

India Education

"Education costs money, but then so does ignorance."

- Sir Claus Moser

INITIATION



Analyst:

Jehan Bhadha

jehan-bhadha@darashaw.com

+91-22-43022256

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Executive Summary

Exciting prospects lie ahead for the Indian Education sector. We believe that segments like multimedia, pre schools, K-12 and higher education provide huge opportunities within the education sector. Being in its nascent stage we expect the sector to grow at a strong pace over the next few years. Based on our analysis of the sector and company specific strategies, we are positive on Everonn Education.

Demographic Structure favors investment in Education

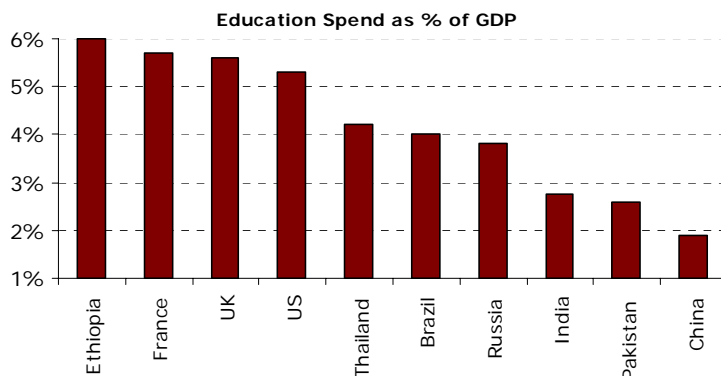
2009			
Age Group	Education Group	Population (in Cr)	Percent of Population
0 – 3		7.5	6.5%
4 – 6	Pre-Primary	7.9	6.8%
7 – 11	Primary (I – V)	14.4	12.4%
12 – 14	Upper Primary (VI – VII)	8.5	7.3%
15 – 18	Secondary (IX – XII)	9.7	8.3%
19 – 24	Higher (XII +)	12.6	10.9%
0 – 24		60.6	52.3%

Source: Indiademographics.com

India's population in the age group up till 24 years constitutes 52% of the total population. This showcases that more than half of the country's population falls in the target market for providing education and related services.

Government Expenditure on Education to accelerate

We expect India to go a long way from the current status of its expenditure on education. India along with peers like Brazil, Russia and China falls in the category of countries which spend 2-4% of their GDP on education. Developed countries spend anywhere between 5-6%. In order to convert the vast young population of India into a resource driven force, India will have to incur far higher expenditure on education going forward. The government proposes to increase the education expense to 5% of GDP from the current levels of 3%.



Source – CIA (Central Intelligence Agency) World Factbook 2009

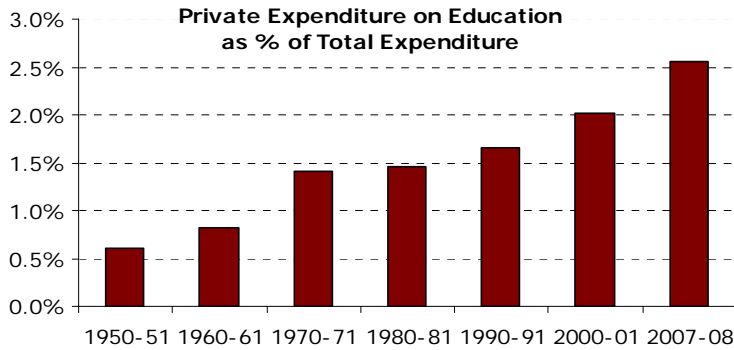
(Fig. in INR mn)

	Exp. On Education	GDP at Current Prices	% of GDP
2000-01	824860	21023130	3.9%
2001-02	798660	22789520	3.5%
2002-03	855070	24545610	3.5%
2003-04	890790	27546200	3.2%
2004-05	966940	31494070	3.1%
2005-06	113229	3706473	3.1%
2006-07	110339	4283979	2.6%
2007-08	130557	4947857	2.6%
2008-09	154409	5574449	2.8%

Source: Planning Commission, mospi.nic

Increase in Private Expenditure on Education

Private final consumption expenditure on education is on the rise. This shows that with an increase in per capita income, people are willing to spend more on education once their basic needs of food and clothing are satisfied.

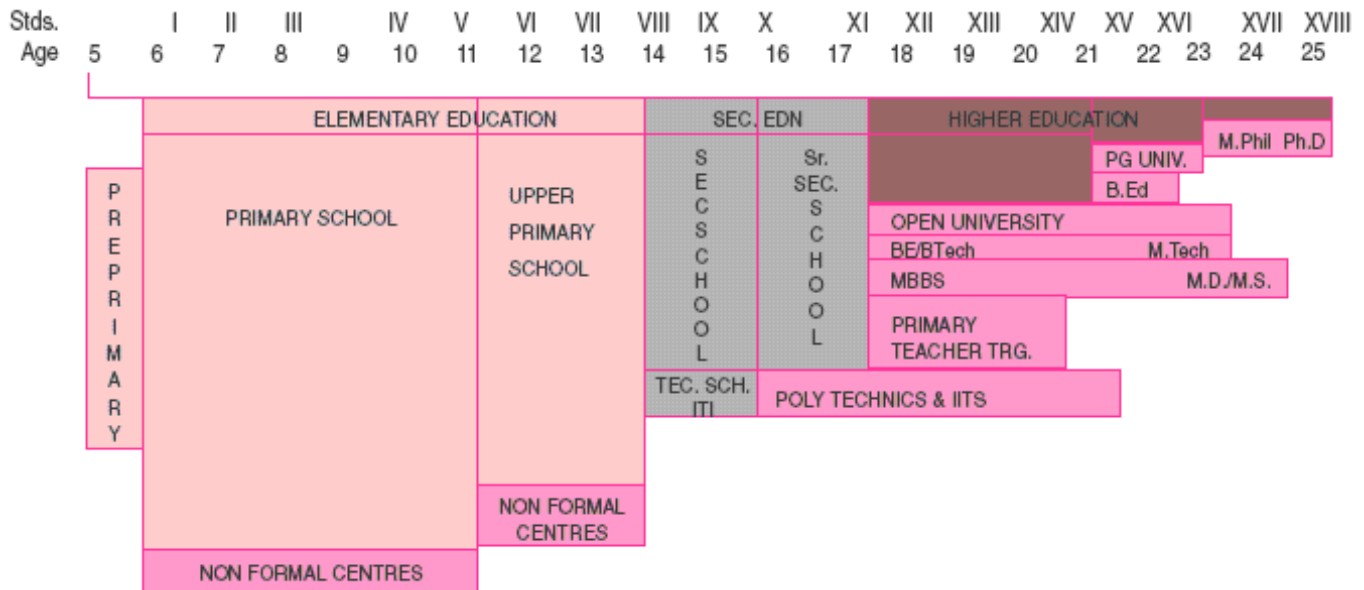


Source: www.mospi.gov.in

	FY01	FY03	FY05	FY07
Uptrend				
Education	2.0%	2.2%	2.4%	2.5%
Appliances	3.4%	3.3%	3.6%	4.0%
Transport	14%	16%	17%	18%
Others	10%	11%	12%	14%
Downtrend				
Food & Beverages	48%	46%	43%	42%
Clothing & Footwear	6%	6%	5%	5%
Rent, Fuel, Power	11%	11%	11%	10%
Healthcare	5%	5%	5%	4%

Source: Planning Commission

Structure of Education in India



Source: <http://education.nic.in/cd/50years>

The above diagram showcases the educational structure of India in a systematic and progressive manner matching the

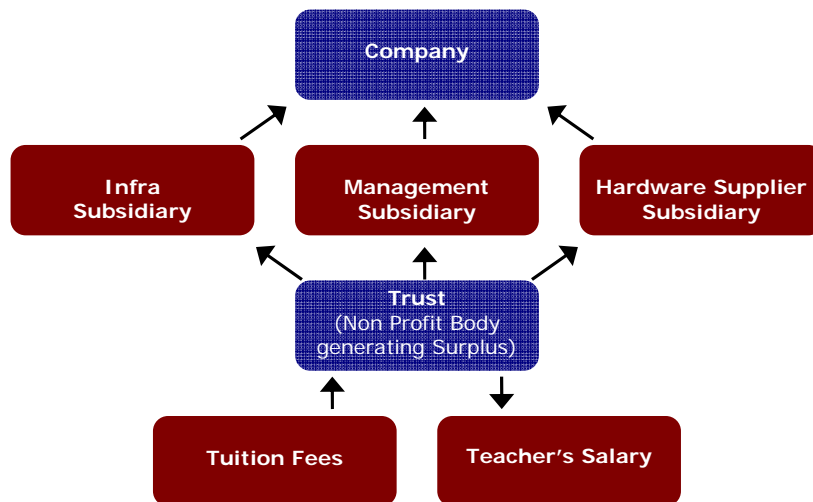
- Level of education
- Corresponding Age, and
- Types / Options under various levels of Education

Regulatory Constraints

In India, higher education has several regulatory bodies, including AICTE (All India Council for Technical Education) and UGC (University Grants Commission), but there is no umbrella regulation of K-12 schools, nor a uniform law for schools. The charitable and missionary character of some of India's earliest private schools, and the socialistic model of governance since independence days, has led to a mindset that education cannot be commercialized.

Countries allowing Profitable K-12 schools	Countries not allowing Profitable K-12 schools
US, Singapore, Australia, Brazil	UK, Korea

Under prevailing regulations, boards of education accredit only non-profit trusts. The surplus generated must be utilized for the development of that institution; further, the Supreme Court has stated that this surplus generated cannot be transferred for the development of another institution run by the same trust. As a result, profit-making schools in India need to be structured in such a way as to present the face of a trust, while allocating profit to a range of suppliers of goods and services to the trust, such as land agents, school management and equipment. Educomp's K-12 business uses subsidiary Edu Infra to provide land and Edu Manage to supply content to school trusts, which on paper run the schools.



Source: Educomp, Darashaw

Segment Wise Analysis of the Education Sector

Pre-Schooling

Pre-schooling typically covers play school with children between the age of 3 to 6 years. Nowadays, pre-school institutes have even started day-care schools where children below the age of three can also be taken care of. With the growing number of double income families, pre-schooling is booming in a big way in cities.

Key Players

Name	Scale
Kidzee	700 +
Kangaroo Kids	75 franchisees, 5 owned
Apple Kids	150 +
Euro Kids	579 franchisees, 28 owned
Roots to Wings	220 franchisees
Shemrock	80 +

Source: Company Websites

Success factors of Pre-schools

- Pre-school chains are resorting to franchising wherein they provide their brand name and training. However it is observed that under the franchisee model, quality gets deteriorated in pursuit of growth.
- Pre-schools having tie-ups with K-12 schools are preferred by parents.
- Parents prefer a pre-school that is near their house hence location is an important consideration. This affects the scalability.

Current Market Size – Opportunity (2009)

Age	Population (mn)	Urban	Urban Pop. (mn)	Enrollment	Students (mn)	Avg Fees (Rs)	Mkt Size (INR bn)	Mkt Size (USD bn)
3 to 6	75	30%	23	40%	9	12,000	108	2.4

Source: UNICEF, Darashaw

K-12

This segment has assured annuity revenue as once a student is acquired he stays with the school for 15 years (3 years in Kindergarten and 12 years in school). Parents are becoming increasingly conscience of the quality of education imparted by schools but even then the churn in students is very less.

Key Players

Name	Scale
DAV Schools	700
Delhi Public School	115
Educomp	39; and 14 under EuroKids JV

Source: Company Websites

Success factors of K-12 schools

- Parents nowadays prefer to admit children to schools that impart technology aided education. Even the government is introducing basic computer technology in government schools.
- Reputation and location determine the ramp up of students in any new school. Successful school chains are built over a period of time by word of mouth and the ranks held by graduating batches in class X and XII.
- Parents today are also keen that their children go to schools with air conditioned classes and proper playgrounds i.e. schools having good infrastructure facilities.
- There is an increase in international schools recently in India with their demand picking up as parents would want children to participate in foreign schools which would also enable students to be eligible for entry in higher education abroad.

