

Everonn Education Ltd ----- Downgrade to NEUTRAL

Adverse corporate event could have overhang on stock

EPS: ▼ TP: ▼

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- The founder CEO/MD of Everonn, Mr P Kishore, was recently arrested by Indian investigating agencies on charges of bribery and tax evasion. The Chairman of Board has resigned and a new CEO has been appointed from within the top management (a co-founder of the company).
- While immediate business continuity may not be a concern, we see risks to business prospects over the longer term.
- At the highest risk is the government business (18-20% of sales currently). Further, the promise of the large NSDC contract (a JV with a government entity, not in our estimates) may not fructify. However, we see minimal risks to the non-government businesses.
- We reduce our revenue and margin estimates, leading to EPS cuts of 8-17% over the next three years. We believe that the stock multiples could derate because of the event. Our DCF-based target price falls to Rs340.
- While the stock has corrected sharply (to below book value), we see limited catalysts near term. We downgrade to NEUTRAL.

Bbg/RIC	EEDU IN / EVED.BO	Price (05 Sep 11, Rs)	281.20		
Rating (prev. rating)	N (O) [V]	TP (prev. TP Rs)	340.00 (720.00)		
Shares outstanding (mn)	19.20	Est. pot. % chg. to TP	21		
Daily trad vol - 6m avg (mn)	0.5	52-wk range (Rs)	735.9 - 281.2		
Daily trad val - 6m avg (US\$ mn)	6.1	Mkt cap (Rs/US\$ mn)	5,398.9/ 117.5		
Free float (%)	57.0	Performance	1M	3M	12M
Major shareholders	Promoters - 43%	Absolute (%)	(45.8)	(49.9)	(52.2)
		Relative (%)	(42.4)	(40.3)	(43.9)
Year	03/10A	03/11A	03/12E	03/13E	03/14E
Revenue (Rs mn)	2,939	4,247	5,705	7,330	9,343
EBITDA (Rs mn)	1,014	1,555	2,189	2,902	3,796
Net profit (Rs mn)	458	676	964	1,209	1,524
EPS (Rs)	30.3	40.1	50.7	63.5	80.1
- Change from prev. EPS (%)	n.a.	n.a.	(8)	(17)	(17)
- Consensus EPS (Rs)	n.a.	n.a.	51.2	67.3	97.0
EPS growth (%)	107.8	32.2	26.4	25.4	26.0
P/E (x)	9.3	7.0	5.5	4.4	3.5
Dividend yield (%)	0.7	1.0	1.8	2.3	2.8
EV/EBITDA (x)	5.7	3.9	3.6	3.3	3.0
P/B (x)	1.7	0.9	0.9	0.7	0.6
ROE (%)	19.5	17.2	16.8	18.0	19.2
Net debt(cash)/equity (%)	15.6	12.3	39.1	56.8	67.9

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).

Recent negative events

The founding CEO/MD of Everonn, Mr P Kishore, was recently arrested by the Central Bureau of Investigation (CBI) on charges of bribery and tax evasion. CBI has alleged that Mr Kishore paid a bribe of Rs5 mn to suppress taxable income of Rs600 mn of the company (out of an alleged concealed income of Rs1.1 bn). In our discussion with management post the event (the new CEO – see below), we understand that the company was not aware of this amount prior to the event happening. We note that the amount disclosed as contested tax claims (under contingent liabilities) as of Mar-11 in the annual report is only Rs14 mn.

The underlying business could be impacted

Following this event, the Chairman of Board, Mr JJ Irani, resigned from this position. The board has now appointed another whole-time director, Ms Sussha John as the CEO. We would expect Kishore to stay out of the company activities until the charges are resolved.

Ms John is one of the co-founders of Everonn along with Mr Kishore, and brings with her 25 years+ of experience. A business council has been formed to advise the CEO, with two veteran directors of the company: (1) Mr R Sankaran (40 years+ experience including at Tata Steel), (2) Mr Joe Thomas (23 years+ experience including at P&G). Management explained that over the past couple of days, senior management has contacted key customers, bankers and reached out to employees. We see little risk to business continuity in the absence of Mr Kishore.

While the immediate business fallout could be minimal, over the longer term this event could have negative repercussions on the company prospects.

