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Educomp Solutions & Everonn Systems: Great Going...

	Educomp	Everonn	Remarks
Revenues (FY08- Rs mn)	2,621	912	Educomp and Everonn both have seen tremendous growth mainly due to their focus on the schools' business (Educomp – Smart Class & ICT and for Everonn – ICT & ViTELS) which grew 188% yoy for Educomp and 112% yoy for Everonn Systems
Highest Contributing Segment	Smart Class ~49%	ICT business ~72%	
Revenues Growth YoY	146.10%	111.9%	
<i>Revenue CAGR (FY07-10E)</i>	<i>115%</i>	<i>70%</i>	
EBDITA (FY08- Rs mn)	1238	334	In the case of Educomp, EBDITA margins jumped 38 bps to 47.2% on a consolidated basis, due to faster growth in Smart Class business during the year by 174%. It had a PBIT margin of ~58%. For Everonn Systems, in spite of a fall in EBDITA by 431 bps EBIT margin increased by 464 bps to ~26%. This was due to improvement in ViTELS' margins by 1055 bps (due to better utilization and introduction of newer courses) during the year. For this business, lower capex was incurred in comparison to ICT. Moreover, there was added pressure on ICT business due to booking of hardware for 1256 Gujarat government schools.
EBDITA Margins	47.2%	36.7%	
EBDITA Growth YoY	145%	90%	
ICT business (FY08- Rs mn)	933	655	Both Educomp & Everonn missed their yearly targets of 8000 and 4000 ICT schools mainly due to a delay in closure of bids in Karnataka and Andhra Pradesh. But the good news is that in FY09 about 27000 schools will be open for bidding. Educomp expects total of 50000 schools to come for bidding in FY09 which includes Karnataka and Andhra bids and schools closed for bidding in March and April 2008. The management has guided for 10000-11000 schools in FY09.
ICT revenues as % of revenues	36%	72%	
No. of ICT schools	6,004	3,166	
EPS CAGR (FY07-10E)	126%	108%	Educomp and Everonn continue to trade higher despite the recent turmoil in equity markets due to its higher revenue visibility. Educomp is gaining more stability with increasing marketing focus on smart classes, which premium schools consider an essential tool for teaching. Everonn trades at ~34% discount to Educomp on a one-year forward earnings multiple which is due to the nature of the business model that is still evolving.
PE – 09E	53.74	35.67	
PE – 10E	31.61	23.64	

Everonn Systems

	FY08	FY07	YoY	Q408	Q308	QoQ
Revenues	912	430	111.9%	305	291	4.7%
Expenditure						
Employee Cost	114	76	50.1%	24	34	-30.7%
Other Expenditure	464	178	160.4%	148	171	-13.1%
	578	254	127.4%	172	205	-16.0%
EBDITA	334	176	89.6%	133	87	53.6%
Other Income	15	-		7	7	4.4%
Interest	33	23	41.9%	9	7	25.5%
Depreciation	97	84	15.2%	19	27	-31.1%
Overheads transferred to Fixed Assets	-	2		-	-	
PBT	219	66	231.6%	113	59	89.9%
Provision for Taxation	79	22	253.6%	45	19	136.1%
PAT	141	44	220.4%	68	40	68.3%
EPS	11.04	4.72		5.55	3.18	
EBDITA	36.7%	41.0%	-431 bps	43.6%	29.7%	+1389 bps
EBIT	26.0%	21.3%	+464 bps	37.5%	20.4%	+1706 bps
PBT	24.0%	15.4%	+867 bps	36.9%	20.4%	+1658 bps
PAT	15.4%	10.2%	+521 bps	22.3%	13.9%	+844 bps
Revenues						
ICT Schools	655	293	123.7%	204	240	-14.7%
ICT Centers - End of Period (no.'s)	3166	1919	65.0%	3166	3166	0.0%
ViTELS	260	138	88.1%	101	52	93.5%
ViTELS Centers - End of Period (no.'s)	429	197	117.8%	429	325	32.0%
EBDITA						
ICT Schools	232	132	76.2%	97	60	62.0%
Margins %	35.5%	45.0%	-1406 bps	47.5%	25.0%	+2250 bps
ViTELS	116	46.92	146.5%	47.29	27.04	74.9%
Margins %	44.6%	34.0%	+1055 bps	47.0%	52.0%	-500 bps

Valuations and Recommendations

In 4Q08, revenues grew by 4.7% QoQ while PAT grew by ~68% QoQ due to an improvement in EBIT of 1706 bps, primarily on the back of lower margins of 3Q08 ICT business which included contract stipulated preliminary booking of hardware for 1256 Gujarat schools. ViTELS' margins fell by 500 bps mainly due to the addition of 104 centers, which reduced utilization in schools. However, margins are still holding at a healthy rate of 45%.

The stock currently trades at 36x FY09E and 24x FY10E earnings. We believe the ViTELS business that includes the introduction of newer programs and insignificant competition make the Everonn stock very attractive at current price levels. The management guidance for PAT of Rs.280 mn was also better than our expectation at Rs.270 mn. We have consequently revised our target price based on changed estimates from Rs.999 to Rs.1043 (upward revision of 4%), a potential upside of 45% from current levels. Hence we assign a BUY rating on the stock.

Earnings Watch

	Everonn
CMP (Rs)	720
Target Price	1043
Upside Potential	45%
Sales (Rs. Mn)	
FY08*	907
FY09E	1409
FY10E	2109
EBDITA (Rs. Mn)	
FY08*	329
FY09E	599
FY10E	896
EBDITA Margins (%)	
FY08*	36.3%
FY09E	42.5%
FY10E	42.5%
PAT (Rs. Mn)	
FY08*	136
FY09E	280
FY10E	422
EPS	
FY08*	11.04
FY09E	20.18
FY10E	30.46
PER (X)	
FY08*	65.22
FY09E	35.67
FY10E	23.64
ROE (%)	
FY08*	20.5%
FY09E	24.4%
FY10E	28.2%
EV/EBDITA (X)	
FY08*	29.24
FY09E	16.62
FY10E	10.97

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