

Everonn Education Ltd -----Maintain OUTPERFORM
1Q FY3/12: Strong growth with margin expansion

EPS: ◀▶ TP: ▶▶

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- Everonn reported decent 1Q FY3/12 numbers, with revenue and EBITDA growing 45% and 69% YoY, respectively (both ahead of estimates). Margin expansion came about despite rollout/expansion of new businesses. Lower other income led to a profit growth of 39% (16% below estimate).
- The key growth driver remains the VITELS segment, which clocked a 68% YoY revenue growth with improving margins.
- With revenue growth going ahead of growth in number of schools and colleges, the company seems to be seeing good repeat orders from existing customers (we hope to see an increase in classrooms/school ratio when the number is reported on the earnings call).
- We expect Everonn to continue to deliver strong growth rates and retain our OUTPERFORM rating on the stock.
- We are hosting the earnings call of the company on Friday, 12 August, at 12 noon India time (2.30 PM HKT): India +91 22 44240300/ International +91 22 27786590. Passcode: 90681849.

Bbg/RIC	EEDU IN / EVED.BO	Price (10 Aug 11, Rs)	534.05		
Rating (prev. rating)	O (O) [V]	TP (prev. TP Rs)	720.00 (720.00)		
Shares outstanding (mn)	19.20	Est. pot. % chg. to TP	35		
Daily trad vol - 6m avg (mn)	0.65	52-wk range (Rs)	735.9 - 455.7		
Daily trad val - 6m avg (US\$ mn)	8.2	Mkt cap (Rs/US\$ mn)	10,253.5/ 226.8		
Free float (%)	57.0	Performance	1M 3M 12M		
Major shareholders	Promoters - 43%	Absolute (%)	(0.1) (3.9) (8.5)		
		Relative (%)	8.4 2.7 (2.5)		
Year	03/10A	03/11A	03/12E	03/13E	03/14E
Revenue (Rs mn)	2,939	4,247	5,885	7,873	10,134
EBITDA (Rs mn)	1,014	1,555	2,315	3,299	4,361
Net profit (Rs mn)	458	676	1,045	1,448	1,846
EPS (Rs)	30.3	40.1	54.9	76.1	97.0
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rs)	n.a.	n.a.	51.2	67.5	97.0
EPS growth (%)	107.8	32.2	36.9	38.7	27.5
P/E (x)	17.6	13.3	9.7	7.0	5.5
Dividend yield (%)	0.4	0.5	1.0	1.4	1.8
EV/EBITDA (x)	10.5	7.0	5.6	4.5	3.8
P/B (x)	3.2	1.7	1.6	1.3	1.1
ROE (%)	19.5	17.2	18.1	21.0	22.0
Net debt(cash)/equity (%)	15.6	12.3	42.4	60.9	70.2

Note 1: Everonn Education Limited is engaged in education and training, and is a fully integrated knowledge management company. It operates in two divisions: Instructional and Communication Technology (ICT) and Virtual and Technology Enabled Learning Solutions (Vitels).

Other highlights in the results announcement

- 10 schools in the K-12 segment went operational for the company during the quarter. We note that management had earlier indicated that Everonn owns only 10% of assets in these schools with the rest owned by private investors.
- The skill development segment (under which the NSDC contract falls) seems to be making good progress. There are 31 centres operational.
- The company trained 1,200 people and placed 900 of them in the first phase under a project with the Ministry of Rural Development.
- The company has signed an MoU with Tata Motors to train 100,000 drivers.

