

FIRST GLOBAL

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India Research



Sector: Education

What Happened Last Quarter

Everonn Education Ltd. (ESIL.IN/EVSI.BO)

Outperform

(CMP: Rs.396.9, Mkt.Cap: Rs. 5.9 bn, Jan 29, '10)

(Relevant Index: Nifty: 4,882.0 (Jan 29, '10))

ViTELS business to remain key contributor to overall growth & profitability...

Current valuation appears attractive in light of expected growth in sales & net profit...

Last report's recommendation: Outperform (MP: Rs. 456.6, (Oct 24, '09))

Relevant Index: Nifty: 4997.0, (Oct 24, '09)

Relative performance since last rating change (Oct 1, '09): S&P Nifty: Down 4% Everonn: Down 10%

February 01, 2010

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IMPORTANT DISCLOSURES CAN BE FOUND AT THE END OF THIS REPORT



Price and Rating History Chart

Ratings Key

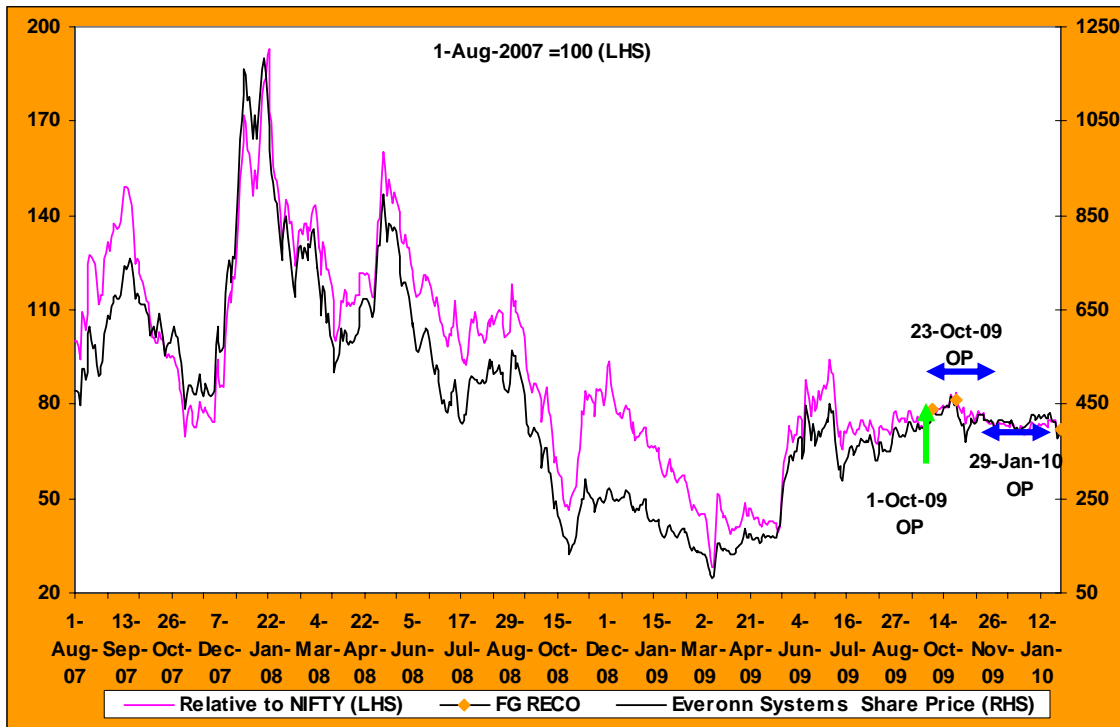
Positive Ratings	B = Buy	BD = Buy at Declines	OP = Outperform
	S-OP = Sector Outperform	M-OP = Market Outperform	MO-OP = Moderate Outperform
Neutral Ratings	H = Hold	MP = Market Perform	SP = Sector Perform
Negative Ratings	S = Sell	SS = Sell into Strength	UP = Underperform
	A = Avoid	MO-UP = Moderate Underperform	S-UP = Sector Underperform

ST: Short Term

MT: Medium Term

LT: Long Term

Everonn Education LTD. (ESIL.IN/EVSI.BO)



Represents an Upgrade



Represents a Downgrade



Represents Reiteration of Existing Rating

Details of First Global's Rating System given at the end of the report



Financial Snapshot (Consolidated)

