

Everonn Systems India Ltd – BUY

CMP Rs398, Target Rs558

Sector: Education

Sensex:	16,894
CMP (Rs):	398
Target price (Rs):	558
Upside (%):	40.0
52 Week h/l (Rs):	480 / 79
Market cap (Rscr) :	602
6m Avg vol ('000Nos):	1,221
No of o/s shares (mn):	15
FV (Rs):	10
Bloomberg code:	EEDU IB
Reuters code:	EVSI.BO
BSE code:	532876
NSE code:	EVERONN

Prices as on 17 Dec, 2009

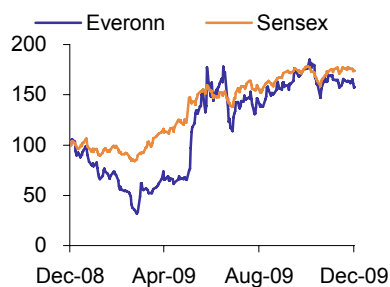
Shareholding pattern

September '09	(%)
Promoters	25.9
Institutions	34.8
Non promoter corp hold	9.8
Public & others	29.6

Performance rel. to sensx

(%)	1m	3m	1yr
Everonn	(5.4)	(1.2)	(18.3)
Educomp	(6.8)	(14.1)	(21.4)
NIIT	7.3	(0.6)	106.5
Core Projects	3.1	(1.2)	202.2

Share price trend



India – one of the largest education markets

A large student base (413mn+), low literacy levels, inadequate public education infrastructure, high drop-out rates, low gross enrollment ratio and increasing per capital income makes India one of the largest markets for educational services and infrastructure. Government spending on education is estimated at US\$30bn+ pa. India's private education market is estimated at US\$40bn by E&Y. Education spend is expected to increase 12x per household between 1995-2025E with rising per capita income.

Everonn's revenue and profit to grow at 60%+pa over FY09-12E

Everonn's presence in the education sector is diversified across various businesses viz ICT for Government schools, virtual classrooms for private schools (iSchool) and colleges, retail learning centers for individuals and corporate training, online learning portal (Classontheweb.com), engineering test preparation (Toppers), educational material supply (Edures) and infrastructure consulting. We expect Everonn's consolidated revenues to witness a robust 63% CAGR over FY09-12E driven by strong growth in college learning centers, iSchools and subsidiary (Edures and Toppers) revenues. Though increasing share of subsidiary revenues and decline in ICT profitability would act as margin headwinds, consolidate OPM is expected to be sustained near 35%, cushioned by material margin expansion in other businesses. With stable margin, company's earnings are estimated to grow in-line with revenues.

OCF to breakeven in FY10; leverage to remain comfortable

We expect Everonn to attain operating cash flow (OCF) breakeven in FY10 and generate significant positive cash flows from FY11. OCF is likely to reach 80% of PAT in FY12. Improvement in cash flow would be aided by substantial increase in cash profits and decline in working capital cycle. We have factored improvement in receivable days over FY09-12 on account of declining share of ICT revenues. Balance sheet leverage would continue to be comfortable with net debt/equity below 0.5x despite majority capex funding via debt in FY10 and FY11. Further, interest cover is expected to remain healthy at 7-8x during FY10-12.

Valuation attractive at 6.4x FY12 P/E; Recommend BUY

We believe that current valuation at 6.4x FY12 P/E is attractive as Everonn, a proxy play on India's fast growing education spending, is expected to deliver robust earnings growth over the next five years. We recommend BUY on Everonn with a 1-year price target of Rs558 (9x FY12E EPS). However, company would continue to trade at significant discount to Educomp which is a more established and diversified player.

Valuation summary

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Revenues	1,447	2,730	4,368	6,212
yoy growth (%)	57.9	88.7	60.0	42.2
Operating profit	512	976	1,529	2,208
OPM (%)	35.4	35.7	35.0	35.5
Reported PAT	221	410	632	937
yoy growth (%)	60.0	85.5	54.2	48.4
EPS (Rs)	14.6	27.1	41.8	62.0
P/E (x)	27.3	14.7	9.5	6.4
EV/EBITDA (x)	11.9	6.9	4.9	3.5
Net Debt/Equity (x)	0.0	0.3	0.5	0.4
RoE (%)	13.6	17.0	21.8	25.9
RoCE (%)	18.8	21.9	25.3	29.0

Source: Company, India Infoline Research

India has over 1.29mn schools providing K-12 education to more than 228mn students

The target market is estimated at more than 413mn people, ~40% of the country's population.

Government spending on the education sector is estimated to be US\$30bn+ pa

India's private education market is estimated at US\$40bn by E&Y

In Union Budget 2009-10, government allocated ~Rs445bn towards education, a ~20% yoy increase

Provision for the scheme 'Education through ICT' was substantially increased to Rs9bn ease.

The allocation on higher education has witnessed an almost a nine-fold increase in XI five-year plan

Government has increased participation and outsourcing to the private sector

India – one of the largest education markets

India has over 1.29mn schools providing K-12 (kindergarten – Class 12) education to more than 228mn students. There are over 6.5mn teachers across India who needs training in IT and delivery of education. Of the 1.29mn schools, 1.01mn are government schools (including 0.47mn schools by local bodies) and 0.28mn are private schools (including both, aided and non-aided). About 87.6% of the schools are providing primary and secondary education while the residual 12.4% are providing higher secondary education.

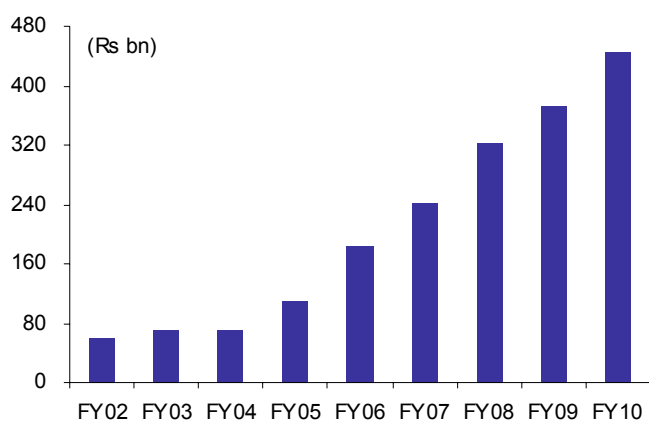
With billion-plus population, low literacy levels, high proportion of young and low gross enrollment ratio (GER), India is one of the largest markets for education globally. The target market (children and youngsters in the age group 6-24 years) is estimated at more than 413mn people, ~40% of the country's population. Government spending on the education sector is estimated to be US\$30bn+ pa. India's private education market is estimated at US\$40bn by E&Y. Education spend is expected to increase 12x per household between FY1995-2025E with rising per capita income.