Current Market Size – Opportunity

Private Schools	Number of Schools	Students/School	Students (mn)	Fees	Mkt Size (INR mn)	Mkt Size (USD bn)
Unaided Premium	15000	1200	18	15000	270000	6.0
Unaided Standard	29400	1200	35	9000	317520	7.1
Total					587520	13.1

Source: Industry, Darashaw

Higher Education

Although India's higher education system contributes about 350,000 engineers and 2.5 million university graduates annually to our workforce, yet at any given time about 5 million graduates remain unemployed. A survey done by McKinsey Global Institute shows multinationals find only 25 percent of Indian engineers employable and a NASSCOM report projects shortage of 500,000 knowledge workers as on 2010.

Key Players

Name	Scale
Amity	1000 seats
Wigan & Leigh College	28 Campuses
Rai University	25 campuses in India and overseas
Manipal University	20 Campuses
ICFAI	19 Campuses
Institute for Technology & Management	5 Campuses

Source: Company Websites

Success factors of Higher Education

- Students apply to higher education institutes in the hope of getting good employment at the end of the course. This is their main concern.
- Students also focus on the branding and faculty recognition of institutions.

Current Market Size – Opportunity

We have considered only private professional education in our market size estimates as general courses like Bachelor/Master of Com/Sc/Arts are not as employment oriented and mainly do not involve as much money as is involved in professional education.

Higher Education	Pvt Colleges	No of Standards	Students / Standard	Students / College	Total Students	Annual Fee	One Time Admission Fee	Mkt Size (INR mn)	Mkt Size (USD bn)
Medical	140	5	100	500	70000	250000	100000	18900	0.4
Engineering	1200	4	300	1200	1440000	150000	50000	230400	5.1
MBA	300	2	150	300	90000	300000	50000	27900	0.6
Total								277200	6.2

Source: Industry, Darashaw

Multimedia in Education

The current base of multimedia schools being around 10,000 with potential schools at 44,400, we anticipate a high growth rate of more than 50% for this market over the next 3-4 years.

Penetration in Unaided Private Schools (9M FY11)	
Educomp	5,534
Everonn	1,335
NIIT, Manipal K 12, IL & FS	3,500
Total	10,369
Total Unaided Pvt. Schools	44,400
Penetration	23%

Source: Companies, Darashaw

Success factors of Multimedia

- A lot of investment, expertise and experience is required in establishing multimedia content. Acceptability by the initial 20-25% of schools in a city is the key as remaining schools would latch on to the product in their bid to keep up with the competition.
- Quality content if not scaled up quickly could mean lower acceptability as these contracts typically are for a period of five years. Hence quick scaling up is an important factor.

Current Market Size – Opportunity

Pvt Unaided Schools	Classes/School	Students/Class	Students/School	Payment/Student /Month (INR)	Mkt Size (INR mn)	Mkt Size (USD bn)
44400	24	45	1080	125	71930	1.6

Source: MHRD, Industry, Darashaw

ICT in Government Schools

ICT in government schools essentially means training of students in government schools on Microsoft office.

Typical Contract Terms

- Infrastructure is installed within 30 days of signing the contract.
- The contract is usually under BOOT model typically for 5 years where the assets are on the books of the company for the contract period and then transferred to the institution at a nominal residual value.
- Companies are usually paid on a half yearly basis.
- Cumulative revenue is 5-6x the investment amount with EBITDA margins of 42-43%.

Schools	In Lacs
Upper Primary	3.1
Secondary	1.7
Total Schools	4.75
(-) Pvt Schools	0.75
Govt Schools	4.00

	9M FY11
Educomp	13,814
NIIT	14,637
Everonn	6,628
Compucom	7,632
Others	20,700
Penetration	63,411 (16%)

Source: Ministry of Human Resource Development, Companies

Success factors of ICT

- For securing a tender, a company has to be a L1 bidder and technical criteria include experience in ICT business. This technical requirement is a significant entry barrier.

Current Market Size – Opportunity

	Schools	Students / School	Revenue / Student	Revenue / School	Mkt Size (INR mn)	Mkt Size (USD bn)
Content	400,000	294	1500	440,625	176,250	3.9
Infrastructure	400,000			150,000	60,000	1.3
Total					236,250	5.3

Source: Industry, Darashaw

Coaching Classes

Higher education institutes typically have an entrance examination to screen applications to select only eligible candidates. Most of these exams are for engineering, medical, or MBA streams. There is a big market for coaching students for these entrance examinations.

Key Players		
Name	Exam / Entrance Test	No of Centers
Mahesh Tutorials	S.S.C	149
Chate Classes	SSC/CBSE/HSC /Engineering/Medical	89 (Maharashtra centric)
Sinhal Classes	SSC/ICSE/CBSE/HSC /Engineering/Medical	10 (Mumbai centric)
TIME	MBA	150
Career Launcher	MBA	130
IMS	MBA	80
Career Point	Engineering/Medical	49
FIITJEE	Engineering/Medical	35
Brilliant Tutorials	Engineering/Medical	13

Source: Companies

Success factors of Coaching Classes

- The success of any coaching class is solely determined by the success of students in passing the examination.
- Demand is price inelastic for established brands; No government regulation on charging of fees.
- Examinations like IIT-JEE or CAT keep innovating in terms of test patterns. Coaching institutes that keep providing the best preparatory tests will do well in the long run.

Current Market Size – Opportunity

Exams	Pvt Schools	Students / School	Students (8 th to 12 th Standard)	% who take coaching	Fees	Mkt Size (INR mn)	Mkt Size (USD bn)
SSC/ICSE/CBSE/HSC	75,060	1,200	30024,000	80%	12,000	288,230	6.4

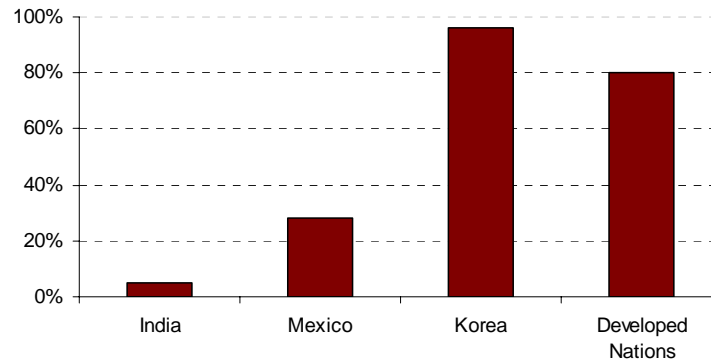
Entrance Tests	Students	% who take coaching	Fees	Mkt Size (INR mn)	Mkt Size (USD bn)
Engineering & Medicine	940,000	80%	25,000	18,800	0.4
MBA	320,000	80%	15,000	3,840	0.1

	Mkt Size (INR mn)	Mkt Size (USD bn)
Total	310,870	6.9

Source: Industry, Darashaw

Vocational Training

According to the CII Employment Report 2006 - 300 million youth will enter the labour force by 2025. According to the Modular Employment Skills (MES) initiative by the Directorate General of Employment and Training, (DGET) only about 2.5 million vocational training seats are available in the country, whereas about 12.8 million people enter the labour market every year. Only 5% of Indian labor force aged 20-24 attains vocational skills as compared to 80% in developed countries.



Source: Confederation of NGOs of Rural India

Key Players

Name	Scale
Aptech	3200 training centers across 40 countries
NIIT	Training capacity of 5 mn students across 40 countries
Jetking	Training capacity of 20000 students with 66 centers all over India

Source: Companies

Success factors of Vocational Training

- Placement is the key success factor for vocational training providers which in turn would be influenced by industry relevant courses and tie-ups with corporates.

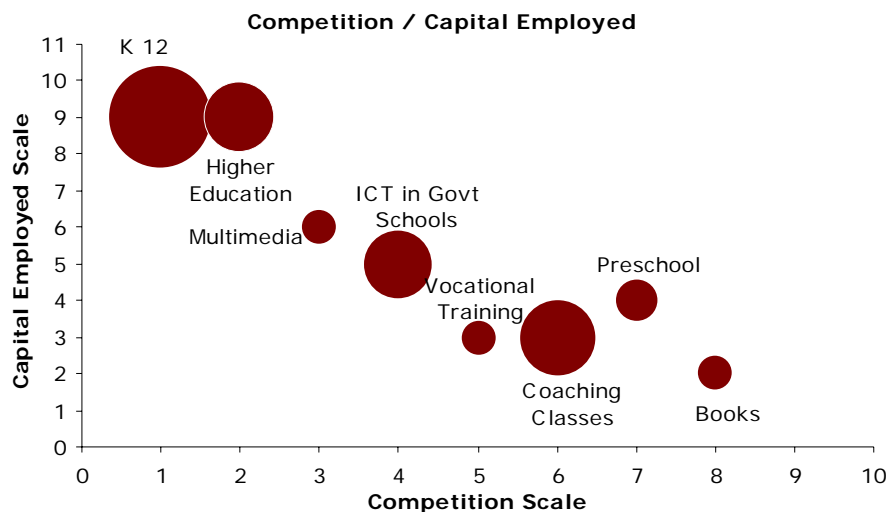
Education Sector ~ INR 1539 bn opportunity (USD 34 Bn)

	2009 Market (INR bn)	Growth	Scalability	Value	Comments
Formal					
K12	588	✓	✓	✓	Brick & Mortar model and Management model, break even period of 8-9 years for K-12 schools. Value created in the long run.
Higher Education	277	✓	✓	✓	
Non-Formal					
Pre-School	108	✓	✓	✓	Scalability through franchisee model
Multimedia	72	✓	✓	✓	High scalability, high margins
ICT in govt. schools	236	✓	✗	✗	Low financial viability
Coaching Classes	311	✓	✗	✗	Skilled people driven model
Vocational Training	-	✓	✗	✗	Fragmented
Books	-	✗	✓	✗	Low growth (high reusability)
Total	1592				

Source: Industry Estimates, Darashaw

We believe that players present in the educational multimedia segment would stand to benefit the most based on higher scalability and margins. Besides, other segments like pre-schools, K12 and higher education also look compelling but have longer gestation periods.

The below diagram expresses various educational segments scaled on the basis of (A) Capital Employment and (B) Competition. Listed companies like Educomp and Everonn have adopted the strategy of first penetrating segments requiring lesser capital like ICT in Government schools and multimedia in schools and then using cash flows from these segments to fund their expansion into high capital employing segments like K 12 and higher education.



Note- Size of the bubble indicates market size.

