

Everonn Education Ltd-----Maintain OUTPERFORM
Strong margin improvement; encouraging developments in new initiatives
EPS: ▼ TP: ▼

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- Educomp reported strong Dec-10 quarter results with revenues 4% below, EBITDA 11% above and profits 15% above estimates.
- Margin expansion of 300 bps QoQ versus our expectation of a 300 bp decline was the key highlight of the quarter. This came as a result of an increasing proportion of higher margin businesses, as well as improvement in VITELS margins.
- School additions in VITELS were strong (140), though college additions were muted (63). Importantly, the classroom penetration within schools continues to rise quickly. We believe this will remain a key margin driver for the business over the near term.
- Everonn's growth trajectory remains solid (40%+ 3-year CAGR), with increasing comfort on margin improvement. In this context, the shares look attractive at 3.6x EV/EBITDA and 8x P/E (FY12). We thus retain our OUTPERFORM rating on the stock.
- We make adjustments to our model to account for recent equity issuance. As a result, our EPS goes down 7% over FY11-13, and our target price falls to Rs760.

to the college segment were lacklustre with only 63 colleges added (the QE number rose 34%). We believe this weakness in college additions is temporary and expect a return to growth from the current quarter.

Importantly, classroom penetration in iSchools continues rising. The QE average classroom/school ratio rose to 2.9 from 2.5, implying a 6.3x incremental ratio. We believe this is a key margin driver for the business. We build a 6x incremental classroom/school ration in our models for FY3/12 – and there could be a nice upside to our numbers.

Management indicated that the new business initiatives could break even by next year. Importantly, two schools under the 'Educating India' programme are set to open for the 2011 academic session.

Retaining our Outperform

Everonn continues to deliver strong growth with encouraging margin trends. We believe the VITELS business will be a strong growth and margin driver over the near term, and expect EBITDA and EPS CAGRs of 40% plus over three years. In this context, we find the stock cheap at 3.6x EV/EBITDA and 8x P/E (FY3/12). We retain our OUTPERFORM rating. Our EPS falls 7% for FY11-13, as we build the dilution impact of recent equity issuance, while our target price (DCF) falls to Rs760.

Bbg/RIC	EEDU IN / EVED.BO	Price (08 Feb 11, Rs)	490.10		
Rating (prev. rating)	O (O) [V]	TP (Prev. TP Rs)	760 (850)		
Shares outstanding (mn)	15.12	Est. pot. % chg. to TP	55		
Daily trad vol - 6m avg (mn)	0.1	52-wk range (Rs)	738.80 - 336.00		
Daily trad val - 6m avg (US\$ mn)	1.4	Mkt cap (Rs/US\$ mn)	7,410.3/ 163.5		
Free float (%)	57.0	Performance			
Major shareholders	Promoters - 43%	Absolute (%)	1M	3M	12M
		Relative (%)	(20.8)	(26.0)	26.1
			(12.2)	(13.2)	13.1
Year	3/09A	3/10A	3/11E	3/12E	3/13E
Revenues (Rs mn)	1,447	2,939	4,455	6,438	8,468
EBITDA (Rs mn)	512	1,014	1,561	2,313	3,126
Net profit (Rs mn)	221	458	680	1,148	1,575
EPS (Rs)	14.6	30.3	39.8	60.3	82.8
- Change from prev. EPS (%)	n.a.	n.a.	(7)	(7)	(7)
- Consensus EPS (Rs)	n.a.	n.a.	37.4	51.8	66.9
EPS growth (%)	31.1	107.8	31.4	51.4	37.1
P/E (x)	33.6	16.2	12.3	8.1	5.9
Dividend yield (%)	0	0.4	0.5	1.2	1.7
EV/EBITDA (x)	14.6	7.7	3.9	2.8	2.1
P/B (x)	3.5	2.9	1.6	1.5	1.2
ROE (%)	14.3	19.5	17.5	20.0	22.6
Net debt (net cash)/equity (%)	3.9	15.6	(24.1)	(14.6)	(11.3)

Note1: Everonn is a provider of K-12 learning content and learning infrastructure solutions. It also provides distant education programmes for professionals.

Strong growth continues

Everonn reported strong Dec-10 quarter results with revenue up 44% YoY (4% below estimates). Margins expanded a sharp 300 bps QoQ to 38% (versus our expectation of a 300 bp decline). Thus, EBITDA grew 57% YoY and came in 11% ahead of estimates. Margin surprise flowed down to the bottom line with profits beating estimates by 15%.

