

Everonn Systems India Ltd

(EVSIL.BO / ESIL IN)

Rating	OUTPERFORM* [V]
Price (25 Mar 08, Rs)	531.20
Target price (Rs)	(from 785.00) 865.00 [†]
Chg to TP (%)	62.8
Market cap. (Rs mn)	7,358 (US\$ 183)
Enterprise value (Rs mn)	7,852
Number of shares (mn)	13.85
Free float (%)	63.82
52-week price range	1186.15 - 140.00

*Stock ratings are relative to the relevant country index.

[†]Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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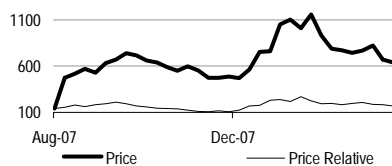
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COMPANY UPDATE

Positioning for the next level

- **Event:** We increase our DCF target price for Everonn by 10% to Rs865 (from Rs785), on the back of greater visibility in key businesses. We maintain our OUTPERFORM rating on the stock.
- **View:** Our improved outlook on the company stems from two factors: 1) higher visibility of the geographic expansion of ViTELS due to a recent acquisition and an aggressive sales push, and 2) stronger near-term growth prospects for the ICT business, with an unprecedented surge in government contracts. We feel that current valuations build in rather conservative growth assumptions for these businesses, with room for upside. We believe that this upside could possibly start to be reflected in the numbers as soon as the next couple of quarters. This should lead to earnings upgrades.
- **Catalyst:** We see a number of catalysts that could give a leg up to the stock's valuations: 1) strong ICT school additions in the next six to 12 months as a large number of projects are bid upon, 2) strong revenue growth from the successful launch of ViTELS centres outside South India, and 3) a rebound in margins as more BOOT (build-own-operate-transfer) contracts in ICT and higher volumes in ViTELS are achieved.
- **Valuation:** Everonn is trading at a FY09E P/E of 27x. While this may seem expensive, we feel that near-term multiples are not the right way to value a stock with a 70% EPS CAGR over five years. Further, current valuations for Everonn are at a steep 40% discount to Educomp, which could narrow, in our view. We value Everonn on a DCF basis to arrive at a target price of Rs865 (earlier Rs785, 52% upside). We maintain our OUTPERFORM rating.

Share price performance



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index which closed at 16217.49 on 25/03/08

On 25/03/08 the spot exchange rate was Rs40.13/US\$1

Performance	1M	3M	12M
Absolute (%)	-29.9	-36.4	—
Relative (%)	-23.7	-22.2	—

Financial and valuation metrics

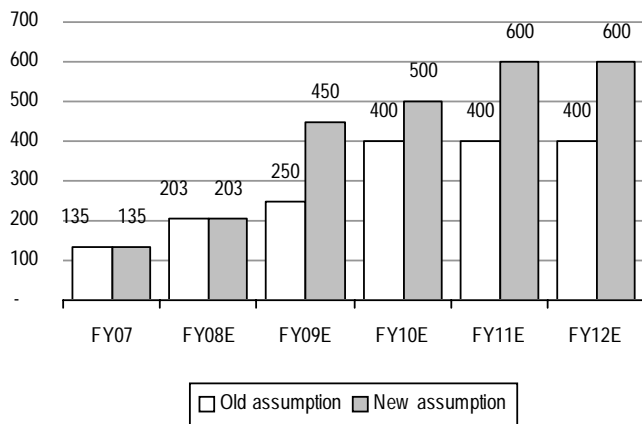
Year	3/07A	3/08E	3/09E	3/10E
Revenue (Rs mn)	430.4	868.2	1,692.2	2,894.9
EBITDA (Rs mn)	178.6	313.9	656.2	1,112.3
EBIT (Rs mn)	82.4	196.7	449.4	780.6
Net income (Rs mn)	40.8	109.0	241.7	410.1
EPS (CS adj., Rs)	4.73	8.55	18.95	32.16
Change from previous EPS (%)	n.a.	-0.7	7.9	13.3
Consensus EPS	n.a.	0	0	0
EPS growth (%)	-12.9	80.7	121.7	69.7
P/E (x)	112.3	62.1	28.0	16.5
Dividend yield (%)	—	—	—	0.30
EV/EBITDA (x)	42.3	25.0	12.9	8.1
P/B (x)	12.5	14.3	9.5	6.1
ROE (%)	11.2	23.0	33.8	37.1
Net debt/equity (%)	52.9	104.3	150.6	154.3

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates.

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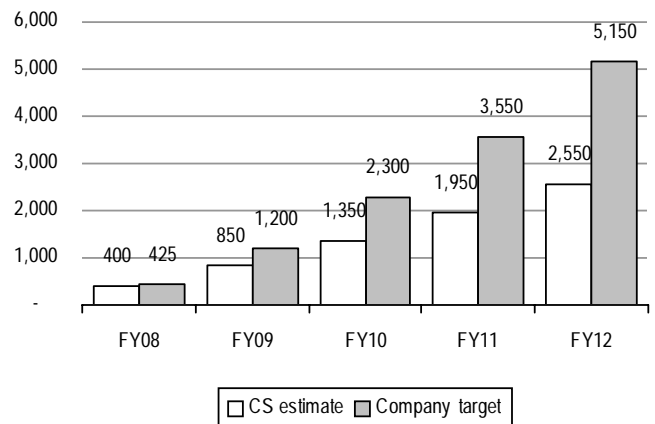
Focus charts

Figure 1: CS estimates for ViTELS centre additions



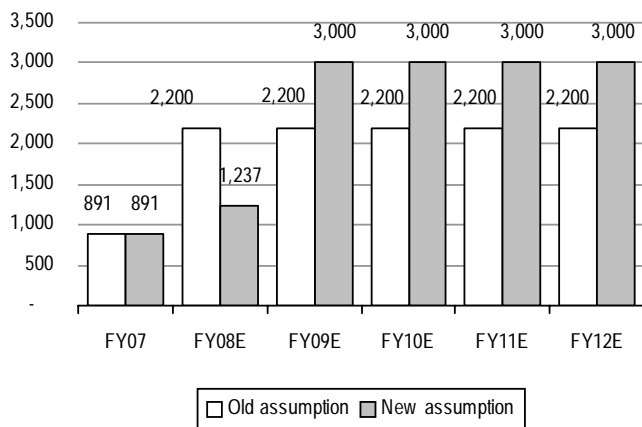
Source: Company data, Credit Suisse estimates

Figure 2: ViTELS centres: CS estimates versus company targets



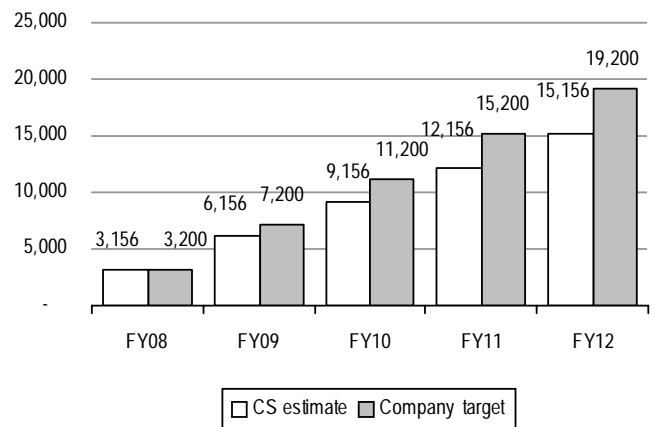
Source: Company data, Credit Suisse estimates