Government thrust on education has been increasing

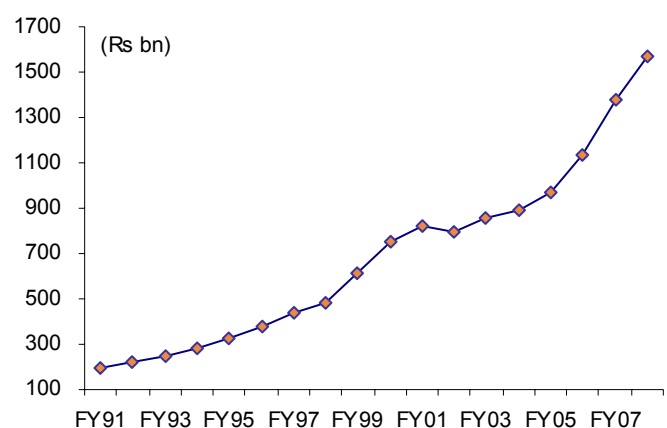
In an effort to convert the demographic advantage into an economic advantage, Government has stepped-up the public spending and budgetary allocation towards education over the past six years. In the Union Budget 2009-10, government allocated ~Rs445bn towards education, a ~20% yoy increase. Of this, ~Rs154bn was allocated for higher education and ~Rs291bn was allocated for school education. Provision for the scheme 'Education through ICT' was substantially increased to Rs9bn in the budget.

In its XI five-year plan (2007-12), government has allocated Rs60bn to set-up ICT labs in Government schools. The allocation on higher education has witnessed an almost a nine-fold increase from ~Rs96bn in the X five-year plan. Government's thrust on education can also be gauged from its plans to establish 8 new IITs, 7 new IIMs, 3 new Indian Institutes of Science Education and Research and 16 Central Universities. Further, government has increased participation and outsourcing to the private sector to increase the efficiency of its spending.

Budgetary allocation towards education



Public expenditure on education



Source: Company, India Infoline Research

Company Information

Everonn – a niche education services player

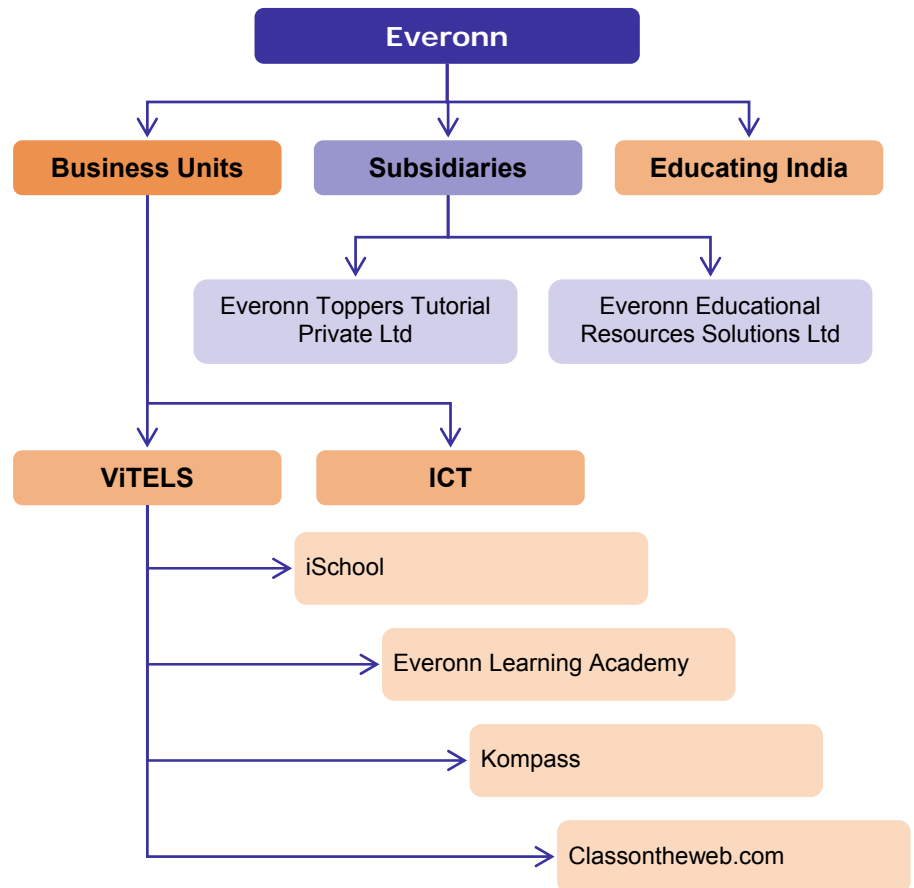
Everonn is a fully integrated knowledge management, education and training company offering a range of services including creating knowledge resources, designing and delivering learning and training programs and setting-up infrastructure and delivery platform. Company functions through its two business segments, Instructional and Communication Technology (ICT) and Virtual and Technology Enabled Learning Solutions (ViTELS) and three wholly-owned subsidiaries.

In July 2007, company raised equity capital of Rs500mn via an IPO of

Everonn is the largest VSAT networked education company globally 3.57mn shares

Incorporated in 2000, Everonn is promoted by Mr P Kishore, who was closely involved in implementing computer literacy projects in the Nilgiri district of Tamil Nadu since 1987. In July 2007, company raised equity capital of Rs500mn via an IPO of 3.57mn shares priced at Rs140/share. The IPO was oversubscribed 145 times. Everonn is the largest VSAT networked education company globally.

Business Structure



Source: Company

Everonn has partnered with various State Governments for computer education projects in public schools

Instructional and Communication Technology (ICT)

Everonn has partnered with various State Governments for computer education, computer aided learning and teachers training projects in Government schools. The project tasks include setting-up of computer labs, providing teaching services, course materials (in English and regional languages) and consumables. Company is given 45-60 days for implementation of the necessary infrastructure in a space allotted by the school. The market opportunity is huge given the large number of public schools in the country and Government's emphasis on computer literacy.

Computer labs set-up by Everonn in Government schools



Source: Company

ICT projects are typically 5-year BOOT projects

For securing a tender, vendor has to be technically eligible and be a L1 bidder

There is no ambiguity in contract specifications

Upfront capex for creating the computer lab varies between Rs1-3lakhs

Contract revenues are 4-7x initial capex and OPM is 40-45%

Typically 5-year BOOT contracts; technical eligibility acts as an entry barrier

The ICT tenders floated by State Governments are generally for a period of five years. The project is to be executed on BOOT (Build-Own-Operate-Transfer) model where at completion the assets are to be transferred to the Government. For securing a tender, vendor has to be technically eligible and be a L1 bidder. Technical criteria include existence/experience in ICT business, minimum revenues from this business, minimum number of teachers trained and schools covered, etc. The technical requirements act as significant entry barriers for new competitors. The contract specifies to the minutest detail (hardware configuration, educational background of the faculties, salary to be paid to teachers, etc) the requirements from the winning bidder.

Generally, contract revenues are 4-7x initial capex and OPM is 40-45%

The upfront capex for creating the computer lab varies between Rs1-3lakhs depending upon individual state government's requirements. The contract revenue to capex ratio generally is in the range of 4-7x. Revenues are evenly recognized on monthly basis with no distinction made between hardware and services revenues. The OPM earned is 40-45% while generated RoI is 14-16%. The main elements of operational expenditure include faculty salaries, training expenses, distribution of text books, electricity charges, etc.

