

**Everonn Education Ltd-----Maintain OUTPERFORM**
**Dec-09 quarter results: new business investments pull down margins**
**EPS: ▼ TP: ▼**

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- Everonn reported Dec-09 quarter results with revenue growing 84% YoY (6% below our numbers due to a shift in bookings from the UP contract by a quarter).
- EBITDA margins came in 300 bps below estimates, as Everonn stepped up investments in new businesses. The miss on EBITDA flowed down to the bottom line, with profits missing our numbers by 19%.
- Additions to ViTELS remain strong, with the number of centres up 100% YoY. There were a few additions in the ICT segment too. Management indicated that a few large tenders could be closed in the coming months.
- We take a conservative view on new business investments (which are necessary in this industry, in our view), and write off the investments in FY3/10. As a result, our FY10 EPS falls 7%, while our DCF-based target price drops to Rs525 (from Rs550).
- However, we believe valuations at 10x FY11 P/E are attractive, given the strong growth profile. Retain an OUTPERFORM.

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**Business update**

**ViTELS:** During the quarter, the company added 231 colleges and 133 schools on the ViTELS platform, taking the total count to 2,263 (1,396 colleges + 867 schools), up 100% YoY. Over 57% of schools and 45% of colleges are outside South India. Margins in ViTELS were flat YoY.

**ICT:** The mega UP ICT contract of 1,099 schools will start kicking in revenue from the Mar-10 quarter (an expected Mar-10 revenue of Rs70 mn plus). During the quarter, Everonn added 154 more school contracts, taking the school base up 32% YoY to 5,862.

**Subsidiaries:** While Toppers' revenue remained flat QoQ, margins fell sharply due to the promotional expenses mentioned above. Edures revenue fell 17% QoQ and this infrastructure resale business remains lumpy.

**Reducing EPS estimates on new investments**

In the quickly evolving Indian education industry, it is important to keep investing in new businesses to stay ahead in the race, hence Everonn's new business investments are justified. However, we take a conservative view on the success of these investments and write them off in FY3/10. As a result, our FY10 EPS estimate falls 7% to Rs29. This also brings down our DCF-based target price to Rs525.

However, we remain positive on the long-term growth prospects for the company and believe valuations are attractive at 10x FY3/11. We thus retain our OUTPERFORM rating on the stock.

Bbg/RIC	EEDU IN / EVED.BO	Price (27 Jan 10 , Rs)	413.00		
Rating (prev. rating)	O (O) [V]	TP (Prev. TP Rs)	525 (550)		
Shares outstanding (mn)	15.12	Est. pot. % chg. to TP	27		
Daily trad vol - 6m avg (mn)	1.7	52-wk range (Rs)	464.50 - 80.25		
Daily trad val - 6m avg (US\$ mn)	13.8	Mkt cap (Rs/US\$ mn)	6,244.6/ 136.2		
Free float (%)	63.8	<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Major shareholders	Promoters 31%	Absolute (%)	2.8	(9.0)	146.9
		Relative (%)	6.4	(9.2)	27.6
Year	3/08A	3/09A	3/10E	3/11E	3/12E
Revenues (Rs mn)	919	1,447	2,865	4,227	5,204
EBITDA (Rs mn)	337	512	1,038	1,491	1,882
Net profit (Rs mn)	142.0	220.7	439.4	623.9	772.7
EPS (Rs)	11.1	14.6	29.1	41.3	51.1
- Change from prev. EPS (%)	n.a.	n.a.	(7)	2	0
- Consensus EPS (Rs)	n.a.	n.a.	25.3	35.3	56.5
EPS growth (%)	135.4	31.1	99.1	42.0	23.9
P/E (x)	37.1	28.3	14.2	10.0	8.1
Dividend yield (%)	0	0	0.4	0.5	1.2
EV/EBITDA (x)	18.8	12.4	6.4	4.9	3.8
P/B (x)	5.5	2.9	2.4	2.0	1.6
ROE (%)	15.0	10.3	17.2	19.8	20.1
Net debt (net cash)/equity (%)	7.7	3.9	15.3	32.2	24.9

Note 1: Everonn is a provider of K-12 learning content and learning infrastructure solutions. It also provides distant education programmes for professionals.