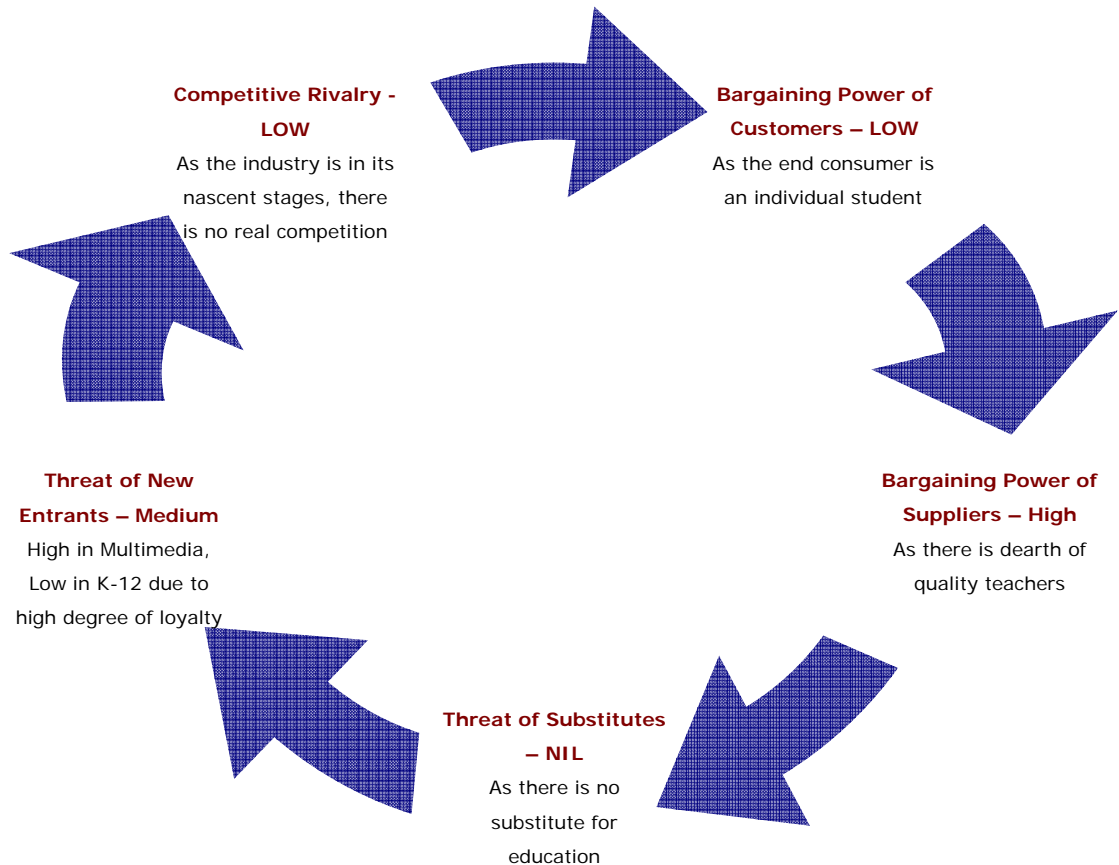
Source: Darashaw

Presence of Players across Educational segments

	K12	Higher Education	Pre School	Multimedia	ICT	Coaching/ Vocational	Books
Aptech						■	
Camlin			■				
Educomp	■	■	■	■	■	■	
Everonn			■	■	■	■	
Navneet							■
NIIT				■	■	■	

Within the listed space, we are positive on Educomp and Everonn as they are predominantly present in the educational multimedia segment and have proven their execution abilities as compared to other players who are entering various educational streams just recently. Besides, both companies are heavily investing in the K-12 segment which is expected to witness robust growth and offer good profitability and can be a significant contributor to these companies' earnings within the next two to three years.

Competitive Analysis



Rating	HOLD	
Date	4 th APR 2011	
CMP	INR 432	
Price Target	INR 446	
Upside	3%	
COMPANY DATA		
Industry	Education	
Equity (INR mn)	190	
Face Value	2	
KEY MARKET DATA		
BSE Code	532696	
BSE Group	A	
NSE Code	EDUCOMP	
Bloomberg Code	EDSL IN	
Mkt Cap. (INR Bn.)	40.4	
52 Week high/low	784 / 387	
Daily Turnover	148 mn	
SHARE HOLDING PATTERN (Dec '10)		
Promoters	50%	
MF's, FI's, Banks	2%	
FII's	37%	
Others	11%	
PRICE PERFORMANCE		
Returns (%)	Abs	Rel.*
3 Month	(21)	(16)
6 Month	(31)	(28)
12 Month	(44)	(55)
* Benchmark	Sensex	
Analyst	Jehan Bhadha	
Contact No	+91-22-43022256	
Email ID	jehan-bhadha@darashaw.com	

INVESTMENT RATIONALE

- Educomp has steadily moved up the value chain—from an ICT provider to one of the largest school chains in the country. The company has proved its execution skills and is well placed to take advantage of the new opportunities in the education sector.
- We forecast Educomp to increase its revenue at a 22% CAGR for the period FY11-15E and maintaining dominance in its key segment—multimedia course content for schools (with its smartclass brand). Educomp is the leader in this higher margin and highly scalable business segment.
- Educomp has moved to an upfront license-fee-based model for smartclass. We believe this will lower incremental capex, improve cash flow, and help the company sustain growth in the long term.
- We also expect the company to increase its presence in the K-12 schools segment. Educomp aims to increase contribution of this high margin annuity business from 12% currently to 20% by FY15E.
- We forecast a 25% EPS CAGR for the period FY11-15E and expect free cash flow to turn positive in FY11E. We derive our price target of INR 446/share by using DCF-based methodology. We assume WACC of 15.6% and our price target implies a terminal growth rate of 5%.

RISK TO OUR TARGET PRICE

- There is a lot of competition in the ICT space from smaller players leading to lower margins. ICT comprises 23% of revenue thus any slowdown in this segment shall have a bearing on the company.
- The trend of intense competition as seen in the ICT segment could emerge in the multimedia segment as well over the course of the next couple of years which could lead to lower margins.
- We believe the stock should be avoided for investment purpose owing to corporate governance issues. This is likely to impact the stock's performance.

Summary Financials

INR Mn.	Sales	YoY	EBIDTA	Margin	PAT	Margin	EPS	YoY	RoE	P/E	P/BV
FY09	6371	123%	3272	51%	1328	21%	11	86%	37%		
FY10	10395	63%	6102	59%	2743	26%	24	107%	26%	17	2.4
FY11E	13004	25%	6822	52%	3312	25%	29	21%	17%	14	2.3
FY12E	16289	25%	9284	57%	4800	29%	41	45%	20%	10	1.9
FY13E	20861	28%	11799	57%	6111	29%	53	27%	22%	8	1.6

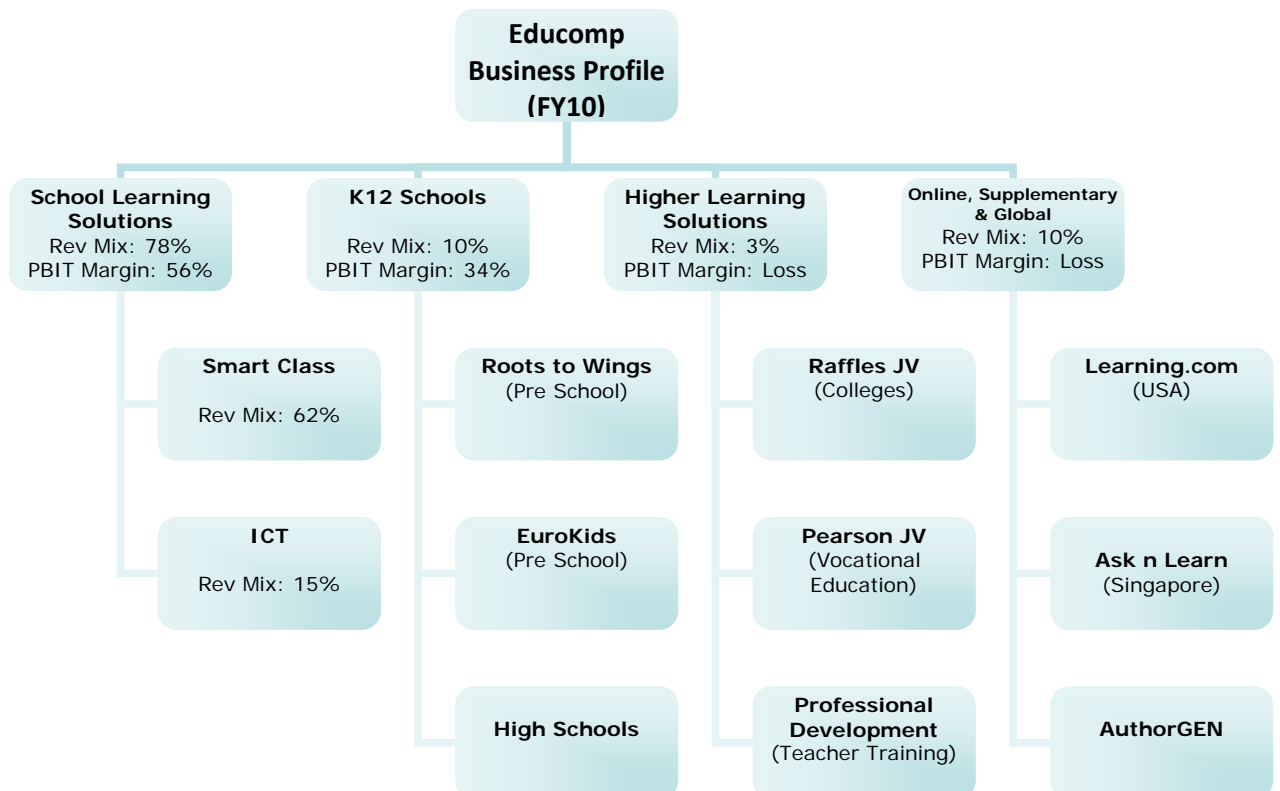
Source: Darashaw

COMPANY BACKGROUND

Set up in 1994, Educomp is India's largest provider of technology driven education solutions. Educomp enjoys a strong presence across the entire educational value chain from Kindergarten till Class 12 and extending to Vocational and Supplemental training. The company is headed by Mr. Shantanu Prakash, Chairman and Managing Director. He founded Educomp Solutions Limited in 1994, a few years after acquiring an MBA degree from the Indian Institute of Management, Ahmedabad. His vision is to transform the teaching-learning process through the use of technology and best practices.

Educomp History

1994	Started operations by setting up computer laboratories under BOOT model in government and private schools
2000	Strategic investment by Carlyle of USD 2.1m for a 15% stake
2002	Entered e-learning space with its Learning Mate division
2003	Launched smart class Content solutions
2004	Launched online tutoring for teaching mathematics to US students
2005	Carlyle exited by selling stake to promoters in return for the promoters relinquishing their stake in Learning Mate Solutions Pvt. Ltd.
2006	MathGuru.com - Online 24/7 math help program launched. Three pre-schools under the brand name Roots to Wings launched. Set up of Edu Infra and Edu Manage subsidiaries for K-12
2007	Acquisition of 100% in ASK n Learn; 51% stake in AuthorGen Technologies, Launch of 'Millennium' schools
2008	Tie-up with Ansals API for real estate for K-12, Acquired 51% stake in Learning.com, JV with Singapore-based Raffles Education
2009	JV with Pearson for vocation training



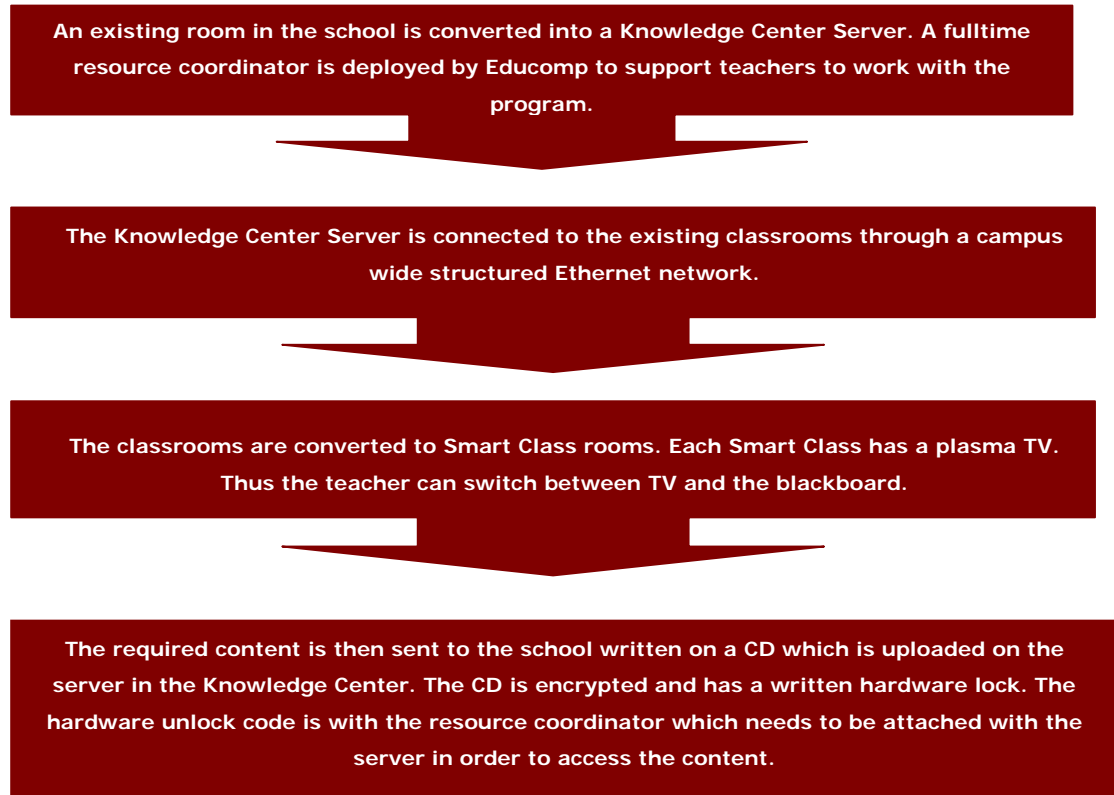
INVESTMENT RATIONALE

SMART CLASS TO DRIVE MAXIMUM VALUE AND GROWTH FOR EDUCOMP

FY10 Revenue INR 6445 mn; 62% of Consolidated Revenue

The smart class program enables teachers to use digital content modules developed using graphics and 3D animation in addition to the traditional chalk & talk methods. This results in multi-sensory learning for students, helping them improve their performance.

