

EVERONN EDUCATION



Strong quarter; Vitels drives growth

PAT at INR 165 mn ahead of estimate; sales triple Y-o-Y

Everonn Education (Everonn) reported a steady Q4FY10 with PAT of INR 165 mn (more than 3x Q4FY09, up 35% Q-o-Q). Consolidated sales, at INR 1,045 mn, nearly tripled Y-o-Y and rose 31% Q-o-Q in the quarter. The key Vitels segment reported strong growth. For FY10, the company reported at PAT of INR 454 mn (more than 2X FY09), ahead of our FY10 estimate of INR 405 mn.

EBITDA margin up 140bps; contribution from Vittels space rises

For the quarter, EBITDA nearly tripled in line with revenue growth. Margins improved 140bps to 30.6%, even though they declined 430bps sequentially, possibly due to higher proportion of Eduresource (an extremely low-margin business). As expected, the Vitels segment was the key revenue growth driver in FY10 (nearly doubling FY09 volumes). From a profitability standpoint, PBT margins expanded for the Vittels segment while they dipped marginally for the ICT segment.

Growth remains strong across segments; capex light model envisaged

Everonn sustained its growth momentum in the Vitels segment across the school and college space. At FY10 end, the company had nearly 1,600 colleges and over 1,000 (versus 800 and 500, respectively, in FY09) schools under the Vittels platform. A significant highlight of the quarter was the company's success in installing its I-School product range in Kendriya Vidyalayas. While the current sign ups are relatively small, the potential in the segment is extremely high.

Going forward, Everonn is looking to reduce its capital expenditure by leasing hardware instead of an outright purchase. While this model will lower EBITDA margins, profitability at the PAT level is likely to be maintained.

Outlook and valuations: Risk-reward favourable; maintain 'BUY'

Given the strong Q4FY10 results and growth trajectory, we are revising up our earnings estimate for Everonn 6% for FY11. The stock is currently trading at P/E of 9x FY11E and 7x FY12E. Even adjusting for aggressive revenue recognition, the company is trading at P/E of ~11x FY11E and 9x FY12E, which are attractive valuations. We believe continued strong performance will drive a re-rating in the stock. We maintain 'BUY' recommendation on the stock.

Financials

Year to March	Q410	Q409	% change	Q310	% change	FY10	FY11E
Net revenues (INR mn)	1,045	358	192.0	799	30.8	2,935	4,300
EBITDA (INR mn)	320	104	206.4	279	14.6	1,010	1,523
Net profit (INR mn)	165	46	256.9	121	35.6	454	667
Diluted EPS (INR)	10.9	3.1	256.9	8.0	35.6	30.1	44.1
Diluted P/E (x)						12.4	8.5
EV/EBITDA (x)						6.0	4.3
ROAE (%)						19.2	22.8

May 20, 2010

Reuters : EVSI.BO Bloomberg : EEDU IN

EDELWEISS RATING

Absolute Rating BUY

MARKET DATA

CMP	:	INR 373
52-week range (INR)	:	479 / 177
Share in issue (mn)	:	15.1
M cap (INR bn/USD mn)	:	5.6 / 124.6
Avg. Daily Vol. BSE ('000)	:	987.6

SHARE HOLDING PATTERN (%)

Promoters*	:	26.3
MFs, FIs & Banks	:	12.9
FIIIs	:	22.1
Others	:	38.7
* Promoters pledged shares (% of share in issue)	:	Nil

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	(17.9)	6.8	24.7
3 months	(11.8)	6.2	18.0
12 months	(0.1)	53.6	53.7

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Financial snapshot - (Consolidated)						(INR mn)		
Year to March	Q410	Q409	% change	Q310	% change	FY10	FY11E	FY12E
Revenues	1,045	358	192.0	799	30.8	2,935	4,300	5,387
Raw material	231	49	375.2	167	38.0	633	1,119	1,418
Staff costs	105	99	6.6	106	(0.5)	384	554	666
Other Expenses	389	106	265.7	247	57.6	908	1,105	1,420
Total expenditure	726	254	186.1	520	39.5	1,925	2,777	3,504
EBITDA	320	104	206.4	279	14.6	1,010	1,523	1,883
Interest	44	16	166.8	22	94.1	104	92	92
Depreciation	65	46	40.9	68	(3.9)	252	423	555
Other income	(0)	6	(100.3)	1	(101.4)	5	4	7
PBT	211	47	345.4	190	11.2	658	1,011	1,242
Tax	46	1	3773.0	68	(32.4)	204	344	422
Adjusted net profit	165	46	256.9	121	35.6	454	667	819
Net profit	165	46	256.9	121	35.6	454	667	819
as % of net revenues								
Raw material	22.1	13.6		21.0		21.6	26.0	26.3
Staff expenses	10.0	27.5		13.2		13.1	12.9	12.4
Other expenses	37.2	29.7		30.9		30.9	25.7	26.4
EBITDA	30.6	29.2		34.9		34.4	35.4	35.0
Net profit	15.8	12.9		15.2		15.5	15.5	15.2

■ Company Description

Everonn is a fully integrated knowledge management, education and training company, offering a range of services that include creating educational and training content, designing and executing large learning initiatives, setting up the needed infrastructure for learning and training.

