



Mianwali Education Trust College

Opportunity Overview December 2012

CONFIDENTIAL

Deal Team: Bilal Noor (PTL), Farid Madhani, Mariam Zameer, Sameed Imran

PEC: Jawad Hasan

MET Overview

- Mianwali Education Trust (“MET” or the “School”) is a school that provides prep, elementary, and college classes to the residents of Mianwali, Punjab
 - Currently serves 706 students, including 270 scholarship students
 - Employs 52 teachers, all of whom have Master degrees
 - MET was founded in 1996 and has grown from a small school serving only 5 students with 3 teachers
- Admissions are granted based on merit, which is determined by a written and IQ test
 - Admissions to higher secondary class are based on board results (40%), entry test (50%), and interview (10%)
- MET’s objective is to provide high quality education to all people, regardless of income level
 - Offers subsidized tuition to paying students
 - Sibling discount helps relieve the burden on paying families (5% for second child, 20% for third child, and 25% for fifth child)
 - Offers scholarships for low-income students, including tuition, books, uniform, and lunch
- The School has a strong existing infrastructure, including two IT labs, science labs (physics, chemistry, and biology), library, and playgrounds
- MET has proposed expanding the school via two additional classrooms for its college students (1,098,000 rupees required)

MET School Grounds



Site Visit Pictures



- High-quality education
 - Well trained teachers with masters degrees
 - Low student-teacher ratio
 - Strong graduate placement
- Provides services to high-need population
 - Mianwali is an impoverished region
 - ~30% of students are on scholarships, while the remainder pay a lower subsidized tuition rate
- Highly credible organization
 - PCP certification, credible management team
- Proven track-record of growth and expansions
 - In 2009, successfully added four new classrooms
- Sustainable financial model
 - Financial model based on PKR 26mm Trust, donations, and income from operations
 - As new students are added onto relatively fixed costs, MET's cost structure will continue to improve

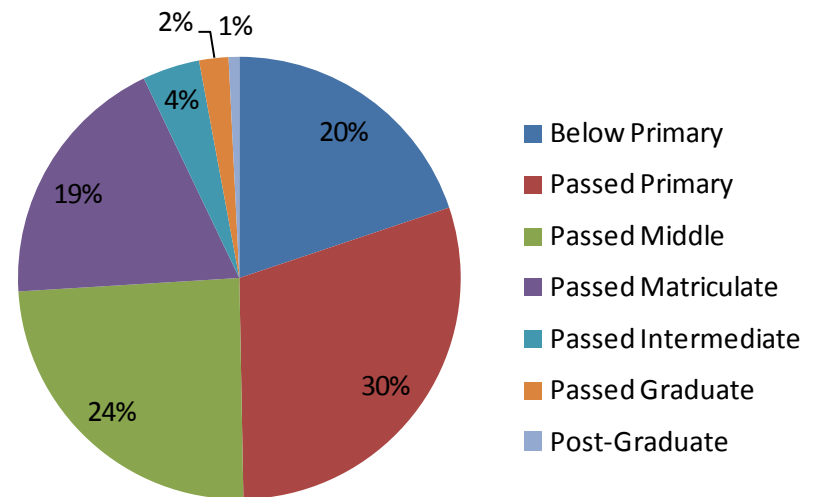
Critical Need – Mianwali Region

- MET operates in the Mianwali region, which is a rural area with high poverty and lack of education
 - 43% literacy rate (38% in rural areas), disproportionately weighted towards men (women make up only 22% of literate population)

Literacy ratio by sex, area and region

Region	Total rural	Rural males	Rural females	Total urban	Urban males	Urban females
Mianwali	38.79	60.98	17.29	57.07	73.49	39.93

Current Education Level in Mianwali



- Less than 40% of school age children are enrolled in educational institutions; primary school enrollment (5 to 9 years old) is 47% (54% for males and 38% for females)
- State of poverty in Mianwali:
 - In rural Mianwali, only 19% of households have an indoor water pipe (19% have indoor hand-pump, while 31% go outside for water)
 - On average, houses consist of 2.7 rooms for 7.1 persons; only 22% of rural houses have an in-house bathroom
 - 40% of rural houses do not have electricity
- Roughly 79% of the 1+ million population lives in rural locations
- MET serves underprivileged students and offers scholarships as well as subsidized tuition to full-paying students, and answers a critical societal need