Financial viability analysis of a hypothetical ICT project

Particulars	Amount	Comments
Initial Capex (Rs)	200,000	Initial capex between 1-3 lakhs
Debt (Rs)	200,000	Fully-funded through debt
Upfront Payment (Rs)	-	No upfront payment in this business
Net Investment (Rs)	200,000	-
Avg duration of contract (years)	5.0	-
Billing/Capex ratio (x)	5.5	Contract revenues generally vary between 4.5-6.5x of capex
Payback (years)	2.3	-

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5	Contract
Revenues (Rs)	220,000	220,000	220,000	220,000	220,000	1,100,000
Operating Profit (Rs)	99,000	99,000	99,000	99,000	99,000	495,000
OPM (%)	45.0	45.0	45.0	45.0	45.0	45.0
Depreciation (Rs)	40,000	40,000	40,000	40,000	40,000	200,000
EBIT (Rs)	59,000	59,000	59,000	59,000	59,000	295,000
Interest @ 12% (Rs)	24,000	24,000	24,000	24,000	24,000	120,000
PBT (Rs)	35,000	35,000	35,000	35,000	35,000	175,000
Tax @ 35% (Rs)	12,250	12,250	12,250	12,250	12,250	61,250
PAT (Rs)	22,750	22,750	22,750	22,750	22,750	113,750
PAT (%)	10.3	10.3	10.3	10.3	10.3	10.3
Rol (%)	11.4	11.4	11.4	11.4	11.4	-
Post-tax cash flow (Rs)	86,750	86,750	86,750	86,750	86,750	433,750
PV of cash flow	80,473	74,650	69,249	64,238	59,590	348,201
Net Investment (Rs)						(200,000)
NPV						148,201

Source: Company, India Infonline Research

Till date, company has worked with 16 State Governments with an implementation base of 5,708 schools

Main competitors are Educomp, NIIT, Aptech and regional entities

Tender sizes have increased over the past few years

Some state governments are distributing tenders between minimum two vendors

Everonn market share at 15-20%; few players but stiff competition

From winning its first ICT contract from Tamil Nadu Government in 2000 for 332 schools, Everonn has evolved as a credible player in this business in the past five years. Company has worked with 16 State Governments and had an implementation base of 5,708 schools at the end of Q2 FY10. Everonn estimates its market share at 15-20% in this segment. The main competitors are Educomp (largest player with implementation base of 14,500+ schools), NIIT, Aptech and regional entities.

Recent trends include increasing project sizes and distribution of projects

Recent years have witnessed State Governments floating larger ICT tenders covering thousands of schools as compared to hundreds of schools earlier. Another notable trend is distribution of tender between minimum two vendors. In such a case, the L2 and L3 bidders are asked to match the quote of the L1 bidder. The main rationale behind this phenomenon is to de-risk execution and expedite implementation especially in case of large contracts.

Everonn has a long receivable cycle of 240+ days in this business thus requiring significant investments in working capital

High working capital intensity due to elongated payment cycles

An elongated debtor cycle has become an inherent feature of ICT business. Everonn has a long receivable cycle of 240+ days in this business thus requiring significant investments in working capital. Net working capital stood at 48% of capital employed at the end of FY09. Though State Governments commit to pay in 6 months, more often than not, it takes 8-9 months to collect payments. There has also been couple of instances where company has received payments after 12 months from the date of billing. However, there have been no bad debts in this business till date.

Everonn exploring post-school business opportunity

In some states, Everonn has been allowed to utilize the infrastructure installed (physical and human) after school hours to generate additional revenues for which it is required to pay a nominal rent. Company provides value-added IT and various non-IT courses to students and general public after the school hours.

Company has recently won Uttar Pradesh Government order worth Rs930mn covering about 1,099 schools

ICT revenues to witness 32% CAGR over FY09-12E

Everonn has recently won Uttar Pradesh Government order worth Rs930mn covering about 1,099 schools which is currently under implementation. At the start Q3 FY10, it also bagged a 110 school project from Andhra Pradesh worth Rs110mn. Company expects to start recognizing revenues on these contracts from Q3 FY10-end. Further, tenders for more than 10,000 schools are expected to be floated in the next five months. This includes tenders from Governments of Maharashtra (2,500 schools), Rajasthan (2,000 schools), Orissa (1,500 schools), Jharkhand (1,074 schools) and Haryana (213 schools).

Tenders for more than 10,000 schools are expected to be floated in the next five months

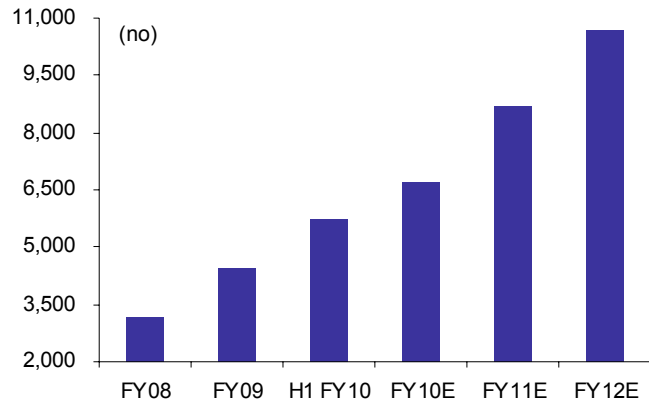
Company to restrict school additions to 2,500 per annum; ICT revenue share to decline

Everonn intends to restrict annual school addition to 2,500 in this business even if there are larger business opportunities. Company does not want to bid too aggressively in this segment going ahead. The high capex intensity, lower profitability and long receivable cycles make this segment less preferred over ViTELS, the largest business segment. ICT segment's share in the stand-alone revenues is expected to decline from 39% in FY09 to 27% in FY12.

Company does not want to bid too aggressively in this segment going ahead

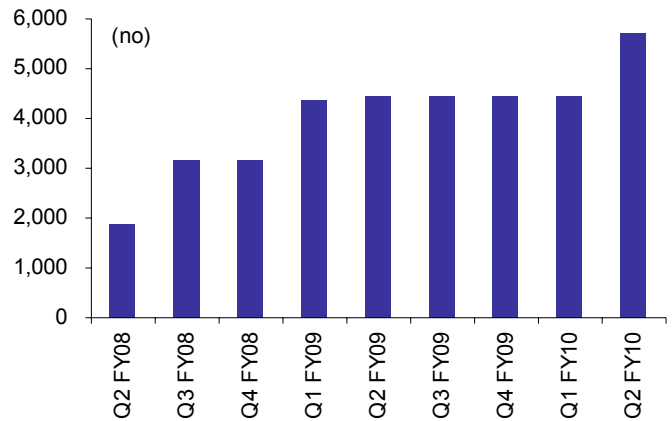
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Projected increase in ICT school base

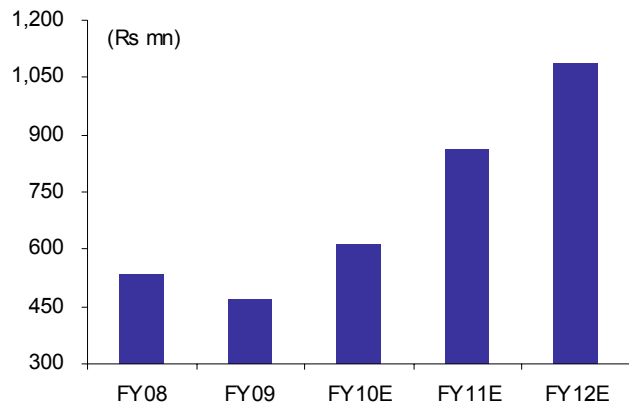


Source: Company, India Infoline Research

School base has increased at a gradual pace in the recent past

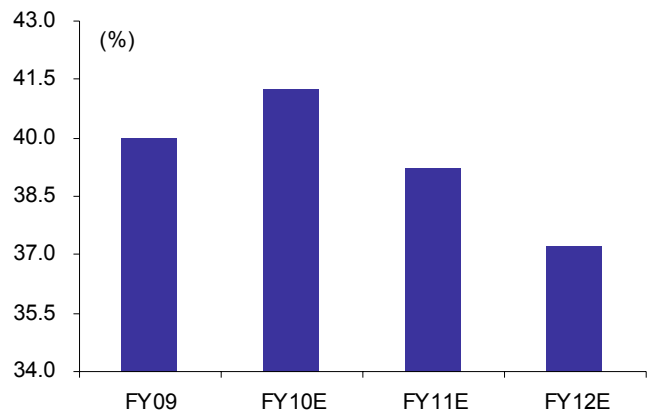


ICT revenues to witness 32% CAGR over FY09-12E



Source: Company, India Infoline Research

OPM to contract on intensifying competition



Virtual and Technology Enabled Learning Solutions (ViTELS)