Key Financials					
YE March (Rs. mn)	FY07	FY08	FY09	FY10E	FY11E
Total Revenues	430	916	1,447	2,700	3,799
<i>Revenue Growth (Y-o-Y)</i>	39.2%	112.9%	57.9%	86.6%	40.7%
EBIDTA	175	334	512	978	1,311
<i>EBIDTA Growth (Y-o-Y)</i>	21.5%	91.3%	53.3%	90.9%	34.1%
Net Profit	41	138	221	416	569
<i>Net Profit Growth (Y-o-Y)</i>	0.9%	238.5%	60.0%	88.4%	36.7%
Net Profit Excl. extra-ordinaries	41	138	221	416	569
<i>Net Profit Growth Excl. extra-ordinaries (Y-o-Y)</i>	0.9%	238.5%	60.0%	88.5%	36.7%
Shareholders Equity	365	950	2,137	3,318	3,887
Number of Diluted shares (mn)	9	13	16	16	16

Key Operating Ratios					
YE March	FY07	FY08	FY09	FY10E	FY11E
Diluted EPS Excl. extra-ordinaries (Rs.)	4.7	10.8	14.1	26.6	36.4
<i>EPS Growth (Y-o-Y)</i>	(12.9%)	129.1%	29.9%	88.9%	36.7%
CEPS Excl. extra-ordinaries (Rs.)	15.9	18.6	24.2	42.9	59.8
EBIDTA (%)	40.6%	36.4%	35.4%	36.2%	34.5%
NPM (%)	9.5%	15.1%	15.3%	15.4%	15.0%
Tax/PBT (%)	31.0%	36.6%	35.2%	35.5%	36.0%
RoE (%)	14.8%	21.0%	14.3%	15.3%	15.8%
RoCE (%)	9.8%	15.0%	12.2%	14.1%	14.6%
Return on Operating Assets (%)	10.0%	18.4%	14.8%	17.8%	17.0%
Book Value Per share (Rs.)	42.3	74.6	136.3	212.0	248.4
Debt/Equity (x)	0.6	0.5	0.2	0.2	0.1

Free Cash Flow Analysis					
YE March (Rs. mn)	FY07	FY08	FY09	FY10E	FY11E
Operating Cash Flow	44	107	-140	348	815
Total Free Cash Flow	-77	-247	-822	-548	-177

Market Cap. and Enterprise Value Data as on Jan 29, 2010

Current Market Price (Rs.)	397	
No. of Basic Shares (mn)	15	
	Rs bn	US\$ bn
Market Cap	5.9	0.13
Total Debt*	0.5	0.01
Cash & Cash Equivalents*	0.6	0.01
Enterprise Value	5.8	0.13

* Debt & Cash & Cash Equivalents as of FY10E, INR Exchange Rate 46.14

Valuation Ratios					
YE March	FY07	FY08	FY09	FY10E	FY11E
P/E (x)				14.9	10.9
P/BV (x)				1.9	1.6
P/CEPS (x)				9.2	6.6
EV/EBIDTA (x)				6.0	4.7
Market Cap./ Sales (x)				2.2	1.6
Net cash/Market Cap (%)				5.5%	1.8%



DuPont Model					
YE March	FY07	FY08	FY09	FY10E	FY11E
EBIDTA/Sales (%)	40.6%	36.4%	35.4%	36%	35%
Sales/Operating Assets (x)	0.8	1.1	0.9	1.0	1.1
EBIDTA/Operating Assets (%)	32.1%	41.1%	33.0%	37.3%	36.9%
Operating Assets/ Net Assets(x)	0.9	0.8	0.7	0.8	0.8
Net Earnings/ EBIDTA (%)	23.4%	41.3%	43.1%	42.6%	43.4%
Net Assets/ Equity (x)	2.1	1.6	1.4	1.2	1.2
Return on Equity (%)	14.8%	21.0%	14.3%	15.3%	15.8%

