INDIA

Education

Everonn Education

Event **19 April 2011**

Buy

Target Price: Rs854

CMP: Rs669*

Upside: 27.6%

**as on 19 April 2011*

Polishing Skills

We attended the analysts meet of Everonn Education which was organized to share the details of National Skill Development Corporation's (NSDC) JV with Everonn Skill Development (ESDL), a subsidiary of Everonn. As per the JV, NSDC will hold 27% stake in the company. While NSDC is to train 150mn workforce by 2022, ESDL has got the mandate to train 10% or 15mn people across various industries. We believe this event bodes well for the company in terms of growth prospects though it would take time for it to scale up the volume. We revise our target price to Rs854 against the existing target price of Rs772 to factor in business from this initiative.

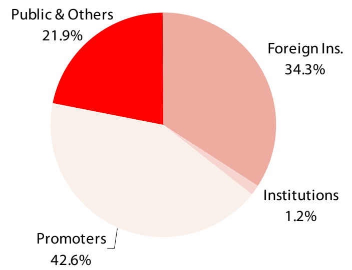
- **NSDC JV with ESDL, a subsidiary of Everonn Education:** NSDC will hold 27% stake in the subsidiary of Everonn Education. ESDL has the mandate to train 15mn people over 10 years across various industries with the duration of the course ranging from 1-6 months. The management expects the opportunity to be worth around Rs150bn considering average realization of Rs9,000-10,000 per person. However, we believe that this is a mandate and not an order book for the company.
- **Revision in earnings:** We expect this development to add around Rs1.2bn and Rs37mn to revenue and net profit respectively for FY12E. Thus we revise our net profit upward by 12/14% for FY12E/FY13E. We assume a capex of Rs1.6bn for the next two years in this initiative against management indication of Rs1.5bn over the next three years.
- **Reiterate Buy:** We believe the current valuation of 12.3x FY13E earnings estimates (ex-NSDC JV financials) is attractive considering the growth prospects of the company. The company has been consistency working to improve business prospects which is visible in the last couple of year's financial performance and the strengthening of its team.

Key Data

Bloomberg Code	EEDU IN
Reuters Code	EVED.BO
Current Shares O/S (mn)	19.0
Diluted Shares O/S(mn)	19.0
Mkt Cap (Rsbn/USDmn)	12.7/286.2
52 Wk H / L (Rs)	756/332
Daily Vol. (3M NSE Avg.)	584,341
Face Value (Rs)	10

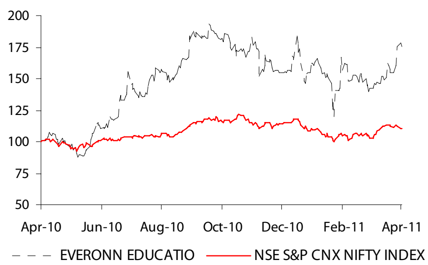
USD = Rs44.5

Shareholding Pattern



As on 31 Dec 2010

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
Everonn Edu	23.0	(4.0)	75.0
NIFTY	6.6	(4.9)	10.1

Source: Bloomberg, Centrum Research
**as on 19 April 2011*

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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*	71.6	20.1
FY10	2,935	*102.9*	1,010	*34.4*	454	*105.8*	19.2	*19.7*	*16.8*	34.8	10.6
FY11E	4,176	*42.3*	1,522	*36.4*	633	*39.4*	26.8	*16.0*	*13.2*	25.0	8.7
FY12E	6,553	*56.9*	2,157	*32.9*	927	*46.3*	46.5	*15.7*	*12.4*	14.4	6.2
FY13E	8,021	*22.4*	2,742	*34.2*	1,224	*32.1*	61.0	*17.4*	*14.1*	11.0	4.8

Source: Company, Centrum Research Estimates

Details of NSDC deal with EDSL

NSDC is a non profit organization set up by Ministry of Finance. It has a target of skilling/upskilling 150 mn people in India by 2022, mainly by fostering private sector initiatives in skill development programmes and providing viability gap funding. Under this deal, NSDC would hold 27% stake (stake for Rs141.4mn) in EDSL, a subsidiary of Everonn Education and has been mandated to train 15mn people by 2022. The total investment required to set up 271 multi skilled development centres across country is estimated at 1.54bn. NSDC would offer loans of Rs1,013.4mn to EDSL as its contribution.

