

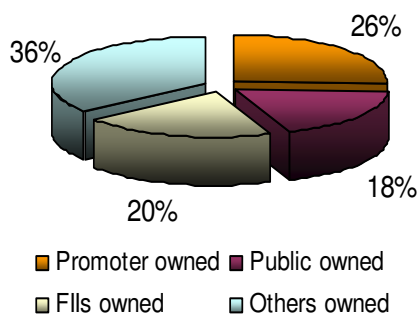
Company report

Everonn Education Ltd.

2nd November, 2009**BUY****CMP** **Rs.407.15****Target Price** **Rs.500.00**

BSE Code	532876
NSE Code	EVERONN
Market Cap (Rs Mn)	6156.30
52 Week High/Low	479.80/79.30
Industry	Service & Consultancy
Face Value	Rs 10.00
Shares O/S	15,120,400

EPS	14.61
CEPS	25.09
Book Value	135.85
P/E	27.87
P/B	3.00

Shareholding Pattern

Company Snapshot

Everonn Education Limited is a leading education and training company offering a range of services that include creating educational and training content of global relevance; designing and executing large learning initiatives and setting up the requisite infrastructure. The company has partnerships with various State Governments to bridge the digital divide by setting up computer lab infrastructure at schools and colleges and imparting IT education through well-trained Everonn faculty under their ICT programme. The labs also facilitate computer-aided learning at schools. It is one of the leaders in computer education in schools and colleges. It is also one of the leading players in setting up virtual and interactive learning classroom networks across India.

Quarterly Financial Highlights

Particulars	Rs Million				
	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Sales	430.73	435.51	358.10	359.09	731.30
Expenditures	279.67	263.27	253.80	211.54	468.09
Operating Profit	151.06	172.24	104.30	147.55	263.22
Net Profit	64.52	78.87	46.10	50.44	117.81
OPM%	35.07	39.55	29.13	41.09	35.99
NPM %	14.98	18.11	12.87	14.05	16.11
EPS	4.27	5.17	3.05	3.34	7.79
CEPS	6.66	8.34	6.12	7.06	11.94

The company has reported tremendous set of numbers for the quarter ended September 2009. Net sales stood at Rs.731.30 million up by a huge 69.78% from the corresponding quarter last fiscal which was Rs.430.73 million, converting an operating profit of Rs.263.22 million. Net profit of the company surged to Rs.117.81 million in Q2FY10 from Rs.64.52 million in Q2FY09 and Rs.50.44 million from the previous quarter, showing a whopping growth of 82.59% from last year. On the margins front, operating margin remained flat whereas the net profit margin increased from the last financial year. OPM stood at 35.99% and NPM stood at 16.11%. EPS stood at Rs.19.35(TTM).

Business Details

Everonn Ltd is an Education Service Provider for several State Governments in India, for their Computer Education, Computer Literacy, Computer Aided Learning and Teachers Training projects. They have their presence in 11 States, over 4,400 Computer Labs and have trained 1.4 million students. Everonn has built a good brand image with key policy makers for Computer Education in Schools and colleges.

This SBU (Strategic Business Unit) 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.

The company encompasses the following services:

- Supply of all IT hardware, software and other physical infrastructure necessary to provide IT education
- Provide and maintain a good infrastructure
- Promote computer education in English and respective local language if stipulated by the contract and also create necessary print and multimedia in English and local language as per the curriculum by the Government.
- Supply sufficient stationary and consumables at the centers
- Appoint full time faculty at schools. The normal ratio is 2 instructors for every school

The company enters into long term contracts with the Government or Private schools/colleges under which they provide turnkey IT Education Solution for the schools/institutes named under the contract. The contract is usually under BOOT model in which the assets are on the books of the company contract for the period and then transferred to the institution at a nominal residual value.

Industry Outlook

The company is in the Indian Education Industry which also includes labour and employability. In the learning space, the industry is further classified into Formal Education and job oriented Vocational Training. Formal Education Industry has schools and colleges which are either run by Government or aided by Government or privately run. The increasing demand for quality education and the opening up of remote areas to technological progress have resulted in the Indian education industry becoming a very attractive field for private players.

