

Everonn Education

Q3FY11 Result Update

9 February 2011

Buy

Target Price: Rs772

CMP: Rs481*

Upside: 60.5%

*as on 8 February 2011

Margin expansion on better sales mix

Everonn Education's (Everonn) Q3FY11 results were in line with our expectation. We believe investment in subsidiaries such as Everonn Skill Development (ESDL), Everonn School (ESL) and Everonn Business Education (EBEL) will be key catalysts going forward. We re-iterate Buy rating on the stock.

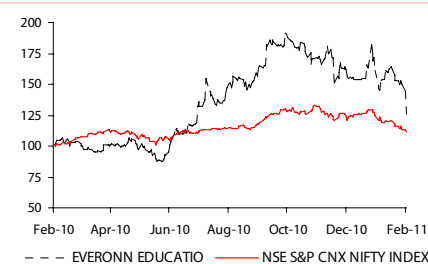
- **Results in line with expectations:** Sales grew 44% to Rs1,153mn against our estimate of Rs1,207mn (deviation was mainly due to lower sales of Edures, a subsidiary). The growth was mainly contributed by VITELS which grew by 56% YoY. EBITDA margin expanded by 318bps to 38%, a tad better than our expectation.
- **Standalone business maintains growth rate:** Everonn reported 45.2% YoY growth in sales in its standalone business to Rs857mn with both ICT and VITELS contributing. The company managed to improve its operating profit margin by 618bp to 53.8% on a YoY basis. We believe that favourable change in sales mix led to this improvement.
- **Subsidiaries in investment mode:** Everonn is investing in its subsidiaries Everonn Business Education and Everonn Skill Development among others. Other than Edures and Topper, subsidiaries, the company incurred EBITDA losses of Rs51.4mn during Q3FY11.
- **Reiterate Buy; maintain target price Rs772:** At the CMP, the stock trades at 11.6x FY12E earnings estimates (considering dilution from SKIL investment) which we believe is attractive considering the improvement in financial performance. We reiterate Buy on the stock as we see triggers which can expand earnings estimates.

Key Data

Bloomberg Code	EEDU IN
Reuters Code	EVED.BO
Current Shares O/S (mn)	15.1
Diluted Shares O/S(mn)	19.7
Mkt Cap (Rsbn/USDmn)	7.3/160.5
52 Wk H / L (Rs)	756/332
Daily Vol. (3M NSE Avg.)	256,694
Face Value (Rs)	10

USD = Rs45.3

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
Everonn	(22.5)	(15.5)	23.6
NIFTY	(8.6)	(0.8)	13.4

Source: Bloomberg, Centrum Research
*as on 8 February 2011

Abhishek Anand
a.anand@centrum.co.in
+91 22 4215 9853

Y/E March (Rsmn)	Q2FY11	Q2FY10	YoY (%)	Q1FY11	QoQ (%)	Q2FY11E	Variance (%)
Net sales	1,153	799	44.2	1,081	6.7	1,207	(4.5)
Employee costs	170	106		141		117	
% of sales	14.8	13.2		13.0		9.7	
Other expenditure	543	414		560		636	
% of sales	47.1	51.9		51.8		52.7	
Operating profit	439	279	57.4	380	15.6	454	(3.2)
OPM (%)	38.1	34.9	318 bp	35.2	294 bp	37.6	49 bp
Depreciation and amortisation	110	68		94		98	
Interest	40	22		57		45	
EBT	289	189		229		310	
Other income	0	1		0		1	
PBT	289	190		229		312	
Exceptional item (as reported)	0	0		0		-	
Provision for tax	100	68		74		106	
-effective tax rate	34.5	34.0		32.2		34.1	
PAT (adjusted)	189	121	56.0	156	21.8	205	(7.7)
NPM (%)	16.4	15.2	124 bp	14.4	204 bp	17.0	
EPS (adjusted)	10	6.2		7.9			

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	1,447	57.9	512	35.4	221	60.0	9.3	14.7	12.2	51.6	14.5
FY10	2,935	102.9	1,010	34.4	454	105.8	19.2	19.7	16.8	25.1	7.8
FY11E	4,310	46.9	1,565	36.3	669	47.2	28.2	23.7	14.1	17.1	7.3
FY12E	5,392	25.1	1,941	36.0	817	22.2	41.4	23.4	12.1	11.6	5.8
FY13E	6,464	19.9	2,422	37.5	1,028	25.8	52.1	23.3	15.0	9.2	4.3

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Growth momentum continues for Everonn (standalone) business

Everonn registered 45.2% YoY growth in sales on the back of strong growth in VITELS. The VITELS business grew by 56% YoY to Rs636mn in Q3FY11 on the back of strong addition of schools and colleges. In the quarter, the company added 140 schools and 63 colleges across India.