Common Sized Profit & Loss Account					
YE March	FY07	FY08	FY09	FY10E	FY11E
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Personnel	17.6%	13.0%	19.2%	15.4%	16.0%
Education and Training Expenses	31.6%	43.6%	35.3%	37.3%	38.5%
Administration and Other Expenses	10.2%	7.0%	10.1%	11.1%	11.0%
EBIDTA	40.6%	36.4%	35.4%	36.2%	34.5%
Depreciation and Amortization	22.3%	10.8%	11.0%	9.5%	9.6%
Interest Paid	5.4%	3.6%	3.6%	3.1%	2.3%
Non-Operating Income	0.9%	1.7%	2.7%	0.2%	0.8%
Profit Before Tax	13.7%	23.7%	23.6%	23.9%	23.4%
Tax	4.3%	8.7%	8.3%	8.5%	8.4%
Net Profit	9.5%	15.1%	15.3%	15.4%	15.0%
Net Profit Excl. extra-ordinaries	9.5%	15.1%	15.3%	15.4%	15.0%

Top Management Team

Name	Designation
P Kishore	Managing Director
Susha John	Whole-time Director
R Sankaran	Director
Joe Thomas	Director
K M Marimuthu	Director
Vijayanand	Company Secretary

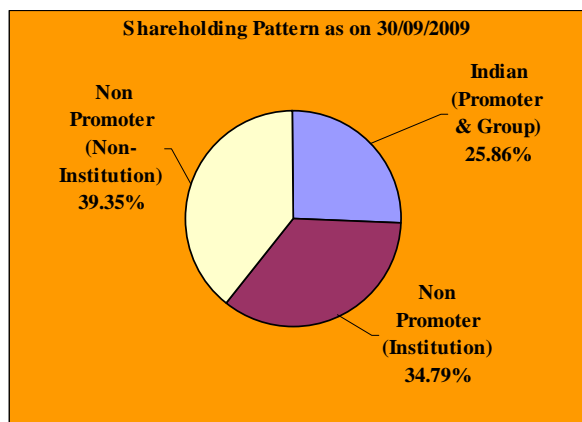
Capital Issue History

Date	Equity Capital	Reason
12/6/2000	13.5	Equity shares issued
15/03/2001	16	Further Issue
7/3/2003	17.1	Further Issue
31/05/2006	85.7	Bonus Issue
28/06/2006	89.5	Further Issue
1/6/2006	86.9	Further Issue
9/8/2006	102.8	Preferential Issue Of Shares
24/07/2007	138.5	Public Issue
17/06/2008	151.2	Preferential Issue Of Shares

Key Statistics

Industry:	Education Sector
52 Week Hi:Lo:	Rs. 489 / 79.05
CMP:	Rs.456.65
Avg Daily Vol (20 days):	0.36 mn
Avg Daily Val (20 days):	Rs.152.88 mn
Performance over 52 weeks:	

