

Everonn Education Ltd-----Maintain OUTPERFORM
Increasing classroom penetration as ViTELS gains broader acceptance

EPS: ▲ TP: ▲

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- ViTELS has evolved quickly over the last one year, with newer business models and addressable markets, such as states outside south India, university contracts and governments.
- As a result, we believe that school and college additions could start surprising positively in the coming years. We thus raise our school/college addition numbers by 60-100% over the near term. We believe that the risks to our new estimates are on the upside.
- In addition, the school segment is seeing increasing classroom penetration. We thus increase our incremental classroom/school ratio to five-plus, in line with the recent quarterly trends.
- With new business investments rising, we cut our near-term margins estimates by 200-250 bp. These changes lead to a 26-41% increase to revenue estimates and 20-39% EPS increase for FY12-13. We raise our target price to Rs850.
- At 10.6x FY12 P/E for an expected 40%-plus EPS CAGR, we believe Everonn is attractively valued despite the recent sharp rally. Hence, we retain our OUTPERFORM rating.

Bbg/RIC	EEDU IN / EVED.BO	Price (17 Sep 10 , Rs)	691.50		
Rating (prev. rating)	O (O) [V]	TP (Prev. TP Rs)	850 (525)		
Shares outstanding (mn)	15.12	Est. pot. % chg. to TP	23		
Daily trad vol - 6m avg (mn)	0.7	52-wk range (Rs)	698.90 - 336.00		
Daily trad val - 6m avg (US\$ mn)	9.3	Mkt cap (Rs/US\$ mn)	10,455.6/ 228.0		
Free float (%)	63.8	Performance	1M	3M	12M
Major shareholders	Promoters 31%	Absolute (%)	17.2	59.7	74.2
		Relative (%)	7.9	43.6	48.5
Year	3/09A	3/10A	3/11E	3/12E	3/13E
Revenues (Rs mn)	1,447	2,939	4,565	6,697	8,956
EBITDA (Rs mn)	512	1,014	1,521	2,244	3,009
Net profit (Rs mn)	221	458	656	986	1,340
EPS (Rs)	14.6	30.1	43.4	65.2	88.6
- Change from prev. EPS (%)	n.a.	n.a.	3	20	39
- Consensus EPS (Rs)	n.a.	n.a.	38.6	53.6	62.6
EPS growth (%)	31.1	106.0	44.4	50.3	35.9
P/E (x)	47.4	23.0	15.9	10.6	7.8
Dividend yield (%)	0	0.3	0.4	0.9	1.3
EV/EBITDA (x)	20.6	10.7	7.4	5.3	4.1
P/B (x)	4.9	4.1	3.3	2.6	2.0
ROE (%)	10.3	17.9	20.7	24.3	25.5
Net debt (net cash)/equity (%)	3.9	15.6	23.0	33.7	33.1

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

ViTELS growth should surprise positively

The addressable market for ViTELS has expanded considerably over the last one year, with Everonn well and truly establishing itself as a pan India player from being a south-heavy player earlier. As seen in Figure 1, south India accounts for less than 50% of colleges and less than 40% of schools for Everonn currently. This, along with new models of delivery, including university model and Kendriya Vidyalaya (central government schools) segments, could help the company deliver stronger than expected growth in the near term, in our view. We thus revise upwards our estimates for school and college additions.

In addition, the school segment is also seeing a sharp increase in classroom penetration within schools. As against one classroom per

school being added a year ago, the new schools signed over the last couple of quarters have come in at four-five classrooms per school. This has helped the classroom penetration to increase from 1 CR/school in FY09 to 2.2 currently. Some schools signed in the last quarter have seen 10-plus classroom additions, indicating that the increasing penetration is a stronger trend. Hence, we upgrade our classroom penetration estimates for the company.

Figure 1: Everonn ViTELS – geographic split in India

	Schools	Colleges
North	22.7%	25.6%
South	38.1%	47.8%
East	12.9%	5.6%
West	26.4%	21.1%

Source: Company data, Credit Suisse estimates.