Figure 1: Everonn – 1Q FY3/12 results summary

(Rs mn)	Jun-10	Mar-11	Jun-11	% QoQ	% YoY	CS	Diff
Net Sales	675	1,339	982	-27%	45%	945	4%
EBITDA	217	518	366	-29%	69%	364	1%
EBITDA margin	32%	39%	37%			39%	
Depreciation	81	135	131	-3%	61%	135	-3%
EBIT	136	384	235	-39%	73%	229	3%
EBIT margin	20%	29%	24%			24%	
Interest Cost	32	82	93			85	
Other Income	0	27	3			20	
PBT	104	329	145	-56%	40%	164	-11%
Tax Expense	34	67	48	-28%	42%	49	-1%
Net Profit	69	262	97	-63%	39%	115	-16%

Source: Company data, Credit Suisse estimates

Figure 2: Key segment financial performance

Revenues (Rs mn)	Jun-10	Jun-11	% YoY
ICT	194	248	27.4%
VITELS	251	421	67.5%
EBITDA margin (%)			
ICT	42%	45%	
VITELS	52%	55%	

Source: Company data, Credit Suisse estimates

Figure 3: Operating metrics summary

Nos.	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	% QoQ	% YoY
VITELS (Total)	2,309	2,630	2,808	3,061	3,269	3,434	3,511	2.2%	25.0%
Schools	867	1,017	1,087	1,195	1,335	1,455	1,497	2.9%	37.7%
Colleges	1,396	1,567	1,672	1,812	1,875	1,920	1,955	1.8%	16.9%
Retail centres	46	46	49	54	59	59	59	0.0%	20.4%
ICT									
Schools	5,862	5,862	6,075	6,628	6,628	6,628	6,628	0.0%	9.1%

Source: Company data

Companies Mentioned (Price as of 10 Aug 11)

Everonn Education Ltd (EVED.BO, Rs534.05, OUTPERFORM [V], TP Rs720.00)
 Tata Motors Ltd. (TAMO.BO, Rs843.90, OUTPERFORM, TP Rs1,584.36)

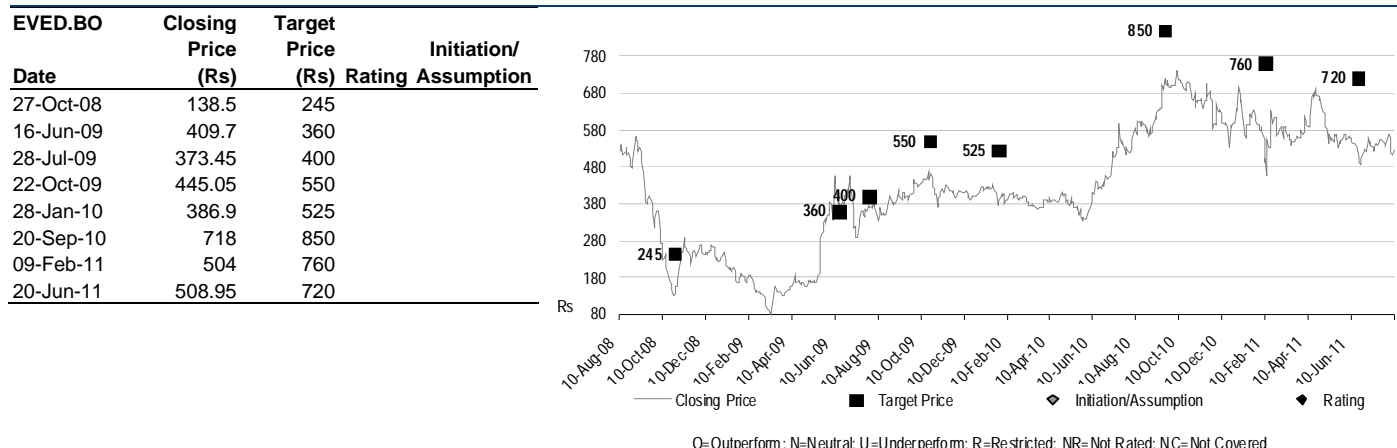
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3-Year Price, Target Price and Rating Change History Chart for EVED.BO



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Price Target: (12 months) for (EVED.BO)

Method: We value Everonn on a discounted cash flow (DCF) model. We assume strong near-term growth rates (40%+ CAGR), 11.0% medium-term growth and 3% terminal growth, 12.5% weighted average cost of capital (WACC). This gives a target price of Rs720.

Risks: The key risks to our target price of Rs720 on Everonn include: 1) execution risks as the company is in early growth stage in its business lines, and is also launching new businesses 2) change in regulation thereby impacting the business model

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