At the end of Q2 FY10, Everonn had technology enabled virtual classrooms in 734 schools, 1,165 colleges and 44 retail learning centers

Presently, there are seven studios, all located in Chennai

Everonn has a separate division, KRDR, to provide content support

Everonn's content development team comprises 100+ in-house content developers and 200+ independent expert contributors

ViTELS is Everonn's unique and superior business offering. In this segment, company uses VSAT (very small aperture terminal) technology to deliver lectures by well-trained faculties from studios located remotely directly into the classrooms of schools and colleges and retail learning centers. The instructor and students are always visible to each other and interactions are as instant as in a regular classroom. At the end of Q2 FY10, Everonn had technology enabled virtual classrooms in 734 schools, 1,165 colleges and 44 retail learning centers. Presently, there are seven studios, all located in Chennai, from where the faculties deliver lectures.

ViTELS segment includes iSchool, Learning academy in colleges, Kompass (retail centers), Classontheweb.com (an online learning portal) and education infrastructure consulting initiatives of Everonn.

Since content is the key differentiator in the above-mentioned businesses, Everonn has a separate division called Knowledge Resource Development & Research (KRDR) to provide the requisite support. The subject experts at KRDR have rich academic and industry-related experience. The instructional material is generated after a long process of research by experienced educationalists, research associates, faculty, content developers and animators. Everonn's content development team is spearheaded by 6 doctorates and comprises 100+ in-house content developers and 200+ independent expert contributors. Further, company's association with premier universities and institutions also helps in developing relevant content.

Diagrammatic representation of ViTELS



Source: Company

Faculty studio and control room



Lecture Platform



Control Room

Source: Company

1) iSchool

Everonn converts a normal school classroom into a technology enabled virtual classroom

School teachers are trained to use the infrastructure and multimedia content as powerful tools

VSAT facility is seldom used to deliver lectures on complicated topics by Educomp faculties from remote studios

iSchool – innovative and blended delivery of education

In iSchool offering, Everonn converts a normal school classroom into a technology enabled virtual classroom by equipping it with interactive whiteboards, LCD projector, computer and remote studio connectivity via VSAT. Digital content mapped to the curriculum needs is hosted on the school server which could be accessed in the classroom by various school teachers for enhanced and interactive delivery of education to students. The school teachers are trained to use the infrastructure and the multimedia content as powerful tools. Though about 90% of the lectures would be provided by school teachers, the VSAT facility is seldom used to deliver lectures on complicated topics by Educomp faculties from remote studios.

iSchool classrooms



Source: Company

Raises quality of pedagogy resulting into enhanced learning outcomes

iSchool, a teacher-led educational content solution, significantly improves academic performance of students in schools through the use of technology. It enhances teaching quality and students learning outcome through 1) improvement in teacher's effectiveness and productivity 2) enhancing student's interest and engagement in learning inside through visuals and multimedia animations with/without voice over 3) brings even abstract and difficult curriculum concepts to life 4) enables instant formative assessment of learning outcomes 5) overall, makes learning an enjoyable experience for students.

Everonn presence is currently restricted to CBSE schools

Presently, Everonn has iSchool classrooms in 734 CBSE schools as company has only CBSE curriculum content for Grades IV-XII. Everonn had acquired CBSE content for about Rs75mn a few years back and has spent further Rs25-30mn on its development. With about 10,000 CBSE schools in the country, growth potential remains robust in this segment. Further, Everonn has significant scope to scale-up its presence within its existing school base, as the current classroom/school ratio is low at ~1.5. Everonn is in the process of acquiring/developing ICSE curriculum and plans to target ICSE schools soon.

Acquired CBSE content for about Rs75mn a few years back and has spent further Rs25-30mn on its development

Everonn is in the process of acquiring/developing ICSE curriculum and plans to target ICSE schools soon

Capex of setting-up a technology enabled virtual classroom is about Rs1.5lakhs including VSAT

Company charges upfront Rs3lakh and Rs6lakh/classroom over five years

Everonn realizes handsome OPM of 50-55% in this business

Highly scalable revenue model with high margin

iSchool contracts are typically executed on BOOT basis and have an average period of five years. The capex of setting up a technology enabled virtual classroom is about Rs1.5lakhs including VSAT. The school is charged upfront Rs3lakh for sharing of content and the right for its unlimited usage. Additional revenues to the tune of Rs6lakh/classroom is billed monthly (Rs10,000/month) over the period of the contract. For additions of classrooms in existing schools, only recurring revenues are charged. With no major recurring expenses apart from the marginal cost of a stationed resource coordinator who ensures smooth functioning, Everonn realizes handsome OPM of 50-55% in this business. As the implementation/roll-out time per classroom is short, this business also becomes quickly scalable.

Financial viability analysis of a hypothetical iSchool project

Particulars	Amount	Comments
Initial Capex (Rs)	150,000	Includes plasma screens, digiboards, projector, VSAT costs, etc
Debt (Rs)	150,000	Fully-funded through debt
Upfront Payment (Rs)	-	No upfront payment in this business
Net Investment (Rs)	150,000	-
Avg duration of contract (years)	5.0	-
Billing/Capex ratio (x)	4.0	Contract revenues generally are equivalent to 4x capex
Payback (years)	Instant	Immediate recovery of the initial capex

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5	Contract
Revenues (Rs)	420,000	120,000	120,000	120,000	120,000	900,000
Operating Profit (Rs)	360,000	60,000	60,000	60,000	60,000	600,000
OPM (%)	85.7	50.0	50.0	50.0	50.0	66.7
Depreciation (Rs)	30,000	30,000	30,000	30,000	30,000	150,000
EBIT (Rs mn)	330,000	30,000	30,000	30,000	30,000	450,000
Interest @ 12% (Rs)	18,000	18,000	18,000	18,000	18,000	90,000
PBT (Rs)	312,000	12,000	12,000	12,000	12,000	360,000
Tax @ 35% (Rs)	109,200	4,200	4,200	4,200	4,200	126,000
PAT (Rs)	202,800	7,800	7,800	7,800	7,800	234,000
PAT (%)	48.3	6.5	6.5	6.5	6.5	26.0
Post-tax cash flow (Rs)	250,800	55,800	55,800	55,800	55,800	474,000
PV of cash flow (Rs)	232,653	48,017	44,543	41,320	38,330	404,863
Net Investment (Rs)						(150,000)
NPV						254,863

