May is perhaps the worst time to visit Manipal, a small town in south Karnataka which is home to 17,000-odd students pursuing a degree in everything from medicine to engineering, from journalism to jewellery design. The summer sun blazes away and the humidity, made worse by the first pre-monsoon showers, is sapping. The student town bears a deserted look, most of the students are away on their summer vacations. Despite the seeming inactivity, there is a lot happening at Manipal, especially in the swanky administrative block of the campus. The university is gearing up to start a new not-for-profit university in Jaipur in the next couple of months.

Add to that the buzz that Manipal Universal Learning, the Rs. 1,200-crore (Rs. 12 billion) for-profit arm, which former Infosys human resource head TV Mohandas Pai just joined as non-executive Chairman, might go for an IPO (Initial Public Offering) within the next 12-18 months. And then, it is admissions time and Ramdas Pai, the man who has sat at the helm of the Manipal educational empire for nearly three decades, is well, unreachable.

"All the calls to my mobile phone, during this time [admissions], are re-routed to my secretary's landline. Even my son and wife get to talk to me through my secretary," sighs the 75-year-old Ramdas Pai, Chancellor, Manipal University. His reluctance to answer phone calls can be explained by looking at the list of dignitaries who queue up to meet him around this time of the year.

Even though Ramdas won't talk about it, the script is the same year after year: a government undersecretary asking for a medical seat for his son, the distant relative of a chief minister cadging for an engineering seat for his daughter...These are the pushes and pulls of Indian education that Ramdas has lived with for decades now and despite them, has created an education empire with revenues close to Rs. 2,000 crore (Rs. 20 billion) and that runs campuses from Nepal to Dubai, Manipal to Malaysia.

From muddy pond
Malay is almost the third language of Manipal in the later part of May, after English and Tulu (a long language). With most Indian students away on summer vacations, the campus is awash with Malay students who come to Manipal for two-and-a-half years of their course in Manipal. For somebody who is visiting Manipal after a decade, like this correspondent, that's the biggest change in Manipal, the sheer number of foreign faces one spots on the campus. According to a university official, at any given point of time, there are over 2,200 foreign students present in Manipal. In that sense, Manipal is truly India's first international university. So, how did Manipal (meaning mud pond in Tulu), an arid little hamlet, on top of rocky hilltop transform itself into an international university with students of 53 nationalities?

Here's a quick recap: in 1933, TMA Pai, a doctor by training and one of the co-founders of
Syndicate Bank, purchased 107 acres and established a few ventures including a tile factory, a tuberculosis sanatorium and a weaving factory. He then ventured into education by establishing an elementary school, a high school and then an arts college (Mahatma Gandhi Memorial College in Udupi). In 1953, Kasturba Medical College (KMC), Manipal's flagship college and India's first private, self-financing medical college, was set up. Four years later, an engineering college, Manipal Engineering College (now Manipal Institute of Technology), followed.

After TMA Pai's death in 1979, his son Ramdas and nephew Ramesh took over and continued to run the Manipal's education business. However, after Manipal University was granted a deemed university status in 1993, an acrimonious family dispute between the cousins, resulted in a split. A settlement was reached and Ramdas took over most of the education businesses and hospitals, while Ramesh got other businesses like Canara Steel, and Kurlon (makers of mattresses).

"Manipal's growth is the '80s and '90s is as much a factor of its ability to deliver quality education as its higher fee structure. Also, it managed to attract the NRI student crowd from markets like the US and UK very early on," says a former vice-chancellor of a southern university. "Today, of course, most reputed private institutes in India charge comparable fees," he adds.

**A shiny new Manipal**

Manipal's education business is very different from what it was in the late 1990s. The group is a lot more corporatised and global in nature. A lot of that credit goes to the 'heir' of the Manipal fortune, Ramdas's son, 41-year-old Ranjan Pai. Like his grandfather and father, Ranjan is a doctor by training. University officials say that Ranjan's biggest contribution to the group has been taking its presence beyond Indian borders and putting in a 'corporate and professional structure' in the group.

"They say that the first generation starts a business, the second generation builds it and the third ruins it...I am already on borrowed time," jokes Ranjan, whose business card puts his designation as MD & CEO, Manipal Education and Medical Group (MEMG), which includes the for-profit ventures of the Manipal group. The Manipal group's education ventures can be clearly divided into buckets, the not-for-profit Indian universities (like Manipal University and Sikkim Manipal University) and the for-profit, corporate arm called Manipal Universal Learning (MUL).

Even though the Pais won't comment on it, sources indicate that the not-for-profit arm clocks revenues of close to Rs. 800 crore (Rs. 8 billion), while the for-profit business's revenues are Rs. 1,200 crore (Rs. 12 billion), of which nearly 60% comes from foreign campuses in locations such as Nepal, Dubai, Antigua and Malaysia.

The rest of MUL's revenues, almost Rs. 500 crore (Rs. 5 billion), comes from what it calls as 'education services', which includes revenues from executive MBA programmes it provides for 85-odd corporates; fees for providing services like IT, content digitisation, network management, marketing for Sikkim Manipal University's distance education programmes (which has nearly 200,000 students); and an ambitious vocational skills joint venture with UK-based vocational training skills firm, City & Guilds which hopes to train 30,000 people, from mall cops to retail store attendants, this year. MUL's education
services' revenues also include revenues from Meritrac, a Bangalore-based skills assessments and testing company which it acquired in 2007 and an academy it has set up with the ICICI group to train its employees.