Key details

- The course would cover nine core sectors such as Textile and Apparel, Retail, Hospitality, Automobile, Healthcare, Construction, IT and ITES, Basic Engineering, Multimedia
- Initially, the courses will be offered in Gujarat, Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu states.
- The training will be imparted through brick and mortar as well as technology enabled delivery wherever necessary
- ESDL & NSDC will assist the needy and deserving candidates in availing Bank Loan facility
- Duration of course would range from 1-6 months
- Average realization per person per course would be approx. Rs9,000

The company will target people for training, re-skilling and up-skilling from tier – II and tier – III locations, based on placement assurances which would come through industry, trade bodies and NGOs tie-ups.

While this deal offers a huge potential for Everonn, we believe it would take time for the company to source people and train them. Hence, volume would be lower in the initial 1-3 years.

Revised estimates

We are revising our estimates to factor in financials from the NSDC deal. While we maintain estimates for other businesses, we have added revenue and profits from new initiatives. As we expect the skill development initiative to take time to scale up, we assume 150,000 and 2,00,000 people would get trained by EDSL during FY12E and FY13E respectively. The overall EBITDA margin is expected to come down as the skill development business would deliver lower margins.

Exhibit 1: Change in Estimates

Rs mn	New	Old	Change (%)	New	Old	Change (%)
	FY12E	FY12E		FY13E	FY13E	
Sales	6,553	5,353	*22.4*	8,021	6,421	*24.9*
EBITDA	2,157	1,941	*11.1*	2,742	2,422	*13.2*
EBITDA Margin (%)	*32.9*	*36.3*	*(334.3)bps*	*34.2*	*37.7*	*(353.6)bps*
Net Profit	927	829	*11.8*	1224	1070	*14.4*

Source: Centrum Research Estimates

Re-iterate Buy

We re-iterate Buy rating on the stock considering the consistent improvement in the company's business prospects. The stock currently trades at 12.3x FY13E earnings estimates (ex NSDC-EDSL deal) offering upside potential considering consistent performance and future growth potential. Newer initiatives such as the recently bagged Microsoft and NSDC deals suggest that the company has the potential to maintain its growth momentum. We are changing our target price to Rs854 to factor in changes in earnings estimates.

Financials

Exhibit 2: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Net Sales	1,447	2,935	4,176	6,553	8,021
-Growth (%)	57.9	102.9	42.3	56.9	22.4
Salary expenses	278	384	602	913	1149
% of sales	19.2	13.1	14.4	13.9	14.3
Edu. training and other exp.	657	1,541	2,052	3,484	4,129
% of sales	45.4	52.5	49.1	53.2	51.5
Operating Profits	512	1,010	1,522	2,157	2,742
% of sales	35.4	34.4	36.4	32.9	34.2
Dep. and Amort.	159	252	400	620	760
PBIT	354	757	1,122	1,537	1,982
Interest Expenses	52	104	170	154	154
PBT from operations	302	653	952	1383	1828
Other non operating income	39	5	3	5	5
PBT before extraord. items	341	658	955	1,388	1,833
Extraord. income/(expenses)					
PBT	341	658	955	1,388	1,833
-PBT margin (%)	23.6	22.4	22.9	21.2	22.9
Provision for tax	120	204	321	461	609
Effective tax rate (%)	35.2	30.9	33.7	33.2	33.2
Minority Interest	-	-	-	14	27
Net Profit (reported)	221	454	633	913	1,197
-Growth (%)	60.0	105.8	39.4	46.3	32.1
-NPM (%)	15.3	15.5	15.2	14.1	15.3