Exhibit 1: Segmental quarterly performance

	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
No of schools	867	1,017	1,087	1,195	1,335
No of colleges	1,396	1,567	1,672	1,812	1,875
No of govt schools	5,862	5,862	6,075	6,628	6,628
No of Retail centre	46	46	49	54	59
Revenue (Rsmn)					
ICT	184	241	194	218	221
VITELS	407	508	251	520	636
PBT Margin (%)					
ICT - PBT margin	20.1	21.6	20.1	19.0	18.3
VITELS - PBT margin	38.9	29.6	27.5	38.0	44.8

VITELS posted best margin during Q3FY11

Source: Company, Centrum Research

We believe that performance on VITELS is well on track as indicated by management. Some key points which indicate growth prospects are:

- **iSchools** – The management indicated that the average installation per classroom for the iSchool product had increased to 2.9 classes from 2.5 per school in Q2FY11.
- **Colleges** – The college segment continues to remain strong with the addition of 63 colleges. The company intends to increase classrooms per college from 1.1 to 5 over a 5-year period.
- **Retail (Kompass)** – It added 5 centres in the quarter to reach 59 centres signalling strong growth momentum. The segment witnessed 62% YoY growth in revenue to Rs310mn.

Investment in subsidiaries and new initiatives

In Q3FY11, its subsidiaries reported PBT loss of 36mn as some new initiatives including Everonn Business Education (EBEL), Everonn School (ESL), Everonn Skill Development (ESDL) were in the investment phase. The newer initiatives incurred a loss of Rs51mn at EBITDA level. The performance in this segment is likely to pick up in subsequent years and is likely to break even in 1HFY12E.

Exhibit 2: Performance of subsidiaries

	Q1FY11	Q2FY11	Q3FY11
Revenue (Rs mn)			
Edures	194	298	200
Toppers	33	39	41
New Subsidiaries	2	6	55
EBITDA (Rs mn)			
Edures	17	10	17
Toppers	13	15	13
New Subsidiaries	(26)	(29)	(51)
OPM (%)			
Edures	8.9	3.3	8.3
Toppers	38.7	39.4	31.9
New Subsidiaries	(1,346.8)	(497.7)	(93.9)
PBT (Rs mn)			
Edures	14	10	15
Toppers	9	11	8
New Subsidiaries	(5)	(10)	(60)
PBT Margin (%)			
Edures	7.0	3.2	7.6
Toppers	26.1	27.6	20.4
New Subsidiaries	(237.4)	(170.1)	(108.9)

Source: Company, Centrum Research

Risk to our earnings estimates

As we do not have clarity on the revenue model of some of the subsidiaries, our estimates are conservative and subject to change based on more detailed understanding of management strategy. Hence, we see this as an upside risk to our current estimates.

Reiterate Buy

At the CMP, the stock trades at 11.6x FY12E and 9.2x FY13E earnings estimates (considering full dilution). The company is gearing up to ride the government's ambitious plans to increase spending on vocational training in the country. Also, we see increase in revenue per point of presence in VITELS and "Educating India" as key triggers. We reiterate Buy rating on the stock and revise our target price to Rs 772 per share as we upgrade our earnings, implying 60% upside.

Financials

Exhibit 3: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Net Sales	1,447	2,935	4,310	5,392	6,464
-Growth (%)	57.9	102.9	46.9	25.1	19.9
Salary expenses	278	384	486	613	749
% of sales	19.2	13.1	11.3	11.4	11.6
Edu. & training and other exp.	657	1541	2259	2838	3293
% of sales	45.4	52.5	52.4	52.6	50.9
Operating Profits	512	1010	1565	1941	2422
% of sales	35.4	34.4	36.3	36.0	37.5
Depreciation and Amortisation	159	252	380	540	660
PBIT	354	757	1185	1401	1762
Interest Expenses	52	104	180	183	228
PBT from operations	302	653	1005	1219	1534
Other non operating income	39	5	3	5	5
PBT before extraordinary items	341	658	1008	1224	1539
Extraordinary income/(expenses)					
PBT	341	658	1008	1224	1539
-PBT margin (%)	23.6	22.4	23.4	22.7	23.8
Provision for tax	120	204	339	406	511
Effective tax rate (%)	35.2	30.9	33.7	33.2	33.2
Net Profit (reported)	221	454	669	817	1028
-Growth (%)	60.0	105.8	47.2	22.2	25.8
-NPM (%)	15.3	15.5	15.5	15.2	15.9

