

# Everonn Education

**Rs682  
OUTPERFORMER**

## RESULT NOTE

**Mkt Cap: Rs10.3bn; US\$229m**

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**Result:** **Q2FY11**

**Comment:** **SKIL contribution – key monitorable!**

### Key financials

Rs m	Net sales	yoy%	Net profit	yoy chg (%)	EPS (Rs)	yoy chg (%)	EV/E (x)	PER (x)
FY08	916.4	113	138	240	10.0	152	28.5	68.4
FY09	1446.9	58	221	60	14.6	46	20.3	46.7
FY10	2935.0	103	454	106	30.1	106	10.6	22.7
FY11E	3947.2	34	623	37	41.2	37	7.3	16.5
FY12E	4862.9	23	826	33	54.7	33	5.2	12.5

## Key Highlights of Q2FY11 results and our interaction with the management

- Everonn Education (EEDU) reported a consolidated revenue growth of 48% at Rs1.08bn, EBITDA growth of 44% at Rs380m and PAT growth of 32% at Rs156m for Q2FY11.
- During the quarter, VITELS (Virtual & Technology Enabled Learning Solutions) segment reported a revenue growth of 49% at Rs520m, EBITDA growth of 61% at Rs286m and PBT growth of 51% at Rs198m.
- Within VITELS, revenues from Colleges stood at Rs158m, Schools at Rs120m, Retail at Rs150m and E-governance projects at ~Rs92m.
- Aggregate schools under VITELS at the end of Q2FY11 stood at 1,195 (108 added in Q2FY11), colleges at 1,812 (140 added) and Retail centers at 54 (5 added).
- With respect to the schools business, new additions during the quarter were done at average of 4 classrooms per school. Further, EEDU has added incremental classrooms in the existing schools. Thus, the average number of classrooms per school has increased from 2.2 in Q1FY11 to 2.5 in Q2FY11.
- With regards the ICT segment, EEDU reported a revenue growth of 57% at Rs218m, EBITDA growth of 61% at Rs98m and PBT growth of 49% at Rs42m. During the quarter, 553 new schools were added which included a new order for 282 schools in Himachal Pradesh and 206 schools in Maharashtra.
- During the quarter, Topper Tutorials (the subsidiary providing coaching within the IIT-JEE space), reported a revenue growth of 39% at Rs38m, EBITDA growth of 66% at Rs15m and PAT growth of 197% at Rs11m. Edu Resource (trading business) has reported revenues of Rs297m, EBITDA of Rs10m and PBT at Rs9.6m.
- The management is building its capabilities and tie ups in its more recent initiative – ‘Educating India’. The initiative marks ESIL’s foray into K-12 and Higher education segments as a ‘facilitator, aggregator and manager’. While ESIL does not plan to own any institutes, it expects to get 7% of the total project cost in addition to a management fee for managing the institutions. EEDU is targeting to start 6-7 B-schools (under the brand GSB – Global School of Business)

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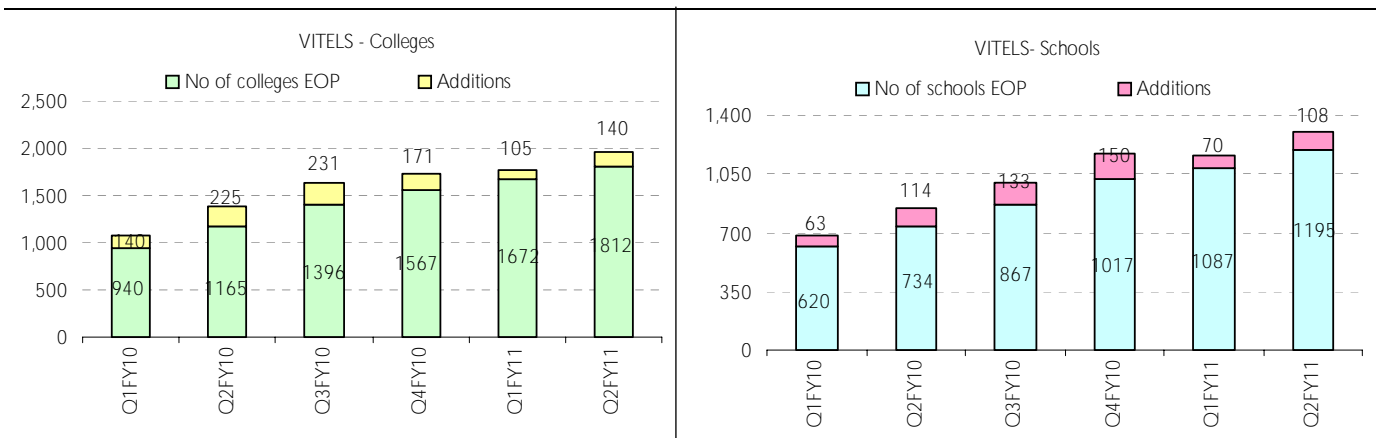
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and 10 K-12 schools in the next academic year (under the brand KenBridge schools). A model B-school in Chennai is currently under operations.