In employment or work opportunity space, there are Public Sector and Private Sectors as 2 distinct categories of work opportunity creators for freshers and unemployed looking for jobs.

As per World Bank, the annual private market size for the K-12 segment in India is estimated at INR 22,000 - 26,000 crores. With 348 Universities, 25460 colleges and 10.5 Million students in the higher learning segment, the potential of secondary and senior secondary education are also looking up.

The Government of India plans to invite Private Participation to develop schools. It is proposed to set up at least 6000 schools out of which 2,500 will be through the Private Public Partnership (PPP) route. Private investment of Rs.10,000 crore is expected to flow into setting up these schools. The remaining will be built by the government.

Government provides education to poor, the bottom of the pyramid, through schools and colleges. The current system of education has huge gaps in teaching, research and development, quality of infrastructure, teacher-student ratios, expenditure to technological aids, performance, management, metrics, career seedings, industry interactions in schools and in higher education. Lack of quality teachers and infrastructure at institutions leads to drop-outs at a higher rate. Masses at large require a match to a right work opportunity. Over 30% remain self-employed due to lack of right education which leads to the lower income levels and poorer lifestyles creating the imbalance in the socio-economic framework of the country.

Division or Product wise Performance

Instructional and Communication Technology [ICT]

The Company provides services to various state governments in India for enabling Computer Education in Government schools, Computer Literacy, Computer Aided Learning and Teachers Training Projects. During the year, the Company has signed MoUs with Tripura State Government, Himachal Pradesh State Government, Nagpur Municipal Corporation and Gujarat Knowledge Corporation [GKC]. During the fiscal, the Company's ICT division expanded its footprint to 3 more states – Himachal Pradesh, Maharashtra and Tripura.

Virtual and Technology Enabled Learning Solutions [Vitels]

The company provides Education and Training solutions through satellite based Very Small Aperture Terminal [VSAT] technology. FY 2008-09 witnessed the ramp up of company's Vitels segment to a pan India level. From Jammu & Kashmir to Kerala, the company has set up technology enabled virtual classrooms in 557 Schools, 800 Colleges and 35 retail centers. It has 7 studios in Chennai through which the teachers deliver lectures to students sitting in remote classrooms across schools and colleges.

Everonn Educational Resources Solutions Limited [EduRes]

Everonn, through its key business segments, has built up a large customer base of schools and colleges nationally and now sees an opportunity to capitalize on and further strengthen its relationships by entering educational supplies business. Edures has defined its business as being a solutions provider and technology advisor to educational institutions. Edures will do this by identifying, developing and offering a range of innovative and value added educational products to institutions.

Vitels - iSchool

The iSchool model features a blended format of curriculum delivery to schools. The model blends server based content, loaded in each school server, and the live sessions through the VSAT Platform from Everonn studios. The concept of iSchool empowers the teachers to help students grasp complex concepts with absolute ease and thereby imparting a new experience of learning, over and above the conventional teaching mode.

Vitels – Colleges

The colleges business of Everonn stems from the philosophy of “industry ready graduates”. The company attempts to bridge the widening gap between academia and industry requirements by catering to the student base at college level and making them industry ready. Currently, Everonn learning centers are present in 800 Colleges across India. The company has received Letter of Intents [LOI] from West Bengal University of Technology [WBUT] and MS Ramaiah Group of Institutions.

Vitels – Retail

Everonn has 35 Retail centers across India, implying its continued pursuit towards equipping and supplementing the employability skills of students and working professionals. Everonn conducts a wide array of testing and training services powered by an ecosystem of global educational pioneers.

Vitels – Web Products

Everonn’s classontheweb.com [COTW] has come a long way. The portal has witnessed a 680 pc growth in traffic, complemented by the School jobs services. The relentless content review, innovative marketing approaches and enriched databases have changed the face of this web offering. Interactive features like student communities, blogs, discussion forums, Video lessons of Theory and Practical sessions are indications of the changes undergone by the portal.