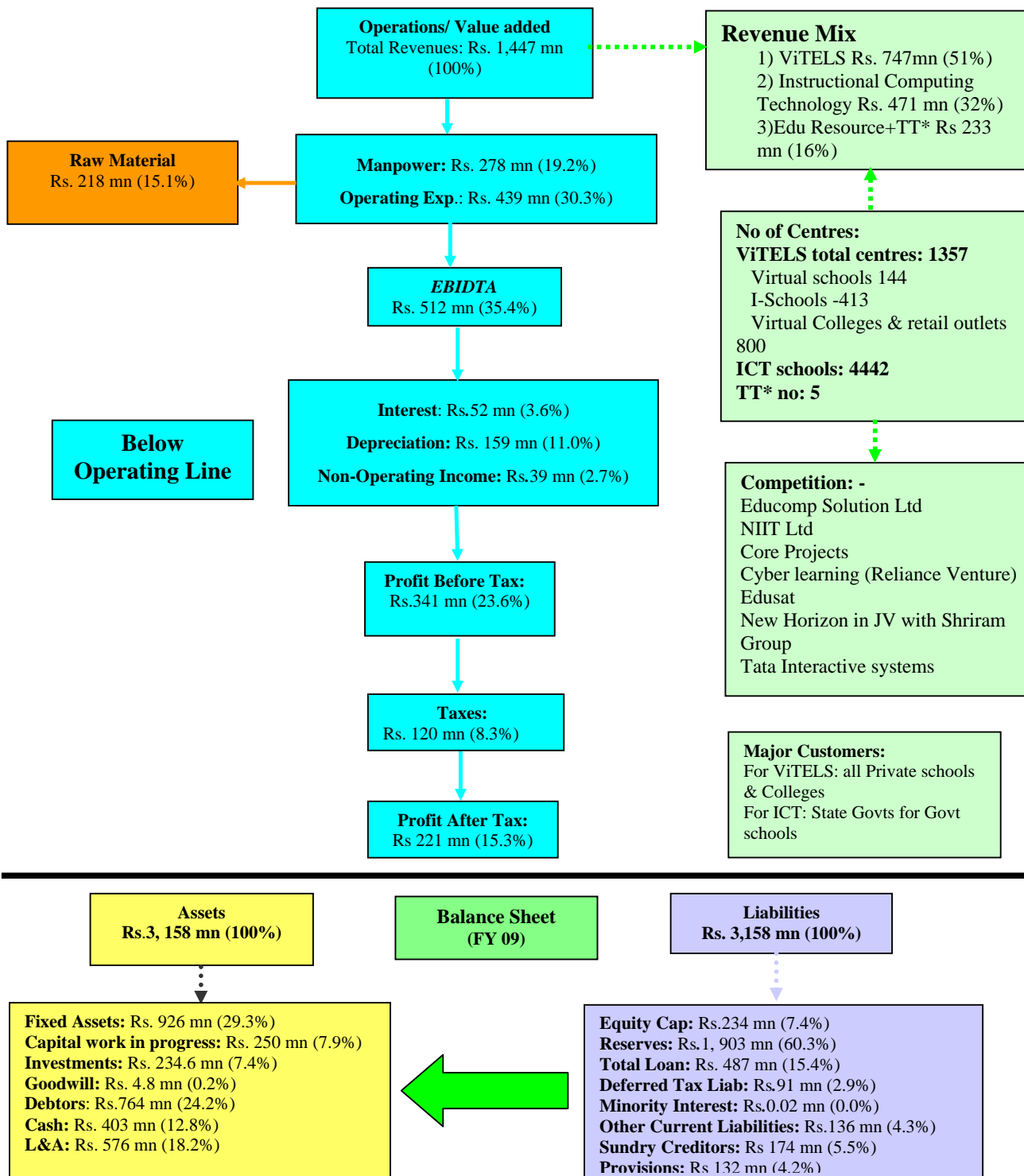
Everonn Systems Ltd :	UP 104.6 %
Nifty:	UP 72.9 %





Everonn's Business in Pictures... (FY09)(Consolidated)

(All figures are in Rs. Mn except where stated otherwise. All percentages are percent of revenues, unless stated otherwise)



** TT is Tutor Tutorials (subsidiary of Everonn)



What Happened Last Quarter...

Everonn Education Ltd. (ESIL.IN/EVSI.BO) delivered an impressive performance on the revenue front in Q3 FY10, with the company's consolidated revenue increasing sharply by 83.5% Y-o-Y to Rs.799 mn. The company's Profit after Tax (PAT) for the quarter stood at Rs.121 mn, up 54% Y-o-Y, while the diluted EPS came in at Rs.8.03, as against Rs.5.41 in Q3 FY09. Revenue of the Virtual Technology-Enabled Learning Solutions (ViTELS) business grew 91% Y-o-Y to Rs.407 mn, reflecting the strong demand for Everonn's technology-led education solutions. At the end of the quarter, Everonn had a presence in 2,263 ViTELS schools & colleges (867 ViTELS-i schools and 1,396 ViTELS-Colleges), as against 1,899 at the end of Q2 FY10. Revenue of the Information and Communication Technology (ICT) business grew 38% Y-o-Y to Rs.183.5 mn. The company's ICT footprint expanded further across 5,862 schools in India, with 154 schools added in Q3 FY10.

Everonn's ViTELS business continues to remain the key contributor to the company's growth and

In the ICT segment, the Cabinet Committee on Economic Affairs recently approved an amount of Rs.69 bn for the ICT Scheme to cover over 1 lakh government and government aided schools, which is expected to benefit Everonn...

The stock currently trades at a P/E of 14.9x FY10E and 10.9x FY11E earnings, which appears attractive, considering the expected CAGR of 62% and 60% in the company's sales and net profit respectively over the period FY09-FY11E. We reiterate our rating of Outperform on Everonn

profitability, with its number of centres increasing 100% Y-o-Y. In the ICT segment, the Cabinet Committee on Economic Affairs recently approved an amount of Rs.69 bn for the ICT Scheme to cover over 1 lakh government and government aided schools, which is expected to benefit Everonn. Moreover, revenue from the company's ICT contract of 1,099 schools in Uttar Pradesh is expected to commence from Q4 FY10 onwards. However, the increasing amount of investment being made by Everonn in new businesses without any immediate proportionate revenue flowing in is putting pressure on the company's margins. In Q3 FY10, Everonn's EBITDA margin contracted by 460 bps Y-o-Y to 34.9%, due to the company's investment in

