



INDIA RESEARCH

Everonn Systems

Rs361

NEUTRAL

RESULT NOTE

Mkt Cap: Rs5.5bn; US111m

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Result: Q1FY10

Comment: Low on 'value' !

Key Financials

Rs Mn	Net profit	yoy chg (%)	EPS (Rs)	yoy chg (%)	EV/E (x)	PER (x)
FY08	138	240	10.0	152	15.2	36.21
FY09	226	64	15.0	50	10.8	24.13
FY10E	341	51	22.6	51	7.2	16.00
FY11E	499	46	33.0	46	4.8	10.95

HIGHLIGHTS OF Q1FY10 AND MANAGEMENT INTERACTION POST RESULTS

- Ahead of estimates, ESIL reported consolidated revenue growth of 61% at Rs359m (our estimate of Rs301m), EBITDA Margin expansion of 351bp resulting in an EBITDA of Rs148m (estimates of Rs92m) and net profit of 66% at Rs50m (estimates of Rs33m) in Q1FY10.
- On a standalone basis, revenues grew by 27% at Rs282m, EBITDA Margins expanded to 47% in Q1FY10 against 37.6% in Q1FY09, resulting in a 41% growth in net profits at Rs43m.
- VITELS (Virtual & Technology Enabled Learning Solutions) segment reported a revenue growth of 10% at Rs157mn and PBT growth of 36% at Rs40m. This growth has come on the back of addition of 63 schools and 140 colleges during the quarter.
- Aggregate schools under VITELS at the end of quarter stood at 620 (557 as of Q1FY09), while colleges are at 940 (800 as of Q1FY09). Everonn Systems reaches 1595 institutions through VITELS.
- With regards the ICT segment, revenues grew by 56% at Rs125m and PBT grew by 78% at Rs28m. During the quarter 93 schools were added in Himachal Pradesh and contracts for 183 schools were renewed.
- Going ahead there is an order book of Rs1.3bn for ICT, 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.
- Everonn Systems has a networth of Rs2.2bn. Net cash stands at Rs90m (debt at Rs 430m; cash at Rs520m) and the company has guided for a capex of Rs1bn in FY10.

The changeover in Everonn Systems lies in its ability to scale up the business platforms and drive consistency in its revenues streams. There has been a historically lumpiness in revenues for ICT as also its growth in VITELS. We do believe and perceive that ICT is 'fundamentally' a low value creation segment due to L1 nature of bidding and long receivable cycles while the VITELS segment has yet to establish strong 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, leaves little room for an upside going ahead. However with few proxies to play

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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 ~30,000 schools to come up for bidding) will keep the stock in a range in our view. Maintain neutral.

Segmental revenue

Rs mn	Q1FY10	Q1FY09	Growth yoy%
ICT	125.4	80.5	56
VITELS	156.9	142.1	10
PBT			
ICT	23.20	15.80	47
VITELS	40.10	29.50	36

Quarterly results

Rs Mn	Q1FY09	Q2FY09	Q3FY09	Q4FY09	FY09	Q1FY10	FY10E	FY11E
Net Sales	223	431	436	358	1,447	359	2,222	3,079
%yoy	0	89	49	17	59	61	54	39
Operating profit	84	152	172	104	512	148	811	1163
EBITDA	38	35	40	29	35	41	37	38
Depreciation	27.5	36.2	48.4	46.4	158.6	56.3	263	358
EBIT	56	115	124	58	354	92	548	805
Interest	11.1	11.6	12.9	16.3	51.8	16.4	48	48
Other Income	3.2	18.3	11.8	5.7	39	2.5	25.00	10.00
Profit before tax	48.5	122.1	122.6	47.5	340.7	77.7	524.9	767.0
Tax	17.8	57.0	43.9	1.2	119.9	26.8	184	268
PAT	30.7	65.1	78.7	46.3	220.8	50.9	341.2	498.6
%yoy	0	147	95	-32	60	66	55	46

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