Source: Company, India Infoline Research

Educomp's 'Smart Class' is significantly more scaled-up and penetrated than iSchool

Its revenue model is also different from iSchool

First quarter of a fiscal is typically the weakest in the year as it coincides with summer vacations

New classroom/school additions pick-up from second quarter and peak out in the last quarter of the fiscal

iSchool revenues to witness a robust 45% CAGR over FY10-12E

This business is estimated to contribute 20% of ViTELS segment revenues in FY12

Margins to increase in this business with higher operational leverage

Educomp, the only but significantly large competitor

Educomp with *Smart Class* offering is the only organized competitor in this business. However, Smart Class with presence in 2,219 schools (3x iSchool) covering 2.5mn students is a significantly scaled-up business as compared to iSchool. More importantly, Smart Class revenues in Q2 FY10 stood at Rs1.4bn (21x iSchool) indicating deep penetration in existing schools (revenue/school = 7x iSchool). Smart Class revenues have been growing at 100% yoy for the past many quarters. Educomp's revenue model is different from Everonn with company charging ~Rs150 per student per month (translating into Rs6000/classroom/month) and absence of any upfront charges. Educomp has been realizing OPM in the range of 55-60% in this segment.

Seasonality in business; Q1 - the weakest & Q4 - the strongest

iSchool business has inherent seasonality which is reflected in its quarterly revenues. The first quarter of a fiscal is typically the weakest in the year as it coincides with summer vacations of schools. This leads to low new school addition in this quarter and therefore sequentially lower revenues. New classroom/school additions pick-up from second quarter and peak out in the last quarter of the fiscal. Generally, schools plan to complete iSchool implementation before the start of a new academic year (June-March). However, we believe that this seasonality in revenues would diminish gradually in next few years with significant increase in school base which would undermine the impact of upfront payments from new schools.

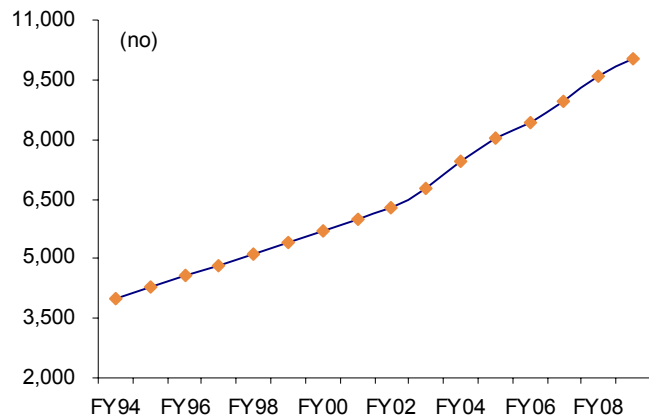
Company provides supplementary courses to improve revenue realization

Everonn provides supplementary courses after school hours through iSchool, which enriches the learning experience of students. Such courses include Future Engineer Programs (a basic learner course for aspiring engineers of 7th, 8th and 9th standards), Summer courses, Essentials of English, Spark (for 10th & 12th standard students), etc.

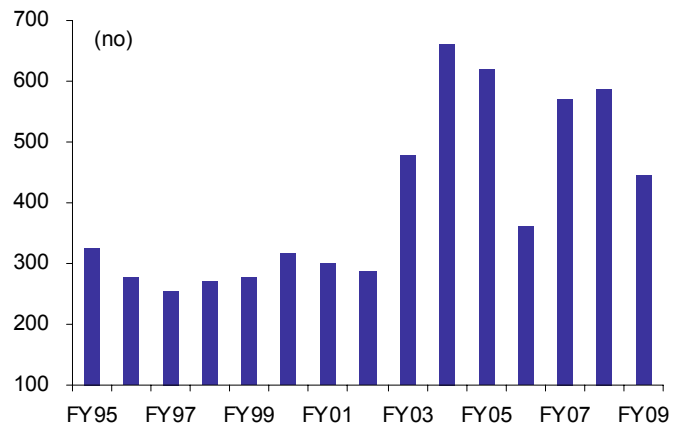
Revenue growth to accelerate

We expect iSchool revenues to witness a robust 45% CAGR over FY10-12E on the back of 1) 41% CAGR in school base 2) improvement in classroom penetration from present ~1.5x to 2x per school by end-FY12 3) expansion of target market with access to ICSE curriculum 4) low competition and 5) high scalability of the business. iSchools is estimated to contribute 20% of ViTELS segment revenues in FY12. Margins could increase in this business with higher operational leverage.