It is one of the leaders in computer education in schools and colleges. It is also one of the leading players in setting up virtual and interactive learning classroom networks across India.

■ Investment Theme

Everonn Systems (Everonn), through usage of VSAT-based technology in education, has made distance and quality of teaching in classroom irrelevant through its Vitels segment. The company has used the same technology platform to service multiple markets, be it schools, colleges or retail. In the near term, we do not foresee any serious competition for Everonn, especially in its college segment and estimate revenues to post CAGR of 57% over the next two years in this segment (iSchools+colleges combined). Vitels, as a business, is in early stages of its lifecycle. As the segment's investment phase nears completion and becomes relatively mature, the business model has a built in large operating leverage delta, which could spur significant margin expansion.

Everonn is the third largest player in ICT in the schools business, following Educomp and NIIT (these two are substantially larger players). Currently, the company has implemented ICT projects in 4,442 schools, which contribute 33% to overall revenues. We expect the company to continue to remain a key player in ICT projects; it is likely to post CAGR of 30% in school additions and 33% in revenues over FY10-11E.

■ Key Risks

Entry barriers remain low in Vitels

Entry barriers in Everonn's Vitels segment remain low with technology easily replicable. Hence, despite Everonn being the first player to make use of VSAT-based technology, unless it establishes a strong brand recall and is associated with certain key courses, we believe the model's scalability could be at risk.

Substantial working capital investment in ICT

ICT is a tender-driven business, requiring upfront capex, which is recouped via payments from the government (received quarterly or half yearly over the contract period). This results in substantially high debtor days (~180 days). As the ICT business scales up, we believe funding debtors is will be a substantial issue.

I -schools: Cash flows significantly lag revenue recognition

Everonn tends to book 40% of the sum total of revenues to be received from schools over five years upfront as content charges. The balance 60% is recognised evenly over the contract period. However, cash flows received from schools are even throughout the contract period (20% p.a. for a five-year contract), resulting in significant mismatch between reported revenues and actual cash flows in the first year of implementation in a new school.

Financial Statements

Income statement					(INR mn)
Year to March	FY08	FY09	FY10	FY11E	FY12E
Income from operations	916	1,447	2,935	4,300	5,387
Total operating expenses	582	935	1,925	2,777	3,504
Materials costs	93	218	633	1,119	1,418
Course execution & delivery expenses	306	292	380	493	641
Employee cost	119	278	384	554	666
Other expenses	64	147	529	611	779
EBITDA	334	512	1,010	1,523	1,883
Depreciation and amortisation	99	159	252	423	555
EBIT	235	354	757	1,100	1,327
Interest	33	52	104	92	92
Total other income	15	39	5	4	7
Profit before tax	218	341	658	1,011	1,242
Provision for tax	80	120	204	344	422
Profit after tax	138	221	454	667	820
Profit after minority interest	138	221	454	667	820
Shares outstanding (mn)	14	15	15	15	15
EPS (INR) diluted	9	15	30	44	54
Dividend payout (%)	0.0	0.0	0.0	0.0	0.1
Tax rate (%)		26.0	30.9	34.0	34.0

Common size metrics- as % of net revenues

Year to March	FY08	FY09	FY10	FY11E	FY12E
Operating expenses	63.6	64.6	65.6	64.6	65.0
Material cost	10.1	15.1	21.6	26.0	26.3
Course execution & delivery expenses	33.4	20.2	12.9	11.5	11.9
Employee cost	13.0	19.2	13.1	12.9	12.4
Other expenses	7.0	10.1	18.0	14.2	14.5
Depreciation and amortisation	10.8	11.0	8.6	9.8	10.3
Interest expenditure	3.6	3.6	3.5	2.1	1.7
EBITDA margins	36.4	35.4	34.4	35.4	35.0
Net profit margins	15.1	15.3	15.5	15.5	15.2

Growth metrics (%)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Revenues	112.9	57.9	102.9	46.5	25.3
EBITDA growth	84.6	53.3	97.1	50.8	23.6
PBT	207.2	56.6	93.1	53.6	22.8
Core net profit	184.2	60.0	105.8	46.8	22.8
EPS	184.2	60.0	105.8	46.8	22.8

Balance sheet					
	(INR mn)				
As on 31st March	FY08	FY09E	FY10	FY11E	FY12E
Equity capital	139	151	151	151	151
Reserves & surplus	812	1,986	2,443	3,107	3,926
Shareholders funds	950	2,137	2,595	3,258	4,077
Secured loans	453	482	834	834	834
Unsecured loans	6	5	5	5	5
Borrowings	459	487	839	839	839
Deferred tax (Net)	60	91	154	154	154
Sources of funds	1,469	2,715	3,588	4,251	5,070
Gross block	787	1,377	2,405	3,237	4,170
Depreciation	292	451	703	1,126	1,682
Net block	495	926	1,702	2,111	2,487
Capital work In progress	126	250	0	0	0
Intangible assests	5	5	5	5	5
Investments	87	234	10	49	51
Sundry debtors	424	764	1,171	2,274	2,848
Cash and bank balances	385	403	439	(135)	(224)
Loans and advances	133	576	605	1,205	1,478
Total current assets	942	1,742	2,216	3,344	4,103
Sundry creditors and others	117	310	171	913	1,152
Provisions	70	132	175	344	423
Total current liabilities & provisions	187	442	346	1,257	1,575
Net current assets	756	1,301	1,871	2,087	2,528
Uses of funds	1,469	2,716	3,588	4,251	5,070
Book value per share (INR)	69	141	172	215	270

