

ACCUMULATE

Price	Rs374
Target Price	Rs415
Investment Period	12 months
Stock Info	
Sector	Education
Market Cap (Rs cr)	565
Beta	1.0
52 WK High / Low	640 / 79
Avg Daily Volume	332201
Face Value (Rs)	10
BSE Sensex	14,876
Nifty	4,484
BSE Code	532876
NSE Code	EVERONN
Reuters Code	EVSI.BO
Bloomberg Code	ESIL@IN
Shareholding Pattern (%)	
Promoters	28.2
MF/Banks/Indian FIs	1.2
FII/ NRIs/ OCBs	34.5
Indian Public	36.1

Abs.	3m	1yr	3yr*
Sensex (%)	69.9	(2.1)	(0.4)
Everonn (%)	338.3	(37.6)	(21.9)

* Since listing on August 1, 2007

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Performance Highlights

■ **Top-line powers ahead on ViTELS Business:** Everonn Systems India (ESIL) recorded a decent 15.9% yoy growth in its 4QFY2009 consolidated Revenues. Sales touched Rs35.8cr during the quarter, as compared with Rs30.9cr in 4QFY2008. The key Virtual Technology-Enabled Learning Solutions (ViTELS) Business was the major growth driver for the company. The total number of points of presence (POPs) grew to 1,357 as compared with 1,164 at the end of 3QFY2009 and 410 at the end of FY2008. This implies a massive growth of 231% yoy and 16.6% qoq, reflecting strong demand for ESIL's technology-led education solutions. The total number of schools touched 557 as compared with 520 at the end of 3QFY2009 and 180 at the end of FY2008. Thus, the number of schools soared by as much as 209% yoy and 7.1% qoq. On the other hand, the number of colleges touched 800, as compared with 644 at the end of 3QFY2009 and 230 at the end of FY2008. This implies a superlative 248% yoy growth and an impressive 24% qoq growth in the number of colleges. The company comfortably achieved and surpassed its target of 1,000 POPs and going forward, we expect this business to remain the key contributor to ESIL's growth.

On the other hand, ESIL's ICT Business recorded a disappointing performance, with the company not being able to add any new schools during the quarter. The total number of schools thus remained constant at 4,442. This is an under-performance as compared with the company's guidance. ESIL had guided for around 5,500 schools by the end of FY2009. The company had around 1,092 schools in the pipeline in Uttar Pradesh, which were expected to come up during the quarter. However, this was not the case and thus, the number of schools remained constant.

■ **Higher Operating costs hammer Margins:** ESIL's EBITDA Margins during 4QFY2009 crashed by as much as 1,373bp yoy (13.7%) due to considerably higher Operating costs as compared with the growth in Revenues. In absolute terms, EBIDTA crashed by over 21% yoy.

■ **Lower Margins, higher Depreciation, Interest and lower Other Income pound Bottom-line:** ESIL's Bottom-line in 4QFY2009 crashed by nearly 30% yoy due to the lower Margins, as also considerably higher Depreciation (up by as much as 133% yoy), Interest (up 85% yoy) and lower Other Income. Due to negligible Taxes paid, a further fall in Bottom-line was averted.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	91.6	144.7	223.1	282.1
% chg	112.9	57.9	54.2	26.4
Net Profit	13.8	22.1	32.6	42.0
% chg	238.5	60.0	47.4	28.9
FDEPS (Rs)	10.0	13.6	20.1	25.9
EBITDA Margin (%)	36.4	35.4	35.0	34.0
P/E (x)	37.5	27.4	18.6	14.4
P/BV (x)	6.0	3.5	2.3	2.0
RoE (%)	14.6	13.5	13.2	14.6
RoCE (%)	12.2	13.0	13.0	14.2
EV/Sales (x)	5.9	3.7	2.4	1.9
EV/EBITDA (x)	16.9	11.4	6.9	5.6

Source: Company, Angel Research

ViTELS Business – ‘Vital’ contribution to FY2009 Top-line growth

ESIL recorded an impressive 57.9% yoy growth in its FY2009 consolidated Top-line. This was driven by the superlative performance of the ViTELS Business. This business soared ahead, nearly doubling revenues for the fiscal (growth of 97.8% yoy). The number of partner institutions powered ahead by as much as 231% yoy to touch 1,357 (410 in FY2008). The number of schools grew by 209% yoy to 557 (180 in FY2008), while the number of colleges soared by 248% yoy to 800 (230 in FY2008). This reflects the strong demand for ESIL's solutions.