Source: Company, Centrum Research Estimates

Exhibit 4: Balance Sheet

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	151	151	197	197	197
Warrant	77	-	65	-	-
Reserves and Surplus	1,903	2,399	2,882	3,699	4,727
ESOP	6	10	10	10	10
Total shareholders fund	2,137	2,559	3,153	3,906	4,934
Loan fund	487	839	4300	3800	2800
Deferred tax liability	91	154	154	154	154
Total capital employed	2,715	3,552	7,607	7,859	7,887
Gross block	1,376	2,159	3,626	4,626	5,426
Less: Accumulated depreciation	450	703	1,083	1,623	2,283
Net block	926	1,456	2,543	3,003	3,143
Capital WIP	250	246	300	250	150
Net fixed assets	1,176	1,702	2,843	3,253	3,293
Goodwill	5	5	5	5	5
Investments	235	11	11	11	11
Cash and bank	403	439	2456	2228	1993
Inventories	-	-	-	-	-
Debtors	764	1,171	1,920	1,885	2,009
Other current assets & loans & adv.	576	605	1,293	1,618	1,939
Total current assets	1,742	2,216	5,670	5,731	5,941
Current liabilities and Provision	442	381	923	1,141	1,363
Net current assets	1,300	1,835	4,747	4,590	4,578
Total assets	2,715	3,552	7,606	7,859	7,887

Source: Company, Centrum Research Estimates

Exhibit 5: Cash flow

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Cash Flow from operating					
Profit before tax	341	658	1008	1224	1539
Depreciation	159	252	380	540	660
Interest expenses	27	13	180	183	228
Other non cash charges	0	0	0	0	0
Operating profit before WC change	526	927	1,568	1,946	2,427
Working capital adjustments	(585)	(564)	(1,081)	(71)	(222)
Direct tax paid	31	111	339	406	511
Net cash from operating	(90)	251	147	1,469	1,694
Cash flow from investing					
Capex	(713)	(779)	(1,521)	(950)	(700)
Investments	(147.7)	223.9	-	-	-
Net cash from investment	(858)	(555)	(1,521)	(950)	(700)
Cash flow from financing					
Proceeds from Sh. Cap.& premium	963	-	111	(65)	-
Borrowings/(Repayments)	28	353	3,461	(500)	(1,000)
Interest paid	(27)	(13)	(180)	(183)	(228)
Dividend paid	-	-	-	-	-
Net cash flow from financing	965	340	3,391	(747)	(1,228)
Net cash increase/(decrease)	17	36	2,017	(229)	(234)

Source: Company, Centrum Research Estimates

Exhibit 6: Key Ratios

Y/E March	FY09	FY10	FY11E	FY12E	FY13E
Margin Ratio (%)					
EBITDA Margin	35.4	34.4	36.3	36.0	37.5
PBIT Margin	24.4	25.8	27.5	26.0	27.3
PBT Margin	23.6	22.4	23.4	22.7	23.8
PAT Margin	15.3	15.5	15.5	15.2	15.9
Growth Ratio (%)					
Revenue	57.9	102.9	46.9	25.1	19.9
EBITDA	53.3	97.1	55.0	24.0	24.8
Net Profit	60.0	105.8	47.2	22.2	25.8
Return Ratios (%)					
ROCE	12.2	16.8	14.1	12.1	15.0
ROIC	30.2	37.2	37.9	36.0	42.0
ROE	14.7	19.7	23.7	23.4	23.3
Turnover Ratios					
Asset turnover ratio (x)	0.7	0.9	0.8	0.7	0.8
Working capital cycle (days)	99.6	95.3	105.1	87.8	67.5
Average collection period (days)	149.8	120.3	130.9	128.8	109.9
Average payment period (days)	50.3	25.1	25.8	41.0	42.5
Per share (Rs)					
Basic EPS	14.6	30.1	44.2	54.0	68.0
Fully diluted EPS	9.3	19.2	28.2	41.4	52.1
Book value	136.3	169.3	156.6	198.1	250.2
Solvency Ratio (x)					
Debt-equity	0.3	0.4	1.4	1.0	0.6
Interest coverage ratio	6.8	7.3	6.6	7.7	7.7
Valuation (x)					
P/E	51.6	25.1	17.1	11.6	9.2
P/BV	3.5	2.8	3.1	2.4	1.9
EV/EBITDA	14.5	7.8	7.3	5.8	4.3
EV/Sales	5.1	2.7	2.7	2.1	1.6
M-cap/Sales	5.0	2.5	2.2	1.8	1.5

Source: Company, Centrum Research Estimates

Appendix A

Disclaimer

Centrum Broking Pvt. Ltd. ("Centrum") is a full-service, Stock Broking Company and a member of The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India Ltd. (NSE). Our holding company, Centrum Capital Ltd, is an investment banker and an underwriter of securities. As a group Centrum has Investment Banking, Advisory and other business relationships with a significant percentage of the companies covered by our Research Group. Our research professionals provide important inputs into the Group's Investment Banking and other business selection processes.

