

Everonn Education (EEDU IN)

OUTPERFORMER
Growth levers in place!
Rs534
Mkt Cap: Rs10.16bn; US\$226m

Q1FY12 result highlights

Quarterly performance: Ahead of estimates, Everonn Education (EEDU) has reported a revenue growth of 45% at Rs982m (estimates of Rs835m), EBITDA growth of 69% at Rs367m (estimates of Rs314m) and PAT growth of 40% at Rs97m (estimates of Rs83m). The strong performance was primarily driven by the highest margin VITELS segment garnering a 67% revenue growth and a 356bp margin expansion (to 55%). Overall EBITDA margins for EEDU expanded 514bp to 37.3%.

Key positives: Robust growth in VITELS, both in revenues and profitability. In the K-12 business, EEDU has demonstrated initial signs of execution with 10 schools now operational under the management contract model (EEDU to earn 7% of the initial project cost and 15% of annual revenues of the school).

Key negatives: Muted additions in schools (42) & colleges (35) under VITELS, as Q1 is seasonally weak. Sharp increase in interest costs to Rs93m (Rs32m in Q1FY11). This is primarily on account of increase in debt to fund K12 and HE business.

Impact on financials

With the K-12 business as also the JV with NSDC on Skill Development yet to demonstrate significant traction, our financial estimates remain unchanged.

Valuations & view

EEDU continues to sustain strong traction in VITELS (67% growth in Q1FY12). Robust classroom additions, improving penetration within schools (from 2.2 in Q1FY11 to 3 currently) and introduction of compulsory courses in colleges, are expected to improve the quality of earnings in VITELS. With business mix trending towards the high margin/ value creating businesses, incremental growth coming from the JV with NSDC, and investment structure in place for fueling back-ended growth (K-12 and B-schools), EEDU's business clearly holds merit. We see EEDU demonstrating the potential to garner enhanced scalability, profitability and thereby value over the longer term, with execution in K-12 (10 schools currently operational) as also skill development being critical. Further, we believe the JV with NSDC reflects the inherent benefits of inducting co-promoter Nikhil Gandhi, into the company. Given an earnings CAGR of 33% over FY11-13E, and at 8.5x FY13E earnings, we maintain our Outperformer call on the stock with a target price of Rs800.

Key financials (quarterly)

(Rs m)	Q1FY11	Q4FY11	Q1FY12	% ch qoq	% ch yoy	% var from est
Net sales	675	1,340	982	(26.7)	45.5	17.5
EBITDA	217	520	367	(29.5)	68.7	16.8
OPM (%)	32.2	38.8	37.3	(148bp)	514bp	(24bp)
Other inc.	0	27	3	(88.9)	-	(90.5)
Interest	32	82	93	13.8	188.6	13.3
Depreciation	81	135	131	(2.6)	61.0	(6.3)
PBT	104	331	145	(56.0)	40.4	17.4
PAT	69	264	97	(63.2)	40.0	16.9
EPS (Rs)	4.6	13.9	5.1	(63.5)	10.2	16.9

Key valuation metrics

YE 31 March	FY11	FY12E	FY13E
Net sales (Rs m)	4,247	5,735	6,970
Adj. net profit (Rs m)	676	964	1,193
Shares in issue (m)	19	19	19
Adj. EPS (Rs)	35.5	50.7	62.7
<i>% change</i>	<i>18.2</i>	<i>42.5</i>	<i>23.7</i>
PE (x)	15.0	10.5	8.5
Price/ Book (x)	3.3	2.5	1.9
EV/ EBITDA (x)	6.6	4.6	3.4
RoE (%)	24.0	27.0	25.7
RoCE (%)	25.5	27.3	27.5

