

### Issue Details

Issue Size*	: 3.6mn equity shares aggregating to Rs 500mn.
Issue Route	: 100% book built issue
Issue Open	: July 05, 2007
Issue Close	: July 11, 2007
Price Band	: Rs 125-140 per equity share
Pre Issue Equity Capital	: 10.2mn equity shares
Post Issue Equity Capital	: 13.8mn equity shares
Post Issue Market Cap*	: Rs 1,932 mn
Face Value	: Rs 10 each
Bid Lots	: Minimum of 50 equity shares and in multiples of 50 thereafter.
Promoters	: Mr. P. Kishore – Managing Director
Lead Managers	: Centrum Capital Limited
Listings	: BSE & NSE

\*At cap Price of Rs 140

### Objects of the issue

Projects	Rs mn
Institutional Education and IT Infrastructure Service (CAPEX)	300.0
Virtual & Tech enabled learning solutions (CAPEX)	172.5
Working Capital	50.0
Mergers & Acquisitions	80.0
Investment in Subsidiary	10.0
Brand Building	10.0
Issue Expenses	38.1
<b>Total</b>	<b>660.6</b>

Means of Finance	Rs mn
IPO Proceeds	500.0
Preferential Allotment to India China	140.6
Pre-IPO Equity (Mauritius) Ltd	
Internal Accruals	20.0
<b>Total</b>	<b>660.6</b>

### Industry Analysis

One Million Schools

0.80 mn in Govt. Segment  
0.20 mn in Private Segment

85% in Primary & Secondary Levels  
15% in Higher Secondary Levels

In 2003, India had around 40% of its population i.e.411mn in the age group of 6-24 years and around 60% of them required formal education. The Government of India has spent Rs 12,563 crores in 2005-06 under various schemes on education. Part of the funding for government expenses is done via 3% Education Cess levied on all central taxes.

### Business Analysis

**Everonn Systems India Ltd. (ESIL)** is an integrated knowledge management, education and training company offering a range of products and services including creating, designing and executing content and setting up of infrastructure for e-learning.

SBU I: Institutional Education and Infrastructure Services	SBU II: Virtual and Technology Enabled Learning Solutions
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Setting up it Education Infrastructure in Schools & Collage

Delivering It Education in School & Collages.

Offering Turnkey Education and Software Solutions.

Currently Have a Point of Presence in over 1900 Schools

Spread Across 8 States. Everonn Employs more than 2000 People.

VITELS focuses on providing specialized content through an inter active remote delivery Mechanism

The Target Audience is

- Colleges & Schools
- Working Professionals
- Cooperates
- Retail Segment

Management Education From premier Institutes on Driveway Platform

Virtual Learning through Zebra 197 Collages, Schools and Retails Centers.

Source: RHP

### Institutional Education – IT Infrastructure Services

Everonn is an education service provider for several State Governments in India, for their computer education, computer literacy, computer aided learning and teachers training projects.

### Institutional IT Education

This SBU concentrates in executing IT Education related contracts in schools and colleges. The projects are identified through various Government initiatives. The projects that offer scale and efficiency in terms of numbers are selected. Generally the infrastructure is installed within thirty days of signing the contract with the Government / Government agencies.

### Geographical spread

Institution	State	No. of Schools
West Bengal	West Bengal	555
Delhi Government	Delhi	267
UPDESCO	UP	223
Goa Government	Goa	238
Karnataka	Karnataka	216
Jharkhand Government	Jharkhand	206
APDPEP	Andhra Pradesh	183
Andaman Government	Andaman	12
<b>Total</b>		<b>1900</b>

The Institutional Education & IT Infrastructure SBU has two sub-divisions that have emerged as a result of the growth in the number of schools serviced. The divisions are:

### I. Education services

Education services are offered in the contracted school space and is sub-divided into two areas of business viz,

- Post School Education Business (PSB),
- New Business Development (NBD).

These two businesses ride on the Institutional Contracts provided to the various schools.

#### a. Post School Education Business

Everonn makes use of the IT Infrastructure available at these schools, by utilizing the IT infrastructure to provide IT related courses to the various students of the schools, for a fee. These courses are conducted out of the school hours and also outside the curriculum. They plan to strengthen this business. They have about 250 schools covered under PSB currently.