A look at the segment details shows that growth was driven by the VITELS segment, while ICT remained muted. This shift in mix (VITELS is the higher margin segment) along with margin increase in VITELS led to overall EBITDA margin expansion.

Classroom penetration continues to rise

Growth in schools in the iSchool segment was strong, with 140 schools added (the quarter-end number was up 54% YoY). Additions

Figure 1: Everonn Dec-10 results summary

Rs mn	Dec-09	Sep-10	Dec-10	% QoQ	% YoY	CS	Diff. (%)
Net Sales	799	1,081	1,153	7	44	1,199	-4
EBITDA	279	380	439	16	57	396	11
EBITDA margin (%)	35	35	38			33	
PBT	190	229	289	26	53	249	16
Net Profit	121	155	189	22	56	164	15

Source: Company data, Credit Suisse estimates

Figure 2: Segment performance

Revenue (Rs mn)	Dec-09	Sep-10	Dec-10	% QoQ	% YoY
VITELS	407	520	636	22	56
ICT	184	218	221	1	20
Edures	180	298	200	-33	11
Toppers	29	39	41	6	44
PBT margin (%)	Dec-09	Sep-10	Dec-10	% QoQ	% YoY
VITELS	39	38	45		
ICT	20	19	18		
Edures	4	3	8		
Toppers	2	28	20		

Source: Company data, Credit Suisse estimates

Figure 3: Quarterly operating metrics

(units)	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	% QoQ	% YoY
VITELS	2,309	2,630	2,808	3,061	3,269	6.8	41.6
Schools	867	1,017	1,087	1,195	1,335	11.7	54.0
Colleges	1,396	1,567	1,672	1,812	1,875	3.5	34.3
Retail centres	46	46	49	54	59	9.3	28.3
ICT							
Schools	5,862	5,862	6,075	6,628	6,628	0.0	13.1
iSchool - CR / school	1.5	2.0	2.2	2.5	2.9		
Incremental CR/ school		4.9	5.1	5.5	6.3		

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 08 Feb 11)

Everonn Education Ltd (EVED.BO, Rs490.10, OUTPERFORM [V], TP Rs850.00)

Disclosure Appendix

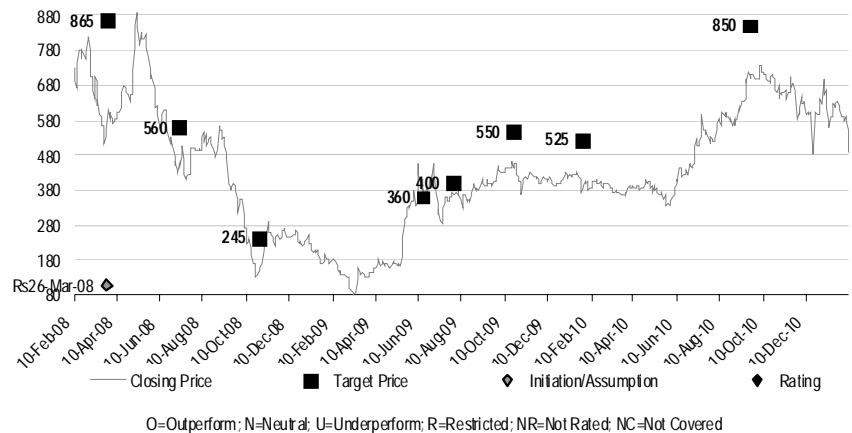
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3-Year Price, Target Price and Rating Change History Chart for EVED.BO

EVED.BO	Closing Price	Target Price	Initiation/
Date	(Rs)	(Rs)	Rating Assumption
26-Mar-08			X
27-Mar-08	551.15	865	
07-Jul-08	455.1	560	
27-Oct-08	138.5	245	
16-Jun-09	409.7	360	
28-Jul-09	373.45	400	
22-Oct-09	445.05	550	
28-Jan-10	386.9	525	
20-Sep-10	718	850	



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Price Target: (12 months) for (EVED.BO)

Method: We value Everonn on a discounted cash flow (DCF) model. We assume strong near-term growth rates (40%+ CAGR), 11.0% medium-term growth and 3% terminal growth, 12.5% weighted average cost of capital (WACC). This gives a target price of Rs760.

Risks: The key risks to our target price of Rs760 on Everonn include: 1) execution risks as the company is in early growth stage in its business lines, and is also launching new businesses 2) change in regulation thereby impacting the business model

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