Everonn 1QFY12 results: Weaker than expected seasonality
(EEDU IN, mcap $221 mn, SELL, TP Rs.547, 3% upside)

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Our view of results: Everonn's results were substantially behind our estimates due to poor QoQ addition of Schools and Colleges in its ViTELS business. Indeed the adds were even below 1QFY11 levels. It reported weak operating numbers with 1QFY12 revenues Rs982mn 24% behind of our estimates. This was driven by 44% underperformance of our expectations from the core ViTELS business (we expected Rs754mn vs. Rs.421mn reported). EBITDA margins at 37.3% were 198bps above our expectations driven by upfront recognition of contracts in iSchools that flows through to the bottom line. Everonn's business mix continues to drift towards lower quality businesses with less sustainable business models and predictability. The key positives in the quarter were two ICT contracts.

Where do we go from here? Everonn's key underperformance has been in its ViTELS business. Everonn has made 10 K-12 schools operational. However, the working capital intensity of the business remains high with ICT remaining a substantial part of revenues and lengthening of ViTELS debtor days due to aggressive revenue recognition. We note that like Educomp, Everonn cash burn from capex has risen substantially that has begun to meaningfully impact PAT as interest costs almost tripled in the quarter. We remain unconvinced of the long term business model and remain SELLers.

Takeaways from the results and con-call

- **Revenues:** Group revenues grew 46% YoY (-27% QoQ), 24% behind our expectations, to Rs982 mn, primarily due to weaker than expected growth in ViTELS. Management indicated an increasing focus on penetration of existing schools and colleges. Whilst this is commendable, slower addition compared to FY11 is worrying and indicates continued market share loss.
- **ICT business:** Everonn's ICT business was the strongest performer of the quarter with Rs248mn revenues, 27% up YoY 11% up QoQ but 4% ahead of our expectations despite no additions to the number of schools added.
- **ViTELS colleges:** The college revenues at Rs111 mn grew a mere 18.3% YoY and -50% QoQ, 53% lower than our estimates despite addition of 35 colleges (vs. 215 expected) possibly due to lower student enrolment during Summer. However, without additional enrolment data it is difficult to gauge the recurring nature of these revenues.
- **Subsidiaries:** Revenues from subsidiaries grew 38% YoY and -14% QoQ. Revenues from Edures fell 34% YoY.
- **EBITDA margins:** Operating profit grew 70% YoY (-29% QoQ). EBITDA margins improved by 533 bps YoY and -137 bps QoQ.
- **PAT:** PAT grew 44% YoY and -63% QoQ.

Too early to ascribe any value to K-12 business: Everonn has started 9 CBSE K-12 schools and 1 international school. It also aims to begin 50 schools over the next year. We continue to find Everonn's ability to scale this business challenging given the continued need to raise funding and creating a reputation.

1QFY12 quarterly consolidated financials (Rs mn unless specified)

In Rs mn unless otherwise stated	Q1FY12 Actuals	Ambit estimates	Deviation	4QFY11 Actuals	QoQ Growth	Q1FY11 Actuals	YoY Growth
KPIs (Nos)							
ICT Schools	6,628	7,026	-398	6,628	-	5,837	791
iSchools	1,497	1,612	-115	1,455	42	1,087	410
Colleges	1,955	2,135	-180	1,920	35	1,672	283
Retail Centres	59	61	-2	59	-	49	10
Financial Performace							
ICT	248	238	4.00%	223	11.00%	194	27.40%
VITELS	421	754	-44.10%	753	-44.10%	251	67.50%
iSchools (including COTW and vSchools)	88	*154*	*-42.90%*	*176*	*-50.00%*	*65*	*35.40%*
Colleges	111	*234*	*-52.60%*	*220*	*-49.50%*	*94*	*18.30%*
Retail	222	*365*	*-39.10%*	*357*	*-37.70%*	*93*	*139.00%*
Subsidiaries	313	294	6.50%	363	-13.70%	227	37.80%
Edures	128	*211*	*-39.30%*	*256*	*-50.00%*	*194*	*-34.10%*
Toppers	46	*83*	*-45.50%*	*43*	*5.60%*	*33*	*36.60%*
Group revenues	**982**	**1,286**	**-23.60%**	**1,339**	**-26.70%**	**673**	**45.90%**
Total expenses	615	832	-26.00%	820	-24.90%	458	34.50%
EBITDA	**366**	**454**	**-19.40%**	**518**	**-29.30%**	**215**	**70.20%**
EBITDA Margin	**37.30%**	**35.30%**	**198**	**38.70%**	**-137**	**32.00%**	**533**
Depreciation	131	113	16.20%	135	-2.80%	81	61.10%
EBIT	235	341	-31.10%	384	-38.80%	134	75.80%
EBIT Margin	*23.90%*	*26.50%*	*-260*	*28.70%*	*-473*	*19.90%*	*407*
Interest & financial exp	93	103	-9.80%	82	13.30%	32	188.80%
Other income	3	8	-63.70%	27	-88.70%	0	NA
PBT (before EO)	145	247	-41.10%	329	-55.90%	102	42.90%
PBT Margin	*14.80%*	*19.20%*	*-440*	*24.60%*	*-978*	*15.10%*	*-31*
Provision for Tax	48	71	-32.10%	67	-27.60%	34	41.50%
Adjusted PAT	**97**	**175**	**-44.80%**	**262**	**-63.10%**	**67**	**43.60%**
PAT Margin	**9.90%**	**13.60%**	**-379**	**19.60%**	**-972**	**10.00%**	**-16**

Source: Ambit Capital Research, Company Filings

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