

Everonn Education

 Rs445
UPGRADE TO OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs6.7bn; US\$145m

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Result: Q2FY10
Comment: More value, not just vanilla!

Key financials

Rs Mn	Net sales	yoy chg (%)	Net profit	yoy chg (%)	EPS (Rs)	yoy chg (%)	EV/E (x)	PER (x)
FY08	916.4	113	138	240	10.0	152	18.7	44.65
FY09	1435.8	57	253	84	16.8	68	13.3	26.56
FY10E	2373.3	65	396	56	26.2	56	7.8	17.00
FY11E	3163.4	33	576	45	38.1	45	5.6	11.69

KEY HIGHLIGHTS OF Q2FY10 RESULTS

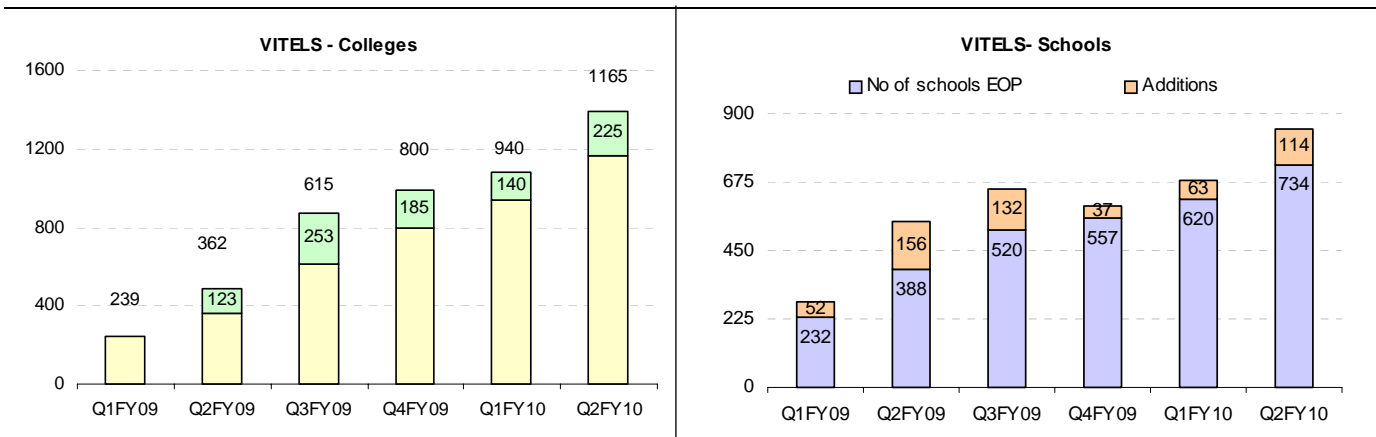
- ESILs performance in the quarter has been ahead of estimates. The company reported a consolidated revenue growth of 70% at Rs731m, EBITDA margin expansion of 81bp resulting in an EBITDA of Rs263m and net profit growth of 81% at Rs118m
- At Rs196m, 27% of the revenue for the quarter includes purchase of traded goods. Revenue excluding purchase of traded goods, ESIL witnessed a growth of 55% at Rs535m.
- On a standalone basis, ESIL reported a revenue growth of 43% at Rs 478m, EBITDA margins remained flatish at 48.8% resulting in an EBITDA of Rs238m and reported a net profit growth of 32% at Rs106m.
- VITELS (Virtual & Technology Enabled Learning Solutions) segment reported a revenue growth of 67% at Rs348mn and PBT growth of 54% at Rs131m. This growth has come on the back of a strong addition of 114 schools and 225 colleges during the quarter.
- Aggregate schools under VITELS at the end of quarter stood at 734 (388 as of Q2FY09), while colleges are at 1165 (362 as of Q2FY09). Everonn Systems reaches 1899 institutions through VITELS.
- With regards the ICT segment, revenues grew by 6% at Rs139m and PBT declined by 18% at Rs28m. After 3 quarters of negligible orders, this quarter Everonn Systems has received a Rs.918.7m order from the Government of Uttar Pradesh for implementation of ICT in 1099 schools (revenues expected to flow in from Q3FY10 onwards). Everonn now has a presence in 5708 schools under its ICT projects.
- The management has indicated that it expects ~25000 schools to come up for bidding in the next 9 months; ability to close bids profitably going ahead could lead to a positive surprise.
- Debtor days for the quarter were at 208 days as against 187 days last quarter.
- Topper Tutorials expanded its presence to 15 centers and 9 schools. The subsidiary providing coaching within the IIT-JEE space, reported revenues at Rs28m, EBITDA at Rs9.24m and PBT at Rs3.6m
- Everonn Systems has a networth of Rs2.2bn. Net debt stands at Rs495m (gross debt at Rs770m; cash at Rs275m).