CBSE schools in the country has been increasing fast

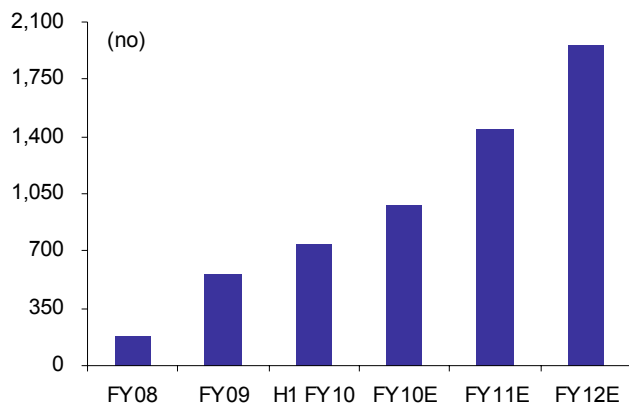


Significant addition in CBSE schools in the past 6-7 years

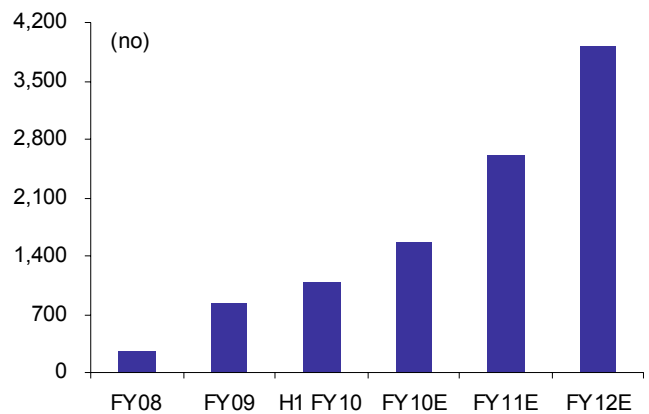


Source: Company, India Infoline Research

Projected increase in iSchool school base

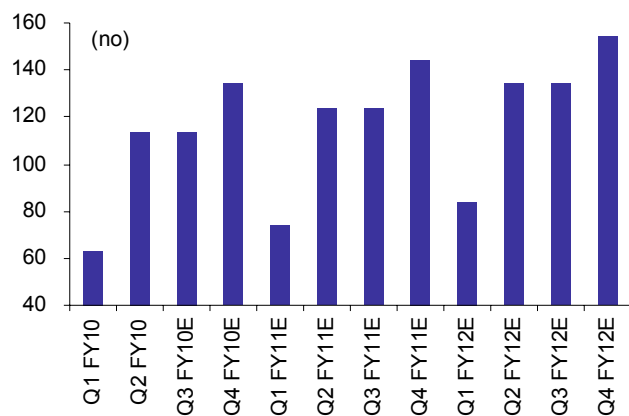


Projected increase in iSchool Classrooms

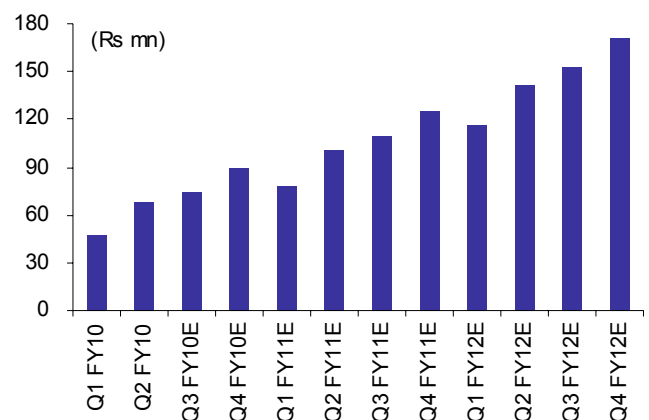


Source: Company, India Infoline Research

Seasonality in school additions; weak Q1 and strong Q4



Seasonality to be reflected in iSchool revenues



Source: Company, India Infoline Research

This business is similar to iSchools with Everonn converting a college classroom into a technology-equipped virtual classroom

Company offers a wide range of job oriented and industry specific programs to the college students

Depending upon the course chosen, college students are charged in the range of Rs1,000-20,000/course

The key difference as compared to iSchool is that all courses are conducted by the Everonn faculties via VSAT

Over the past five quarters, company has added 80% of its existing college base

We expect Everonn to add 800-900 colleges per annum for next few years

College revenues to register 86% CAGR over FY10-12 with revenue share improving to 44% in FY12

2) Learning centers in colleges

This business is similar to iSchools with Everonn converting a college classroom into a technology-equipped virtual classroom. The capex and technology investment is same as that in iSchools. Through such classrooms company offers a wide range of job oriented and industry specific programs to the college students. The key focus is to bridge the widening gap between student skill sets and industry requirements. The various courses offered by Everonn can be categorized into

- i) **Skill Enhancers** – Communication and Personality Training [CPT], Aptitude Development courses, Effective English, etc
- ii) **Career oriented IT courses** – Oracle, ADJP, CCNA, Software Testing, etc
- iii) **Career oriented BFSI courses** – Courses in Banking, Finance & Insurance
- iv) **Certificate courses through alliances** – Bioinformatics Courses (Anna University), MSME courses (Government of India), Entrepreneurship Development of India (Government of Tamil Nadu), etc

Depending upon the course chosen, college students are charged in the range of Rs1,000-20,000/course. Presently, company has presence in 1,165 private colleges across variety of streams including Arts & Science, Engineering, Management, Medical, Pharma, Hotel Management, Nursing and Dental colleges. The key difference as compared to iSchool is that all courses are conducted by the Everonn faculties via VSAT as compared to only some lectures (~10-15%) in iSchools.

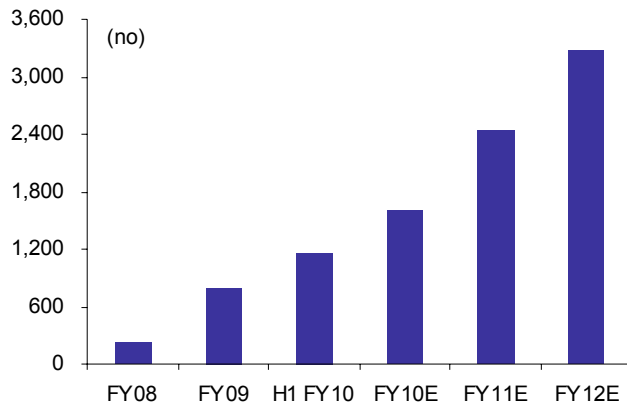
Everonn has witnessed strong momentum in college additions over the past five quarters. In the aforesaid period, company has added 80% of the current college base. The brisk momentum is expected to continue due to huge market potential, almost no competition, first mover advantage, strategic tie-ups for courses and recent tie-ups with various universities giving access to large number of colleges. We expect Everonn to add 800-900 colleges per annum for next few years. Revenues in this business would also receive a boost from improving revenue productivity of existing colleges. We expect college revenues to register 86% CAGR over FY10-12 with revenue share improving from 30% in FY10 to 44% in FY12.

Learning centers in colleges

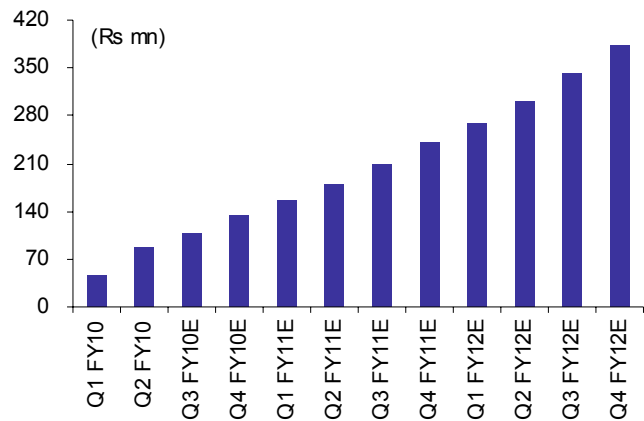


Source: Company

Projected increase in college base



Projected trend in college revenues



Source: Company, India Infoline Research

3) Kompass – Retail Learning Centers

Everonn offers the following services through its retail learning centers

- i) **Testing services** – ETS, Prometric, Pearson Vue, etc
- ii) **Training services** – Oracle, CCNA, Diploma in Banking & Finance, TOEFL, IELTS, Microsoft, Red Hat, etc
- iii) **Admission counseling services** – Services for students aspiring to study abroad

Everonn is the largest testing partner for ETS and an authorized workforce development partner for Oracle

Everonn is the largest testing partner for ETS, certified learning solutions partner for Microsoft, authorized Workforce Development Partner (WDP) for Oracle, partner for APTC, GRE, USMLE and PMI tests for Prometric and exclusive single-point IT certification test vendor for TCS

The target segment in this business includes individual learners and corporates. Company’s corporate clientele includes Tata Consultancy Services, MindTree, L&T InfoTech, HCL, CSC, Polaris, Infosys, Tech Mahindra, Wipro and Syntel.

Company has 44 retail centers across India; to add limited centers in next few years

Presently, company has 44 retail centers across India. As capacity utilization (revenue productivity) of the existing centers is low, company intends to add limited centers in next few years and that too under the franchisee model. We expect revenues in this business to record 34% CAGR over FY10-12 on the back of higher volumes. This business is likely to comprise 14% of ViTELS in FY12.

