Everonn Education

Performance Highlights

Everonn Education (EEL) reported outstanding performance for 3QFY2010 on a consolidated basis, with Bottom-line spurting 54% yoy on the back of robust Top-line growth of 83.5% yoy. However, EEL disappointed on the EBIDTA Margin front, which dipped by 463bp yoy mainly on account of high Opex incurred in newer initiatives undertaken in Edu-resources and Toppers business. Strong government backing pertaining to higher Budgetary spends for the growth of Education and Training Sector in India and across the globe is a key positive for the companies in this space. We expect the humongous opportunities in this space, to drive Everonn's performance in the near term and drive growth of its ViTELS, Edu-resources and Toppers businesses. **At current levels, the stock is trading at attractive valuations. Hence, we maintain a Buy on the stock.**

Strong growth across businesses: EEL registered an impressive Top-line growth of 83.5% yoy. The company's Virtual Technology-Enabled Learning Solutions (ViTELS) Business registered 91.2% yoy growth, while ICT grew by 38.5% yoy. The Edu-resources and Toppers business also recorded robust growth of 131.5% yoy. EEL's EBITDA Margin during 3QFY2010 contracted by 463bp yoy primarily due to the 527bp yoy increase in Other Operating expenses and 181bp yoy increase in Education and Training expenses. Overall, despite lower Margins and yoy increase of 40% and 74% in Depreciation and Interest costs respectively, the company still reported a strong 54% yoy spurt in Bottom-line on the back of strong performance on the Top-line front.

Outlook and Valuation: We expect EEL to record strong CAGRs of 51% and 47% in Top-line and Bottom-line respectively, over FY2009-12E. The ViTELS Business is expected to remain the key driver of Top-line growth, with the Division expected to post robust 54.6% CAGR in Revenues in the mentioned period, which would in turn drive higher Profitability. However, we expect the ICT Business to slow down and record 24% CAGR in Revenues over the mentioned period. At the CMP, the stock is trading at 9.3x FY2012E EPS. **We maintain a Buy on the stock, with a Target Price of Rs602, implying a P/E of 14x FY2012E EPS.**

Key Financials

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	145	271	393	496
% chg	*57.9*	*87.6*	*44.7*	*26.3*
Net Profit	22	41	59	70
% chg	*60.0*	*87.4*	*42.7*	*17.8*
FDEPS (Rs)	13.6	25.6	36.5	43.0
EBITDA Margin (%)	35.4	36.1	34.0	32.5
P/E (x)	29.4	15.7	11.0	9.3
P/BV (x)	4.0	2.6	2.1	1.7
RoE (%)	13.5	16.2	18.8	18.1
RoCE (%)	13.0	16.5	18.6	18.0
EV/Sales (x)	4.3	2.0	1.6	1.2
EV/EBITDA (x)	12.3	5.6	4.6	4.4

Source: Company, Angel Research

BUY

CMP	Rs402
Target Price	Rs602

Investment Period	15 Months

Stock Info	
Sector	IT
Market Cap (Rs cr)	607
Beta	1.2
52 WK High / Low	480/79
Avg. Daily Volume	4,97,890
Face Value (Rs)	10
BSE Sensex	16,163
Nifty	4,830
Reuters Code	EVED.BO
Bloomberg Code	EEDU@IN

Shareholding Pattern (%)	
Promoters	26.3
MF/Banks/Indian FIs	20.6
FII/NRIs/OCBs	31.3
Indian Public	21.8

Abs. (%)	**3m**	**1yr**	**3yr#**
Sensex	1.7	78.3	8.2
Everonn	(1.4)	121.2	(16.1)

Note: #Since listing on August 1, 2007

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Top-line growth across businesses fuelled by ViTELS

EEL continued its impressive performance on the Top-line front in 3QFY2010 and recorded robust 83.5% yoy growth in consolidated Revenues. The ViTELS Business registered a whopping 91.2% yoy growth in Revenues for the quarter. Sequentially, the company added 133 i-schools (increase of 347 schools on yoy basis) and 231 colleges (increase of 781 colleges on yoy basis). Thus, total number of i-schools and colleges stood at 867 and 1,396 respectively, in ViTELS during 3QFY2010. ICT Revenues grew 38.5% yoy, with the company adding 154 schools on a qoq basis (increase of 1420 schools on yoy basis), taking the total schools to 5,862 in 3QFY2010. The Edu-resources and Toppers Division continued their good performance, registering robust growth of 131.5% yoy.

