needs of the parents and the students – there's a lot we can take away from this experience." This, he says, means it has an idea of "what to bring to the Indian market" and "what lenses to view the opportunities from".

Jhingan, of EY-Parthenon, says the acquisition "has clearly lifted the profile of India and the opportunities for school operators and investors" and we are likely going to see more inbound interest from international operators or even from other global private equity funds.

EuroKids

EuroKids

Taking it to the next level

KKR hopes to leave its mark on the Indian education market. Candade says it will help EuroKids "grow deeper" into some of the existing core cities, where there is a demand because of middle-income job creation and as the population grows. It will also look to grow through acquisition, both in the K12 education services and pre-K spaces. It is also considering other potential education services that could be provided, explains Candade.

"Ultimately we are more focused on building a quality asset that caters to the needs of students and parents, rather than just building on and gaining scale – whether in terms of revenue or number of students, or however this might be measured."

Although KKR would not disclose how much capital it has committed to scaling the business, it says it plans to back the platform and the team to scale. "We are confident that by leveraging resources, expertise and relevant industry experience we will be able to help EuroKids effectively capture growth in the market and create value for all stakeholders." Buy and build is favoured over old-school slash and burn tactics, it seems.

To achieve this growth, the business needs a strong team and a captain to sail the ship. The private equity house says the leadership within the business was one of the aspects, along with its scale, that made it stand out from the crowd. "The management team itself was exciting. We met a number of entrepreneurs in the education space," Candade explains. "We believe that the team is one of the best teams we have seen out there. We are pretty excited to be working with them and helping to support their ambitions."

As in other emerging markets, finding a good business with a strong management team already in place can be a hard. L.E.K.'s Faruqui, who has worked with the Gaja Capital and the management, agrees that "it is one of the best run school companies in India", with strong corporate governance, experience with "a well-reputed investor".

Regulatory bumps

The private market in India is still evolving and there are both federal and state level regulations that need to be navigated, which partly explains why KKR is a pioneer in this market. Currently, all formal education – including K12 and higher education – cannot be for-profit (pre-schools and test preparation do not fall under this). L.E.K.'s Faruqui says that operators usually set up operating companies and property companies, which are for profit, that work with the trust. This enables them to capture the economic benefits of the segments – and the structures are approved by the local authorities. "I see a lot more comfort among investors to put money behind education in India because they see a more of these schools operating without problems," he adds.

KKR has carefully evaluated the laws and regulations in India before making the investment, Candade adds. Although he recognises the speed bumps and challenges, he remains optimistic.

"Private education today in India is still evolving and has a lot of room for growth. In some ways it is similar to where private healthcare was about 15 to 20 years ago. This illustrates the magnitude of the opportunity and of the needs you are trying to meet. The private sector and government need to work together to fill these gaps in the market."

EuroKids International already has such structures in place. EY-Parthenon's Jhingan adds that the government and regulators are still somewhat "suspicious" of the private education sector. "They are just not developing a well-thought through regulatory framework. I think if the regulatory framework was to just evolve and become a little more mature and consistent, and aligned with other parts of the world, including a lot of other emerging markets which are experiencing growth in the private schools market, this opportunity would most definitely be realised."

Whether this sets the scene for a new inbound investment flow, only time will tell. For KKR, it seems more investment could be in the pipeline. It will continue to be "extremely active investors in India", Candade says. "We remain excited about what we see over the medium- to longer-term in the country. There's definitely things we are looking at across sectors, including the education space." ■