

## Everonn Education ----- Maintain OUTPERFORM

### Positive developments in ViTELS and capex model

EPS: ▲ TP: ◀▶

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- Everonn reported 4Q FY10 results with revenue and profit 8-10% ahead of estimates. Full-year EPS at Rs30 was in line with our estimates and ahead of consensus (Rs26).
- We hosted an earnings call with management yesterday, and came out with positive takeaways on the business model.
- iSchool's classroom penetration has increased QoQ from 1.5 CRs per school to 2 – a result of deeper penetration within existing schools and incremental schools coming at a higher CR ratio.
- Interestingly, management indicated that nearly 210 government-run schools have signed up for the ViTELS product at terms similar to those for private schools. We believe this expands the addressable market for ViTELS considerably.
- Nearly 50% of capex in FY10 was on the operating lease model, in line with the capex-light model that management explained earlier. Management hopes to bring this ratio to 75% in FY11.
- We remain positive on Everonn's business model and see the recent developments as positive. Retain OUTPERFORM rating.

are not very different from the private school segment, according to management. We believe these are significant new market entries that expand the addressable market for ViTELS considerably. There are 900+ Kendriya Vidyalayas in the country. Sales to the schools are done in blocks and hence sales costs would be lower.

### Early signs of capex-light model bearing fruit

Out of the Rs1,050 mn capital deployed during the year (excluding corporate level capex), nearly Rs500 mn has been through the operating lease route, in line with management's indication of moving to a capex-light model by tying up with leasing companies. Management explains that the target for FY11 is to have 75% of capex through the leasing model. This is a welcome change in an otherwise capital-heavy business model.

Bbg/RIC	EEDU IN / EVED.BO	Price (20 May 10, Rs)	373.50		
Rating (prev. rating)	O (O) [V]	TP (Prev. TP Rs)	525 (525)		
Shares outstanding (mn)	15.12	Est. pot. % chg. to TP	41		
Daily trad vol - 6m avg (mn)	1.7	52-wk range (Rs)	464.50 - 244.60		
Daily trad val - 6m avg (US\$ mn)	13.5	Mkt cap (Rs/US\$ mn)	5,647.4 / 120.6		
Free float (%)	63.8	<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Major shareholders	Promoters 31%	Absolute (%)	(2.8)	(5.8)	52.7
Year	3/09A	3/10A	3/11E	3/12E	3/13E
Revenues (Rs mn)	1,447	2,939	4,185	5,325	6,343
EBITDA (Rs mn)	512	1,010	1,470	1,922	2,295
Net profit (Rs mn)	220.7	454.5	634.2	819.6	960.6
EPS (Rs)	14.6	30.1	41.9	54.2	63.5
- Change from prev. EPS (%)	n.a.	n.a.	2	6	
- Consensus EPS (Rs)	n.a.	n.a.	36.5	52.0	0
EPS growth (%)	31.1	106.0	39.6	29.2	17.2
P/E (x)	25.6	12.4	8.9	6.9	5.9
Dividend yield (%)	0	0.5	0.7	1.5	1.7
EV/EBITDA (x)	11.2	6.0	4.3	3.3	2.6
P/B (x)	2.6	2.2	1.8	1.4	1.2
ROE (%)	10.3	17.5	19.9	20.9	20.1

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

We hosted an earnings call with Everonn Management to discuss the company's 4Q FY3/10 results.

### Positive developments in ViTELS

Management's comments indicate some interesting and positive developments in the ViTELS business. Firstly, the classroom penetration within schools is increasing nicely – from around 1.5 schools in December 2009 to 2 as of March 2010, implying incremental schools coming at 4+ classrooms per school.