**Profits miss estimates**

Everonn reported 3Q FY3/10 results with revenue growing 84% QoQ to Rs799 mn, 6% below our numbers. While we were expecting some revenue from the UP ICT contract to be recognised in Dec-09 quarter itself, this should start getting booked only from the Mar-10 quarter – leading to the miss.

EBITDA margins came 300 bps below our estimates at 35%. This was driven by investments in subsidiaries without any corresponding revenue: skill development, infrastructure (together Rs13 mn) and Toppers exam training (Rs5 mn) in terms of management hires and promotional expenses. Thus, EBITDA came in 14% below our

**Figure 1: Everonn's Dec-09 results summary**

(Rs mn)	Dec-08	Sep-09	Dec-09	% QoQ	% YoY	CS	Diff. (%)
Net sales	436	731	799	9	84	849	-6
EBITDA	172	263	279	6	62	323	-14
EBITDA margin (%)	40	36	35			38	
EBIT	124	200	211	5	70	250	-16
EBIT margin (%)	28	27	26			29	
Interest	13	21	22	5	74	21	5
Other income	12	1	1			1	
PBT	123	180	190	5	55	230	-17
Tax expense	44	62	68	9	55	80	-14
Net profit	79	118	121	3	54	150	-19

Source: Company data, Credit Suisse estimates.

**Figure 2: Segment revenue growth**

(Rs mn)	Dec-08	Dec-09	% YoY
ICT	133	184	38.5
ViTELS	213	407	91.3
Edures	88	180	103.7
Toppers	2	29	n.m

Source: Company data, Credit Suisse estimates.

**Companies Mentioned** (Price as of 27 Jan 10)

Everonn Education Ltd (EVED.BO, Rs413.00, OUTPERFORM [V], TP Rs525.00)

**Disclosure Appendix**

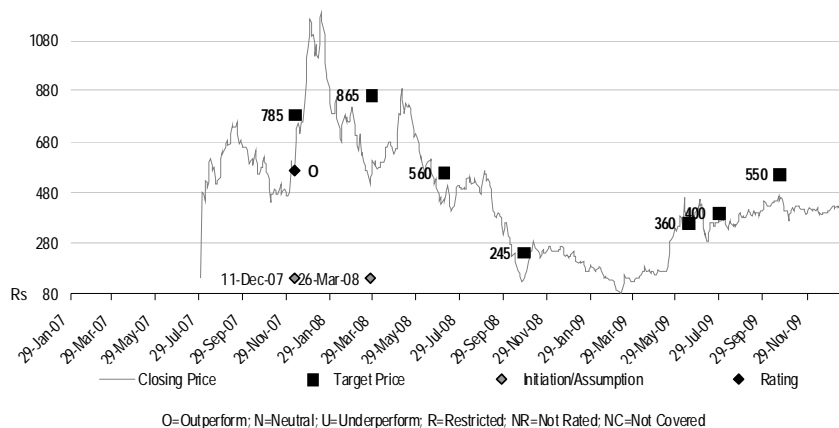
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**3-Year Price, Target Price and Rating Change History Chart for EVED.BO**

EVED.BO Date	Closing Price (Rs)	Target Price (Rs)	Rating	Initiation/ Assumption
11-Dec-07	568.85	785	O	X
26-Mar-08				X
27-Mar-08	551.15	865		
07-Jul-08	455.1	560		
27-Oct-08	138.5	245		
16-Jun-09	409.7	360		
28-Jul-09	373.45	400		
22-Oct-09	445.05	550		



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**Price Target:** (12 months) for (EVED.BO)

**Method:** We value Everonn on a discounted cash flow (DCF) model. We assume strong near-term growth rates, 11.0% medium-term growth and 3% terminal growth, 12.5% weighted average cost of capital (WACC). This gives a target price of Rs525.

**Risks:** The key risks to our target price of Rs525 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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