Figure 3: CS estimates for ICT school additions



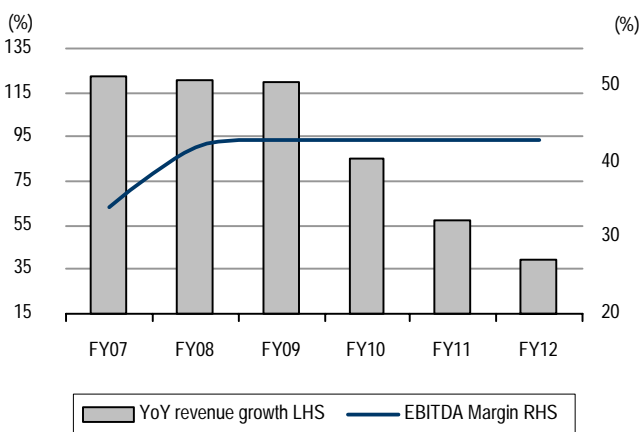
Source: Company data, Credit Suisse estimates

Figure 4: ICT schools: CS estimates versus company targets



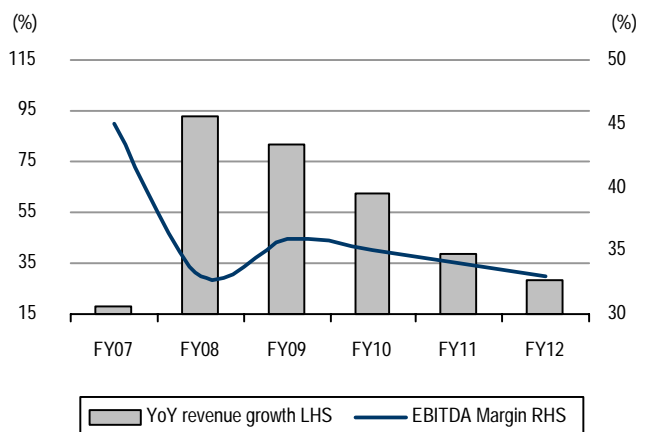
Source: Company data, Credit Suisse estimates

Figure 5: ViTELS revenue and EBITDA margin estimates



Source: Company data, Credit Suisse estimates

Figure 6: ICT revenue and EBITDA margin estimates



Source: Company data, Credit Suisse estimates

Positioning for the next level

We see new catalysts for Everonn coming from increased visibility of the geographic expansion of ViTELS (virtual and technology-enabled learning solutions) and strong near-term prospects for ICT. We build higher growth rates into our near-term forecasts, resulting in 8% and 13% increases in our FY09 and FY10 EPS estimates, respectively. We increase our DCF-based target price to Rs865 (from Rs785), implying a 52% upside. We maintain our OUTPERFORM rating on the stock.

Upgrading on higher growth visibility

We review our estimates for Everonn's various businesses in light of recent developments and greater visibility. The visibility of ViTELS' geographic expansion has improved significantly with the recent acquisition of a content company, and with Everonn's aggressive sales push. Furthermore, near-term prospects for ICT appear stronger due to a greater push by central and state governments for computerisation of government schools.

Greater visibility of ViTELS' geographic expansion and strong near-term ICT prospects drive upgrade

We assume stronger growth in both ViTELS and ICT, thus increasing our FY09 and FY10 revenue estimates by 4% and 15%, respectively. We raise our DCF-based target price by 10% to Rs865 (52% upside). We maintain our OUTPERFORM rating on the stock.

ViTELS – aggressive geographic expansion

Everonn's ViTELS offering has so far been restricted to schools, colleges and retail centres in South India. The hurdles to expansion outside this region have been a lack of content applicable to other states' curriculums and a geographically restricted sales force.

With the recent acquisition of the e-learning unit of Aban Informatics (not listed), Everonn has access to content that can be used for schools in almost all states. Since then, the company has begun aggressively investing in sales forces outside South India. It also plans to build more studios outside Chennai in order to tap teaching talent in other parts of the country. Our discussions with users of ViTELS (three schools and three colleges) show that with the right sales strategy, ViTELS could be successful outside South India.

Everonn recently acquired content with wider usability, and is getting aggressive in its sales push

These developments increase our confidence in the near-term growth prospects of this business, and we therefore increase our revenue growth estimates. The sharper ramp-up could also front-load scale benefits, resulting in higher margins than earlier expected.

ICT – improved near-term visibility

At the time of its IPO in mid-2007, Everonn's management indicated that around 1,000 schools per year could be added under ICT. However, the company is now talking about close to 4,000 school additions a year going forward.

We believe that this confidence stems from an unprecedented surge in contracts for government-school ICT (information and communication technology), with close to 30,000 schools opening up in coming months. This is a result of an increasing budget allocation for education.

We now estimate 3,000 ICT school additions per year, versus our earlier estimate of 2,200 and the company's target of 4,000

We thus raise our estimate for the number of schools that the company can win in a year to 3,000 (from 2,200 earlier). However, we build in lower margins as some of these contracts could involve upfront hardware sales.

Expanding into new territory

Apart from its more established ICT and ViTELS businesses, Everonn also has an array of smaller offerings with good growth potential. These include coaching services for IIT-JEE examinations, school management services and testing partnerships with institutions like ETS (TOEFL). Since these are still in their nascent stages, it is difficult to ascribe valuations to them.

Financial summary

Figure 7: Financial summary

Year-end 31 Mar (Rs mn)	FY07	FY08E	FY09E	FY10E
Income statement				
Revenue	430	868	1,692	2,895
Operating expenses	252	554	1,036	1,783
EBITDA	179	314	656	1,112
Depreciation	96	117	207	332
EBIT	82	197	449	781
Finance charges	23	44	89	169
Other income	0	12	-	-
PBT	59	165	361	612
Taxes	18	56	119	202
Net profit	41	109	242	410
EPS (Rs)	4.7	8.5	19.0	32.2
Balance sheet				
Total current assets	384	791	1,478	2,337
Gross fixed assets	562	844	1,454	2,232
Accumulated depreciation	197	314	521	853
Net FA	365	529	932	1,379
Total assets	749	1,320	2,410	3,716
Current liabilities & provisions	94	156	305	521
Debt outstanding	235	635	1,335	2,035
Shareholders' equity	365	474	716	1,105
Deferred tax liability	54	54	54	54
Total liabilities and shareholders' equity	749	1,320	2,410	3,716
Cash flow				
Net profit	41	109	242	410
<i>Adjusted for</i>				
Depreciation	-62	117	207	332
Interest expense	23	44	89	169
Other income	-0	-12	-	-
Working capital changes	-107	-246	-422	-571
Cash flow from operations	-105	36	115	339
Capex	29	-281	-610	-778
Change in other assets	-9	-	-	-
Other income	-0	-12	-	-
Cash flow from investing activities	20	-293	-610	-778
Change in debt	-33	400	700	700
Change in equity	137	-	-	-
Dividends paid	-	-	-	21
Interest paid	23	44	89	169
Cash flow from financing	80	356	611	511
Net cash flow	-5	99	117	72