On the other hand, the ICT Business recorded a disappointing performance, clocking de-growth of 12.2% yoy in revenues. The number of schools grew by over 40% yoy to 4,442 (3,164 in FY2008). The average revenues per school, however crashed by 41% yoy to Rs1.24lakh (Rs2.11lakh in FY2008), reflecting the significant competitive intensity prevalent in the business. Going forward, we expect this business to grow at a slower rate as compared with the ViTELS Business.

Overall, ESIL has clearly under-performed its guidance for the fiscal by a significant 22% at the lower end of the guidance, which stood at Rs185-190cr. The under-performance in the ICT Business was the key reason for this, with the company adding no schools over the past couple of quarters, leading to sluggish revenue growth in this segment. ESIL had guided for around 5,500 schools by the end of the year, which did not materialise (actual number of schools of 4,442 lower by 21%).

Exhibit 1: Segmental break-up - ViTELS, the ‘vital’ component of growth

Business Segment	Revenues (Rs cr)		Chg (%)
	FY2008	FY2009	
ViTELS	37.5	74.3	97.8
ICT	53.7	47.1	(12.2)
Edu-resources & Toppers	0.4	23.3	5,587.4
Total	91.6	144.7	57.9

Source: Company, Angel Research

Margins fall on higher Employee costs, Purchase of traded goods

ESIL recorded a 105bp yoy decline in its EBITDA Margins in FY2009. This was on account of higher Employee costs (higher by as much as 618bp yoy as a percentage of Sales) and Purchase of traded goods (higher by 496bp yoy as a percentage of Sales). Thus, the fact that Margins fell in spite of the higher contribution of the high-margin ViTELS Business is a key disappointment in the company's performance this fiscal.

Higher Other Income drives Bottom-line growth

In spite of the Margin contraction witnessed and higher Depreciation charges (up 60.8% yoy), ESIL recorded an impressive 60% yoy growth in its FY2009 Bottom-line due partly to higher Other Income (up by as much as 152.9% yoy).

Outlook and Valuation

We expect ESIL to record strong CAGRs of 40% and 38% in Top-line and Bottom-line respectively, over FY2009-11E. The ViTELS Business is expected to remain the key driver of Top-line growth with a robust 57% CAGR expected in Revenues. This will also drive higher Profitability. The company's newer initiatives like *Toppers* are likely to contribute more significantly to its growth going ahead, with the building of a strong content base. We expect its ICT Business to under-perform, with a 12% CAGR in Revenues estimated over the mentioned period. At the CMP, the stock is trading at 14.4x FY2011E EPS. **Given the strong run-up in the stock price recently, we downgrade the stock to Accumulate from Buy, with a Target Price of Rs415.**

Exhibit 2: FY2009 Consolidated Financial Performance

Y/E March (Rs cr)	4QFY2009	4QFY2008	% chg	FY2009	FY2008	% chg
Net Revenue	35.8	30.9	15.9	144.7	91.6	57.9
Operating Costs	25.4	17.6	43.7	93.5	58.2	60.5
EBITDA	10.4	13.3	(21.2)	51.2	33.4	53.3
Depreciation & Amortisation	4.6	2.0	132.6	15.9	9.9	60.8
Interest	1.6	0.9	85.0	5.2	3.3	56.0
Other Income	0.6	0.7	(20.5)	3.9	1.5	152.9
Income before Income Taxes	4.7	11.1	(57.3)	34.1	21.8	56.6
Income Taxes	0.1	4.5	(97.4)	12.0	8.0	50.6
Net Income	4.6	6.6	(29.6)	22.1	13.8	60.0
Diluted EPS (Rs)	2.9	4.0	(29.6)	13.6	8.5	60.0
EBITDA Margin (%)	29.2	42.9		35.4	36.4	
Net Profit Margin (%)	12.9	21.2		15.3	15.1	
Effective Tax Rate (%)	2.5	40.9		35.2	36.6	

Source: Company, Angel Research



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Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)