

Everonn Systems

Rs389
NEUTRAL

RESULT NOTE

Mkt Cap: Rs5.9bn; US125m

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Result: FY09 results

Comment: Low on vanilla and 'value'

Rs Mn	Net Sales	yoy chg (%)	Net profit	yoy chg (%)	EPS (Rs)	yoy chg (%)	EV/E (x)	PER (x)
FY08	931.8	116	138	240	10.0	152	16.4	39.02
FY09	1452.1	56	225	63	14.9	49	11.5	26.14
FY10E	2116.6	46	314	40	20.8	40	8.3	18.70
FY11E	2874.7	36	444	41	29.3	41	5.8	13.26

HIGHLIGHTS OF FY09 AND MANAGEMENT INTERACTION POST RESULTS

- Everonn systems reported numbers for FY09 – The company reported consolidated numbers below our expectations with a revenue growth of 59% at Rs1.45bn , EBITDA growth of 54% at Rs512mn and PAT growth of 60% at Rs220m (against our estimates of Rs242mn).
- Standalone numbers exhibited a revenue growth of 33% at Rs1.2bn, EBITDA growth of 60% at Rs533mn and PAT growth of 73% at Rs238mn.
- **VITELS - More vanilla, less value:** VITELS (Virtual & Technology Enabled Learning Solutions) segment (currently 51% of revenues) reported a revenue growth of 98% at Rs743mn and PBT growth of 98% at Rs224m. This growth has been largely due to the additional of 570 colleges in FY09, taking the total number of colleges to 800 (non sticky, non annuity business). On the other hand, there has been an addition of only 377 schools in FY09 (~37 schools in Q4FY09) taking the total number of schools to 557 (extending a 3-5 year annuity).
- **ICT – low track record; potential to surprise:** ICT segment (currently 33% of revenues) reported a revenue decline of 12% at Rs471m and PBT growth of 17% at Rs104mn. Everonn has added 1278 schools in the year (unable to add any substantial number of schools over the last 3 quarters; on the other hand Educomp Solutions added 5996 ICT schools in FY09). Going ahead there is an order book of Rs1.3bn, executable over the next five years. The management has indicated that it expects ~35000 schools to come up for bidding in the current year; ability to close bids going ahead could lead to a positive surprise. (The company has tied up with hardware suppliers, lowering the capex requirement in the segment).
- **Toppers Tutorial** reported revenues at Rs1.1m and a net loss at Rs17m. This is largely due to the investments (set up 9 centers pan India) to the tune of ~Rs70m in the current year.
- The total capex for the year was at Rs660m. Post the capex, the company reported gross debt at Rs480m and cash at Rs650m (net cash at Rs170m). Going ahead the company has guided a Rs1.5bn capex in FY10. (Visibility on the usage of capex remains ambiguous).

Everonn Systems, a 'dominant' player in the ICT to public schools space has been unable to add any incremental schools in the H2FY09 (revenue contribution has dropped from 59% in FY08 to 33% in FY09). While we believe this segment offers 'low value creation' (L1 bidding leading to commoditization; long receivable days), revenues in the VITELS segment (41% in FY08 to 51% of revenues in FY09) too continue to be dominated by colleges (non sticky; offering no annuity). In the absence of annuity in majority of the revenues over our forecast period, inability to close bids within the ICT business, and the recent run up in the stock (~19X FY10E), leaves little room for an upside going ahead. However with few proxies to play within the education space, we expect the dependency on the budget (pro liberalization/ increase in spends towards PPP) and ability to capture the market potential in ICT (industry expects ~30000 schools to come up for bidding) will keep the stock in a range (Rs 350-430) in our view. Maintain neutral.

Segmental revenue

Rs mn	Q4FY08	Q4FY09	Growth yoy%	FY08	FY09	Growth yoy%
ICT	85.4	127.5	49	536.8	471.2	(12)
VITELS	219.4	179.0	(18)	375.4	742.6	98