Source: Company data, Credit Suisse estimates

Sector valuation summary

Figure 8: Global education services valuation table

24 Mar 2008		Mkt cap			P/E (x)			EV/sales (x)			EV/EBITDA (x)		
Company	Ticker	Currency	Price	US\$ mn	06	07E	08E	06	07E	08E	06	07E	08E
US education services													
Apollo Grp	APOL US	US\$	61	10,173	25.6	20.5	17.8	3.6	3.2	2.9	14.1	11.4	10.1
Blackboard	BBBB US	US\$	32	948	72.0	51.0	25.4	3.8	2.9	2.4	17.1	16.4	9.6
Bright Horizons	BFAM US	US\$	43	1,137	28.8	22.1	19.0	1.5	1.3	1.2	11.0	9.8	8.6
Career Education	CECO US	US\$	14	1,252	21.6	17.3	14.5	0.5	0.5	0.5	4.3	5.2	4.5
Corinthian Colleges	COCO US	US\$	8	678	99.6	20.1	16.3	0.7	0.6	0.6	9.4	6.8	5.7
Devry Inc	DV US	US\$	48	3,390	44.4	27.9	22.6	3.5	3.0	2.7	24.8	16.3	13.5
ITT Education	ESI US	US\$	50	1,977	13.2	11.6	9.9	2.1	1.8	1.6	6.8	6.1	5.5
American Public Education	APEI US	US\$	32	573	46.6	48.5	31.9	8.2	5.6	4.1	70.1	23.4	15.7
Learning Tree	LTRE US	US\$	16	260	15.2	15.4	13.1	1.0	0.9	0.8	8.1	6.0	5.1
Princeton Review	REVV US	US\$	7	237	(6.5)	72.7	29.1	1.7	1.5	1.3	322.3	18.8	
Strayer Education	STRA US	US\$	171	2,461	37.4	32.1	27.0	7.2	6.0	5.1	21.7	17.8	15.3
Capella Education	CPLA US	US\$	60	1,038	43.4	36.6	28.7	4.0	3.2	2.7	22.5	17.3	13.5
Noble Learning	NLCI US	US\$	13	139	17.0	17.9	16.2	0.7	0.6	0.6	7.8	6.9	6.5
Peoples Education	PEDH US	US\$	3	11	(41.7)	83.3	14.7	0.7			4.0		
US average					33.0	24.9	19.7	3.6	3.0	2.7	19.7	12.5	10.3
APAC education services													
ABC Learning	ABS AU	A\$	1.3	700	3.7	4.3	3.4	1.3	1.0	0.9	8.5	5.9	5.0
Mega Study	072870 KQ	W	318,500	2,058	43.7	33.8	25.7	12.0	9.2	7.2	31.8	24.2	18.5
New Oriental	EDU US	US\$	66	2,328	75.0	54.3	38.5	17.0	11.9	8.9	175.4	45.4	31.8
Raffles Education	RLS SP	S\$	1.0	1,567	41.3	25.0	17.3	17.3	11.2	8.0	36.4	21.2	14.8
APAC average					49.9	35.8	25.9	13.9	9.8	7.3	80.7	29.0	20.9
India education services													
Educomp Solutions	EDSL IN	Rs	3,669	1,579	204.2	103.8	47.5	57.6	23.4	10.4	125.4	47.9	19.5
Everonn Systems	ESIL IN	Rs	531	184	112.3	61.4	27.2	17.5	8.4	4.2	42.3	22.4	11.0
NIIT	NIIT IN	Rs	100	410	35.6	22.4	15.8	2.3	1.8	1.5	28.8	15.1	12.0
India average					164.6	84.8	39.8	43.8	18.1	8.2	100.1	39.5	17.4

* Adjusted for minority interest in subsidiaries. Note: Credit Suisse estimates for Indian companies, consensus for others; 2007E = FY3/08 for Indian companies; weighted averages calculated using market cap weights

Source: Bloomberg, company data, Credit Suisse estimates

Upgrading on higher growth visibility

We review our estimates for Everonn's various businesses in light of recent developments and greater visibility. The visibility of ViTELS' geographic expansion has improved significantly with the recent acquisition of a content company and with Everonn's aggressive sales push. Furthermore, near-term prospects for ICT appear stronger due to a greater push by central and state governments for computerisation of government schools.

We assume stronger growth in both ViTELS and ICT, thus increasing our FY09 and FY10 revenue estimates by 4% and 15%, respectively. We raise our DCF-based target price by 10% to Rs865 (52% upside). We maintain our OUTPERFORM rating on the stock.

Revenue estimates go up by 4% and 15% for FY09 and FY10

What has changed?

Since we initiated coverage of Everonn on 11 December 2007, the following positive developments have given us the confidence to up our assumptions for key businesses:

- Visibility of ViTELS geographic expansion.** While Everonn's ViTELS offering has been restricted to the four South Indian states so far, recent developments provide greater visibility for expansion outside this region. First, the company has acquired content (from Aban) which is aligned with India's central syllabus and those of most states. This removes the roadblock of lacking relevant content for expansion outside South India. Secondly, the company is aggressively increasing its sales force outside South India to market its ViTELS courses.
- Stronger near-term prospects for ICT.** With a large number of government ICT contracts coming up for bidding in the coming months, management is confident it can add 4,000 schools a year going forward (versus the 1,000 schools a year mentioned in the IPO prospectus). We feel that company should be able to safely manage around 3,000 schools a year (up from our earlier assumption of 2,200).

Acquisition of content and aggressive sales push provide visibility for ViTELS expansion

Greater push from state governments towards school IT infrastructure projects

Increasing growth and margin assumptions

Higher growth in both the ViTELS and ICT businesses drives our higher revenue estimates for FY09 (+4%) and FY10 (+15%). Furthermore, we have raised our EBITDA margin estimates as quicker ramp-up of ViTELS will front-load economies of scale in this business. We thus increase our EPS estimates by 8% for FY09E and 13% for FY10E.

Figure 9: Change in estimates

	FY07	FY08	FY09	FY10
Revenue (Rs mn)				
Old			1,629	2,512
New	430	868	1,692	2,895
% change			4	15
EBITDA margin (%)				
Old			37.7	38.0
New	41.5	36.2	38.8	38.4
EPS (Rs)				
Old			17.56	28.39
New	4.73	8.55	18.95	32.16
% change			8	13

Source: Credit Suisse estimates

Increasing target price

We raise our DCF-based target price for Everonn to Rs865 (from Rs785) to build in our stronger near-term growth and margin assumptions. Our DCF model assumes strong near-term growth, 11% medium-term growth and 3% terminal growth. We assume a WACC rate of 10.6%. Our new target price implies a 52% upside to the current price. We maintain our OUTPERFORM rating on the stock.