subsidiaries. Nevertheless, we remain positive on the company's long-term growth prospects. We now estimate an EPS of Rs.26.6 on revenue of Rs.2.7 bn for FY10, up from our previous EPS estimate of Rs.23.4 on revenue of Rs.2.4 bn. The stock currently trades at a P/E of 14.9x FY10E and 10.9x FY11E earnings, which appears attractive, considering the expected CAGR of 62% and 60% in the company's sales and net profit respectively over the period FY09-FY11E. We reiterate our rating of Outperform on Everonn.

Comparative Valuation

Company	Year	EPS (Rs)		P/E (x)		P/S (x)		P/BV (x)		EV/Sales (x)		EV/EBITDA (x)		EBITDA (%)	RoE (%)	RoCE (%)	Annual EPS Growth (%)	Annual Sales Growth (%)
		FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY10E	FY10E	(11/10)	(11/10)
Everonn	Mar	26.6	36.4	14.9	10.9	2.2	1.6	1.9	1.6	2.2	1.6	6.0	4.7	36.2%	15.3%	14.1%	36.7%	40.7%
Educomp	Mar	21.0	34.3	32.9	20.6	7.8	5.0	5.5	4.5	7.7	4.9	15.0	9.8	51.2%	25.0%	16.2%	63.2%	59.1%
NIIT	Mar	4.0	5.1	17.5	13.7	0.9	0.8	2.2	2.0	1.2	1.0	9.6	8.3	12.5%	12.9%	7.0%	28.1%	12.9%

Source: FG estimates



Quarterly Result Analysis

YE March (Rs. mn)	Q3 FY10	Q3 FY09	Y-o-Y change %	Q2 FY10	Q-o-Q change %	9M FY10	9M FY09	Y-o-Y change %
Net Sales	799	436	83.5%	731	9.3%	1,890	1,089	73.5%
Less:								
Net Raw Material consumed	167	83	100.9%	196	(14.5%)	402	170	136.9%
Personnel	106	68	54.7%	87	21.6%	279	179	55.9%
Other expenditure	247	112	121.3%	185	33.3%	519	332	56.1%
Total Expenditure	520	263	97.6%	468	11.1%	1,200	681	76.2%
EBIDTA	279	172	62.0%	263	6.0%	690	408	69.2%
Less: Depreciation	68	48	40.4%	63	8.3%	187	112	66.8%
EBIT	211	124	70.5%	200	5.3%	503	296	70.0%
Less: Interest	22	13	74.1%	21	5.2%	60	36	69.4%
Add: Other income	1	12	(91.0%)	1	(5.7%)	5	33	(85.8%)
Profit Before Tax	190	123	54.5%	180	5.2%	447	293	52.4%
Less: Total Tax	68	44	55.5%	62	9.3%	158	119	32.7%
Profit After Tax	121	79	54.0%	118	3.1%	290	175	65.9%
Reported Diluted EPS (Rs.)	8.03	5.41	48.4%	7.28	10.3%	19.16	12.92	59.9%
No of Shares Diluted (mn)	15	15		16		15	15	
Margin Analysis								
EBIDTA Margin (%)	34.9%	39.5%		36.0%		36.5%	37.5%	
EBIT Margin (%)	26.4%	28.4%		27.4%		26.6%	27.2%	
PBT Margin (%)	23.7%	28.2%		24.6%		23.7%	26.9%	
NPM (%)	15.2%	18.1%		16.1%		15.3%	16.0%	
Effective Tax Rate (%)	36.0%	35.8%		34.6%		35.2%	40.5%	