Secondly, Everonn has started selling the iSchool product to government-run schools like Kendriya Vidyalayas (58 added so far) and Jawahar Navodaya Vodyalayas (150 added so far). Price points

Figure 1: Everonn 4Q FY10 results summary

Rs mn	Mar-09	Dec-09	Mar-10	% qoq	% yoy	CS	% Diff.
Net sales	358	799	1,045	31	192	967	8
Expenditure	254	520	726	40	186	-	
EBITDA	104	279	320	15	206	338	-5
EBITDA margin (%)	29	35	31			35	
Depreciation	46	68	65	-4	41	82	-21
EBIT	58	211	254	21	339	255	0
EBIT margin (%)	16	26	24			26	
Interest	16	22	44	94	167	22	94
Other income	6	1	-0			1	
PBT	47	190	211	11	345	234	-10
Tax expense	1	68	46	-32		84	-45
Net profit	46	121	165	36	257	150	10

Source: Company data, Credit Suisse estimates.

Figure 2: Schools and college growth

Nos.	Mar-09	Mar-10	% YoY
<b>ViTELS</b>	<b>1,392</b>	<b>2,630</b>	<b>88.9</b>
Schools	557	1,017	82.6
Colleges	800	1,567	95.9
Retail centres	35	46	31.4
<b>ICT Schools</b>	<b>4,442</b>	<b>5,862</b>	<b>32.0</b>

Source: Company data, Credit Suisse estimates.

Figure 3: Key segment performance

Revenue (Rs mn)	Mar-09	Mar-10	% YoY
ICT	128	242	89.7
ViTELS	179	508	184.2
<b>EBITDA margin (%)</b>			
ICT	39	42	
ViTELS	35	41	

Source: Company data, Credit Suisse estimates.

**Companies Mentioned (Price as of 20 May 10)**

Everonn Education Ltd (EVED.BO, Rs373.50, OUTPERFORM [V], TP Rs525.00)

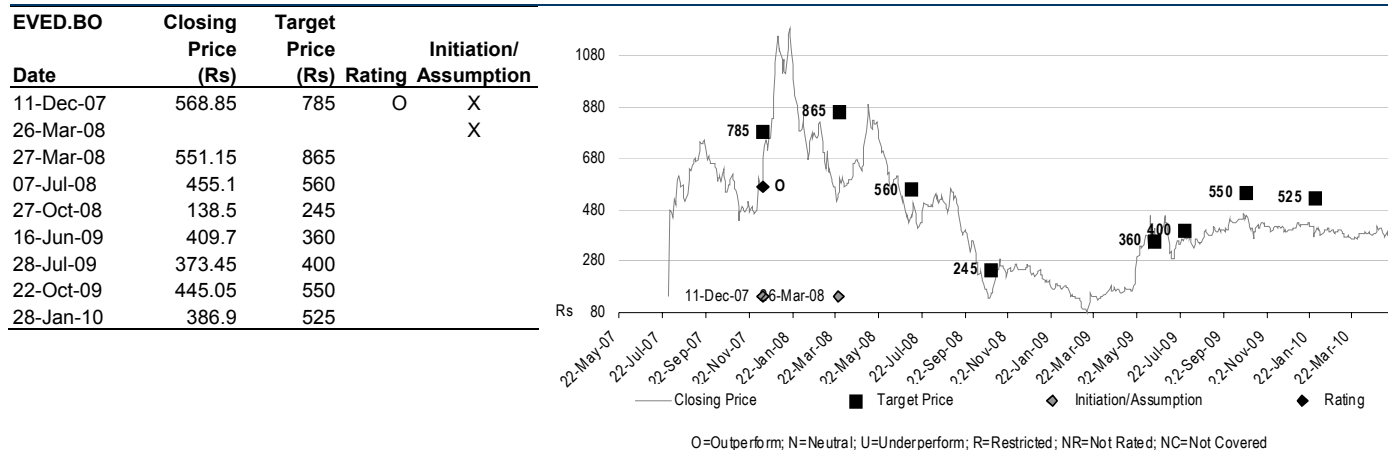
**Disclosure Appendix**

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



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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, 11.0% medium-term growth and 3% terminal growth, 12.5% weighted average cost of capital (WACC). This gives a target price of Rs525.

**Risks:** The key risks to our target price of Rs525 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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