Raising our target price by 10% to Rs865, maintain OUTPERFORM

Figure 10: DCF assumptions

	Mar 07	Mar 08	Mar 09	Mar 10	Mar 11	FY3/12-3/26	Terminal
Revenue growth (%)	39.2	101.7	94.9	71.1	46.8	10.8	3.0
NOPAT margins (%)	18.2	18.5	18.5	18.1	17.7	15.4	13.0
Invested capital turns	0.77	0.90	0.94	1.03	1.10	1.37	1.50
ROIC (%)	11.4	17.0	21.8	22.7	23.2	21.8	19.4

Source: Company data, Credit Suisse estimates

Figure 11: DCF value sensitivity to WACC and terminal growth rates

WACC/terminal growth rate	9.6%	10.1%	10.6%	11.1%	11.6%
2.0%	1,051	933	832	746	670
2.5%	1,077	953	848	757	679
3.0%	1,107	976	865	771	690
3.5%	1,142	1,002	885	786	702
4.0%	1,183	1,033	908	804	715

Source: Credit Suisse estimates

ViTELS – aggressive geographic expansion

Everonn's ViTELS offering has so far been restricted to schools, colleges and retail centres in South India. The hurdles to expansion outside this region have been lack of content applicable to other states' curriculums and a geographically restricted sales force.

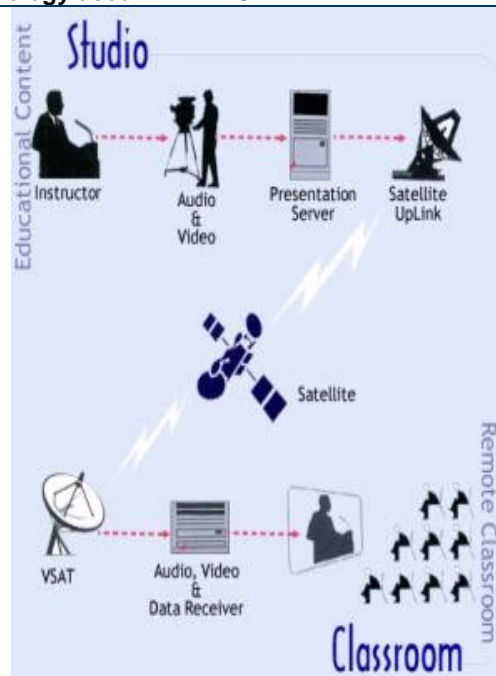
With the recent acquisition of the e-learning unit of Aban Informatics, Everonn gains access to content that can be used for schools in almost all states. Since the acquisition, the company has begun aggressively investing in sales forces outside South India. It also plans to build more studios outside Chennai in order to tap teaching talent in other parts of the country.

These developments increase our confidence in the near-term growth prospects of this business, and we therefore increase our revenue growth estimates. The sharper ramp-up could also front-load scale benefits, resulting in higher margins than earlier expected.

ViTELS – a brief overview

Everonn's ViTELS business uses VSAT (very small aperture terminal) technology to beam lectures from studios into remote classrooms.

Figure 12: VSAT technology used in ViTELS



Source: Company

Everonn employs expert teachers in different subjects to deliver lectures at its studios in Chennai. These are picked up and beamed to remote classrooms at schools and colleges in distant locations. The unique features of this delivery mechanism are:

- **Two-way interactive delivery:** Students and teachers can communicate with each other as if they were sitting in the same physical classroom. This is facilitated by cameras and microphones placed at both ends.
- **Parallel multimedia content:** In addition to a verbal lecture, the teacher can make use of a parallel multimedia stream to drive home the material.

While ViTELS has so far been restricted to South India ...

... recent events increase the visibility of expansion outside this region

Using satellite communication to beam lectures from studios to classrooms

- **Parallel chatting:** There is a parallel chat room where students can interact with each other and with the teacher on difficult concepts in real time.

The company currently has four studios in Chennai, with three more to be operational by the end of March 2008. It also has an in-house content development team of subject experts and multimedia programmers to develop the content required for each lecture.

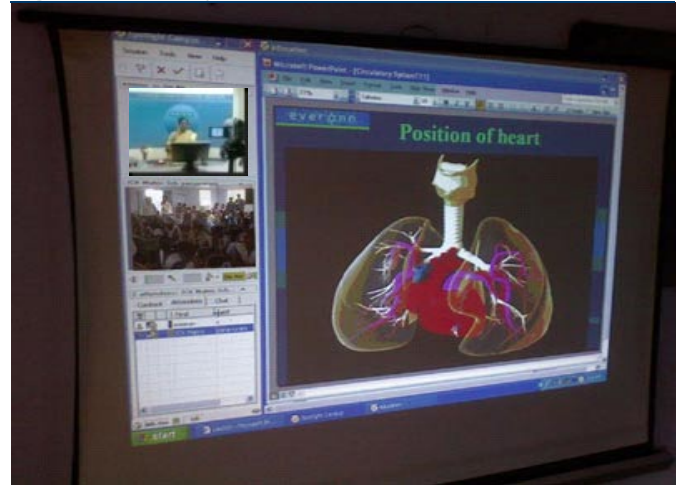
Everonn currently has four studios in Chennai, and is adding three more

Figure 13: A ViTELS studio



Source: Company

Figure 14: Display at student's end



Source: Company

Figure 15: A ViTELS remote classroom



Source: Company

Lectures targeting both school and college students

ViTELS, which started out as a short course in effective English language communication for students at engineering colleges in Tamil Nadu state, now offers a wide array of courses for school and college students. The company's strategies and marketing setups are quite different for schools and colleges:

Colleges – non-curriculum, career-oriented courses

At colleges, Everonn offers a range of non-curriculum courses aimed at improving the employability of undergraduate students. Starting with English-language communication two years ago, Everonn now offers courses encompassing skill enhancement, placement preparation and specific technical certifications, among others. Everonn thus aims to exploit the gap in the skills required by industry and the skills possessed by graduating

In colleges, a range of non-curriculum courses aimed at improving job prospects

students. These courses are of 3-12 months' duration, with fees collected upfront in most cases, nullifying the impact of students discontinuing courses midway.

Figure 16: Sample set of ViTELS courses offered to college students

Sample courses Feb. 2008	Fee (Rs/student)
Skill enhancement courses	
English enhancement	750
Placement preparatory	1,400
Soft skills	1,400
Business communication	1,500
Certification programmes	
J2EE	4,000
Software testing	5,500
CCNA preparatory	7,000
Bio informatics	5,500
Technical support	9,900
Advanced diploma courses	
Software testing and QM	25,900
J2EE programming	24,900
Net programming	24,900
Post-grad certification in banking and finance	14,500

Source: Company data

Around 200 colleges have signed up for ViTELS courses. Once a college signs up, an Everonn centre coordinator (CC) starts promoting the courses within the college. All of the 200 colleges are located in the four South Indian states of Tamil Nadu, Karnataka, Andhra Pradesh and Kerala. The business is supported by a 150-strong sales team.

Our discussions with administrators at colleges that have adopted ViTELS show that these courses are seen as important tools to improve placement prospects. Colleges pointed to marked improvement in placements after the introduction of ViTELS. Some colleges have made the courses mandatory. (Discussions with colleges are detailed in the appendix.)

After having refined its delivery and marketing model in South India, Everonn is now aggressively looking to expand into other parts of the country. For this, the company intends to sharply increase its sales force and set up more studios outside Chennai.

Schools – curriculum-based learning support

Everonn offers curriculum-based courses in schools. The Everonn teacher uses multimedia teaching aids to teach difficult concepts in subjects such as math, physics and biology, as a supplement to the regular classroom teacher. The offering has won good acceptance, with around 125 schools having signed up. The fee is around Rs85-180 per student per month, depending on the number of subjects taken.