Critical Need – Lack of Classroom Space for College Students

- The expansion will allow MET to offer college courses to an additional 72 students
- The new classrooms are required ASAP because the school is already facing space shortages in its college classrooms
- Each classroom can only fit 35 students; however, the 11th grade currently enrolls 52 students
- 12th grade only has 3 students, but next year, the incoming 11th grade class is expected to be 50-60 students, leading to a demand of ~120 students for maximum classroom space of 70
- The reason for the influx of college students is because MET switched from the Aga Khan board to the Surgodha board, which is favored by students and parents due to better post-graduation placement
- Additional classroom space for college students will also lead to increased female enrollment. Many females are dissuaded from enrolling because the classrooms are currently coeducation (due to lack of space for separate female classrooms)
- In order to meet space needs, the school has already converted several rooms into classrooms
 - Sports Room → 4th Class
 - Male Staff Room → 6th Class
 - Language Lab → Multi purpose e.g. in-service training class room
 - Physics lab → 2nd Class room
 - The sick room and resource rooms have also been converted in to class room gradually

- MET is providing quality education in a relatively poor and underprivileged area in Pakistan
 - The students prefer MET to another school in the area, due to the higher standard of education
- MET is committed to providing education to girls and has segregated classrooms from grade 6 onwards, to ensure that enrollment of girls does not drop
- MET follows the Sargodha Board, but students have the option of taking exams with the Aga Khan Board. MET College offers FSc in following fields:
 - Pre-Medical
 - Pre-Engineering
 - Computer Sciences

- The quality of education at MET is assessed by:
 - MET graduates have secured admission at the **best** higher education institutions in Pakistan, like King Edward Medical College, NUST, etc. as well as secured positions in Board exams
 - Other universities MET Students have secured admission:
 - Islamic International University
 - Fatima Jinnah University, Islamabad
 - GC Mianwali
 - UET Taxila and UET Lahore
 - MET is following conceptual teaching in its school, as encouraged by the Aga Khan Board, even though it had to switch to the Sargodha Board because of popular demand
 - All teachers have a Masters degree and attend teachers trainings. They also participate in trainings with USEFP and Aga Khan University Exam Board

- MET is the only school providing scholarships to underprivileged children in Mianwali, encouraging them to complete their education and allowing for affordable education
 - 1/3rd of the students are on partial or full scholarships
 - MET bears all the expenses of the Full Scholarship Students including, fees (admission fees, tuition fees, annual fund etc.), books, uniform, lunch (milk and biscuits)
 - Need based scholarships are afforded to children from families who have an annual income below PKR 100,000
 - Families with a child already studying at MET are offered subsidized fee for siblings
 - Children of staff members are also offered scholarships, to create incentives for staff
- After switching to Sargodha Board, the demand for grade 11 and 12 education has increased with the need for additional classrooms
 - The additional classrooms will allow for separate classroom for girls and boys, which would increase enrollment of girls for FSc
 - The classrooms will cater to 72 students in the coming year
 - **The classrooms will benefit approximately 300 students in the next 5 years to acquire college level education (FSc)**

- The college must manage key costs related to salaries and utilities and foregone revenue due to scholarship students
- We believe the following risks pertain from a sustainability perspective:
 - Donor Funding:
 - Risk: MET provides scholarship to students for a 12 year period. During this term, an existing donor may choose to no longer fund the scholarship. Under this scenario, MET will have to dig into its existing resources.
 - Mitigant: MET is able to efficiently manage fixed costs including Salaries Expense by managing the student-to-teacher ratio (refer to Break Even Analysis in Financials section). Additionally, MET is endowed with a PKR 26 million trust that it can use to cover any shortfalls
 - Inflation:
 - Risk: Inflation is expected to increase 10% next year; this will negatively impact Tuition fee (contributed 79% of FY 11 revenue) which is also expected to increase by 10%.
 - Mitigant: MET is able to invest its income generating assets such that they generate higher returns with same level of risk. Currently majority of MET's cash is lying in the current account earning low interest.
 - Teacher Retention:
 - Risk: In order to attract and retain high caliber teachers, neighboring schools have increased salaries. This puts a financial burden on MET where salaries increased 28% and 22% in FY 2009 and FY 2011, respectively.
 - Mitigant: MET has already raised salaries to boost retention. Also most of the teachers who would leave for higher paying government school jobs have already left, reducing the risk of further turnover
- Based on the above mitigating factors, we are comfortable that MET can sustain itself after project completion

- **Incorporation:** Mianwali Education Trust College (“MET”) is incorporated under Societies Registration Act XXI of 1860. MET is regulated by the Registrar of Joint Stock Companies.
- **Financial Statements:** ADP has received financial statements till FY 2011. The College is preparing latest financials.
- **Audit:** The financials have been audited by HLB Ijaz Tabassum and Co.
- **Revenue:** The College has four sources of revenue: Tuition fee, grant from MET, bank profit and income from other sources.
- **Expenses:** Salaries represent ~85% of non-cash expenses.