Quarterly results: Detailed

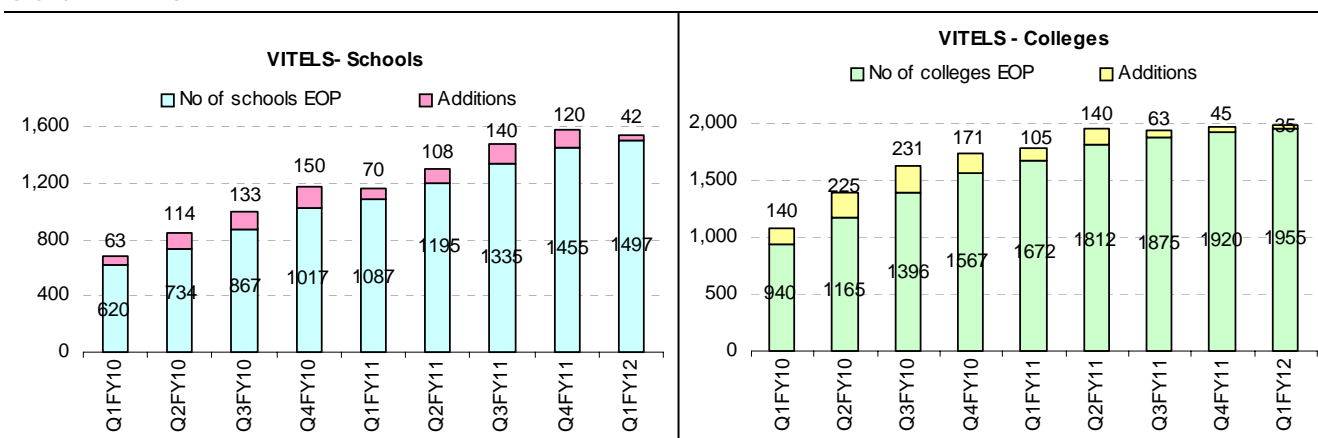
(Rs m)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	FY11	Q1FY12	FY12E	FY13E	Comments
Net Sales	675	1,081	1,153	1,340	4,247	982	5,735	6,970	Driven by a 67% growth in VITELS
%yoy	87.9	47.8	44.2	28.2	44.7	45.5	35.0	21.5	
EBITDA	217	380	439	520	1,555	367	2,147	2,682	
% Margin	32.2	35.2	38.1	38.8	36.6	37.3	37.4	38.5	514bp expansion on account of increasing contribution from VITELS
Depreciation	81	94	110	135	420	131	502	600	
EBIT	136	286	329	385	1,135	235	1,645	2,082	
Interest	32	57	40	82	211	93	275	330	Increase in debt to fund K-12 & HE business
Other Income	0	0	0	27	27	3	27	27	
PBT	104	229	289	331	952	145	1,397	1,780	
Tax	34	74	100	67	275	48	433	587	
PAT	69	156	190	264	676	97	964	1,193	
%yoy	36.1	31.7	56.0	60.7	49.0	40.0	42.5	23.7	

Other Highlights

- **VITELS:** During the quarter, the VITELS (Virtual & Technology Enabled Learning Solutions) segment reported a revenue growth of 67% at Rs421m, EBITDA growth of 79% at Rs232m and PBT growth of 69% at Rs117m. Within VITELS, revenues from Colleges stood at Rs111m, Schools at Rs89m, Retail and E-governance projects at Rs221m.
- With Q1 being a seasonally weak quarter, addition in schools and colleges has been muted. Aggregate schools under VITELS at the end of Q1FY12 stood at 1,497 (42 added in quarter), colleges at 1,955 (35 added) and Retail centers at 59 (none added). With respect to the schools business (within VITELS), EEDU continues to maintain the trend of increasing penetration on a per school basis. For the current quarter, average number of classrooms per school stood at 3.0 against 2.2 in Q1FY11.
- **ICT:** With regards the ICT segment, EEDU reported a revenue growth of 27% at Rs248m and EBITDA growth of 33% at Rs111m. EEDU currently has two projects in the pipeline which includes 4396 schools in Karnataka and 4424 schools in Gujarat.
- **Other businesses:** During the quarter, Topper Tutorials (the subsidiary providing coaching within the IIT-JEE space), reported a revenue growth of 36% at Rs45m and EBITDA growth of 50% at Rs19m. Edu Resource (trading business) has reported revenues of Rs128m, EBITDA of Rs8m and PBT at Rs8m.
- **Performance of subsidiaries:** During the quarter, EEDU has reported revenues of Rs140m as a part of new subsidiaries. This includes the skill development business as also the K-12 & HE segment among others. Of the total revenues reported in new subsidiaries, the Skills business is estimated to have contributed Rs65m. The new subsidiaries have reported an EBITDA loss of Rs4m.
- **EBITDA margins:** Revenue contribution from the high margin VITELS segment has increased from 37% in Q1FY11 to 43% in Q1FY12. Further, margins in VITELS have itself increased from 52% in Q1FY11 to 55% in Q1FY12. This dual effect has helped improving overall EBITDA margins for EEDU. EBITDA margins for EEDU have expanded by 514bp at 37.3% during the quarter.
- **Balance sheet highlights:** As on 30th June 2011, gross consolidated debt stood at ~Rs3.5bn (up from Rs2.2bn in Q4FY11) and cash and investments stood at Rs1.6bn. The increase in debt is primarily to fund the K12 and Higher Education business, wherein EEDU is looking to setup a knowledge park to exhibit credibility in running K-12 and Technical institutes.