Exhibit 1: Segment-wise Revenue Break-up

Segments	Revenues (Rs cr)		*Chg*	Contribution (%)	
ViTELS	21.3	40.7	*91.2*	48.9	50.9
ICT	13.3	18.4	*38.5*	30.4	23.0
Edu-resources & Toppers	9.0	20.9	*131.5*	20.7	26.1
Total	43.6	79.9	*83.5*	100.0	100.0

Source: Company, Angel Research

Margin erosion on account of Edu-resources and Toppers business

EEL's EBITDA Margin during 3QFY2010 contracted by 463bp yoy mainly due to 527bp yoy increase in other Operating expenses and 181bp yoy increase in the cost of Education and Training expenses (includes the purchase of hardware, and course execution and delivery expenses). However, a 246bp yoy decline in Employee costs restricted further erosion in Margins. Segment-wise, the Edu-resources and Toppers business witnessed Margin erosion during the quarter, as higher Opex was incurred on ongoing initiatives to grow the business further.

Exhibit 2: Segment-wise PBT Break-up

Segments	PBT (Rs cr)		*chg*	Margins (%)		*chg*
	3QFY09	3QFY10	*(%)*	3QFY09	3QFY10	*(%)*
ViTELS	8.1	15.8	*94.8*	38.2	38.9	*0.71*
ICT	3.1	3.7	*20.3*	23.1	20.1	*(3.0)*
Edu-resources & Toppers	1.1	(0.5)	*(150.1)*	12.0	(2.6)	*(14.6)*
Total	12.3	19.0	*54.5*	28.2	23.7	*(4.5)*

Source: Company, Angel Research

Robust Top-line performance drives Bottom-line

EEL's Bottom-line for 3QFY2010 powered ahead, recording an impressive 54% yoy growth, driven by robust Top-line performance. This was despite lower Margins and increase of 40% and 74% in Depreciation and Interest cost yoy. The effective Tax rate was also up at 36% in 3QFY2010 as against 35.8% in 3QFY2009.

Exhibit 3: 3QFY2010 Performance (Consolidated)

Y/E March (Rs cr)	3QFY10	3QFY09	% chg	9MFY10	9MFY09	% chg
Net Revenue	79.9	43.6	83.5	189.0	108.9	73.5
Operating Costs	52.0	26.3	97.6	120.0	68.1	76.2
EBITDA	27.9	17.2	62.0	69.0	40.8	69.2
Depreciation	6.8	4.84	40.4	18.7	11.2	66.8
Interest	2.2	1.29	74.1	6.0	3.6	69.4
Other Income	0.1	1.18	(91.0)	0.5	3.3	(85.8)
Income before Income Taxes	19.0	12.3	54.5	44.7	29.3	52.4
Income Taxes	6.8	4.39	55.5	15.8	11.9	32.7
Net Income	12.1	7.9	54.0	29.0	17.5	65.9
Diluted EPS (Rs)	8.0	5.41	48.4	19.2	12.9	48.3
EBITDA Margin (%)	34.9	39.5		36.5	37.5	
Net Profit Margin (%)	15.2	18.1		15.3	16.0	
Effective Tax Rate (%)	36.0	35.8		35.2	40.5	

Source: Company, Angel Research

Outlook and Valuation

We expect EEL to record strong CAGR of 51% and 47% in Top-line and Bottom-line respectively, over FY2009-12E. The ViTELS Business is expected to remain the key driver of Top-line growth, registering robust 54.6% CAGR in Revenues in the mentioned period; this will also drive higher Profitability. We expect the ICT Business to slow down, with a 24% CAGR in Revenues estimated over the mentioned period. At the CMP, the stock is trading at 9.3x FY2012E EPS. **We maintain a Buy on the stock, with a Target Price of Rs602, implying a P/E of 14x FY2012E EPS.**

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DISCLAIMER

Note: Please refer important `Stock Holding Disclosure' report on Angel web-site (Research Section).

Disclosure of Interest Statement	Everonn
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 5 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to -15%)	Sell (< -15%)	

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