Marketing to schools is easier than to colleges, as the sales effort stops at getting the school signed on. Individual promotion to each student is not required as the schools normally make the courses mandatory. This reduced marketing expense, together with the large volumes associated with schools, results in the school business having higher margins than the college business.

Our discussions with schools that have implemented ViTELS reveal a general feeling among administrators that the quality of regular teachers is quite low. Schools thus derive a lot of benefit from the expert teachers who appear in the virtual classrooms, and administrators value the teacher component of the offering much more than the content alone. Most schools have started with 10th and 12th-grade classes, and are now extending the courses to other grades. (Discussions with schools are detailed in the appendix.)

In order to expand outside the state of Tamil Nadu, the company recently acquired the e-learning unit of Aban Informatics. This gives it access to content aligned with the Central

Colleges point to marked improvement in placements after the introduction of ViTELS

School administrators feel that ViTELS effectively addresses the poor quality of teachers in schools

Board for Secondary Education (CBSE) syllabus, which is widely used across the country. The acquisition also gives Everonn access to around 40 schools nationwide.

Other services offered

Since the VSAT technology is neutral to the courses delivered, the facilities can be used for any kind of remote teaching once they are set up. Some of the other services Everonn offers include:

- Use of its facilities by corporates to conduct training programmes for new recruits at various locations. Among Everonn's key corporate clients are Cognizant, Bajaj Capital and Sriram Transport Finance.
- A few retail centres where career-oriented courses earlier are offered.

In the future, the company hopes to start offering courses in areas such as banking, financial services and life sciences.

The difference lies in the teacher

One question that might crop up is the difference between ViTELS in schools and Educomp's (EDSL IN, Rs3149.95, OUTPERFORM [V], TP Rs5235.00, MARKET WEIGHT) Smart_Class product.

- Educomp's Smart_Class provides multimedia content alone, and relies on the class teacher to use this content to teach effectively. Thus, the content is the most important part of the Smart_Class offering. ViTELS, on the other hand, provides an expert teacher who uses multimedia content in lectures. Thus, the teacher in the studio becomes the most important part of the ViTELS offering.
- Educomp's Smart_Class becomes part of the school's core curriculum and is therefore well-entrenched. Everonn's offering remains an addendum to normal school courses.

It is also reasonable to compare ViTELS offerings for college students with the IT training business (which kicked off in the 90s). While both target college students seeking to improve their job skills, ViTELS is better positioned for the following reasons:

- It is not restricted to the IT industry alone, and hence has a larger scope and addressable market.
- ViTELS classes take place on campus, while IT training takes place mainly in franchisee centres outside campuses. ViTELS classes are therefore more convenient for students to attend.
- Everonn introduces its courses at colleges after having won the faith of college administrators. It therefore has their support, unlike IT training courses.

Raising forecasts on aggressive geographic expansion

Having enrolled 200 colleges and 125 schools, as well as operating 15 retail/corporate centres in southern India, Everonn is now looking to expand aggressively in other parts of the country. We believe this geographic expansion could result in around 600 new ViTELS centres being added each year in the medium term (versus our earlier expectation of 400 additions per year). This could take Everonn's presence to around 2,500 schools and colleges around the country by FY12, from around 200 in March 2007. Under these assumptions, Everonn would still be present in less than 10% of the addressable schools and colleges across the country. Further, our estimate for the number of ViTELS centres in FY12 is less than half of the company's target (presented at the Credit Suisse Global Services Conference 2008).

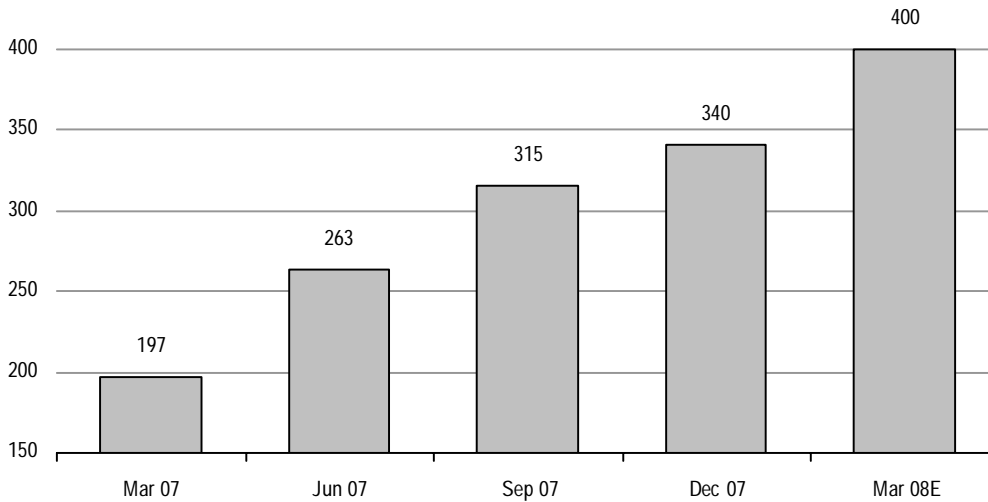
While ViTELS' strength lies in the access to an expert teacher, Smart_Class is more easily absorbed into the curriculum...

We expect annual additions of 600 centres in the medium term, up from our earlier forecast of 400

While concerns have recently been raised about stagnation in ViTELS growth, we note that the company has increased the number of centres by 30% since its IPO, and has already added 143 centres in the nine months ending in December 07. One needs to keep in mind that the business is seasonal, with the December quarter the being the weakest. We feel that our estimate of 400 centres added by the end of FY08 is quite conservative and could see decent upside.

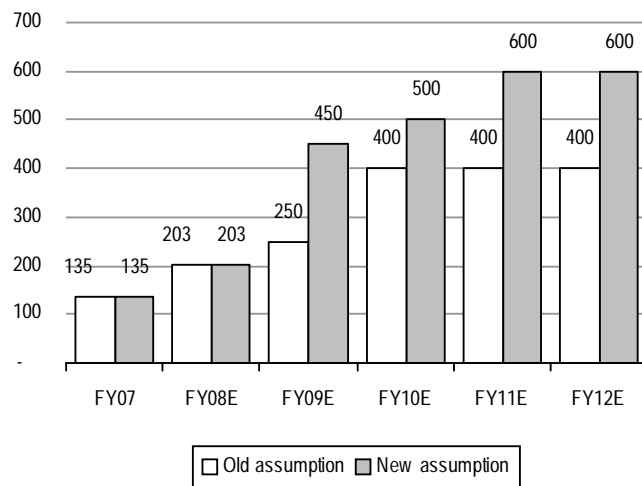
The company added 143 centres in the nine months through December 2007; we expect 203 centres to be added in FY08