"The great thing about the Manipal group's for-profit education business is that they have a mix of business, which are generating reasonable cash flow and a few businesses which require investments to grow [like the international campuses]," says Raja Parthasarathy, managing director of IDFC Private Equity, the first external institutional investor in the group. Back in June 2006, IDFC PE along with US-based investment firm Capital Group invested Rs. 300 crore (Rs. 3 billion).

If you look at the proposals that come up for funding, a lot of people are looking to build a second or third university campus and that's all where the money is going towards. It takes 2-3 years to build a campus, another year to spread awareness and a few more years to build student numbers. PE firms with five-year horizons, find it very tough to invest in greenfield education unless they are very scalable," adds Parthasarathy. And that is where MUL scores, it already has campuses up and running in international locations and steady cash flows from education services.

**Manipal to Melaka**

But this for-profit business model with its steady cash flow has been crafted virtually from scratch over the past decade. In fact, when IDFC PE, first engaged with the group in early 2005, they decided not to invest. "We wanted to have a clean corporate structure, by which I mean a pure 'for-profit' structure...We were also looking for a professional CEO who had the passion and the drive to take the company to being a billion-dollar enterprise," adds Parthasarathy. A year later, a for-profit structure was put in place and IDFC invested in MUL. The PE firm also headhunted and put in place a CEO - Anand Sudarshan, an IT industry veteran and former head of Bangalore-based IT firm Mircoland.

Industry watchers and investors also give a thumbs-up to Manipal's global expansion strategy. "Manipal is among the few educational groups in India which are thoughtfully expanding its footprint. They have not gone to places like Singapore where there is a glut in some ways and have chosen places where there is a lot of latent demand like Malaysia or where there is a significant Indian diaspora," explains Parthasarathy.

For example, in Malaysia where it started a medical college in 1997, nearly a fifth of all registered doctors in the country are Manipal alumni, having either studied at KMC in Manipal or at the campus in Melaka (Malaysia). Similarly, the group acquired the complete shareholding of the Coolidge-based American University of Antigua (AUA) in late 2008. With this acquisition, Manipal is hoping to tap the demand for medical seats in the US. "We are hoping to tap the demand from the US and Canada. Nearly 30-40% of our students in Antigua are of Asian origin," says Ranjan.

The international experience has not always been smooth ride. In fact, Manipal's first international foray into Nepal, in 1994, has been a mixed bag. Even though the college is highly rated, trade union squabbles and petty controversies have dogged the medical college, especially once the communist-led government came to power. Consequently, the group follows a 'by invitation' policy for international expansion. "We have always followed the line of least resistance when it comes to opening new campuses," explains Ramdas.
"We usually go only when we have been invited by a government to open a campus," he says. Moreover, setting up an international campus and making money from it is a long haul. Like Ranjan points out, the group has invested over Rs. 100 crore (Rs. 1 billion) in its Melaka campus in Malaysia and it takes nearly 7-8 years to break even on an investment like that.

Despite that, the group has ambitious plans to expand in most of the international locations it is present in, with the exception of Nepal. In late 2010, MUL announced that it would set up an international university at a cost of over `500 crore in Kuala Lumpur, where it hopes that half the student population would be from outside Malaysia. "We have an invitation from the Sri Lankan government now and are actively considering setting up a campus there," says Ranjan, adding that the group was also looking at Africa.

**IPO time**

"Manipal is the one thing that got Azim Premji and Narayana Murthy doing something together," jokes a Mumbai-based analyst who tracks education stocks. In 2010, Wipro chairman Azim Premji (PremjiInvest) and Infosys co-founder Narayana Murthy (Catamaran) have announced investments of Rs. 200 crore each into MUL. Along with IDFC PE and Capital's investment in 2006, that's over Rs. 700 crore (US$ 150 million) of PE funding in one company in a sector that's struggling to attract PE investments. According to VCCEdge, nearly $622 million of PE investments have happened in India since 2006.

"With such PE funds invested in the company, an IPO is likely, sooner than later," adds the analyst. IDFC PE, the oldest investor in MUL, concurs. "We have been invested for almost five years. I think an IPO is a right kind of liquidity event for the company. One, it has the size. Two, few education companies have the same reach, perception of integrity and ethical business," says Parthasarathy.

Analysts say that valuations for MUL, based on rough revenue estimates, can go as high as "$1-1.5 billion". More importantly, the Manipal stock when listed could potentially set the bar for the higher education industry in India. "It has the potential to be a bellwether stock, as it is not just the first in the sector to list but also a very credible player. However, a lot will depend on the float, how much promoters are willing to divest," says Avinash Gupta, national leader, financial advisory practise, Deloitte.

More importantly, the Manipal stock when listed could potentially set the bar for the higher-education industry in India. "Today, the markets benchmark the education industry with Educomp. We need a second company in this space," says Sandeep Aneja, founder and managing director of Kaizen PE, an education-focussed PE firm. Ranjan, though, is not willing to commit to an IPO date, but says that its something the board will take a call on in the next 12-18 months.

For Manipal is in a sweet spot. However, competition may not be far away. "Universities like Amity, Lovely have the student numbers but may not have the same perception of quality or credibility like Manipal," says Aneja. "Ten years ago, Manipal was not the preferred brand it is today. Given the shorter brand creation cycles today, who knows if an Amity or a Lovely will be as good a brand as Manipal," adds Aneja. That will be Manipal's next big test.