Figure 1: Estimates for the school segment

	Old			New		
	FY3/11	FY3/12	FY3/13	FY3/11	FY3/12	FY3/13
No. of colleges added	788	788	788	1,300	1,300	1,300
No. of schools added	512	512	512	600	1000	1,300
Classrooms per incremental school	1	1	1	5	6	6

Source: Company data, Credit Suisse estimates.

We also reduce our margins estimates by 200-250 bp as the company invests into new businesses (school management, formal higher education and pre-schools, among others). We do not build any revenues from these businesses yet.

Retain OUTPERFORM

As a result of these changes, our revenue estimates increase by 26-41% and EPS estimates increase by 20-39% for FY12-13. We raise our target price to Rs850. At 10.6x FY12E P/E for a company with 40%-plus EPS CAGR over three years, we believe the stock is attractive, despite the recent sharp rally. We retain our OUTPERFORM rating on the stock.

Figure 3: Changes to estimates

(Rs mn)	Old			New			% change		
	FY11	FY12	FY13	FY11	FY12	FY13	FY11	FY12	FY13
Revenues	4,185	5,325	6,343	4,565	6,697	8,956	9	26	41
EBITDA	1,470	1,922	2,295	1,521	2,244	3,009	3	17	31
EBITDA margin (%)	35.1	36.1	36.2	33.3	33.5	33.6			
EPS (Rs)	42	54	64	43	65	89	3	20	39

Source: Company data, Credit Suisse estimates.

New promoter group

Everonn has recently announced the issuance of optionally convertible debentures to SKIL Infrastructure (not listed), which when fully converted would result in a 20.9% stake in Everonn (current promoters will retain the 21% stake). We see the following advantages from the entry of SKIL group: 1) The capital position of Everonn would be strengthened with the backing of a large co-promoter and 2) SKIL's experience in infrastructure project management could help Everonn as it enters into new models such as universities, B-schools and school management.

Companies Mentioned (Price as of 17 Sep 10)

Everonn Education Ltd (EVED.BO, Rs691.50, OUTPERFORM [V], TP Rs850.00)

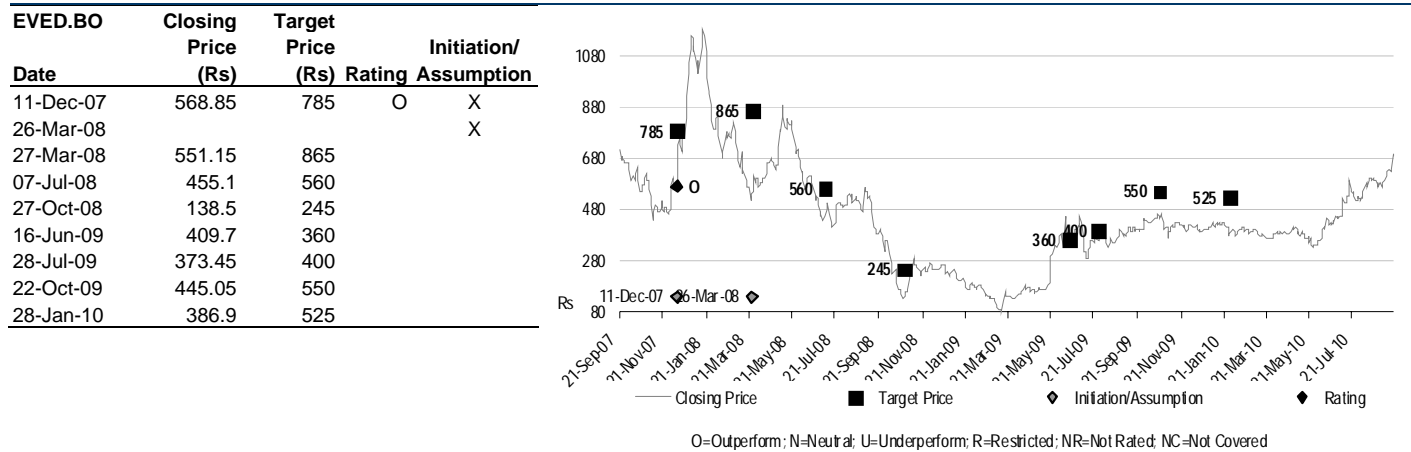
Disclosure Appendix

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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 (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 Rs850.

Risks: The key risks to our target price of Rs850 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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