- K12 Initiative - Educating India:** The management is building its capabilities and tie ups in its more recent initiative – ‘Educating India’ - an initiative which marks EEDU’s foray into K-12 and the Higher Education space. EEDU is planning to run K-12 schools under two brands particularly *KenBridge Schools* (for the CBSE board) and *Winfinity World Schools* (IB Board). EEDU’s strategy in the space is to act as a ‘facilitator, aggregator and manager’. EEDU proposes to keep the business asset light and is inducting strategic and social partners for building K-12 schools. EEDU would earn 7% of the project cost as upfront fees and then 15% of gross revenues of the school as management fees. Under this model, EEDU has started 10 K-12 schools in the months of June-11 and July-11. These are located in Gulbarga, Myladuthurai, Ramanathapuram, Karur, Tirunelveli, Vijayawada, Raipur, Kota, Himmatnagar and Madurai. Of the 10 schools operational, 9 are under the *KenBridge Schools* brand and 1 under the *Winfinity Schools* brand. Further, EEDU has identified 20 new locations to start schools for the next academic year.
- We believe it will be crucial for EEDU to first establish their credibility in the K-12 space (capital deployment by EEDU itself), to be able to garner management contracts. On these lines, EEDU is looking to invest behind a set of K-12 and HE institutions and has raised capital to the tune of Rs1.2-1.3bn in the quarter for the same. With K-12 providing the highest annuity in the education space, we believe EEDU’s execution in the space will be a critical monitorable.
- Skill Development:** EEDU has entered into a JV with the Union government’s National Skill Development Corporation (NSDC). The JV is mandated to train 15m people in various technical streams over the next 10 years, which translates into potential revenues of US\$3bn over the period for the venture. We view EEDU’s partnership with NSDC as a crucial development, imparting immense growth potential to the company. A government partner and an inherent shortage of skilled labor in the country are positive arguments in favor of EEDU. While we see strong opportunity from this JV, we believe execution will be the key monitorable. The scale and investments in the venture are of a higher order to what EEDU has been exposed to in the past.
- Under the JV, EEDU has completed the first phase of training 1200 people and have placed them under the Special Projects Scheme of Ministry of Rural Development. Incrementally, EEDU has signed an MOU with TATA Motors to train 100,000 drivers. With respect to FY12, EEDU is looking to train 0.2m people, with majority part of this being executed in H2FY12. Taking into account execution challenges, we have factored training of ~100,000 people by EEDU in FY12. This translates into incremental revenues of Rs657m and operational profits of Rs130m (as EEDU’s share of 73%) in FY12. EEDU currently has 31 Multi Skill Development Centers (MSDCs) located in Tamil Nadu, Gujarat, Karnataka, Andhra Pradesh and Kolkatta.

Growth in VITELS



Source: Company, IDFC Securities Research

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