#### b. New Business Development

The company works closely with key players in the industry through partnerships to form a collaborative intellectual community which would enable students to pursue their innovative education. They have partnered with Companies like Microsoft Corporation, Sikkim Manipal University, Tally Solutions Inc. etc in several educational and training projects. They have already trained close to 5000 School teachers & 500 IT teachers across South India.

### II. Educational Aids Tools and other products sale:

The points of presence and access to the students help them in marketing educational tools including hardware and software in the school. With marginal investment in terms of core team and investment in stock, a concerted business could be built.

#### Virtual and Tech Enabled Learning Solutions (ViTELS)

As of March'07, the ViTELS delivery centers are available at 101 Colleges and 83 Schools. There are 3 retail centers run by franchisees in Calicut, Salem and Nellore. The retail business has been tested and will be launched shortly.

Particulars	2004-05	2005-06	2006-07
Virtual & Tech Enabled learning Solutions			
No. of Colleges	22	69	101
No. of schools	-	2	83
Retail	-	2	3
Corporate	-	-	-
Hughes Net (Direcway) Centres	10	10	10
<b>Total</b>	<b>32</b>	<b>83</b>	<b>197</b>

This SBU has three working units

#### 1. Live and Interactive Education under the Brand 'Zebra Kross'

During the last two years, they have built a Virtual Learning brand viz. "Zebra Kross", V-Schools, V-Colleges and V-Placement and market products.

#### 2. Hughes Net (Direcway) Global Education:

The company has tied up with Hughes Communications India Ltd. as a lead partner for their Hughes Net (Direcway) Global Education

services for South India. They currently have 10 Centres which are utilized to the extent of 40% of their capacity. Hughes Net (Direcway) has partnered with several premier management universities and institutions in India & abroad for the best in management education. Hughes Net (Direcway) has classrooms at around 30 cities throughout India. The programmes currently have around 2000 students pursuing various courses throughout India.

#### 3. Web Enabled Learning Solutions

Everonn presently has 2,000 hrs of 'built content' in a blended format in the areas of curriculum; non-curriculum and skill enhancers etc., and have access to a varied content pool.

#### Manpower

The company currently has 2423 Personnel located across 13 states in India. Out of these, 907 are permanent employees comprising of 360 non-teaching staff and 547 faculties. The balance 1,516 personnel are employed on contract basis.

#### Competition

##### Institutional Education – IT Infrastructure & Solutions

The main competitors are training institutes like NIIT, Aptech Ltd., Educomp etc. They have a competitive advantage of lower administrative overheads achieved through adoption of decentralized operational structure and localized training and employment of manpower.

##### Virtual & Tech Enabled Learning Solutions

**Zebra Kross** - Virtual classroom plans of Universities like Anna University could offer competition. New players may come into the market and hence the need to exploit the first mover advantage to the maximum. However in the schools, no visible competition has emerged so far. Educomp with its Smart Class is currently the closest competitor to Everonn's 'Zebra Kross'.

**Hughes Net (Direcway) Interactive Learning**- There is no real competition in this mode of education. However the Institution's campus education is the major competitor.

#### Key Strengths & future growth potential

##### Existing & New Contracts

ESIL is currently serving 1,900 schools across India via its contract with various state governments. It has entered into a new contract with the State Government of Gujarat to set up IT labs in 1,256 schools run by state in southern parts of Gujarat. The project will be implemented on a BOOT model. Further it has a contract with 20 colleges to deliver content via VSAT. The necessary infrastructure and VSAT facility will be provided by the colleges.

##### Overseas Infrastructure and Expansion

ESIL is talks with companies in the Middle East and Far East, especially in Singapore and Malaysia to sell content through a 'Live and Interactive mode' and also through an asynchronous mode. Similarly company also intends to bring courses from abroad to be sold in domestic market. It also intends to set up its own office cum studio on rent in Singapore. This will enable then to access content seamlessly across the Indian and South East Asian markets. It also intends to set up sales and administrative office in Dubai.