- SKIL categorized as a co-promoter in EEDU - During the quarter, SKIL has been categorized as a co-promoter in EEDU. EEDU has approved preferential issue of 3.94m convertible debentures (convertible @ Rs520 per share), aggregating Rs2.08bn, to SKIL (promoted by Mr Nikhil Gandhi). This will trigger an open offer date, the SEBI clearance for which is awaited. The deal with SKIL has been so structured that post the open offer, ownership of SKIL in EEDU will be lower than the promoter (P. Kishore to hold 20.6% post dilution). To ensure this, the debentures will be redeemed to the extent the open offer is subscribed. Currently, P. Kishore owns a 23.6% stake (3.56m shares) and has 0.5m convertible warrants (convertible @ Rs430). Conversion of warrants issued to promoter and promoter group and conversion of the debenture issued to SKIL will lead to an overall equity dilution of 30.4%.
- As on 30<sup>th</sup> September 2010, gross debt stood at Rs4bn which implies an addition of Rs3.2bn in H1FY11. This includes Rs2.08bn of debt in the form of convertible debentures issued to SKIL. Excluding the debentures, gross debt has increased by Rs1.08bn in H1FY11.

**ESIL continues to report a sustained traction within the VITELS (Virtual & Technology Enabled Learning Solutions) segment over the last few quarters. With robust additions within the schools business, coupled with introduction of a few compulsory courses in colleges, we expect the quality of earnings for the VITELS portfolio to improve. While we continue to remain cautious on the ICT space (L1 bidding and high debtor days remain key concerns), selective bids by the management have helped maintain margins (EBITDA margins at 40-45%). With increasing visibility across the portfolio (VITELS and ICT), a steady change in the revenue mix towards high margin/ value creating businesses and investment structure in place for fueling back-ended growth (K-12 and B-schools), the business clearly hold merit. Having said that we believe the critical monitorable for EEDU over the next one year remains to be contribution of the co-promoter (SKIL – Nikhil Gandhi), which could change the business landscape for the company (transition towards an asset heavy model) and thereby the re-rate potential in the stock. Given an earnings CAGR of 35% over FY10-12E, and at 12.5x FY12E earnings, we maintain our Outperformer call on the stock.**

#### Growth in VITELS



Source: Company, IDFC Securities Research

## Segmental revenue

Rsmn	Q2FY11	Q2FY10	Growth yoy%
ICT	218.2	139.1	57
VITELS	519.9	348.0	49

## PBT

Rsmn	Q2FY11	Q2FY10	Growth yoy%
ICT	41.5	27.9	49
VITELS	197.8	131.0	51

## Quarterly results

Rs m	Q2FY10	Q3FY10	Q4FY10	FY10E	Q1FY11	Q1FY12	FY11E	FY12E
<b>Net Sales</b>	<b>731</b>	<b>799</b>	<b>1,045</b>	<b>2,935</b>	<b>675</b>	<b>1,081</b>	<b>3,947</b>	<b>4,863</b>
%yoy	70	84	192	103	88	48	34	23
<b>Operating profit</b>	<b>263</b>	<b>279</b>	<b>319</b>	<b>1010</b>	<b>217</b>	<b>380</b>	<b>1469</b>	<b>1952</b>
EBITDA %	36	35	31	34	32	35	37	40
Depreciation	62.7	67.98	65.499	253	81.5	93.6	388	483
EBIT	201	211	254	757	135.8	286.3	1081	1468
Interest	21.3	22.4	43.5	104	32.2	57.0	184	275
Other Income	1.127	1.063	0.01	4.70	0.0	0.1	4.70	4.70
<b>Profit before tax</b>	<b>180.5</b>	<b>189.8</b>	<b>210.2</b>	<b>657.7</b>	<b>103.6</b>	<b>229.4</b>	<b>902.5</b>	<b>1197.8</b>
Tax	62.4	68.259	46.141	204	34.3	73.9	279	371
<b>PAT</b>	<b>118.1</b>	<b>121.5</b>	<b>164.1</b>	<b>454.0</b>	<b>69.3</b>	<b>155.5</b>	<b>623.1</b>	<b>826.5</b>
%yoy	81	54	254	106	36	32	37	33

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