Free cash flow					
	(INR mn)				
Year to March	FY08	FY09	FY10	FY11E	FY12E
Net profit	138	221	454	667	820
Depreciation	99	159	252	423	555
Deferred tax	6	31	0	0	0
Gross cash flow	243	411	707	1,089	1,375
Less: Changes in working capital	123	527	534	790	530
Operating cash flow	121	(117)	173	300	845
Less: Capex	(360)	(714)	(778)	(832)	(933)
Free cash flow	(239)	(830)	(605)	(532)	(87)

Cash flow metrics					
Year to March	FY08	FY09	FY10	FY11E	FY12E
Operating cash flow	121	(117)	173	300	845
Financing cash flow	670	994	418	(4)	(1)
Investing cash flow	(446)	(861)	(554)	(871)	(933)
Net cash flow	344	16	37	(575)	(89)
Capex	(360)	(714)	(778)	(832)	(933)
Share issuance/(Buyback)	36	13	0	0	0

Ratios

Year to March	FY08	FY09	FY10	FY11E	FY12E
ROAE (%)	21.0	14.3	19.2	22.8	22.3
ROACE (%)	23.1	18.3	25.0	28.3	28.8
Inventory (days)	2	0	0	0	0
Debtors (days)	140	150	120	146	174
Payable (days)	126	121	57	87	132
Cash conversion cycle	16	28	64	60	42
Current ratio	5.0	3.9	6.4	2.7	2.6
Debt/EBITDA	1.4	1.0	0.8	0.6	0.4
Interest cover (x)	7.1	6.8	7.3	11.9	14.4
Fixed assets turnover (x)	2.1	2.0	2.2	2.3	2.3
Total asset turnover(x)	0.9	0.7	0.9	1.1	1.2
Equity turnover(x)	1.4	0.9	1.2	1.5	1.5
Debt/Equity (x)	0.5	0.2	0.3	0.3	0.2
Adjusted debt/Equity	0.5	0.2	0.3	0.3	0.2

Du pont analysis

Year to March	FY08	FY09	FY10	FY11E	FY12E
NP margin (%)	15.1	15.3	15.5	15.5	15.2
Total assets turnover	0.9	0.7	0.9	1.1	1.2
Leverage multiplier	1.6	1.4	1.3	1.3	1.3
ROAE (%)	21.0	14.3	19.2	22.8	22.3

Valuation parameters

Year to March	FY08	FY09	FY10	FY11E	FY12E
Diluted EPS (INR)	9.1	14.6	30.1	44.1	54.2
<i>Y-o-Y growth (%)</i>	<i>184.2</i>	<i>60.0</i>	<i>105.8</i>	<i>46.8</i>	<i>22.8</i>
CEPS (INR)	16.7	23.0	46.8	72.1	90.9
Diluted P/E (x)	45.0	25.5	12.4	8.5	6.9
Price/BV(x)	6.0	2.6	2.2	1.7	1.4
EV/Sales (x)	6.2	3.8	2.1	1.5	1.2
EV/EBITDA (x)	17.0	10.7	6.0	4.3	3.5
EV/EBITDA (x)+1 yr forward	11.1	5.4	4.0	3.5	

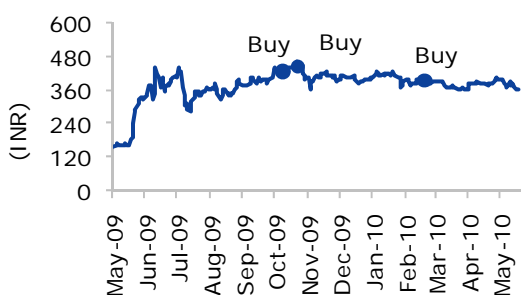
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Coverage group(s) of stocks by primary analyst(s): Miscellaneous

Elecon Engineering, Escorts, Jain Irrigation, Mahindra Holidays & Resorts, Opto Circuits, Shree Renuka Sugar, Sterlite Technologies, TIL and TRF

Everonn Education



Recent Research

Date	Company	Title	Price (INR)	Recos
18-May-10	Educomp Solutions	Headline number inline; <i>Result Update</i>	575	Hold
03-May-10	Bharat Electronics	Dissappointing quarter, but long term growth intact; <i>Result Update</i>	1,819	Buy
22-Apr-10	Escorts	Strong trends continue; <i>Result Update</i>	174	Buy
01-Apr-10	Escorts	Upgrade in credit rating; <i>Event Update</i>	167	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	101	56	9	169

* 3 stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	103	53	13

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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