We expect that the government businesses (18-20% of revenue) could be at the highest risk (possible blacklisting of the company if charges are found to be true). We are now building no new contract to be won by the company in the government ICT business. A lot of expectations were also built around the NSDC contract of Everonn (cumulative revenues of Rs140 bn over ten years, not in our estimates), which has a risk of being downsized/cancelled, in our view. The impact on the private businesses could be limited, in our view.

Downgrade to NEUTRAL

Based on the above risks, we cut our revenue estimates for Everonn for the near term, leading to 8-17% earnings cuts over the next three years.

It is likely that there may be further management changes at Everonn. The corporate governance issues raised by recent events may have an overhang on the stock over the near term (leading to multiple derating). Despite recent correction and stock trading at 0.9x book, we see limited catalysts for stock performance in the near term. Our target price decreases to Rs340 (21% potential upside to Monday's close), and we downgrade the stock to NEUTRAL.

The risk to our downgrade comes from possibility of a buyout.

Figure 1: Everonn – changes to our estimates

(Rs mn)	Old			New			% change		
	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Revenues	5,885	7,873	10,134	5,705	7,330	9,343	-3.1%	-6.9%	-7.8%
EBITDA	2,315	3,299	4,361	2,189	2,902	3,796	-5.4%	-12.0%	-12.9%
EBITDA margin	39.3%	41.9%	43.0%	38.4%	39.6%	40.6%			
PAT	1,045	1,448	1,846	964	1,209	1,524	-7.7%	-16.5%	-17.5%
EPS (Rs)	55	76	97	51	64	80	-7.7%	-16.5%	-17.5%

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 05 Sep 11)

Everonn Education Ltd (EVED.BO, Rs281.20, NEUTRAL [V], TP Rs340.00)

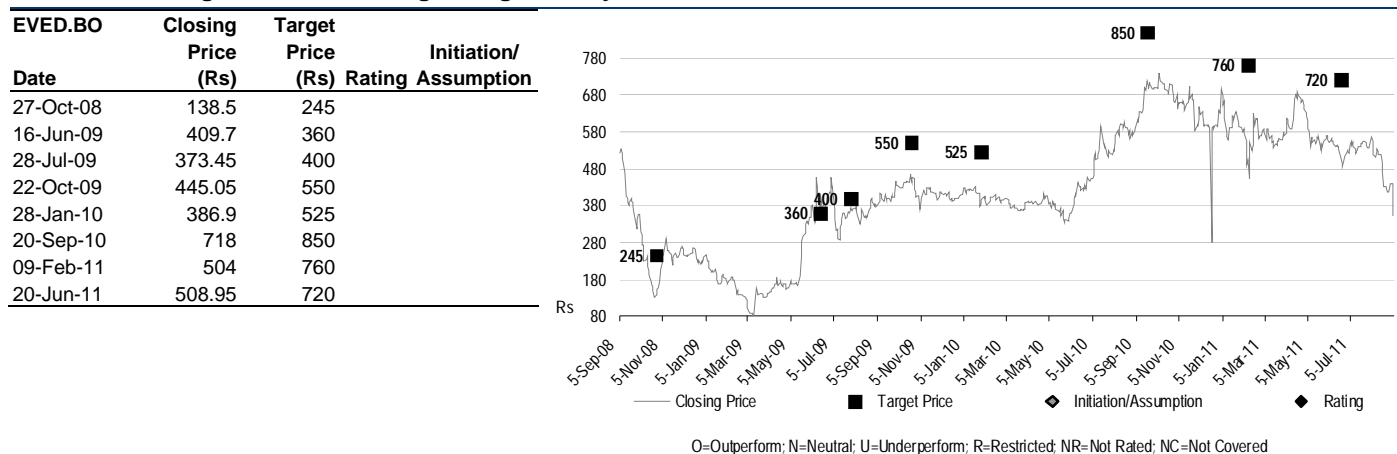
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3-Year Price, Target Price and Rating Change History Chart for EVED.BO



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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, 12.8% weighted average cost of capital (WACC). This gives a target price of Rs340.

Risks: The key downside risks to our target price of Rs340 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. The key upside risks include a buyout of the company.

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