Recipients of this report should assume that our Group is seeking or may seek or will seek Investment Banking, advisory, project finance or other businesses and may receive commission, brokerage, fees or other compensation from the company or companies that are the subject of this material/report. Our Company and Group companies and their officers, directors and employees, including the analysts and others involved in the preparation or issuance of this material and their dependants, may on the date of this report or from, time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Centrum or its affiliates do not own 1% or more in the equity of this company. Our sales people, dealers, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different those made in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to or potential conflicts of interest. We and our Group may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of Centrum. Centrum or its affiliates do not make a market in the security of the company for which this report or any report was written. Further, Centrum or its affiliates did not make a market in the subject company's securities at the time that the research report was published.

This report is for information purposes only and this document/material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients of Centrum. Though disseminated to clients simultaneously, not all clients may receive this report at the same time. Centrum will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be suitable for all investors. The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is suitable for his/her/their particular circumstances and, if necessary, seek professional/financial advice. Any such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document.

The projections and forecasts described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently of the Company. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accented accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by or on behalf of the Company, Centrum, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumptions underlying such projections and forecasts.

The price and value of the investments referred to in this document/material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Centrum does not provide tax advice to its clients, and all investors are strongly advised to consult regarding any potential investment. Centrum and its affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk. Certain transactions including those involving futures, options, and other derivatives as well as non-investment-grade securities give rise to substantial risk and are not suitable for all investors. Please ensure that you have read and understood the current risk disclosure documents before entering into any derivative transactions.

This report/document has been prepared by Centrum, based upon information available to the public and sources, believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. Centrum has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. The opinions expressed in this document/material are subject to change without notice and have no obligation to tell you when opinions or information in this report change.

This report or recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of Centrum. This report or any portion hereof may not be printed, sold or distributed without the written consent of Centrum.

This report has not been prepared by Centrum Securities LLC. However, Centrum Securities LLC has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Neither Centrum nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

This document does not constitute an offer or invitation to subscribe for or purchase or deal in any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is strictly confidential and is being furnished to you solely for your information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this report comes should inform themselves about, and observe any such restrictions. By accepting this report, you agree to be bound by the foregoing limitations. No representation is made that this report is accurate or complete.

The opinions and projections expressed herein are entirely those of the author and are given as part of the normal research activity of Centrum Broking and are given as of this date and are subject to change without notice. Any opinion estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimate or projection.

This document has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Information in this document must not be relied upon as having been authorized or approved by the company or its directors or any other person. Any opinions and projections contained herein are entirely those of the authors. None of the company or its directors or any other person accepts any liability whatsoever for any loss arising from any use of this document or its contents or otherwise arising in connection therewith.

Centrum and its affiliates have not managed or co-managed a public offering for the subject company in the preceding twelve months. Centrum and affiliates have not received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for service in respect of public offerings, corporate finance, debt restructuring, investment banking or other advisory services in a merger/acquisition or some other sort of specific transaction.

As per the declaration given by him Mr. Abhishek Anand analyst and the author of this report and/or any of his/her family members do not serve as an officer, director or are in any way connected to the company/companies mentioned in this report. Further, as declared by them, they have not received any compensation from the above companies in the preceding twelve months. Our entire research professionals are our employees and are paid a salary. They do not have any other material conflict of interest of the research analyst or member of which the research analyst knows of has reason to know at the time of publication of the research report or at the time of the public appearance.

While we would endeavor to update the information herein on a reasonable basis, Centrum, its associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Centrum from doing so.

Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or Centrum policies, in circumstances where Centrum is acting in an advisory capacity to this company, or any certain other circumstances

Key to Centrum Investment Rankings

Buy: Expected outperform Nifty by >15%, Accumulate: Expected to outperform Nifty by +5 to 15%, Hold: Expected to outperform Nifty by -5% to +5%, Reduce: Expected to underperform Nifty by 5 to 15%, Sell: Expected to underperform Nifty by >15%

Centrum Broking Private Limited

Member (NSE, BSE, MCX-SX), Depository Participant (CDSL) and SEBI registered Portfolio Manager

Regn Nos

CAPITAL MARKET SEBI REGN. NO.: BSE: INB 011251130, NSE: INB231251134
DERIVATIVES SEBI REGN. NO.: NSE: INF 231251134 (TRADING & SELF CLEARING MEMBER)
CDSL DP ID: 12200. **SEBI REGISTRATION NO.:** IN-DP-CDSL-20-99
PMS REGISTRATION NO.: INP000000456
MCX – SX (Currency Derivative segment) REGN. NO.: INE 261251134

Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

REGD. OFFICE Address

Bombay Mutual Bldg., 2nd Floor, Dr. D. N. Road, Fort,
Mumbai - 400 001

Correspondence Address

Centrum House, 6th Floor, CST Road, Near Vidya Nagari Marg,
Kalina, Santacruz (E), Mumbai 400 098.
Tel: (022) 4215 9000