- The management highlighted its new initiative – ‘Educating India’. The initiative marks ESIL’s foray into K-12 and Higher education segments as a ‘facilitator, aggregator and manager’. While ESIL does not plan to own any institutes, it expects to get 7% of the total project cost in addition to a management fee for managing the institutions. Currently in a stage of infancy, only 2 schools have been tied up under this initiative.

We have always believed that the change over in ESIL lies in its ability to create scale and drive consistency in its revenue stream. Over the past couple of quarters, ESIL has reported a robust growth and an increasing element of annuity across its VITELS portfolio, forcing us to revisit our theory of ‘low value, largely vanilla’. Further while ESIL had been unable to create any noise over the past few quarters within the ICT space, the recent order from the UP government negates our concern on its ability to close bids profitably within the segment. ICT segment offers a Rs1.34bn order book executable over the next 5 years, further adding to the overall annuity. With increased visibility across the portfolio and a steady change in the revenue mix towards high margin/value creating businesses, we upgrade our earnings by 16% to Rs26.2 (our numbers do not include any potential gains from the new initiative – ‘Educating-India’). With few proxies to play within the education space, increased earnings visibility (eps cagr of 51% over FY09-11E) and sharp discount to the largest (and virtually only other) player in the space, we believe there is value in the stock. At 12x FY11, we upgrade the stock to Outperformer, with a price target of Rs600.

VI TELS – Traction in growth; moving towards annuity – ESIL has reported a sustained traction within the VITELS (Virtual & Technology Enabled Learning Solutions) segment over the last few quarters. With schools offer a 3-5 year annuity, our key concern has been inconsistent revenue from colleges (short term optional courses offering non-sticky, non-annuity based revenue). With robust additions within the schools business, coupled with introduction of a few compulsory courses in colleges, we expect the quality of earnings for the VITELS portfolio to improve. Further scale within the colleges segment (ESIL has crossed the 1000 colleges mark in Q2FY10), had led to a significant margin expansion. Further the management has recently started targeting universities instead of individual colleges reducing its marketing efforts significantly.

Growth in VITELS



Source: Company, IDFC-SSKI Research

- ICT – Strong order book, adding to the annuity** - After 3 quarters of negligible orders, Everonn Systems received a Rs.918.7m order from the Government of Uttar Pradesh for implementation of ICT in 1099 schools in the quarter. Negating our concerns on Everonn’s ability to close bids profitably within the nefarious ICT space, ESIL now has a presence in 5708 schools and an order book of Rs1.34bn executable over the next 5 years. While we continue to remain negative on the space (L1 bidding and high debtor days remain key concerns), selective bids by the management have helped maintain margins (historically EBITDA margins have been at 35-45%). Coupled with post school activities within the ICT schools, we believe that ESIL will be able to maintain its margins going ahead.

Segmental revenue

Rs mn	Q2FY10	Q2FY09	Growth yoy%
ICT	139.1	130.7	6
VITELS	348.0	208.8	67
PBT			
ICT	27.9	34.2	(18)
VITELS	131.0	84.8	54

Source: Company, IDFC-SSKI Research

Quarterly results

Rs Mn	Q2FY09	Q3FY09	Q4FY09	FY09	Q1FY10	Q2FY10	FY10E	FY11E	Comments
Net Sales	431	436	358	1,447	359	731	2,373	3,163	The consolidated revenues for the year include revenue from traded sales to the tune of ~196m and ~Rs28m from Toppers Tutorial (IIT-JEE Training).
%yoy	89	49	17	59	61	70	64	33	
Operating profit	152	172	104	512	148	263	938	1275	
EBITDA %	35	40	29	35	41	36	40	40	
Depreciation	36.217	48.437	46.441	158.6	56.3	62.7	268	373	
EBIT	115	124	58	354	92	201	669	902	
Interest	11.59	12.875	16.269	51.8	16.4	21.3	111	64	Net debt stands at Rs495m (gross debt at Rs770m; cash at Rs275m).
Other Income	18.3	11.845	5.689	39	2.5	1.127	25.00	10.00	
Profit before tax	122.1	122.6	47.5	340.7	77.7	180.5	583.2	848.3	
Tax	57.03	43.905	1.159	119.9	26.8	62.4	187	273	
PAT	65.1	78.7	46.3	220.8	50.9	118.1	395.8	575.7	
%yoy	147	95	(32)	60	66	81	79	45	

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2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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