Source: Company reports, FG estimates

- In Q3 FY10, Everonn's consolidated net sales grew 84% Y-o-Y and 9.3% sequentially to Rs.799 mn.
- Revenue from the ViTELS SBU increased 91% Y-o-Y to Rs.407 mn and contributed 51% of the total revenue in Q3 FY10. ICT SBU revenue increased 23% Y-o-Y to Rs.183.5 mn and contributed 25% to the total revenue. The company's subsidiaries - Edu-resources and Tutor Tutorials - contributed the remaining 26% of the total revenue for the quarter.
- In Q3 FY10, the EBIDTA increased 62% Y-o-Y to Rs.79 mn. The EBIDTA margin contracted by 460 bps Y-o-Y due to higher investment in new businesses without any immediate proportionate revenue flowing in.
- In Q3 FY10, the Profit after Tax (PAT) stood at Rs.121 mn, up 54% Y-o-Y, as against Rs.79 mn in Q3 FY09. The diluted EPS was up 48% Y-o-Y to Rs.8.03 in Q3 FY10, as against Rs.5.41 in Q3 FY09.
- Everonn added 231 V-colleges (taking its total to 1,396) and 133 i-schools (taking its total to 867) in Q3 FY10. The company added 154 ICT schools in Q3 FY10, thus expanding its footprint to 5,862 schools across India.



- Cash on books, as on September 30, 2009, stood at Rs.249 mn. Debtors days stood at 198 days and net worth, as on September 30, 2009 amounted to Rs.2,427 mn.

Division-wise Performance

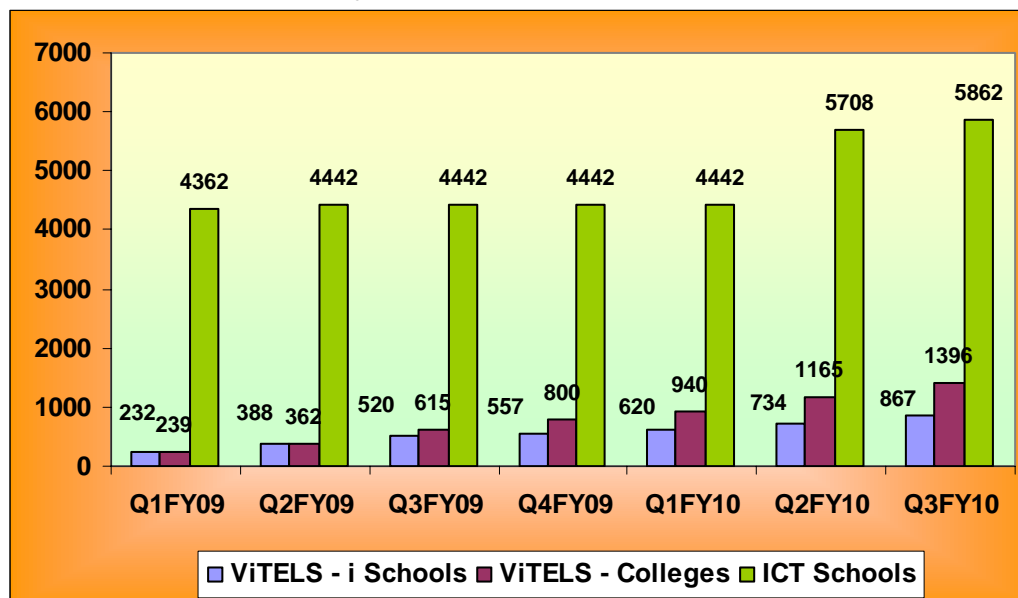
(In Rs mn)	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
ViTELS						
Revenues	142.1	208.8	212.8	178.9	156.9	348.0
PBT	29.5	84.8	81.3	28.3	40.1	131.0
PBT Margin	21%	41%	38%	16%	26%	38%
ICT						
Revenues	80.5	130.7	132.5	127.5	125.4	139.1
PBT	15.8	34.2	30.7	23.4	23.2	27.9
PBT Margin	20%	26%	23%	18%	19%	20%

Source: Company reports, FG estimates

Everonn – Spreading its wings across India

Educomp had 8,171 points of presence in 26 states spread across the country at the end of Q3 FY10, as against 7,651 in Q2 FY10. In the ViTELS segment, around 50% of Everonn schools and colleges are outside Southern India.