Investment Rationale

Order Inflow from UP Government

Everonn Systems India has Rs.918.7 million order from the government of Uttar Pradesh for implementation of computer education in 1099 middle schools in Uttar Pradesh for a period of 6 years on BOOT model, covering over 660,000 students of classes 6th to 12th. It has its presence in 8 states and is an integrated knowledge management, education and training service provider. It has set-up over 1,300 computer labs that are operational and trained 1.2 million students in India. Everonn Education Ltd is in process to expand its presence in offline-based education also as part of its 'Educating India' initiative.

Investment Plans

Everonn Systems India has also received Letter of Intent (LoI) from West Bengal University of Technology for implementation of Everonn Learning through VSAT enabled classrooms in 147 colleges in the state. Everonn plans to set up a studio at the West Bengal University campus from where the professors will take classes to students of various colleges. Everonn Education Ltd. would set up 25 business schools across the country with an investment of Rs.250 crore.

Strong Expansion Plans

Everonn Education plans to set up 200 K-12 (kindergarten to standard 12) schools, 500 skill development centers, 10 engineering colleges and 27 business schools in the first phase. It will partner with individuals or companies wanting to invest in the initiative in the form of land and money for part-owning a school or a college. Everonn will be a facilitator of investment in the new initiative, aggregator and manager of the infrastructure at various places.

Robust Financial Performance

The company has registered whopping sales of Rs.1446.87 million in FY09 indicating a leap from last financial year's Rs.916.42 million on consolidated basis showing a growth of 57.88% and translating an operating income of Rs.512.16 million. The Profit before Tax was Rs.340.77 million for the year ended 31st March, 2009 as compared to previous year's Rs.217.63 million. There was a rise of 60.02% in the consolidated net profit for the year ended March 2009. During FY09, the company reported a profit of Rs.220.83 million as opposed to Rs.138.00 million in FY08. The operating profit margin and the net profit margin remained flat. OPM stood at 35.40% and NPM stood at 15.26%. EPS for FY09 stood at Rs.14.61.

Consolidated Financial Matrix

Rs. Million

Particulars	FY06	FY07	FY08	FY09
Net sales	309.30	430.45	916.42	1446.87
Growth %	--	39.17	112.90	57.88
Expenditure	165.56	251.76	582.39	934.71
EBITDA	143.75	178.68	334.03	512.16
Growth %	--	24.30	86.94	53.33
EBITDA margin	46.47	41.51	36.45	35.40
Other income	--	--	15.42	39.01
Depreciation	60.12	96.18	98.59	158.56
EBIT	83.62	82.51	250.87	392.61
Interest	15.55	23.40	33.23	51.84
PBT	68.08	59.11	217.63	340.77
Tax	27.66	18.33	79.63	119.94
PAT	40.42	40.78	138.00	220.83
Net Profit margins	13.07	9.47	15.06	15.26
Equity Capital	17.14	102.78	138.51	151.20
EPS	5.44*	3.97	9.96	14.61
CEPS	58.67	13.32	17.08	25.09

* EPS calculated by taking bonus into consideration

Ratios

Particulars	FY06	FY07	FY08	FY09
Sales to equity	18.05	4.19	6.62	9.57
RONW	21.60	11.17	14.58	10.75
Interest Coverage	5.38	3.53	7.55	7.57
BV	109.21	35.51	68.35	135.85

* EPS = 1.14, 11.41, 11.41, 11.41

Past Price movement of the stock



Valuation

The company has strong expansion plans indicating a bright future. The various divisions of Everonn are also expanding at a fast pace such as the Vitels and EduRes. A strong bottom line growth of 82.59% was witnessed in Q2FY10 y-o-y due to strong operational performance. The company is running at a P/E multiple of 27.87x with an EPS of Rs.14.61. We are positive on the company's outlook and we recommend BUY on stock with a medium term price target of Rs.500.

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