Source: Company, Centrum Research Estimates

Exhibit 3: Balance Sheet

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	151	151	196	196	196
Warrant	77	-	65	-	-
Reserves and Surplus	1,903	2,399	5,151	6,064	7,261
ESOP	6	10	10	10	10
Total shareholders fund	2,137	2,559	5,422	6,270	7,467
Minority Interest	-	-	-	14	41
Loan fund	487	839	2200	2200	2200
Deferred tax liability	91	154	154	154	154
Total capital employed	**2,715**	**3,552**	**7,775**	**8,638**	**9,862**
Gross block	1,376	2,159	3,626	5,426	7,026
Less: Accumulated depreciation	450	703	1,103	1,723	2,483
Net block	926	1,456	2,523	3,703	4,543
Capital WIP	250	246	300	250	150
Net fixed assets	1,176	1,702	2,823	3,953	4,693
Goodwill	5	5	5	5	5
Investments	235	11	11	11	11
Cash and bank	403	439	2291	2182	2416
Inventories	-	-	-	-	-
Debtors	764	1,171	2,248	1,885	2,009
Other curr. assets and loans & adv.	576	605	1,253	1,966	2,406
Total current assets	1,742	2,216	5,791	6,033	6,831
Current liab. and Provision	442	381	855	1,365	1,679
Net current assets	1,300	1,835	4,936	4,668	5,152
Total assets	**2,715**	**3,552**	**7,775**	**8,637**	**9,861**

Source: Company, Centrum Research Estimates

Exhibit 4: Cash flow

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Cash Flow from operation					
Profit before tax	341	658	955	1,388	1,833
Depreciation	159	252	400	620	760
Interest expenses	27	13	170	154	154
Other non cash charges	0	0	0	0	0
Oper. profit before WC change	526	927	1,525	2,162	2,747
Working capital adjustments	(585)	(564)	(1,436)	159	(250)
Direct tax paid	31	111	321	461	609
Net cash from operation	(90)	251	(232)	1,860	1,889
Cash flow from investing					
Capex	(713)	(779)	(1,521)	(1,750)	(1,500)
Investments	(147.7)	223.9	-	-	-
Net cash from investment	(858)	(555)	(1,521)	(1,750)	(1,500)
Cash flow from financing					
Proceeds from share capital and premium	963	-	2,414	(65)	-
Borrowings/(Repayments)	28	353	1,361	-	-
Interest paid	(27)	(13)	(170)	(154)	(154)
Dividend paid	-	-	-	-	-
Net cash flow from financing	965	340	3,605	(219)	(154)
Net cash increase/(decrease)	17	36	1,851	(109)	235

Source: Company, Centrum Research Estimates

Exhibit 5: Key Ratios

Y/E March	FY09	FY10	FY11E	FY12E	FY13E
Margin Ratio (%)					
EBITDA Margin	*35.4*	*34.4*	*36.4*	*40.3*	*42.7*
PBIT Margin	*24.4*	*25.8*	*26.9*	*28.7*	*30.9*
PBT Margin	*23.6*	*22.4*	*22.9*	*25.9*	*28.5*
PAT Margin	*15.3*	*15.5*	*15.2*	*17.3*	*19.1*
Growth Ratio (%)					
Revenue	*57.9*	*102.9*	*42.3*	*56.9*	*22.4*
EBITDA	*53.3*	*97.1*	*50.7*	*41.7*	*27.1*
Net Profit	*60.0*	*105.8*	*39.4*	*46.3*	*32.1*
Return Ratios (%)					
ROCE	*12.2*	*16.8*	*13.2*	*12.4*	*14.1*
ROIC	*30.2*	*37.2*	*35.4*	*36.1*	*39.5*
ROE	*14.7*	*19.7*	*16.0*	*15.7*	*17.4*
Turnover Ratios					
Asset turnover ratio (x)	0.7	0.9	0.7	0.8	0.9
Working capital cycle (days)	99.6	95.3	123.3	104.6	68.6
Avg. collection period (days)	149.8	120.3	149.4	140.9	110.7
Avg. payment period (days)	50.3	25.1	26.1	36.3	42.1
Per share (Rs)					
Basic EPS	14.6	30.1	41.9	60.4	79.2
Fully diluted EPS	9.3	19.2	26.8	46.5	61.0
Book value	136.3	169.3	272.9	319.4	380.4
Solvency Ratio (x)					
Debt-equity	0.3	0.4	0.4	0.4	0.3
Interest coverage ratio	6.8	7.3	6.6	10.0	12.9
Valuation (x)					
P/E	71.6	34.8	25.0	14.4	11.0
P/BV	4.9	4.0	2.5	2.1	1.8
EV/EBITDA	20.1	10.6	8.7	6.2	4.8
EV/Sales	7.1	3.6	3.2	2.0	1.6
M-cap/Sales	7.0	3.4	3.1	2.0	1.6

Source: Company, Centrum Research Estimates

Appendix A

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