Mechanism



Contract terms

Educomp enters into a 5 year contract with the school and provides end-to-end solution which includes the content library, projectors, digiboards, plasma screens and servers, thus e-enabling the classroom by making digital content available on demand for teachers to use inside the classroom. Further content usage in schools is going to be perpetual, hence the same schools will come back to relicense the content after the initial contract period of 5 years, thus leading to long term sustainable revenue.

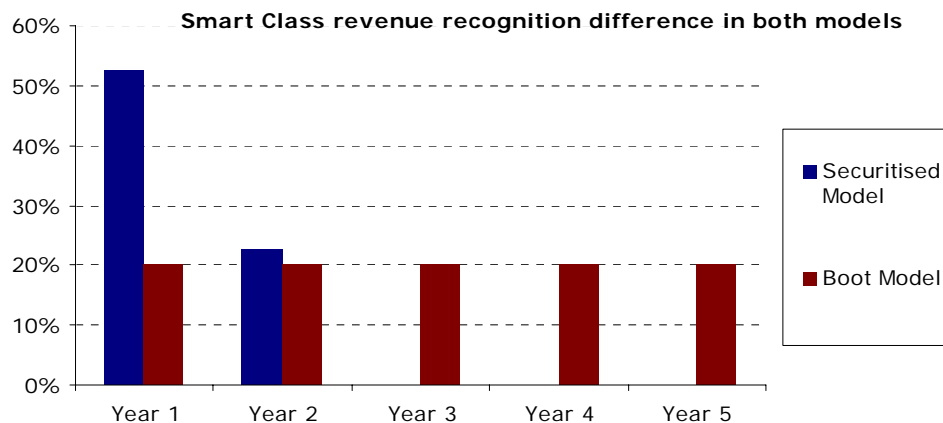
Shift from BOOT model to that of Securitization

Educomp initially provided the smart class package on a BOOT model to schools in order to test this completely new concept. However now with the concept of smart class panning out well with private schools, Educomp has adopted a new model. The key highlights of this new model are:

- Educomp will sell both hardware & content as a package to a third party vendor.
- The third party vendor will install the equipments in schools and also provide services of installing, commissioning, maintenance and servicing the customer.
- The contract with the schools will be a tripartite agreement which lays down the responsibilities of Educomp and the third party vendor.
- The third party vendor will securitize revenue streams and pay Educomp upfront for hardware and content at a discounted rate (75%).
- Effectively Educomp transitions to be a pure content and sales organization with all implementation and outsourcing now being outsourced.
- Debtors days in Smart Class have reduced from 150 days under the BOOT model to 90 days under the Securitization model.
- The third party vendor will have to collect money from schools and repay bank loans. The repayment of bank loans are guaranteed by Educomp (now at 20% from 100% at the start of this new mechanism).

Financial implications of the Securitization model

- The third party vendor will pay Educomp 75% of the value of a contract upfront i.e. over a two year period as against the earlier 5 year period. Educomp will receive 52.5% (30% hardware & 22.5% content) of contract value in year 1 and 22.5% (entire for content) of contract value in year 2.
- The lender will have recourse to Educomp’s balance sheet and the securitized amount will appear as an off balance sheet item on Educomp’s balance sheet. However recently Educomp has moved to reduce the corporate guarantee to 20%.
- Reduced risk of equity dilution due to upfront receipt of payments.
- This improved cash flow will result in higher investments in the K–12 segment which is highly capital intensive but offers operating margins of about 50% once the schools are fully utilized.



Source: Company, Darashaw

First mover advantage

Educomp was an early entrant in the multimedia course content for schools space with its successful product smart class. Educomp, with a proven product and virtually no established competition, can focus on scaling up its market share with an aggressive sales strategy. The company has increased its smart class sales force from 60 in FY07 to more than 380 at present. We believe this should help it stay ahead of its competitors, which are still at the early stages of market penetration.

Penetration in Unaided Private Schools (9M FY11)	
Educomp	5,534
Everonn	1,335
NIIT, Manipal K 12, IL & FS	3,500
Total	10,369
Total Unaided Pvt. Schools	44,400
Penetration	23%

Source: Companies, Darashaw

Visibility for the next 5 years

The management believes that once smart class penetration reaches a tipping point of 20-25% of the private schools in a city, the remaining schools would have to immediately employ smart classes so that they do not remain behind other schools which already have smart classes. The management expects to have presence in 20,000 schools by FY15/16, more than 6x its FY10 school tally of 3,077.

CONCERNS FOR SMART CLASS

Competitive Scenario may initiate pricing pressure

High upfront capital investment and the fragmented market create entry barriers for new firms, benefiting Educomp. Educomp has had a first mover advantage in smart class and has been able to move quickly to establish itself in schools. Though margins are attractive in smart class, with no strong barriers to entry we expect competition. Competition has already eroded margins significantly in ICT. Thus newer entrants like Manipal K 12 (earlier Edurite), and Hurix/HCL Infosystems will intensify competition. Further, contracts in smart class are typically for five years and come up for renewal thereafter (a major chunk would come up for renewal in FY12 for Educomp). If renewal rates are lower than expected, Educomp would have to reduce the margins in line with the market scenario at that time.

Corporate guarantor for the third party vendor

Owing to investor concerns of the 100% corporate guarantee it has moved to reduce the corporate guarantee to 20% with the recently announced agreement with ICICI Bank in Oct 2010. However, in case of a potential default by the third party vendor, banks are likely to turn to Educomp to fund the shortfall and thus investor's concerns still stand unaddressed.

Change in Curriculum

A sudden change in curriculum could lead Educomp's content library to become obsolete. However the change even if it occurs, would only have nominal impact as the core subject content would remain more or less the same.

The smart class segment contributed 62% to Educomp's revenue in FY10. We expect this segment to continue to maintain its share even five years down the line. We also expect the segmental profit margin to decline from current levels of 60% to 55% in FY13E as competition intensifies.

ICT GROWTH TO MODERATE

(FY10 Revenue INR 1584 mn; 15% of Consolidated Revenue)

Opportunity & Competitive Scenario

The cabinet committee has recently declared that it intends to bring in 1.08 Lac government schools under the ICT program and has earmarked INR 69 bn for the same. This initiative will benefit 150 mn students.

The main competitors of Educomp are NIIT, Compucom Software and Everonn. The orders awarded are always divided between 2 to 3 players and hence there is no danger of a monopoly kind of a situation.

Schools	In Lacs
Upper Primary	3.1
Secondary	1.7
Total Schools	4.75
(-) Pvt Schools	0.75
Govt Schools	4.00

	9M FY11
Educomp	13,814
NIIT	14,637
Everonn	6,628
Compucom	7,632
Others	20,700
Penetration	63,411

Source: Companies, Darashaw

With penetration levels at just 16%, ICT segment has significant scope for growth

- Most of the ICT contracts require the vendor to make upfront investments which makes this segment unattractive. Combined with this, the segmental margins are low at around 18% which seems far lower than those enjoyed by other segments like smart class and K–12 schools.
- Educomp thus intends to selectively bid for contracts where the government out rightly buys the hardware and thus Educomp would not be required to invest initially and collect revenue like in a BOOT model.
- **The ICT segment formed 15% of revenue in FY10. We expect its share to decline to 6% by FY13E as Educomp would concentrate more towards other attractive segments with better scalability and margins.**

K-12 SEGMENT TO GROW SIGNIFICANTLY FROM HERE ON
(FY10 Revenue INR 980 mn; 10% of Consolidated Revenue)

Pre-schools

Educomp operates pre-schools under 2 brands: Roots to Wings and EuroKids. Under Roots to Wings, it has 220 franchisees and under EuroKids it has 575 franchisees along with 28 owned pre-schools. Educomp had acquired a 50% stake in EuroKids International for INR 390 mn in FY09. Launched in 2001, EuroKids is a leading provider of pre-school education in India, both in terms of the number of pre-schools it operates and the number of students it serves. We expect the preschool business to act as feeder into the school business.

High Schools

Educomp through its subsidiary – Educomp Infra provides the entire package of education infrastructure to independent trusts running schools. This comprises of features like – land and building on a 30 year term lease, the Millennium Learning system, teacher training programs, online content and the Smartclass. Educomp currently has 50 schools operating under various brand names (Millennium, Takshila, Vidya Prabhat) and will be adding another 31 schools by FY12. Of these 50 schools, 11 are Euro Schools where Educomp holds a 50% stake.

School Business Dynamics

- Assured annuity revenue till perpetuity and lock-in of customers for 15 years (3 years in Pre-School and 12 years in school)
- High return on capital employed in the range of 40%
- Recession proof business with no volatility
- Negative Working Capital
- High demand supply gap ensures high capacity utilization in all schools
- High willingness in Indian middle class to pay for good education
- With high growth rates in the country and rising disposable income of middle class parents, there is a high propensity to pay for quality education

Concerns –

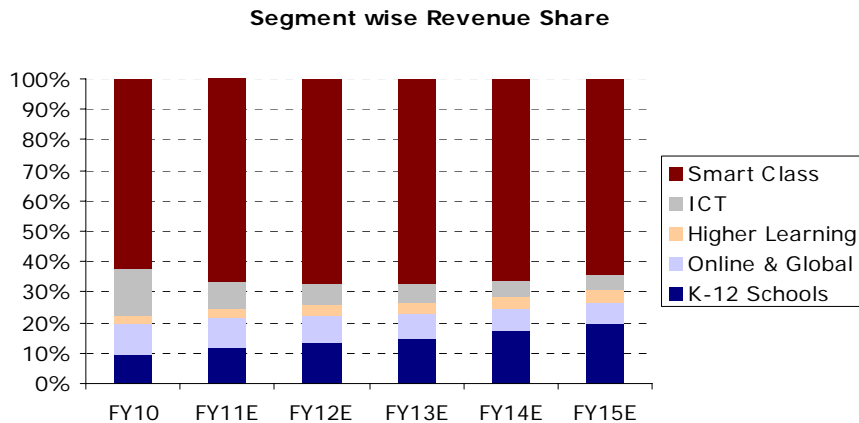
Ramp-up behind schedule

At the beginning of Educomp's K-12 operations in FY09, it had set a target of operating 100 schools by FY10. However the company could manage to operate only 43 schools as on FY10. The management has now targeted to operate 150 schools by FY13 which we feel will prove to be a tough act to execute given the slow ramp-up over the past couple of years.

Regulation on School Fees

Most private education companies, including Educomp, act as service providers to a non-profit 'trust' which collects fees and pays its service providers. There is no regulation on school fees at present, but any imposed ceiling could impact profitability of Educomp.

Revenue share to increase



Source: Darashaw

The share of K–12 segment is set to increase from 10% in FY10 to 20% over the next 5 years and will thus become the second largest revenue and profit contributor after the smart class segment.

