

IMPACT INVESTING IN K-12 EDUCATION: AWAITING THE TIPPING POINT

India's Education is a \$133 billion industry with \$56 billion private spend; of which \$40 billion is in K-12 Education. The current K-12 school system in India is one of the largest in the world with more than 1.5 million schools that have more than 250+ million students. But there are significant inequalities in access to education as far as income, gender, social group and geography are concerned. Moreover, the outcomes in Education are demoralising: insufficient improvements in basic skills (as demonstrated by ASER and PISA reports), delivering unemployable youth (employability rate is assessed between 25-30%), huge dropout rates (20.4% GER) and lack of progress in encouraging early childhood education.

- **Demand Supply Imbalance:** We have just 250 million of our 360 million plus schoolgoing children in schools!
- **Quality Gap:** 14% of Grade 8 students in rural schools cannot read Grade 2 text or 28% cannot divide numbers; 21% of Grade 4 children in Government Schools in Mumbai cannot read Grade 1 text; this huge quality gap drives children away from free Government education to outcome-driven private education!
- **Strong Competition for Limited Seats:** In JEE India chooses 10,000 from 1.5 million aspirants (likewise for CAT or UPSC); this competitiveness and scarcity drives growth for private participation in Education!

For all the above reasons, private investment in Education has been slow, with less than 2% of total Venture Capital or Impact Investment. Despite this, three key factors are driving opportunity for private-sector participation in K-12 education in India:

All of these reasons have enabled private players to jump in the fray and over 82 deals amounting to USD 818 million in investments has taken place in the last five years alone! Three horizontal sub-markets have emerged:

- High-End, even in small cities with fees > INR 60,000 per annum or INR 5,000 per month with increasing propensity to pay amongst Indian households and aspirational value on outcomes
- Mid-Market, especially in Tier 2 towns, with fees between INR 12,000- 60,000 pa, i.e., between monthly fees of INR 1000-5000; a segment which is expected to double its market share in the coming years, cannibalising the Government School market
- Affordable Private Schools (APS) or Mass-Market Budget Schools with fees under INR 1000 per month (like INR 500), especially in Tier 3/4 cities, who can keep teacher:student ratios between 1:20 to 1:30 and salaries under INR 15,000 per month!

At Impact Investors Council (IIC), our quest is to review and encourage progress of APS and related services where several "social enterprises" make for good case studies across eight verticals. However, despite these promising beginnings, the overall sentiment in investing, especially in affordable K-12 education, is currently subdued:

1. **Affordable Schools and PPP:** There are already few examples of private investment in affordable schools and PPP although Non-Profits like Gyanshala, Akshara Foundation, Bharti Foundation, etc. lead the segment:

- **Gowtham Schools** (K-12 Techno Services), founded by M. Venkata Narayana, a Sequoia and Song (INR 50 cr) investee, focuses on schools with fees >INR1500 and manages over 50 schools with 50,000 students
2. **Content & Curriculum:** Most companies here are focused on mid-market like Shantanu's Educomp or Ashish Rajpal's XSEED. One APS example is:
 - **EduTel**, co-founded by Harsha and Soorya, an MSDF investee (\$2 mn), offers Satellite-based delivery of lessons with experts in the studio and a facilitator in the Schools; have broadcasted to over 2 Lac students.
 3. **Tuitions & Exam Preparation:** Investments in this vertical have been in high-end market: FIITJEE (Matrix), Ace Creative (Kaizen, Catamaran, Accel), IMS (MileStone Religare), CueLearn (Unitus), EduPristine (Accel), Toppr (SAIF, Helion, Fidelity), Embibe (Kaalari, Lightbox), Career Point (Franklin Templeton), Resonance (CLSA), TestBook (ah!Ventures), Byjus (Aarin, Sequoia), etc. Prominent APS investments are:
 - **Avanti**, founded by Krishna & Akshay, an MSDF & Pearson investee, prepares 3000 students across 40 centres in 7 states to receive higher education and compete in examinations such as JEE
 4. **Assessments:** ASER and ASSET have shown both public and private demand for standardized assessments- a growing opportunity. Recent investments in Report Bee (IEIF/MSDF), EI (IFMR Trust) and Gray Matters (MSDF) make good news:
 - **EI**, founded by Sridhar Rajgopalan, has over 15 years history with products like ASSET and MindSpark across 3000 schools with over 3.5 lac students in 21 states; and has multiple investors like IFMR Trust
 - **Gray Matters**, founded by Bob Pattillo, an MSDF investment started as a research project in APS, reaching 1000 schools, 320,000+ students, 100,000+ parents and 15,000+ teachers before being spun off
 5. **Pre-Schools:** Pre-Schools are an attractive vertical as these are the only schools which fall outside Government (and Education Board) regulation. The affordable segment has seen few focused initiatives like:
 - **Tree House**, an Omidyar/Foundation investee, is India's largest self-operated pre-school chain with 538 pre-schools across 75 cities; school management services for 24 schools in India plans for Day-Care Schools
 - **Hippocampus Learning Centres**, an Omidyar, Lok & Unitus investee and founded by Umesh Malhotra, provides pre-school and primary education in rural India, currently in 39 villages and has impacted over 3000 lives
 6. **Accelerated Learning Programs:** Need for proficiency in Science, Maths, English, etc. drives such programs and this vertical has seen multiple investments: Thulir, English Helper (Omidyar), Liquid (SBI Ven Capital), Curiositi (Unitus Seed Fund), Butterfly Fields (Aavishkaar), Aspire (Foundation Capital), In-Open Technologies (Benesse), etc. APS focused ventures include:
 - **Everest Edusys**, founded by Krishna Srinivasan, a Lok Capital investee, has reached out to 1 million students through experiential Science through QED Labs, Science Days & managed Science Centers
 - **Karadi Path**, an Aavishkaar investee (INR 8 cr), after success of Karadi Tales & Amar Chitra Katha, currently focuses on English language learning, introduced in about 267 schools

7. **Teacher Quality Improvement Programs & School Leader Development:** This vertical too is driven by non-profits (Baran, Azim Premji Foundation, Kaivalya). Amongst, for-profit social enterprises; Aspire, funded by Foundation Capital and Guru-G Learning, funded by IEIF are two examples of social enterprises.
8. **Digital Technology:** Schools do spend on computers & interactive whiteboards. But elearning, personalization and school automation is catching up. Consider these investments: SchoolGuru (Plexus), Excelsoft (DE Shaw/Arohi), Idenizen (NEA-IUV), CEON (GVFL), and, Brainvisa (Sequoia). Here too, investments elude the APS segment.

In summary, private investment participation is a big opportunity which has not yet been seized due to high-risk, fragmented market and scaling-up challenges. Nevertheless, it is clear that a few billion dollar babies are yet to be born in this \$133 billion sector. The gold rush is awaiting its tipping point!

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This article is authored by Amit Bhatia, CEO-IIC and these are his personal views