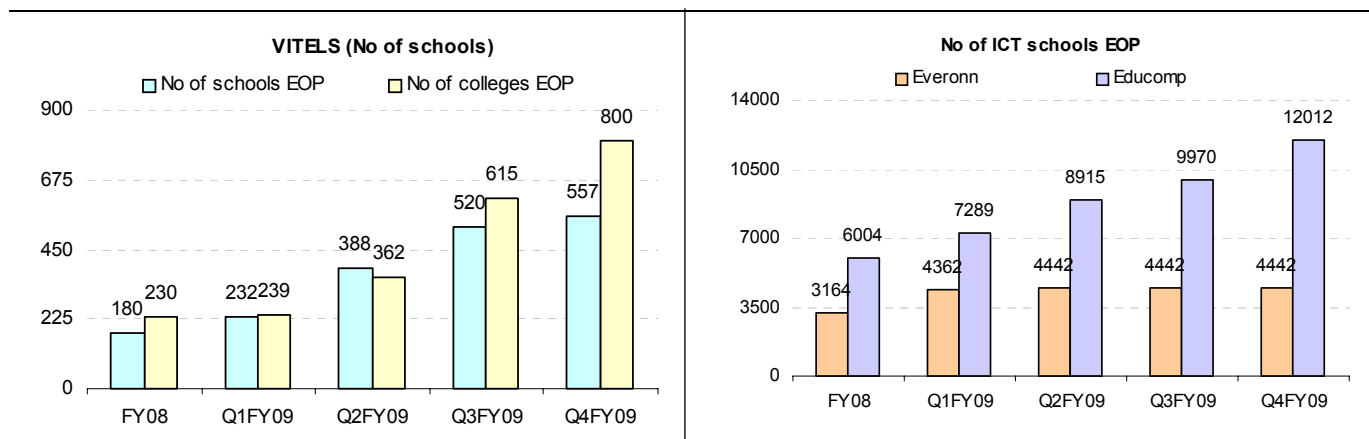
EBITDA margins

%	Q4FY08 (%)	Q4FY09 (%)	Change in bps	FY08 (%)	FY09 (%)	Change in bps
ICT	48	39	(900)	33	43	1,042.00
VITELS	42	35	(700)	47	44	(300.00)

Revenue mix

%	Q4FY08 (%)	Q4FY09 (%)	Change in bps	FY08 (%)	FY09 (%)	Change in bps
ICT	28	36	761.9	59	33	(2,628)
VITELS	72	50	(2,192.4)	41	51	1,017.83
Others	0	14	1,430.5	0	16	1,610.34

Addition in schools

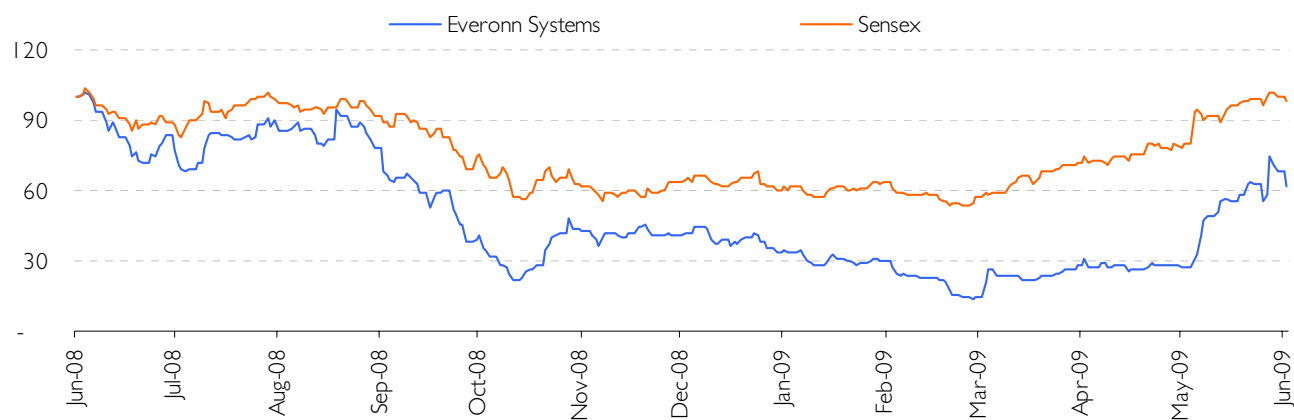


Source: Company; IDFC-SSKI Research

Quarterly results

Rs Mn	Q4FY08	FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09	FY09	FY10E	FY11E	Comments
Net Sales	305	912	223	431	436	358	1,447	2,117	2,875	The consolidated revenues for the year include revenue from traded sales to the tune of ~220m and ~Rs1.1m from Toppers Tutorial (IIT-JEE Training).
%yoy			0	89	49	17	59	46	36	
Operating profit	133	333	84	152	172	104	512	773	1087	
EBITDA	44	36	38	35	40	29	35	37	38	Toppers Tutorial loss at Rs17mn
Depreciation	18.631	97.2	27.505	36.217	48.437	46.441	158.6	257	342	Capex for the year at Rs660m – ~Rs70mn invested in Toppers; ~Rs200m investment in ICT; ~Rs300m investment in VITELS
EBIT	114	235	56	115	124	58	354	516	745	
Interest	8.786	33.2	11.066	11.59	12.875	16.269	51.8	57	72	Gross debt at Rs480m; cash at Rs650m
Other Income	7.17	15.4	3.166	18.3	11.845	5.689	39	25.00	10.00	
Profit before tax	112.6	217.5	48.5	122.1	122.6	47.5	340.7	483.8	682.6	
Tax	44.565	79.5	17.806	57.03	43.905	1.159	119.9	169	239	
PAT	68.1	138.0	30.7	65.1	78.7	46.3	220.8	314.5	443.7	
%yoy			0	147	95	(32)	60	42	41	

Relative price performance



IDFC - SSKI INDIA

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