Figure 17: Quarterly progress of ViTELS centres



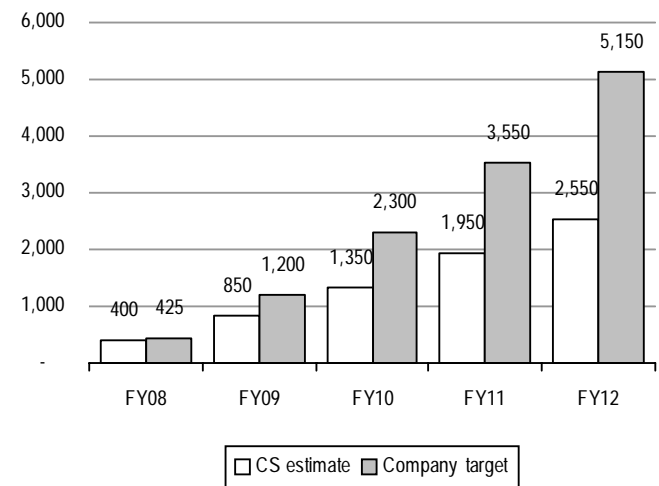
Source: Company data, Credit Suisse estimates

Figure 18: CS estimate for number of ViTELS centres added each year



Source: Company data, Credit Suisse estimates

Figure 19: Year end no. of ViTELS centres: CS estimate versus company target



Source: Company data, Credit Suisse estimates

We expect an 80% revenue CAGR for ViTELS over FY07-FY12. We expect EBITDA margins to expand rapidly due to: 1) stronger scale benefits as the business ramps up and 2) the successful launch of courses at higher price points.

Figure 20: ViTELS revenue and EBITDA estimates

	FY07	FY08	FY09	FY10
Revenues (Rs mn)	138	304	668	1,234
% YoY	122.7	120.5	119.8	84.8
EBITDA (Rs mn)	47	128	287	531
EBITDA margin (%)	34.0	42.0	43.0	43.0

Source: Company data, Credit Suisse estimates

Breaking new ground – cracking the government market with ViTELS?

While offerings like Educomp's Smart_Class and Everonn's ViTELS have so far targeted only private schools, we understand that a few state governments (including Jharkhand) have shown a keen interest in using ViTELS in government schools. This would open up a completely new market, creating further upside for the business.

ICT – improved near-term visibility

At the time of its IPO in mid-2007, Everonn's management indicated that around 1,000 schools per year could be added under ICT. However, the company is now talking about close to 4,000 school additions a year going forward.

We believe that this confidence stems from an unprecedented surge in contracts for government-school ICT, with close to 30,000 schools opening up in coming months. This is a result of increasing budget allocations for education and schemes like Sarva Shiksha Abhiyan (SSA).

We thus raise our estimate for the number of schools that the company can win in a year to 3,000 from 2,200. However, we assume lower margins as some of these contracts could require upfront hardware sales.

Surge in number of projects up for bidding

In the ICT business, Everonn competes with companies such as Educomp, NIIT (NIIT IN, Rs92.05, UNDERPERFORM [V], TP Rs123.00, OVERWEIGHT) and Teledata (TDIL.BO, Rs14.80, not rated) in projects involving setting up computer labs in government schools and providing computer training to students. (For further details, please refer to our report titled *Indian Education Services: Be Part of the Revolution* published on 11 December 2007).

Our recent discussions with various vendors reveal that close to 30,000 schools could be coming up for bidding in the coming 3-12 months. Furthermore, the 20% increase in budget allocation for school education could speed computer penetration in rural schools.

Figure 21: Some of the states where ICT projects are coming up in next few months

State	No of schools
Gujarat	1,000
Jharkand	1,000
Karnataka	2,200
Uttar Pradesh	2,500
Rajasthan	2,500
Andhra Pradesh	5,000
Gujarat*	9,500

*This contract would involve upfront hardware sales. All others are on BOOT model

Source: ICT vendors, Credit Suisse estimates

More school additions expected

Given improved visibility and continued strong budget allocations for education, we raise our estimate for Everonn's government school additions to around 3,000 per year (from 2,200 earlier). On the other hand, we assume slightly lower margins as these contracts are more likely to involve upfront hardware sales, which have lower margins initially.

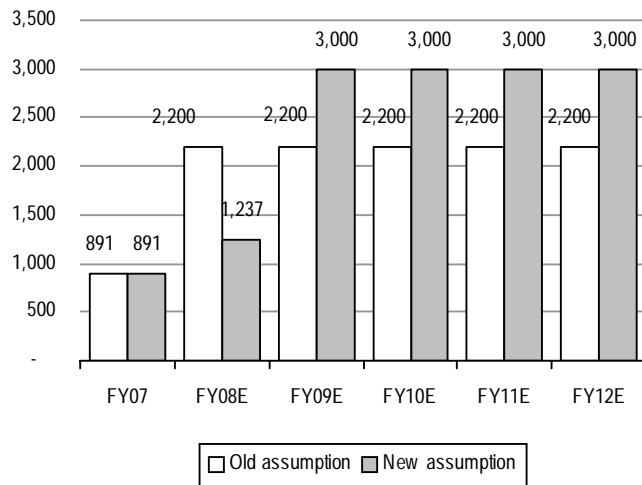
Our channel checks reveal that while a large number of schools are in the bidding process, many of these bids will close after 31 March 2008 (in the month of April). We therefore reduce our estimate for the number of schools as of March 2008 and shift these revenues to 1Q09. This has only a marginal (<1%) impact on our FY3/08 EPS estimates.

Management is talking about 4,000 school additions per year, versus its estimate of 1,000 additions at the time of IPO last year

Close to 30,000 schools could be coming up for bid in the next three to 12 months

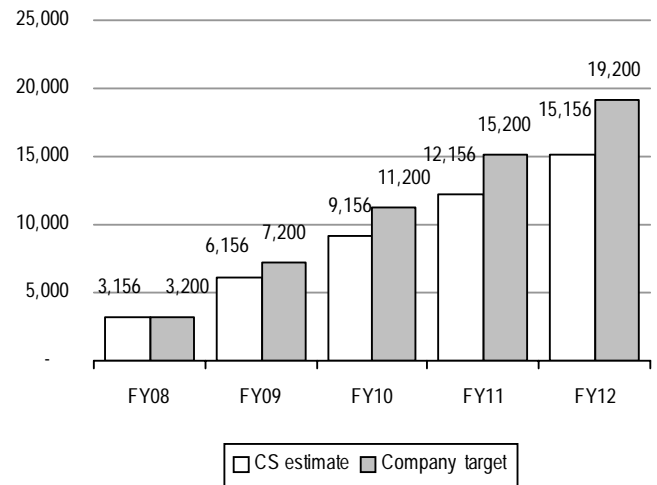
We expect 3,000 school additions per year, up from our earlier forecast of 2,200

Figure 22: Change in CS estimate for number of ICT schools



Source: Company data, Credit Suisse estimates

Figure 23: Year-end number of ICT schools: CS estimate versus company target



Source: Company data, Credit Suisse estimates

Figure 24: ICT revenue and EBITDA estimates

	FY07	FY08	FY09	FY10
Revenue (Rs mn)	293	564	1,025	1,661
% YoY	18.3	92.8	81.5	62.1
EBITDA (Rs mn)	132	186	369	581
EBITDA margin (%)	45.0	33.0	36.0	35.0

Source: Company data, Credit Suisse estimates

Expanding into new territory

Apart from its more established ICT and ViTELS businesses, Everonn also has an array of smaller offerings with good growth potential. These include coaching classes for IIT-JEE examinations, school management services and testing partnerships with institutions like ETS (TOEFL). Since these are still in their nascent stages, it is difficult to ascribe valuations to them. However, a brief study is warranted to understand the breadth of the markets that management is targeting.