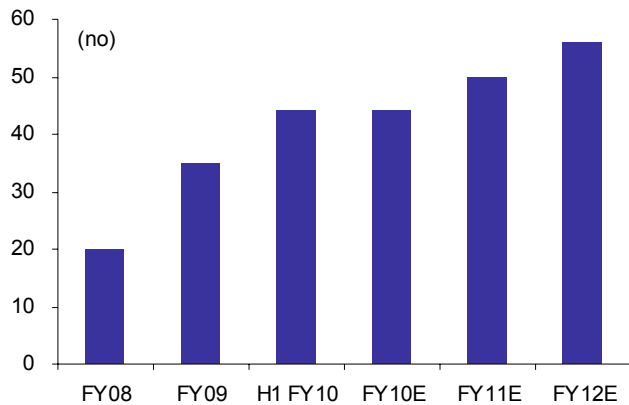
This business is likely to comprise 14% of ViTELS in FY12

Retail Learning Centers

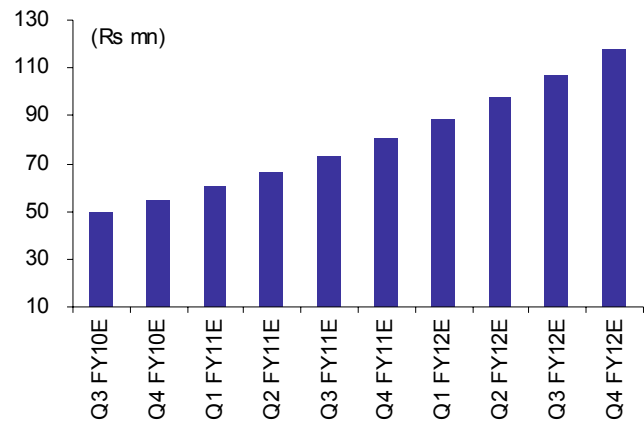


Source: Company

Projected increase in retail centres



Projected trend in retail revenues



Source: Company, India Infoline Research

Classontheweb.com is a comprehensive learning portal for school students

Its registered user base has increased from ~30,000 to 200,000+ over past couple of years

4) Classontheweb.com

Classontheweb.com is a comprehensive learning portal for school students offering online interactive content completely mapped to school curriculums. This portal came along with the acquisition of e-learning division of Aban Informatics in January 2008. Since acquisition, it has evolved to become an online academic & information hub for students with increase in registered user base from ~30,000 to 200,000+. Some prominent features of the portal includes

- i) Digitized content and high quality animations with voiceover scripting developed by subject experts
- ii) Hosts interactive features like student communities, blogs, discussion forums and video lessons of theory and practical sessions
- iii) Customized question paper generation tool

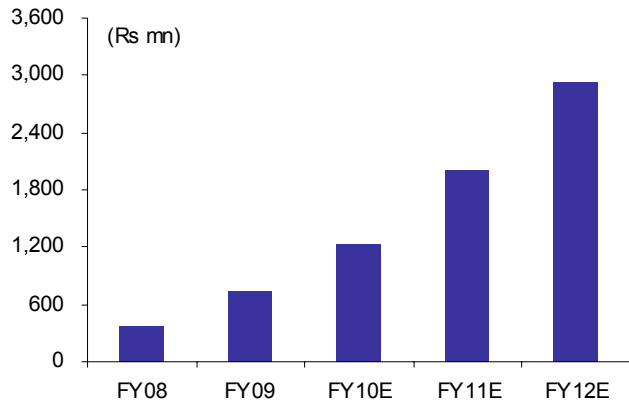
ViTELS segment to witness robust 58% revenue CAGR over FY09-12; OPM expected to improve materially

We expect ViTELS revenues to increase from Rs743mn in FY09 to Rs2.92bn in FY12 representing a robust CAGR of 58%. The growth would be mainly driven by college learning centers and iSchool businesses which as mentioned before are estimated to record a CAGR of 86% and 45% over FY10-12. Operating margin in the ViTELS segment is expected to improve materially from 51.3% in FY10 to 54.8% in FY12 on account of increasing revenue contribution from the relatively high-margin college and iSchools businesses.

ViTELS revenues to increase from Rs743mn in FY09 to Rs2.92bn in FY12

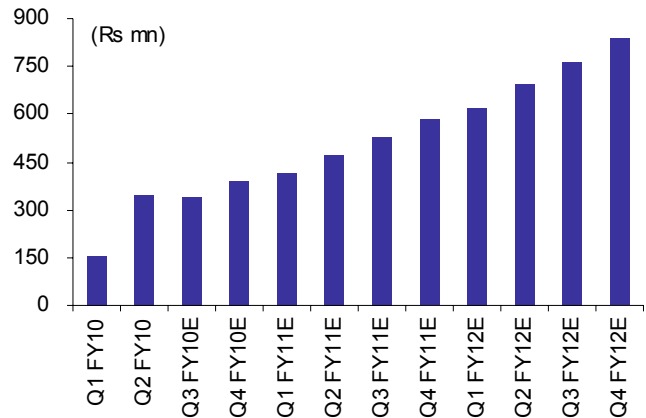
OPM is expected to improve materially from 51.3% in FY10 to 54.8% in FY12