HIGHER LEARNING SOLUTIONS ~ YET IN INVESTMENT MODE

(FY10 Revenue INR 290 mn; 3% of Consolidated Revenue)

JV with Raffles

Educomp entered into a 50:50 JV with Raffles in order to set up Raffles Millennium International centers that offer Raffles and Educomp branded higher education and courses in India. There are currently 7 Raffles Millennium International colleges all in a different metro city. Raffles Millennium International is a design training institute offering world class professional courses in creative arts, design, lifestyle and business management.

- The JV has launched MBA program (2 years course) with Bhartiya University in 2 colleges (Delhi and Bangalore).
- It has also received AICTE approval to launch Engineering & PGDM programs.
- 1st session of Engineering and PGDM batches expected to start in July/August 2011

JV with Pearson: IndiaCan

To tap the huge opportunities that are available in Vocational business segment, Educomp has entered into a 50:50 JV with Pearson plc, an International Education and Information company. The JV aims at delivering a full span of world class training, assessment and accreditation across a variety of skills and industries.

The JV has moved ahead and has had the following developments:

- Entered into an agreement to train 2,000 TranSmart employees over next 3 years as per international standards and prepare them for BTEC qualification.
- Won the Punjab Edusat project to execute 80 episodes on Soft Skills & Spoken English for Grade 9-10.
- Various government projects worth INR 200 mn in hand.

Professional Development

This segment primarily involves upgrading teacher skills and training to integrate technology into the school curriculum as well as training in skills in areas of inquiry based learning, creative thinking, and building problem solving skills among students and communication & assessment strategies

Higher Learning Solutions segment yet being in the investment mode will continue to show poor progress on the profitability front. We expect this segment to post an EBIT loss of INR 229 mn for FY11E. The segment would continue to command a revenue share of 3-4% over the next 5 years.

ONLINE, SUPPLEMENTAL & GLOBAL ~ YET IN INVESTMENT MODE *(FY10 Revenue INR 1030 mn; 10% of Consolidated Revenue)*

Learning.com (70% revenue share within this segment)

Learning.com is the premier provider of web delivered curriculum and assessment, and partners with schools and districts throughout the United States of America to improve student learning outcomes. Through learning.com Educomp offers learning solutions like EasyTech, Techliteracy Assessment, Aha!math, Aha!Science

Asknlearn (26% revenue share within this segment)

Founded in 2000, AsknLearn is Singapore's largest e-learning company which provides web based e-learning solutions, content and services to over 130 institutions.

Authorgen

Authorgen provides intuitive and usable E-learning software and Web services making it easy for PowerPoint presentation authors, instructors, teachers and other knowledge workers to create and deliver rich multimedia content and knowledge via the Internet.

We expect this segment to post an EBIT loss of INR 120 mn in FY11E as businesses in this segment are also in the investment mode. Its revenue share is expected to remain at the current level of 9-10% over the next 2-3 years.

VALUATION

We have valued Educomp on DCF basis as we feel that changes made in Educomp's revenue recognition due to the securitization model leads to frontloading of revenue which in subsequent years wont allow us to compare revenue on a year on year basis as the lower number of school addition in a particular year than the previous year would result in a decline in revenue and thereby will not allow us to rightly use the Price Earnings to Growth approach. Our DCF value for Educomp is at INR 446/share. We have assumed a growth rate of 12% for the period FY16-20E and 5% as terminal growth rate. ROIC assumed for the period FY16-20E is 20% with WACC at 15.6%. At our fair value of INR 446, Educomp will discount its FY12E EPS of INR 41 by 11x.

Profit & Loss	FY09	FY10	FY11 E	FY12 E	FY13 E
Net Sales	6371	10395	13004	16289	20861
Change in stock	0	0	0	0	0
VoP	6,371	10,395	13,004	16,289	20,861
Other operating inc	227	1,255	345	345	345
Income	6,598	11,650	13,349	16,635	21,206
Expenditure	3326	5549	6529	7353	9411
Raw Materials	1110	1603	1609	1190	1519
Manufacturing	0	1	2	3	4
Employee	1155	1793	2243	2810	3598
Other Exp	1061	2152	2675	3350	4290
EBIDTA	3,272	6,101	6,820	9,281	11,795
Depreciation	814	1142	1349	1956	2475
EBIT	2,457	4,959	5,472	7,325	9,320
Interest	268	539	381	0	0
Non-Operating income	0	4	0	0	0
Extra-ordinary income	0	0	0	0	0
Extra-ordinary exp	0	0	0	0	0
PBT	2,189	4,424	5,090	7,325	9,320
Tax	785	1,613	1,748	2,492	3,170
PAT	1,404	2,810	3,342	4,834	6,150
Adj. PAT	1,328	2,743	3,312	4,800	6,111
Adj. EPS	11	24	29	41	53

Balance Sheet	FY09	FY10	FY11 E	FY12 E	FY13 E
Equity	173	190	232	232	232
Reserves & Surplus	4033	16285	20834	25002	30306
Networth	4206	16475	21066	25234	30538
Debt	8895	10478	3285	550	0
Minority Interest	804	1915	1947	1984	2026
Sources of Funds	13905	28867	26297	27768	32564
Application of Funds	13902	28871	26297	27768	32564
Gross Fixed Assets	7724	14998	21586	26042	31016
Less Acc. Depreciation	1335	1050	2399	4355	6830
Net Fixed Assets	6389	13948	19187	21687	24187
Capital WIP	3308	2739	0	0	0
Investments	729	354	354	354	354
Inventories	316	368	0	0	0
Debtors	2797	5751	6070	7548	9318
Cash	1902	7887	4649	3021	4832
Loans & Advances	1138	1810	2264	2836	3632
Current Assets	6153	15815	12984	13404	17782
Current Liabilities	1995	2290	4067	4605	5891
Provisions	256	1673	1989	2835	3608
Current Liabilities & Prov	2251	3963	6056	7440	9499
Non-Current Liabilities	439	22	171	238	261
Misc. Expenditure	13	0	0	0	0

Source: Darashaw

Ratios	FY09	FY10	FY11 E	FY12 E	FY13 E	FCFF	FY09	FY10	FY11 E	FY12 E	FY13 E
Sales Growth	123%	63%	25%	25%	28%	EBIT	2457	4960	5474	7328	9324
Income Growth	117%	77%	15%	25%	27%	Less Adj. Taxes	881	1808	1879	2492	3170
EBIDTA Growth	125%	87%	12%	36%	27%	NOPLAT	1576	3151	3594	4837	6154
Adj. PAT Growth	86%	107%	21%	45%	27%	Inc / (Dec) in WC	1,204	2,937	871	(963)	708
EPS Growth	86%	107%	21%	45%	27%	Operating Cash Flow	371	214	2723	5799	5445
Raw Materials	17%	15%	12%	7%	7%	Inc / Dec in other op assets	(218)	404	(148)	(67)	(23)
Manufacturing	0%	0%	0%	0%	0%	Net Capex	5194	2934	2352	2433	2477
Employee	18%	17%	17%	17%	17%	Net Investment	6399	5871	3223	1470	3186
Other Exp	17%	21%	21%	21%	21%	Free Cash Flow to Firm	(4823)	(2720)	372	3366	2968
EBIDTA margin	51%	59%	52%	57%	57%	Non-Operating cash flow	0	3	0	0	0
Depreciation rate	10%	11%	11%	11%	11%	Cash flow to investors	(4823)	(2717)	372	3366	2968
EBIT margin	37%	43%	41%	44%	44%	Financing Cash Flow	(4823)	(2717)	372	3366	2968
Other income to NoA	0%	0%	0%	0%	0%	Dividend (adj for inc/dec in prov)	52	108	270	462	668
Other income to PBT	0%	0%	0%	0%	0%	Equity buyback/(issue)	(98)	(10834)	(1709)	0	0
Tax Rate	36%	36%	34%	34%	34%	After-tax Interest	172	342	250	0	0
Pat Margin	22%	27%	26%	30%	29%	Debt Repayment/(issue)	(3732)	4237	7483	2945	730
Adj. Pat Margin	21%	26%	25%	29%	29%	Inc/(Dec) in Non-op Investments	692	(375)	0	0	0
EBIDTA / Income	51%	59%	52%	57%	57%	Inc/(Dec) in Excess Cash	(1300)	4914	(5887)	0	1610
Income / Avg. Net Assets	5.5	6.8	6.4	6.7	7.5	Inc/(Dec) in Non-op L&A	(611)	(1111)	(32)	(37)	(42)
PAT / EBIDTA	41%	45%	49%	52%	52%						
Avg. Net Assets / Average Equity	19%	16%	16%	15%	14%						
Dupont RoE	37%	26%	17%	20%	22%						
RoE	37%	26%	17%	20%	22%						
RoCE (Operating)	19%	18%	15%	18%	21%						

Source: Darashaw

VALUATIONS

Risk Free Rate	8.0%	Explicit Period				
Risk Premium	8.0%	No of Years	5	Discounted Explicit Value	10412	21%
Beta	1.12	Growth Rate	25%	Discounted Terminal value	36038	73%
Cost of Equity	17.0%	RoE	20%	Operating Value	46450	94%
		Discounted Value	10412	Non-Operating invst	2631	6%
Post Tax Cost of Debt	9.8%			Firm Value	49081	100%
		First Stage		Debt & PV of NCL	4895	
Value of Equity	44204	No of Years	5	Equity Value 31-Mar-2011	44185	
Value of Debt	10478	Growth Rate	12%	Equity Vaue Today	44204	
Total	54682	RoIC	20%	Value per share Today	382	
		Value	12549	Value per share 31-Mar 2012	446	
WACC	15.6%					
		Second Stage				
NOPLAT +1	9498	No of Years	going concern			
NOPLAT +1 Growth	12%	Growth Rate	5%			
		RoIC	17.6%			
		Value	56608			

Source: Darashaw

Note –

We have increased the risk premium from our normal level of 6% to 8% for Educomp as the company has had issues with corporate governance and which has in the past led to underperformance of the stock.

Rating	BUY	
Date	4 th APR 2011	
CMP	INR 569	
Price Target	INR 737	
Upside	30%	
COMPANY DATA		
Industry	Education	
Equity (INR mn)	200	
Face Value	10	
KEY MARKET DATA		
BSE Code	532876	
BSE Group	A	
NSE Code	EVERONN	
Bloomberg Code	ESIL IN	
Mkt Cap. (INR bn.)	10.8	
52 Week high/low	756 / 334	
Turnover (Daily)	212 mn	
SHARE HOLDING PATTERN (Dec 10)		
Promoters	43%	
MFs, FIs, Banks	6%	
FIIIs	30%	
Others	22%	
PRICE PERFORMANCE		
Returns (%)	Abs	Rel.*
3 Month	(8)	(3)
6 Month	(18)	(15)
12 Month	55	44
* Benchmark	Sensex	
Analyst	Jehan Bhadha	
Contact No	+91-22-43022256	
Email ID	jehan-bhadha@darashaw.com	

INVESTMENT RATIONALE

- Everonn is a proxy play on India's education sector. Over the last couple of years, the company has shifted its focus from the government's ICT business towards developing and implementing content in schools and providing e-learning in colleges. Going ahead Everonn envisages facilitating and managing all sections of education.
- The company's major portion of revenue constitutes of implementation of content in schools and providing e-learning in colleges which are at a nascent stage and the company ranks among the top two in providing multimedia in school business and first in college business. Currently we do not see severe competition from other recognized players in the school and college businesses owing to extreme under-penetration of multimedia usage in schools and expect Everonn to capitalize on its early mover advantage in this field.
- The company is initiating steps to be present in all segments of the education spectrum from Pre-schools to B-schools which will open additional revenue streams over the coming years. The company proposes to open up 300 K-12 schools by FY15E.
- We expect the company's earnings to grow at a CAGR of 24% for the two year period FY11-13E. Our Fair Value for FY12E is INR 737 which discounts its FY12 EPS of INR 49 by 15x. At the CMP, we believe the company offers an exciting opportunity to participate in the fast growing Indian Education sector.