Coaching classes for IIT-JEE

The Joint Entrance Exam (JEE) for the prestigious Indian Institutes of Technology (IITs) is one of the most fiercely competitive entrance exams in the country, with more than 250,000 students vying for just over 5,500 places. Providing training to crack the exam is a huge industry in India, with some of the higher-end coaching classes charging north of Rs150,000 for a full coaching package.

Everonn aims to tap this opportunity by opening coaching centres across the country, initially in North India. These centres would offer regular classroom coaching as well as lectures on the ViTELS platform in selected topics. The company hopes to piggy-back on its ICT sales and operations presence in various North Indian states. It is looking to partner with or acquire small coaching centres with good content, teachers and reputations and recently acquired Toppers, a small JEE training company in North India.

Everonn recently acquired Toppers, a renowned JEE training company in North India

School management services

Everonn recently entered the school management business by tying up with a school in South India, and hopes to enrol around 100 schools by March 2009. This business will offer professional management services to schools run by small trusts or government companies to increase education quality. Services include recruiting and training teachers, choosing and delivering educational technology and content and standardising administrative processes.

After gaining sufficient experience and a brand name in school management, the company intends to start running schools of its own.

Testing services

Everonn is a partner of Educational Testing Services (ETS) in conducting the Test of English as a Foreign Language (TOEFL) in India. Of ETS' 120 TOEFL labs in India, Everonn runs and manages 40, and recently won a best practices award from ETS. 6,000 students took the TOEFL test last year at Everonn's centres, and the company expects the number to top 20,000 this year.

Everonn is a key partner of ETS in conducting TOEFL exams in India

Everonn is looking to build on this partnership to conduct Common Admission Tests (CAT) for Indian Institutes of Management (IIMs) when they go online in a couple of years.

Appendix I: Financials

Figure 25: Summary financials

Year-end 31 Mar (Rs mn)	FY07	FY08E	FY09E	FY10E
Income statement (Rs mn)				
Revenue	430	868	1,692	2,895
Operating expenses	252	554	1,036	1,783
EBITDA	179	314	656	1,112
Depreciation	96	117	207	332
EBIT	82	197	449	781
Finance charges	23	44	89	169
Other income	0	12	-	-
PBT	59	165	361	612
Taxes	18	56	119	202
Net profit	41	109	242	410
EPS	4.7	8.5	19.0	32.2
Balance sheet (Rs mn)				
Total current assets	384	791	1,478	2,337
Gross fixed assets	562	844	1,454	2,232
Accumulated depreciation	197	314	521	853
Net FA	365	529	932	1,379
Total assets	749	1,320	2,410	3,716
Current liabilities & provisions	94	156	305	521
Debt outstanding	235	635	1,335	2,035
Shareholder's equity	365	474	716	1,105
Deferred tax liability	54	54	54	54
Total liabilities and shareholders' equity	749	1,320	2,410	3,716
Cash flow (Rs mn)				
Net profit	41	109	242	410
<i>Adjusted for</i>				
Depreciation	-62	117	207	332
Interest expense	23	44	89	169
Other income	-0	-12	-	-
Working capital changes	-107	-246	-422	-571
Cash flow from operations	-105	36	115	339
Capex	29	-281	-610	-778
Change in other assets	-9	-	-	-
Other income	-0	-12	-	-
Cash flow from investing activities	20	-293	-610	-778
Change in debt	-33	400	700	700
Change in equity	137	-	-	-
Dividends paid	-	-	-	21
Interest paid	23	44	89	169
Cash flow from financing	80	356	611	511
Net cash flow	-5	99	117	72

Source: Company data, Credit Suisse estimates

Figure 26: Estimates by segment

ICT	FY07	FY08E	FY09E	FY10E
No of schools (EOP)	1,919	3,156	6,156	9,156
% YoY		64	95	49
Revenues (Rs mn)	293	564	1,025	1,661
% YoY		93	82	62
EBITDA margin (%)	45.0	33.0	36.0	35.0
VITELS				
No of centres (EOP)	197	400	850	1,350
% YoY		103	113	59
Revenues (Rs mn)	138	304	668	1,234
% YoY		120	120	85
EBITDA margins (%)	34.0	42.0	43.0	43.0

Source: Company data, Credit Suisse estimates

Figure 27: Key metrics

	FY07	FY08E	FY09E	FY10E
YoY growth (%)				
Revenues	39.2	101.7	94.9	71.1
EBITDA	21.9	75.8	109.0	69.5
EBIT	-4.6	138.7	128.4	73.7
Net profit (%)	0.9	167.4	121.7	69.7
Margins				
EBITDA (%)	41.5	36.2	38.8	38.4
EBIT (%)	19.1	22.7	26.6	27.0
Net (%)	9.5	12.6	14.3	14.2
Turns ratio (%)				
Working capital	1.7	1.8	1.8	1.9
Fixed asset	1.2	1.6	1.8	2.1
Return ratios (%)				
ROE (avg)	14.8	26.0	40.6	45.0
ROE (EOP)	11.2	23.0	33.8	37.1
ROIC (avg.)	11.4	17.0	21.8	22.7

Source: Company data, Credit Suisse estimates

Appendix II: Conversations with schools and colleges

We spoke to three schools and three colleges that are using Everonn's ViTELS. None are in the metropolitan city of Chennai, and some are in small towns. Most institutions are satisfied with the courses and are keen to continue in the future. They also constantly send feedback to Everonn to improve the offerings, and the company actively incorporates this feedback. Here we present some of the key takeaways from our conversations.

Jayaraj Annapakiya College, Periyakulam

This is an autonomous college offering undergraduate and post-graduate courses in the arts, science and commerce. The college has around 2,000 students, most from rural backgrounds.

The college installed Everonn's virtual classrooms around three years ago and offers courses including soft skills, English enhancement, software training, commerce and biotechnology. The courses take place after college hours every day and are not mandatory. School administrators indicated that there has been significant improvement in student placements since the courses were introduced. Also, these courses are offered at a much lower price than at alternative private institutes.

Since the institute is autonomous, it can set its own curriculum. The administration is considering introducing courses that make direct use of ViTELS, for which attendance would be mandatory.

The college does not charge students directly. All operational details, including fee collection, are handled for Everonn by an on-campus coordinator (an alumnus of the college).

SNS College of Technology, Coimbatore

SNS college offers engineering and technology courses in various streams and has about 2,000 students. The college signed up for ViTELS after learning about it from other colleges that had implemented it.

The college signed up for ViTELS courses less than four months ago, and around 30 students are currently enrolled. Students attend courses on topics that are not in the curriculum but are required for job placement. Enrolment is optional.

School administrators feel that the course fees are not expensive. However, they feel that the course may have to run for at least a year before the benefits are realised by students and they become popular.

Sri Ramakrishna College of Arts and Science for Women, Coimbatore

Sri Ramakrishna College offers undergraduate courses in arts and science and enrolls around 1,750 students.

The college has been using ViTELS since 2005, with the English enhancement course being the main attraction. School administrators indicated that these courses have opened up many placement opportunities that were previously not available to students. The college has now made it mandatory for all first-year students to take the courses.