##### Sale of Content

ESIL via its network has access to a large number of schools, colleges and students. It intends to set up a subsidiary for retail Educational aids, tools and other products. The subsidiary will set up exclusive retail outlets at schools and colleges where Everonn has a presence. These outlets would sell educational content in the form of

CD/DVDs, books etc to the student community. Besides, the subsidiary will market computers and other IT related products to students.

### Pricing Model

ESIL has adopted a BOOT Model in case of institutional education – IT infrastructure services and hence the infrastructure, annual maintenance contract of the infrastructure (AMC) and instructor services are charged and paid in equal monthly / quarterly / half-yearly installments spread over the tenure of the contract. Range of pricing models are used which include.

- Per school per month basis payable quarterly / half yearly etc,
- Per student per month basis payable quarterly / half yearly etc.

In case of Virtual and Tech Enabled Learning Solutions (ViTELS), the products are priced on per course per student basis.

### Concerns

**High outstanding sundry debtors** – As most of the receivables are from Governments, the debtor outstanding is normally high. It stood at 7.8 months for FY07.

**Huge initial investment in school infrastructure** – The investment in building up school projects in the initial stages is quite high.

### Peer comparison

Peers	EPS (Rs.)	RONW%	NAV per share (Rs.)	PER
Everonn Systems	5.63	13.27	42.41	-
Educomp Solutions	17.7	24.5	74.1	74.4
NIIT	12.4	9.6	145.4	145.3

Source: RHP

### Clientele

The top 10 clients as of March'07 include:

Clients	Region
The Commissioner for Public Instruction	Karnataka
Director for Education, Delhi	Delhi
Jharkhand Education Project Council	Ranchi
Department of Education, Government of Goa	Goa
Uttar Pradesh Development Systems Corporation Ltd.	Lucknow
District Primary Education Programme	Hyderabad
Pelecon	Pondicherry
Hughes Communication India Ltd.	New Delhi
Sanat Technologies Private Ltd.	Chennai
Cognizant Technologies Solutions Ltd.	Chennai

Source: RHP

### Financials

#### Income Statement

Y/E (Rs mn)	Mar-05	Mar-06	Mar-07
Operating income	194	309	430
Other income	-	-	-
<b>Total income</b>	<b>194</b>	<b>309</b>	<b>430</b>
Expenditure	168	226	359
PBT	26	83	71
<b>PAT</b>	<b>15</b>	<b>49</b>	<b>49</b>
EPS	2.0	6.6	5.6

#### Balance sheet

Y/E (Rs mn)	Mar-05	Mar-06	Mar-07
Share Capital	17	17	103
Reserves & Surplus	116	163	263
<b>Net Worth</b>	<b>133</b>	<b>180</b>	<b>366</b>
Secured Debt	105	269	235
Unsecured Debt	-	-	-
<b>Total Debt</b>	<b>105</b>	<b>269</b>	<b>235</b>

#### Shareholding Pattern

Shareholding (%)	Pre Issue	Post Issue
Promoters	33.8	25.1
Promoter Group	8.2	6.1
Body Corporate	58.0	43.1
Public	-	25.8*

\*At cap Price of Rs 140

### Valuation

At the price band of Rs. 125 - 140, the stock is available at 22.2x – 24.9x its FY07 EPS of Rs.5.6. The stock looks attractive as compared to its peers, which trade at steep valuations. The company is likely to witness high growth rates in the coming years. We believe that the growth drivers outweigh the concerns and we recommend our investors to SUBSCRIBE to the issue.

IPO detail

Capital Structure	No. of Shares (In Mn)	IPO Details	No. of Shares (In Mn)	%
Pre-issue equity capital	10.2	Net issue to public	3.6	-
Fresh issue	3.6	QIB	1.8	50
Post-issue equity capital	13.8	Non Institutional investors	0.5	15
Fresh issue % of total post issue capital	25.8*	Retail	1.3	35
Face value (Rs)	10	Book Value (Rs)*	35.6	-

\*At cap Price of Rs 140

\*As on 31st March, 2007.

**Equity investments are subject to market risks. Please read the offer document carefully before investing.**

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