RISK TO OUR TARGET PRICE

- There is a lot of competition in the ICT space from smaller players leading to lower margins. ICT comprises 24% of revenue thus any slowdown in this segment shall have a bearing on the company.
- The trend of intense competition as seen in the ICT segment could emerge in the multimedia segment as well over the course of the next couple of years which could lead to lower margins.

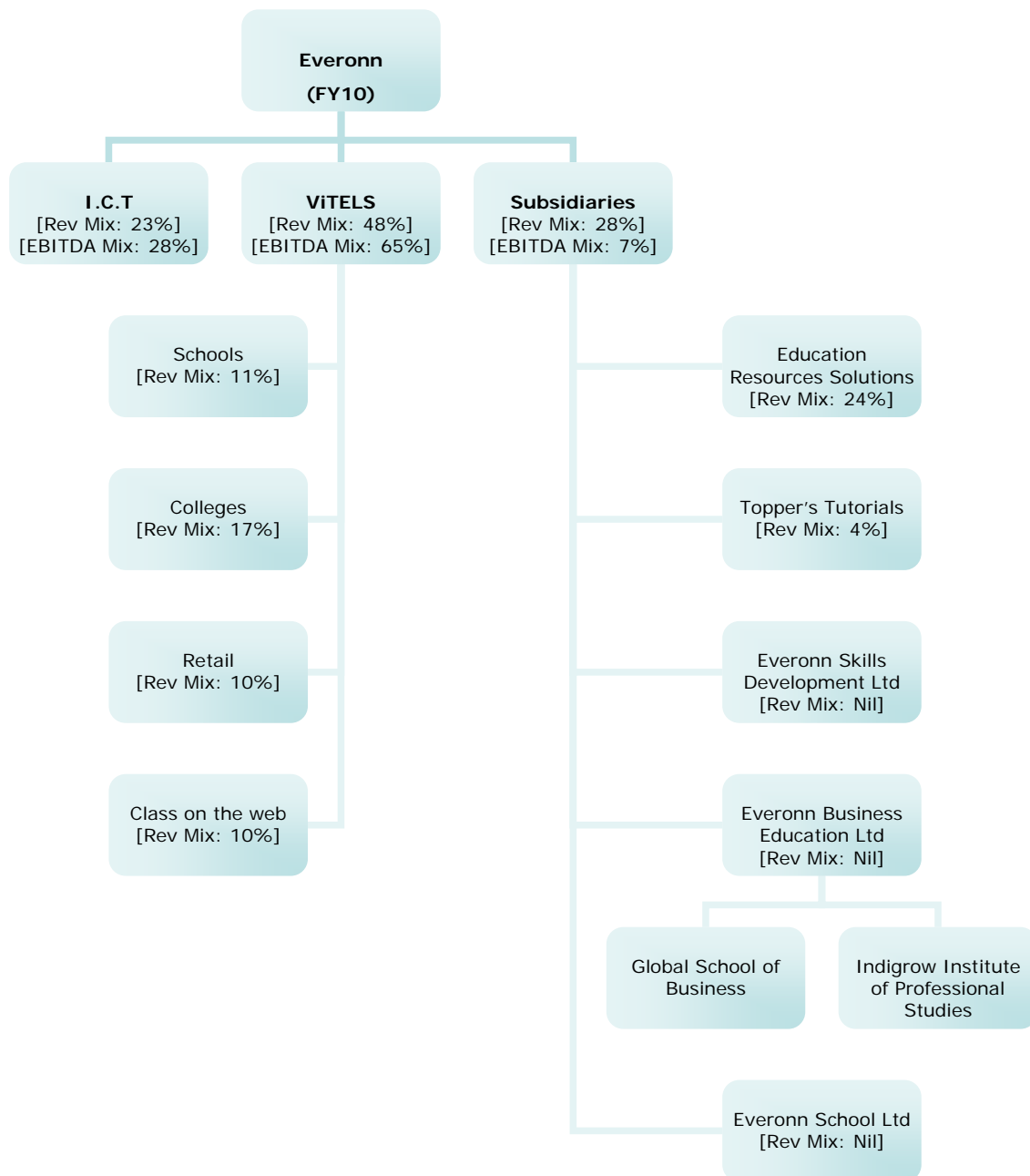
Summary Financials

INR Mn.	Sales	YoY	EBIDTA	Margin	PAT	Margin	EPS	YoY	RoE	P/E	P/BV
FY09	1447	58%	512	35%	182	13%	9	48%	12%		
FY10	2935	103%	1049	36%	545	19%	27	200%	23%	21	3.2
FY11E	4278	46%	1710	40%	767	18%	38	41%	25%	15	3.0
FY12E	5365	25%	2145	40%	982	18%	49	28%	19%	12	1.6
FY13E	6499	21%	2560	39%	1179	18%	59	20%	16%	10	1.4

Source: Darashaw

COMPANY BACKGROUND

Mr. P Kishore (M.D) was closely involved in implementing computer literacy projects in the Nilgiri District of T.N since 1987. The experience gained by Mr. Kishore enabled him to recognize computer's growing power and relevance in enhancing and aiding the educational process right from the formative years of schooling. Everonn first set up computer centers in residential schools of T.N under the BOOT model at a time when computers had just come into the market. The success of the program enabled Everonn to take this education model across government schools in T.N and other states in India. Since 1999, the state governments have been offering state wide tenders to companies to set up and impart computer education across government schools. The state government of T.N was a pioneer of this model and Everonn received its first government contract to set up IT Infrastructure and impart IT Education in 17 government Higher Secondary Schools in 1999 and 332 schools in the year 2000 across all 30 districts in T.N.



INVESTMENT RATIONALE

ICT – MANAGEMNT TO FOCUS ONLY ON SELECT ICT PROJECTS

(FY10 Revenue INR 690 mn; 24% of Consolidated Revenue)

Typical Contract Terms

- Infrastructure is installed within 30 days of signing the contract with the Government.
- The contract is usually under BOOT model typically for 5 years, meaning the assets are on the books of the company for the contract period and then transferred to the institution at a nominal residual value.
- Everonn is usually paid on a quarterly or half yearly basis.
- Provision of two teachers by the company.
- Cumulative revenue is 5-6x the investment amount with EBITDA margins of 42-46%.
- For securing a tender, company has to be a L1 bidder and technical criteria include experience in ICT business. This technical requirement is a significant entry barrier.
- Payback period works out to 3 ½ years.

Opportunity

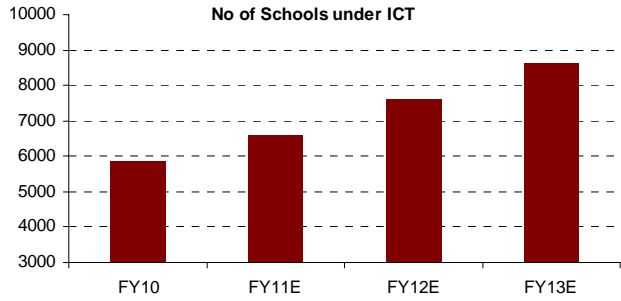
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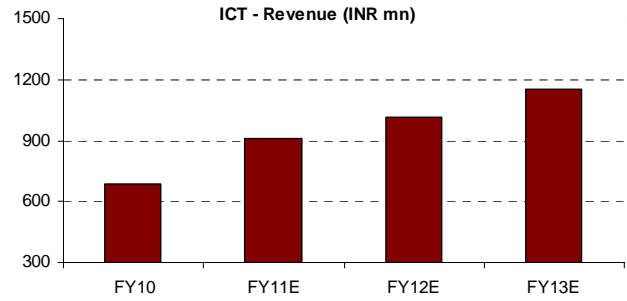
Source: Companies, Darashaw

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- Most of the ICT contracts require the vendor to make upfront investments which makes this segment unattractive. Combined with this, the segmental margins are low at around 18% which seems far lower than those enjoyed by other segments like multimedia in schools and colleges.
- Everonn intends to selectively bid for contracts where the government out-rightly buys the hardware and thus Everonn would not be required to invest initially and collect revenue like in a BOOT model.
- Everonn intends to restrict annual school addition to 2,500 in this business even if there are larger business opportunities. Company does not want to bid too aggressively in this segment going ahead. The high capex intensity, lower profitability and long receivable cycle make this segment less preferred over VITELS, the largest business segment.
- **The ICT segment formed 24% of revenue in FY10. We expect its share to decline to 18% by FY13E as the company will be focusing more on other profitable businesses.**



Source: Darashaw



Source: Darashaw

Competitive Scenario

The main competitors of Everonn are Educomp, NIIT and Compucom Software. The orders awarded are always divided between 2 to 3 players and hence there is no danger of a monopoly kind of a situation.

VITELS (Virtual & Technology Enabled Learning Solutions)

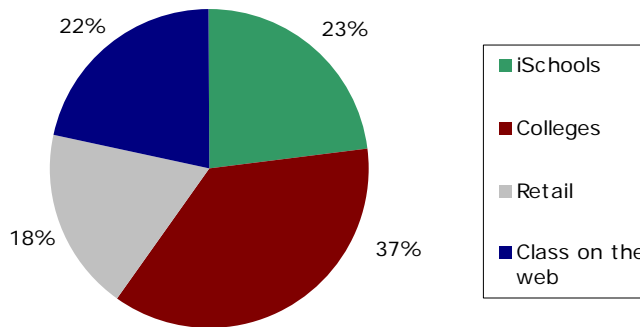
(FY10 Revenue INR 1417 mn; 48% of Consolidated Revenue)

VITELS is Everonn's unique and superior business offering whereby the company uses VSAT (very small aperture terminal) technology to deliver lectures by well-trained faculties from studios located remotely directly into the classrooms of schools and colleges and retail learning centers. The instructor and students are always visible to each other and interactions are as instant as in a regular classroom. Everonn has 7 studios in Chennai through which the teachers deliver lectures to students sitting in remote classrooms across schools and colleges.

The VITELS segment includes

1. iSchools
2. Colleges
3. Retail Centers
4. Class on the Web – an online learning portal

VITELS Revenue Mix (FY10 Revenue: INR 1417 mn)



Since Content is the key differentiator in the above mentioned businesses, Everonn has a separate division called Knowledge Resource Development and Research that does research and develops content for various courses. The instructional material is generated after a long process of research by experienced educationalists, research associates, faculty, content developers and animators. Everonn's content development team is spearheaded by 6 doctorates and comprises 100+ in-house content developers and 200+ independent expert contributors. Further, company's association with premier universities and institutions also helps in developing relevant content.

iSCHOOLS ~ KEY GROWTH DRIVER

(FY10 Revenue INR 319 mn; 11% of Consolidated Revenue)

In iSchool offering, Everonn converts a normal school classroom into a technology enabled virtual classroom by equipping it with interactive whiteboards, LCD projector, computer and remote studio connectivity via VSAT. Digital content mapped to the curriculum needs is hosted on the school server which could be accessed in the classroom by various school teachers for enhanced and interactive delivery of education to students. The school teachers are trained to use the infrastructure and the multimedia content as powerful tools. Though about 90% of the lectures are provided by school teachers, the VSAT facility is seldom used to deliver lectures on complicated topics by Everonn faculties from remote studios. Everonn currently has curriculum content only for CBSE schools from Standard IV to XII. Everonn has spent around INR 100 mn. on developing the content.