The college collects course fees upfront from students and pays Everonn immediately.

Maruthi Matriculation Higher Secondary School, Pondyicherry

This school started with ViTELS one academic year ago with courses for 10th and 12th grade students. It plans to extend the courses to the 11th grade this year. The courses offered are in math, physics, chemistry and biology.

School administrators see three clear benefits from ViTELS courses:

- The faculty in the virtual classrooms are of high quality, with a lot of experience.
- The visuals explain all the concepts clearly.
- As the curriculum becomes more complex, help from expert teachers is very valuable.

The courses are mandatory for all students. Even subject teachers are required to sit through all the courses. The school gets the lecture schedule from Everonn beforehand and tries to complete classroom teaching of the relevant topics before they are taught in Everonn's classes. This way, the students get a good recap and can have their questions answered by the experts. The school also monitors the regular homework assigned to students by Everonn.

The school administration feels that if the quality of regular classroom teachers was high, purchasing good visuals and content would be enough. But since there is a shortage of quality teachers, live lectures from the ViTELS teachers are considered very important.

The school fee is Rs24,000 per student per year, inclusive of all services (regular school charges and ViTELS).

Cambridge Matriculation Higher Secondary School, Krishnagiri

This is a 19-year-old school enrolling students in grades 1-12. The school has mandated ViTELS for students in grades 9-12 and is seeking to extend it to lower grades.

The school's administration strongly feels that the quality of teachers in Indian schools is poor. Being situated in a small town, this school also has limited access to resources. Everonn offers a way to access good teachers at a very nominal cost. The fact that other schools are logged in simultaneously to the lectures helps foster interaction between students from different schools. Administrators feel that there has been an improvement in students' performance and understanding of concepts.

Administrators feel that parents would not hesitate to pay if high-quality education is promised. The school charges about Rs65 a month for ViTELS, in addition to its Rs400 monthly school fee. The school's administration has asked Everonn to extend the courses to all topics in the curriculum rather than just the most difficult ones.

PMG Matriculation Higher Secondary School, Coimbatore

This school is in a semi-urban area, with most students coming from middle- or lower-middle-class families. It charges less than Rs5,000 in annual school fees per student.

The school started with ViTELS a year ago and mandates the courses for students in 10th and 12th grades. The school administration finds that the courses are of good quality and intends to extend them to all classes above 6th grade. The school normally completes classroom teaching of topics before they are covered in ViTELS classes. It also encourages teachers to attend the virtual lectures in order to learn from the expert teachers.

To make the technology affordable for parents, the school has cut down on a few of its other facilities to keep its annual fee below Rs5,000.

The school has asked Everonn to increase the duration of the Q&A sessions after each lecture to make them more useful for students.

Companies Mentioned (Price as of 24 Mar 08)

- ABC Learning Centres Limited (ABS.AX, A\$1.30)
- American Public Education (APEI, \$28, NOT RATED)
- Apollo Group Inc. (APOL, \$60.54, NEUTRAL, TP \$70.00)
- Blackboard Inc. (BBBB, \$32.22)
- Bright Horizons Family Solutions (BFAM, \$43.05)
- Capella Education Company (CPLA, \$60.96, OUTPERFORM, TP \$70.00)
- Career Education Corp. (CECO, \$13.95, NEUTRAL [V], TP \$14.00)
- Corinthian Colleges, Inc. (COCO, \$7.91, NEUTRAL, TP \$9.00)
- DeVry Inc. (DV, \$47.56, OUTPERFORM, TP \$65.00)
- Educomp Solutions Ltd (EDSO.BO, Rs3149.95, OUTPERFORM [V], TP Rs5235.00, MARKET WEIGHT)
- Everonn Systems India Ltd (EVSI.BO, Rs513.95, OUTPERFORM [V], TP Rs865.00, MARKET WEIGHT)
- ITT Educational Services, Inc. (ESI, \$51.44, NEUTRAL, TP \$61.00)
- Learning Tree International, Inc. (LTRE, \$15.62)
- Megastudy Co Ltd (072870.KQ, W305,000, UNDERPERFORM [V], TP W280,000)
- New Oriental Education & Technology Group (EDU.N, \$65.88, OUTPERFORM [V], TP \$78.30)
- NIIT (NIIT.BO, Rs92.05, UNDERPERFORM [V], TP Rs123.00, MARKET WEIGHT)
- Noble Learning (NLCL, \$13, NOT RATED)
- Peoples Education (PEDH, \$2, NOT RATED)
- Princeton Review (REVU, \$7.68, NOT RATED)
- Raffles Education (RLSE.SI, S\$.94, OUTPERFORM [V], TP S\$1.70)
- Strayer Education, Inc. (STRA, \$170.42, NEUTRAL, TP \$175.00)

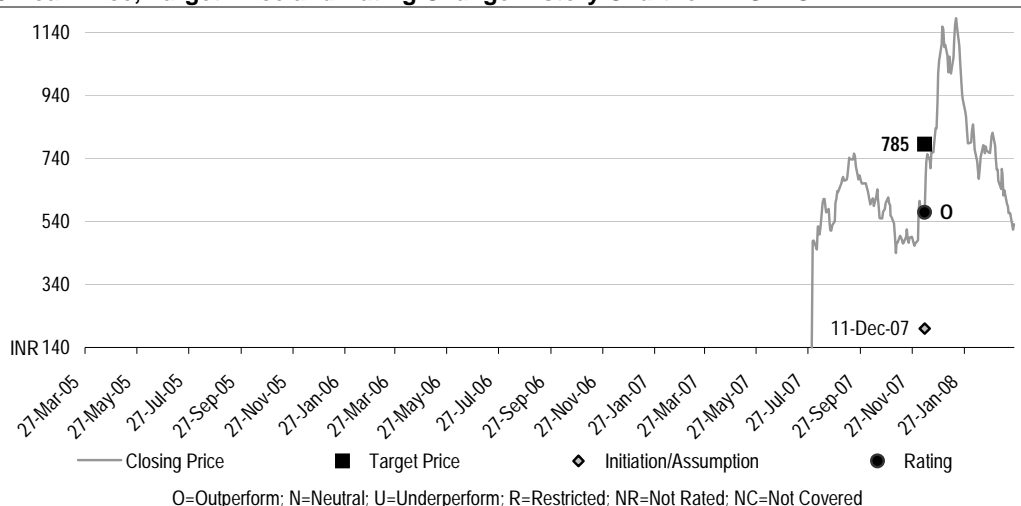
Disclosure Appendix

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3-Year Price, Target Price and Rating Change History Chart for EVSI.BO



EVSI.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/ Assumption
11-Dec-07	568.85	785	OUTPERFORM	X

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**The industry average refers to the average total return of the relevant country or regional index (except with respect to Europe, where stock ratings are relative to the analyst's industry coverage universe).*

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Price Target: (12 months) for (EVSI.BO)

Method: We value Everonn on a DCF model. We assume strong near term growth rates, 11.0% medium term growth and 3% terminal growth, 10.6% WACC. This gives a target price of Rs865.

Risks: The key risks to our target price of Rs865 on Everonn include: 1) execution risks as the company is in early growth stage in its business lines, and is also launching new businesses 2) change in regulation thereby impacting the business model

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