Number of ViTELS centres & ICT schools



Source: Company reports



Everonn's Earnings Model (Consolidated)

YE March (Rs. mn)	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	FY
	FY09	FY09	FY09	FY09	FY09	FY10	FY10	FY10	FY10E	FY10E	FY11E
Net Sales	223	431	436	358	1,447	359	731	799	810	2,700	3,799
Less:											
Net Raw Material consumed	0	86	83	49	218	38	196	167	146	547	817
Personnel	40	71	68	99	278	87	87	106	138	417	608
Other expenditure	99	122	112	106	439	86	185	247	239	758	1,064
Total Expenditure	139	279	263	254	935	212	468	520	523	1,722	2,488
EBIDTA	84	152	172	104	512	148	263	279	288	978	1,311
Less: Depreciation	28	36	48	46	159	56	63	68	69	256	366
EBIT	56	115	124	58	354	91	200	211	219	722	944
Less: Interest	11	12	13	16	52	16	21	22	23	83	86
Add: Other income	3	18	12	6	39	3	1	1	2	7	30
Profit Before Tax	48	122	123	47	341	77	180	190	198	645	889
Less: Total Tax	18	57	44	1	120	27	62	68	71	229	320
Profit After Tax	31	65	79	46	221	50	118	121	126	416	569
Profit After Tax Excl. extra-ordinaries	31	65	79	46	221	50	118	121	126	416	569
Proforma Diluted EPS (Rs.)	2.1	4.4	5.4	2.9	14.1	3.1	7.3	8.0	8.4	26.6	36.4
No of Shares Diluted (mn)	15	15	15	16	16	16	16	15	15	16	16
Margin Analysis											
EBIDTA Margin (%)	37.7%	35.2%	39.5%	29.2%	35.4%	41.1%	36.0%	34.9%	35.5%	36.2%	34.5%
EBIT Margin (%)	25.3%	26.8%	28.4%	16.2%	24.4%	25.4%	27.4%	26.4%	27.0%	26.7%	24.9%
PBT Margin (%)	21.8%	28.4%	28.2%	13.2%	23.6%	21.5%	24.6%	23.7%	24.4%	23.9%	23.4%
NPM (%)	13.8%	15.1%	18.1%	12.9%	15.3%	14.0%	16.1%	15.2%	15.6%	15.4%	15.0%
Proforma NPM (%)	13.8%	15.1%	18.1%	12.9%	15.3%	14.0%	16.1%	15.2%	15.6%	15.4%	15.0%
Effective Tax Rate (%)	36.7%	46.7%	35.8%	2.5%	35.2%	34.7%	34.6%	36.0%	36.0%	35.5%	36.0%

Source: Company reports, FG Estimates



IMPORTANT DISCLOSURES

Price Target

Price targets (if any) are derived from a subjective and/or quantitative analysis of financial and non financial data of the concerned company using a combination of P/E, P/Sales, earnings growth, discounted cash flow (DCF) and its stock price history.

The risks that may impede achievement of the price target/investment thesis are -

- Slower-than-expected sign-ups for number of schools in private schools segment
- Slower-than-expected fresh orders in the ICT segment due to budgetary constraints of Indian Government
- Entry of new players may increase competition & hence decline in margins
- Any Regulatory or other developments that could affect the sector in an adverse manner.



First Global's Rating System

Our rating system consists of three categories of ratings: Positive, Neutral and Negative. Within each of these categories, the rating may be absolute or relative. When assigning an absolute rating, the price target, if any, and the time period for the achievement of this price target, are given in the report. Similarly when assigning a relative rating, it will be with respect to certain market/sector index and for a certain period of time, both of which are specified in the report.

Rating in this report is relative to: S&P CNX Nifty

Positive Ratings

(i) Buy (B) – This rating means that we expect the stock price to move up and achieve our specified price target, if any, over the specified time period.

(ii) Buy at Declines (BD) – This rating means that we expect the stock to provide a better (lower) entry price and then move up and achieve our specified price target, if any, over the specified time period.

(iii) Outperform (OP) – This is a relative rating, which means that we expect the stock price to outperform the specified market/sector index over the specified time period.

Neutral Ratings

(i) Hold (H) – This rating means that we expect no substantial move in the stock price over the specified time period.

(ii) Market perform (MP) – This is a relative rating, which means that we expect the stock price to perform in line with the performance of the specified market/sector index over the specified time period.

Negative Ratings

(i) Sell (S) – This rating means that we expect the stock price to go down and achieve our specified price target, if any, over the specified time period.

(ii) Sell into Strength (SS) – This rating means that we expect the stock to provide a better (higher) exit price in the short term, by going up. Thereafter, we expect it to move down and achieve our specified price target, if any, over the specified time period.

(iii) Underperform (UP) – This is a relative rating, which means that we expect the stock price to under perform the specified market/sector index over the specified time period.

(iv) Avoid (A) – This rating means that the valuation concerns and/or the risks and uncertainties related to the stock are such that we do not recommend considering the stock for investment purposes.



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