Contracts have high scalability with high margins

iSchool contracts are executed on BOOT basis and have an average period of five years. The capex of setting up a technology enabled virtual classroom is about INR 1.5 Lac including VSAT. The school is charged upfront INR 3.75 Lac for sharing of content and the right for its unlimited usage. Additional revenues to the tune of INR 6 Lac / classroom for a 5 year contract, is billed monthly (INR 10,000/month) over the period of the contract. For additions of classrooms in existing schools, only recurring revenues are charged. With no major recurring expenses apart from the marginal cost of a stationed resource coordinator who ensures smooth functioning, Everonn realizes an EBITDA margin of 60% plus in this business. As the implementation/roll-out time per classroom is short, this business also becomes quickly scalable.

iSchool Model

Initial Capex	150000	for LCD, Digiboards, VSAT connectivity				
Debt	150000	Interest Rate 13%				
BOOT Model	5	years				
Revenue	600,000	4x the Investment				
Payback Period	Instant					
Years	1	2	3	4	5	Total
Revenue - Content	375000					375000
Revenue / Classroom	120000	120000	120000	120000	120000	600000
Rev Total	495000	120000	120000	120000	120000	975000
Salary Cost	60000	60000	60000	60000	60000	300000
EBITDA	435000	60000	60000	60000	60000	675000
Margin	88%	50%	50%	50%	50%	69%
Depreciation	30000	30000	30000	30000	30000	150000
EBIT	405000	30000	30000	30000	30000	525000
Interest	19500	19500	19500	19500	19500	97500
PBT	385500	10500	10500	10500	10500	427500
Tax at 35%	134925	3675	3675	3675	3675	149625
PAT	250575	6825	6825	6825	6825	277875
Margin	51%	6%	6%	6%	6%	29%
Post Tax Cash Flow	300075	56325	56325	56325	56325	525375
PV of Cash Flow	249811	46890	41496	36722	32497	407417
Net Investment						150000
NPV						257417

Source: Company, Darashaw

The average classes/school for Everonn is 2.9 which has increased from 1.7 a year back. It is totally dependent on a particular school to deploy the content in the number of classes it wants. In case a school adopts a single classroom, it will have to prioritize its students in utilizing the classroom as the school would have to purchase the content from Class IV to XII as a package anyway. We believe that the multimedia segment is best placed to capture the opportunity in the education sector as it is directly influenced by the increase in private consumption expenditure on education. Further, the higher scalability, margins and upfront receipt of capital costs make this segment the most attractive within the education sector.

Opportunity

The current base of multimedia schools is around 10,000 with potential schools at 44400, we anticipate exponential growth over the next 3-4 years.

Penetration in Unaided Private Schools (9M FY11)	
Educomp	5,534
Everonn	1,335
NIIT, Edurite, IL & FS	3,500
Total	10,369
Total Unaided Pvt. Schools	44,400
Penetration	23%

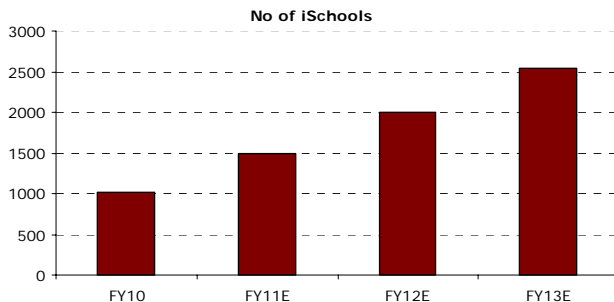
Source: Companies, Darashaw

Seasonality in business

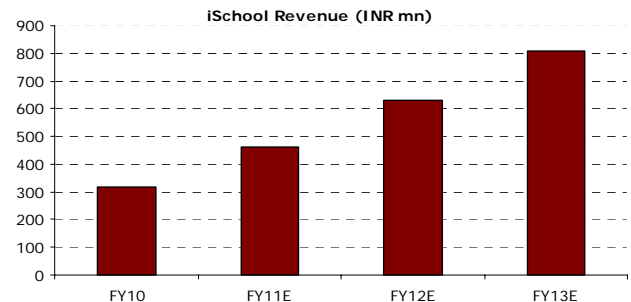
iSchool business has inherent seasonality which is reflected in its quarterly revenues. The first quarter of a fiscal is the weakest in the year as it coincides with summer vacations of schools. This leads to low new school addition in this quarter and therefore sequentially lower revenues. New classroom/school addition picks-up from second quarter and peak out in the last quarter of the fiscal.

Competition

Educomp is the biggest competitor in this segment with 5,534 schools under its coverage as on Dec 2010. We do not see Everonn facing any competition from others as this segment is expected to show robust growth over the next few years owing to low penetration levels.



Source: Darashaw



Source: Darashaw

We expect iSchool revenues to witness a 33% CAGR over FY11-13E and will continue to constitute 12% of revenue in FY13E as is the case currently.

COLLEGES ~ TO MAINTAIN MOMENTUM

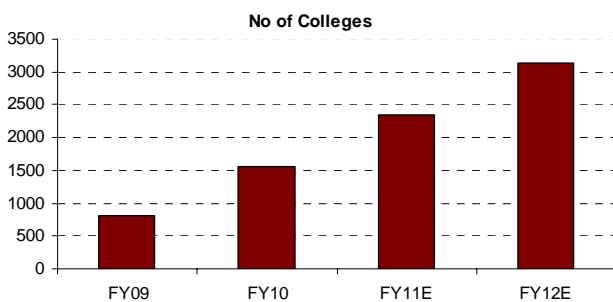
(FY10 Revenue INR 507 mn; 17% of Consolidated Revenue)

This business is similar to iSchools with Everonn converting a college classroom into a technology-equipped virtual classroom. The capex and technology is same as that in iSchools. Through such classrooms company offers a wide range of job oriented and industry specific programs to the college students. The key focus is to bridge the widening gap between student skill sets and industry requirements.

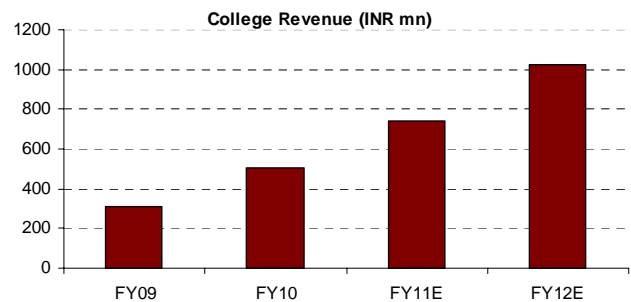
The various courses offered by Everonn can be categorized into

- (1) Skill enhancement – like Communication and Personality Training and English speaking
- (2) Career oriented courses – In I.T and BFSI.

Depending upon the course chosen, college students are charged in the range of INR 1000-20000/course. As on Q3 FY11, Everonn has presence in 1,875 private colleges across variety of streams including Arts, Science, Engineering, Management, Medical, Pharma and Hotel Management. The key difference as compared to iSchool is that all courses are conducted by the Everonn faculties via VSAT as compared to only some lectures (10%) in iSchools. Everonn is now aiming to sign up universities in bulk and not trying to put serious effort in going to individual colleges separately.



Source: Darashaw



Source: Darashaw

We expect college revenues to register 21% CAGR over FY11-13E on the back of a similar increase in number of colleges. This segment would contribute 15% of the revenue by FY13E, similar to its current contribution.

KOMPASS – RETAIL LEARNING CENTERS

(FY10 Revenue INR 291 mn; 10% of Consolidated Revenue)

Everonn offers the following services through its retail learning centers:

- Testing services – ETS, Prometric, Pearson Vue, etc
- Training services – Oracle, Diploma in Banking & Finance, TOEFL and IELTS
- Admission counseling services – Services for students aspiring to study abroad

The target segment in this business includes individual learners and corporates. Company's corporate clientele includes Tata Consultancy Services, MindTree, L&T InfoTech, HCL, Polaris, Infosys, Tech Mahindra, Wipro and Syntel. Presently, company has 49 retail centers across India. As capacity utilization (revenue productivity) of the existing centers is low, company intends to add limited centers in next few years.

This segment posted revenue of INR 291 mn in FY10. We expect revenues in this business to record a 24% CAGR over FY11-13E. This business is likely to comprise 15% of revenue in FY13E similar to its current contribution.

CLASS ON THE WEB – ONLINE LEARNING PORTAL

(FY10 Revenue INR 300 mn; 10% of Consolidated Revenue)

Classontheweb.com is a comprehensive learning portal for school students offering online interactive content completely mapped to school curriculums. This portal came along with the acquisition of e-learning division of Aban Informatics in January 2008. Since acquisition, it has evolved to become an online academic & information hub for students with increase in registered user base from ~30,000 to 200,000+.

Some prominent features of the portal include

1. Digitized content and high quality animations with voiceover scripting developed by subject experts.
2. Hosts interactive features like student communities, blogs, discussion forums and video lessons of theory and practical sessions.
3. Customized question paper generation tool.

This segment contributed INR 300 mn to revenue in FY10. We expect this segment to grow at 16% CAGR over FY11-13E and constitute 7% of revenue.

SUBSIDIARIES

EVERONN EDUCATION RESOURCES (EDURES)

(FY10 Revenue INR 698 mn; 24% of Consolidated Revenue)

Edures is in the business of supplying educational materials and IT products like books and PCs. Everonn incorporated this subsidiary during FY09 to take advantage of the company's access to a large number of schools and colleges across ViTELS. Being essentially a trading business, EBITDA margins are low in the range of 6-7%. However, this business is likely to generate significant top-line for the company over the next few years given the substantial increase in school and college base of the company. We estimate this business to contribute about 29% of revenue in FY13E from 26% currently, growing at a CAGR of 30%.

TOPPERS TUTORIALS PVT LTD

(FY10 Revenue INR 131 mn; 4% of Consolidated Revenue)

In February 2008, Everonn acquired 100% stake in Toppers Tutorial (having 15 centers), a leading Patna-based IIT entrance coaching company for INR 10 mn. With this acquisition, Everonn added content repository and blended delivery for entrance exam coaching for IIT-JEE and AIEEE. The programs are delivered through 3 models – Retail Centers, Correspondence Programs and Schools Programme. Everonn has been significantly investing in this venture since acquisition. Toppers contributed INR 131 mn revenue in FY10. We estimate Toppers revenue to register a CAGR of 16% over FY11-13E.

We have no factored any contribution from the below mentioned subsidiaries in our forecasts

EVERONN SKILLS DEVELOPMENT LTD

(FY10 Revenue- NIL)

Under this subsidiary, Everonn offers vocational courses like hospitality, animation, retail, apparel, fabrication, etc. Everonn has partnered with IGNOU (Indira Gandhi National Open University) for certifying all these courses.

EVERONN BUSINESS EDUCATION LTD

(FY10 Revenue- NIL)

Everonn proposes to provide business management education under this subsidiary which will be certified by Manonmani Sundaranar University. Everonn has formed an esteemed governing body for this project which consists of Directors and Deans from reputed institutes like IIM Indore, XLRI (Jamshedpur), MICA (Ahmedabad), Georgia State University (USA), University of Cincinnati (USA), Asia Pacific International College (Australia) and a few others as well. Everonn has bought ICFAI's 65 Business Schools which are yet to commence operations for an undisclosed amount.

This subsidiary will offer business education through two brands:

Brand	GSB (Global School of Business)	IIPS (Indigrow Institute of Professional Services)
Course Offerings	PGPM / MBA	MBA, MBA in Retail, Executive MBA, BBA
Commencement Date	Aug 2010	Sep 2010
No of Locations	Few in Chennai	65

Source: Company

EVERONN SCHOOL LTD

(FY10 Revenue- NIL)

Everonn has come up with "Educating India" a nationwide initiative aimed at enabling access to quality education. Towards this Everonn will support individuals willing to invest in the education sector in form of: (A) Land & Building, and (B) Cash, to set up educational institutions. Here the target customers would be people owning land, property developers and educationists. In these initiatives Everonn will play the role of a facilitator, aggregator and manager and will provide the other essentials like (C) Teachers, (D) Content and (E) Management & Branding.