Income Statement (PKR 000s)	FY 2009	FY 2010	FY 2011
<u>Revenue</u>			
Tuition fee	7,825	9,667	9,953
Bank profit	26	37	37
Grant from MET	4,111	675	1,252
Other income	815	1,440	1,343
Total Income	12,778	11,819	12,585
<u>Expenses</u>			
Salaries & allowances	(6,742)	(8,675)	(10,439)
Depreciation	(1,177)	(1,085)	(1,062)
Utilities	(247)	(443)	(466)
Printing & stationery	(163)	(665)	(399)
Others	(1,723)	(584)	(1,285)
Total Expenses	(10,052)	(11,453)	(13,651)
Income/(Deficit) for the year	2,726	366	(1,065)

Balance Sheet (PKR 000s)	FY 2009	FY 2010	FY 2011
<u>Assets</u>			
Property, plant and equipment	15,896	15,386	15,140
Receivables and prepayments	646	981	198
Cash and bank balances	1,865	1,977	3,227
Total Assets	18,407	18,344	18,565
<u>Liabilities & Equity</u>			
Accrued & other liabilities	1,416	988	2,274
General reserves	16,990	17,356	16,291
Total Liabilities and Equity	18,407	18,344	18,565

Note: Financial year for MET ends on June 30.

Key Line Items

Tuition Fee

- **Blended Fee:** MET charges PKR 2,100 per month.
- **Scholarship students:** The College targets to provide full scholarship to a third students

Bank Profit

- **Source:** MET had ~PKR 3.2 million cash at the end of FY 2011. The College earns profit from savings account.
- **Interest rate:** Banks are required to pay a minimum interest rate of 5% p.a. It appears most of MET's cash is lying in current account.

Grant from MET

- **Endowment:** The trust has an endowment of PKR 26 million. The portfolio is managed by MET's head office in Islamabad.
- **Securities:** The entire fund has been deployed in term deposits that currently yield 9.7%.

Other Income

- **Sources:** Other income represents one time admission fee, book sales, canteen income and any on off revenue such as Chief Minister's prize.

Salaries Expense

- **Increment in 2 years:** Salaries expense increased by 28% and 22% in FY 2009 and FY 2011.
- **Growth drivers:** Although the school increased number of teachers, most of the increment is explained by increase in salary per teacher. MET was compelled to increase salaries because their competitor (Government of Pakistan) increased salaries of government school teachers by 3-4x in last five years.

Base Case P&L

Assumptions

- **Tuition Fee:** It is assumed tuition fee increases by 10% and 72 new students are admitted. Scholarship students are expected to be the same.
- **Grant from MET:** The trust grants income from term deposits, rate expected at 9%.
- **Salaries:** No. of teachers remain constant. Salaries increase by 20%.
- **Inflation:** Inflation is assumed at 10% and 15% for FY 12 and FY 13 respectively. Other income and expenses [exc. Salaries, utilities and depreciation] are expected to increase by inflation.

Income Statement	FY 09 A	FY 10 A	FY 11 A	FY 12 P	FY 13 P
<u>Revenue</u>					
Tuition fee	7,825	9,667	9,953	12,087	14,576
Bank profit	26	37	37	50	50
Grant from MET	4,111	675	1,252	2,522	2,340
Other income	815	1,440	1,343	1,478	1,699
Total Income	12,778	11,819	12,585	16,136	18,665
<u>Expenses</u>					
Salaries & allowances	(6,742)	(8,675)	(10,439)	(12,527)	(15,033)
Depreciation	(1,177)	(1,085)	(1,062)	(1,108)	(1,108)
Utilities	(247)	(443)	(466)	(582)	(728)
Printing & stationery	(163)	(665)	(399)	(439)	(505)
Others	(1,723)	(584)	(1,285)	(1,413)	(1,625)
Total Expenses	(10,052)	(11,453)	(13,651)	(16,069)	(18,998)
Income/(Deficit) for the year	2,726	366	(1,065)	67	(333)
Income / (Deficit) excluding dep	3,903	1,451	(3)	1,175	775

Break Even Analysis

MET can manage profitability by influencing two factors, student-to-teacher ratio and salary increments. Adjacent data table highlights sensitivity of net profit (in PKR 000s) to these two factors.

		72	124	176	228	→ Addition of students
		822	874	926	978	→ Total Students
	(3.3)	14.4	15.8	16.8	17.8	18.8 → Student to teacher ratio
Salary Increment	15.0%	(10)	3	12	21	31
	17.5%	(13)	(0)	9	18	27
	20.0%	(16)	(3)	6	15	24
	22.5%	(19)	(6)	3	12	21
	25.0%	(23)	(10)	(0)	9	18
		↓	↓			
		Status quo	Management Expectation			

- Annual financial statements (income statement and balance sheet, including footnotes)
 - Quarterly statements as well if available
- Number of students per classroom, including breakout of full-scholarship, partial-scholarship, and full-paying students
- Number of teachers / student:teacher ratio
- Graduation placement
- Board scores
- Student and teacher attendance rate
- Final construction invoice