Everonn has taken the following steps towards this initiative –

Pre-Schools

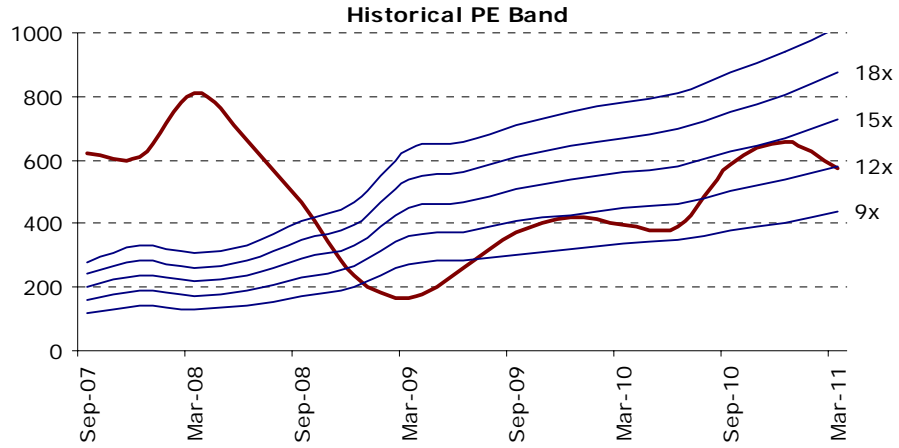
Everonn has opened 6 preschools under the brand Kinderstand and expects to gradually scale up through the franchisee model. Of the 6 pre-schools, 3 are owned by Everonn.

K – 12 Schools – "Ken Bridge"

Everonn plans to open 10 K-12 schools under its brand 'Ken Bridge' by FY12E and plans to set up 300 schools over the next 5 years. At an estimated cost of INR 120 mn per school, the total cost would be INR 36 bn. The entire amount for setting up schools will come from its partners interested in starting schools. Everonn will charge 7% as one time licensing fee for providing execution services and 15% as annual management fee. The schools will charge a monthly fee of INR 1800 on average, depending on their location. The admission fee for Ken Bridge schools is fixed at a relatively affordable level of INR 24000. With a teacher-to-student ratio of 1:28, the schools will have a large playground, amphitheatres, audio visual labs and technology-enabled interactive classes. The syllabus would be of the CBSE board. The company will initially open schools in cities such as Amravati, Anantnag, Bhubansewar, Tuticorin, Jaipur, Raipur, Motihari and Khammam.

VALUATIONS

At the CMP, Everonn is trading at 11.6x its FY12E EPS of INR 49. We believe Everonn is the right proxy to ride the growth in the Indian Education sector. Everonn will be having presence in all segments of education by the next couple of years and is expected to grow its earnings at a CAGR of 24% for the period FY11-FY13E. We foresee the company growing at 15% for the five year period FY13E to FY18E and hence value it at a PE of 15x whereby the PE/G ratio would result in 1. Thus our PE/G based value for the company is at INR 737 where it will quote at 15x its FY12E EPS of INR 49.



Source: Darashaw

Profit & Loss						Balance Sheet					
	FY09	FY10	FY11 E	FY12 E	FY13 E		FY09	FY10	FY11 E	FY12 E	FY13 E
Net Sales	1447	2935	4278	5365	6499	Equity	151	151	200	200	200
Change in stock	0	0	0	0	0	Reserves & Surplus	1986	2399	3421	6492	7584
VoP	1447	2935	4278	5365	6499	Networth	2137	2550	3620	6692	7783
Other operating inc	0	0	0	0	0	Debt	487	839	829	-	-
Income	1447	2935	4278	5365	6499	Minority Interest					
Expenditure	935	1886	2568	3220	3939	Sources of Funds	2,624	3,389	4,449	6,692	7,783
Raw Materials	510	1236	1620	2032	2500	Application of Funds	2624	3389	4449	6692	7783
Manufacturing	0	0	0	0	0	Gross Fixed Assets	1376	2159	3742	5144	6618
Employee	278	384	560	703	851	Less Acc. Depreciation	450	703	1140	1742	2516
Other Exp	147	265	387	485	588	Net Fixed Assets	926	1456	2602	3402	4102
EBIDTA	512	1049	1710	2145	2560	Capital WIP	250	245.9	0	0	0
Depreciation	159	253	438	602	774	Investments	235	11	11	11	11
EBIT	354	796	1273	1543	1786	Inventories	0	0	0	0	0
Interest	52	104	111	55	0	Debtors	764	1171	1532	1847	2185
Non-Operating income	0	105	16	16	16	Cash	403	439	238	1566	1767
Extra-ordinary income	39	5	0	0	0	Loans & Advances	576	605	892	841	816
Extra-ordinary exp	0	0	0	0	0	Current Assets	1742	2216	2662	4254	4768
PBT	341	802	1178	1504	1802	Current Liabilities	310	170	244	306	371
Tax	120	148	395	506	607	Provisions	132	211	452	579	695
PAT	221	655	783	998	1,195	Current Liabilities & Prov	442	381	696	885	1067
Adj. PAT	182	545	767	982	1179	Non-Current Liabilities	86	159	129	90	31
Adj. EPS	9	27	38	49	59	Misc. Expenditure	0	0	0	0	0

Source: Darashaw

Ratios	FY09	FY10 E	FY11 E	FY12 E	FY13 E	FCFF	FY09	FY10 E	FY11 E	FY12 E	FY13 E
Sales Growth	58%	103%	46%	25%	21%	EBIT	354	796	1,273	1,543	1,786
Income Growth	58%	103%	46%	25%	21%	Less Adj. Taxes	138	170	433	525	607
EBIDTA Growth	53%	105%	63%	25%	19%	NOPLAT	215	627	840	1,019	1,179
Adj. PAT Growth	48%	200%	41%	28%	20%	Inc / (Dec) in WC	391	598	297	108	148
EPS Growth	48%	200%	41%	28%	20%	Operating Cash Flow	(176)	29	543	910	1,031
Raw Materials	35%	42%	38%	38%	38%	Inc / Dec in other op assets	(31)	(62)	25	39	59
Manufacturing	0%	0%	0%	0%	0%	Net Capex	530	464	925	839	759
Employee	19%	13%	13%	13%	13%	Net Investment	921	1,062	1,222	947	907
SG&A	10%	9%	9%	9%	9%	Free Cash Flow to Firm	(705)	(435)	(382)	71	272
Other Exp	0%	0%	0%	0%	0%	Non-Operating cash flow	39	5	0	0	0
EBIDTA margin	35%	36%	40%	40%	39%	Cash flow to investors	(667)	(430)	(382)	71	272
Depreciation rate	12%	12%	12%	12%	12%	Financing Cash Flow	(666)	(430)	(382)	71	272
EBIT margin	24%	27%	30%	29%	27%	Dividend (adj for inc/dec in prov)	(2)	38	0	57	73
Other income to PBT	11%	1%	0%	0%	0%	Equity buyback/(issue)	(967)	83	(361)	(2,163)	0
Tax Rate	35%	18%	34%	34%	34%	After-tax Interest	34	82	73	36	0
Pat Margin	15%	22%	18%	19%	18%	Debt Repayment/(issue)	(28)	(353)	15	829	0
Adj. Pat Margin	13%	19%	18%	18%	18%	Inc/(Dec) in Non-op Investments	148	(224)	0	0	0
Income / Avg. Net Assets	0.6	0.9	1.0	0.8	0.8	Inc/(Dec) in Excess Cash	142	(67)	(110)	1,311	199
PAT / EBIDTA	1.2	1.3	1.2	1.0	1.0	Inc/(Dec) in Non-op L&A	6	11	0	0	0
Avg. Net Assets / Average Equity	13%	19%	18%	18%	18%						
Dupont RoE	9%	21%	21%	15%	15%						
RoE	9%	21%	21%	15%	15%						
RoCE (Operating)	13%	23%	22%	21%	20%						

Source: Darashaw

APPENDIX

Modeling a School

<i>Student Assumptions</i>	
Divisions	4
Students / Class	45
Standards	12
Students/School	2160
Total Classes	48

Cost of Land + Construction + Furniture + Other Infrastructure (Computers, Science Labs) is around INR 130 mn.

Depreciable Gross Block = Furniture + Other Infrastructure assumed at INR 22 mn

Depreciation @ 20% = INR 4.4 mn

Interest rate for borrowings @ 13%

Years	0	1	2	3	4	5	6	7	8	9	10	11	12
Occupancy Rate	10%	40%	70%	80%	90%	100%	100%	100%	100%	100%	100%	100%	100%
Students	130	576	1109	1382	1685	2016	2160	2160	2160	2160	2160	2160	2160
Fee / Student	22200	23310	24476	25699	26984	28333	29750	31238	32800	34439	36161	37970	39868
<i>Growth</i>		5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Total Fees	2.9	13.4	27.1	35.5	45.5	57.1	64.3	67.5	70.8	74.4	78.1	82.0	86.1
Admission Fees	35000	36750	38588	40517	42543	44670	46903	49249	51711	54296	57011	59862	62855
<i>Growth</i>		5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Total Admission Fees	0.6	2.6	4.9	5.8	6.9	8.0	8.4	8.9	9.3	9.8	10.3	10.8	11.3
Revenues	3.5	16.1	32.0	41.4	52.4	65.2	72.7	76.3	80.2	84.2	88.4	92.8	97.4
Student Teacher Ratio	27	28	28	28	28	28	28	28	28	28	28	28	28
No of Teachers	5	21	40	49	60	72	77	77	77	77	77	77	77
Salary / Teacher	180000	180000	189000	198450	208373	218791	229731	241217	253278	265942	279239	293201	307861
Teacher's Cost	0.9	3.7	7.5	9.8	12.5	15.8	17.7	18.6	19.5	20.5	21.5	22.6	23.7
Support Staff (Nos)	1	5	20	25	30	36	39	39	39	39	39	39	39
Salary / Support staff	96000	96000	100800	105840	111132	116689	122523	128649	135082	141836	148928	156374	164193
Support Staff Cost	0.1	0.5	2.0	2.6	3.3	4.2	4.7	5.0	5.2	5.5	5.7	6.0	6.3
Salary Cost	1.0	4.2	9.5	12.4	15.9	20.0	22.4	23.6	24.7	26.0	27.3	28.6	30.1
as % of Revenue	28%	26%	30%	30%	30%	31%	31%	31%	31%	31%	31%	31%	31%
O/Heads -	1.2	4.5	5.0	5.4	6.0	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6
	-85%	28%	8.0%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Total Cost	2	9	14	18	22	27	29	30	31	33	34	35	37
	62%	54%	45%	43%	42%	41%	40%	40%	39%	39%	38%	38%	38%
EBITDA	1	7	18	24	30	39	44	46	49	52	54	58	61
Margins	38%	46%	55%	57%	58%	59%	60%	60%	61%	61%	62%	62%	62%

Years	0	1	2	3	4	5	6	7	8	9	10	11	12
EBITDA	1	7	18	24	30	39	44	46	49	52	54	58	61
Margins	38%	46%	55%	57%	58%	59%	60%	60%	61%	61%	62%	62%	62%
Depreciation	3.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
EBIT	-2	3	13	19	26	34	39	42	44	47	50	53	56
Margin	-59%	19%	41%	46%	50%	53%	54%	55%	55%	56%	57%	57%	58%
Interest Cost	16.9	15.4	13.1	10.4	7.3	3.6	-0.3	0	0	0	0	0	0
EBT	-19	-12	0	9	19	31	40	42	44	47	50	53	56
Tax	-6	-4	0	3	6	10	13	14	15	16	17	18	19
PAT	-13	-8	0	6	12	20	26	28	29	31	33	35	37
Margin	-357%	-51%	0%	14%	24%	31%	36%	36%	37%	37%	37%	38%	38%
Debt	130	118	101	80	56	28	-2	-34	-68	-103	-141	-180	-222
Interest at 13%	17	15	13	10	7	4	0	-4	-9	-13	-18	-13	-16
Post Tax Cash Flow	8	12	18	21	24	28	30	32	34	36	37	39	42
PV of Cash Flows	8	10	14	14	15	15	15	14	13	12	11	10	10
Cumulative CF	8	18	32	46	61	76	91	104	117	129	140	150	160

Payback Period works out to 9 years

Important Disclosure

This material has been prepared by Darashaw & Co Pvt Ltd, Mumbai, India (www.darashaw.com).

The views expressed herein correctly reflect our views. The company, its directors, and clients hold long position in the stock of the company as on the date of the report.

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