ViTELS revenues to witness 58% CAGR over FY09-12E

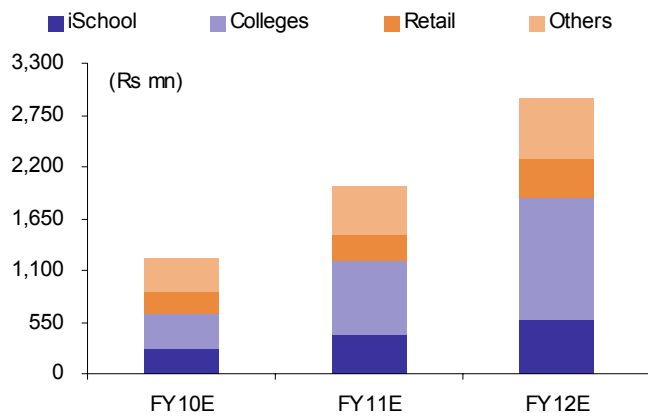


Source: Company, India Infoline Research

Projected quarterly revenue trend in ViTELS segment

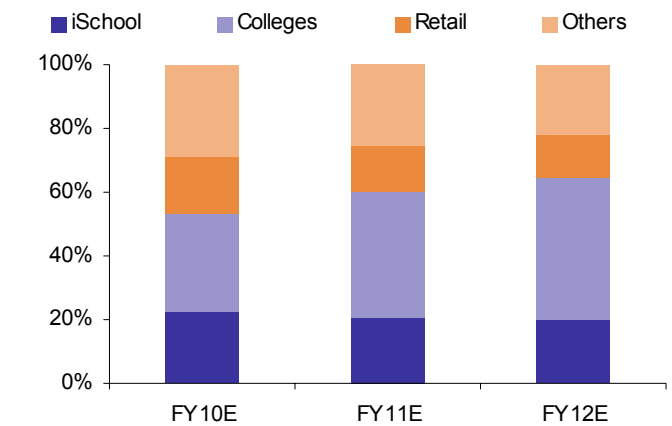


Revenue break-up of ViTELS segment

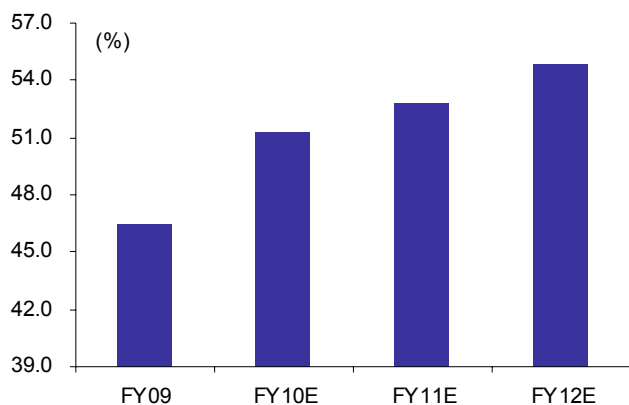


Source: Company, India Infoline Research

Projected revenue mix in ViTELS segment

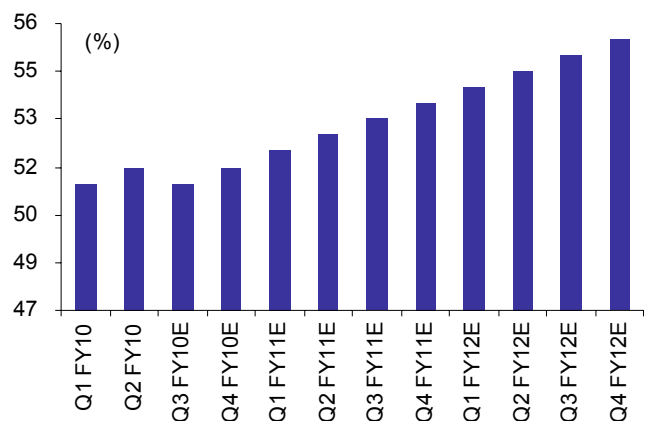


OPM to expand as operating leverage plays out



Source: Company, India Infoline Research

Projected quarterly OPM trend



Subsidiaries

Everonn Education Resources Solutions Limited (Edures)

During FY09, Everonn incorporated a wholly owned subsidiary Everonn Educational Resources Solutions Ltd (Edures) to take advantage of the company's access to a large number of schools and colleges across IEIS and ViTELS segments. Since incorporation, Edures has been supplying educational material, tools and IT products to various schools and colleges.

Edures supplies educational material, tools and IT products to schools and colleges

Its revenues stood at Rs262mn in H1 FY10

Being essentially a trading business, OPM is low in the range of 7-8%.

This business to contribute about 30% of revenues in February 2008,

Everonn acquired Toppers Tutorial, a leading Patna-based IIT entrance coaching company in Feb 2008

Through this venture, company is targeting ~Rs100bn tutoring market

Toppers revenues to register 44% CAGR over FY10-12E while OPM is anticipated to improve

Edures and Toppers to contribute 36% of consolidated revenues in FY12

Edures revenues stood at Rs262mn in H1 FY10 with more than 80% of it coming in Q2 FY10. Being essentially a trading business, OPM is low in the range of 7-8%. However, this business is likely to generate significant topline for the company over the next few years given the substantial increase in school and college base of the company. We estimate this business to contribute about 30% of revenues in FY12.

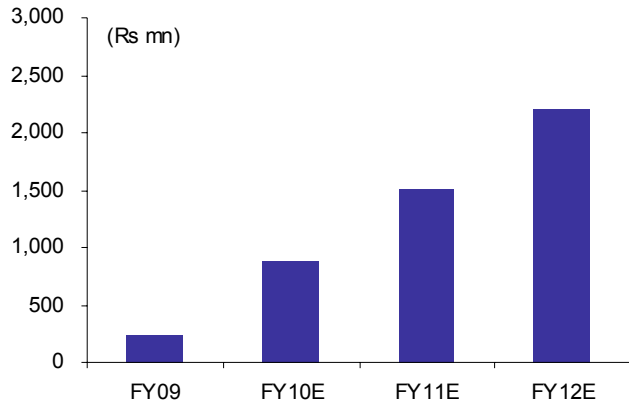
Everonn Toppers Tutorial Private Limited (Toppers)

In February 2008, Everonn acquired 100% stake in Toppers Tutorial, a leading Patna-based IIT entrance coaching company. With this acquisition, company added content repository and blended delivery for entrance exam coaching for IIT-JEE and AIEEE. Through this venture, company is targeting ~Rs100bn tutoring market which is fast growing. Everonn has been significantly investing in this venture since acquisition. We estimate Toppers revenues to register a CAGR of 44% over FY10-12 while margin is anticipated to improve from current 15% to 20% by end-FY12 with improvement in utilization of existing centers.

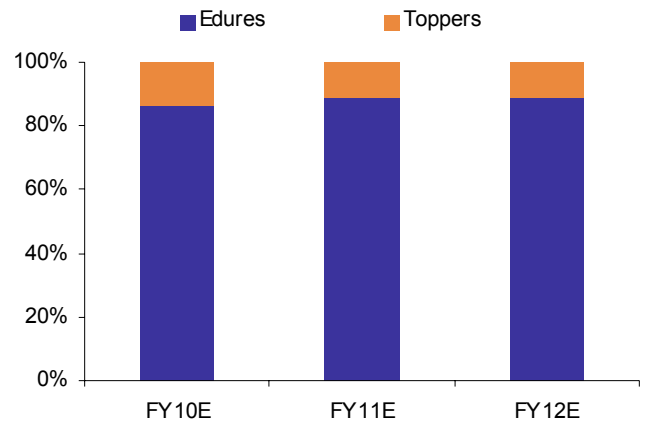
Edures and Toppers to contribute 36% of consolidated revenues in FY12

Revenues of Edures and Toppers combined are expected to increase from Rs884mn in FY10 to Rs2.2bn in FY12. More importantly, these entities are likely to contribute 36% of consolidated revenues in FY12. Their increasing revenue share would act as a margin headwind for the company given their combined lower OPM at 9-10%.

Edures+Toppers revenues to witness 112% CAGR over FY09-12E

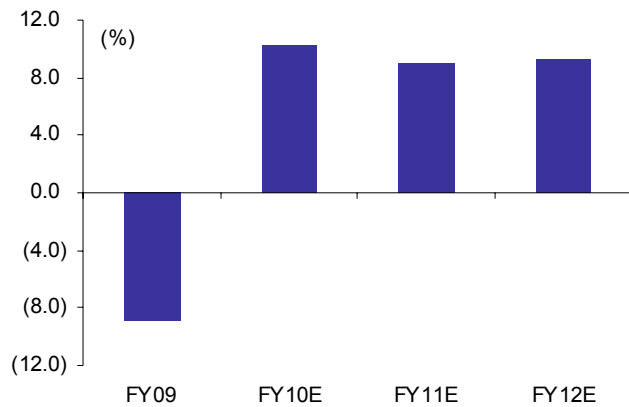


Revenue mix to remain stable

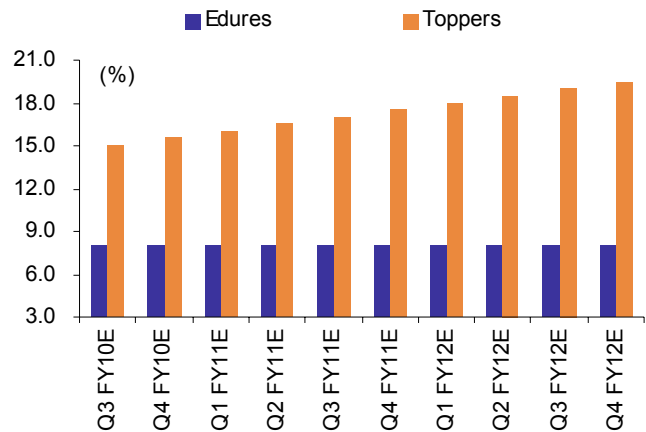


Source: Company, India Infoline Research

OPM to remain low despite margin improvement in Toppers



Toppers OPM to improve while Edures margin would be constant



Source: Company, India Infoline Research

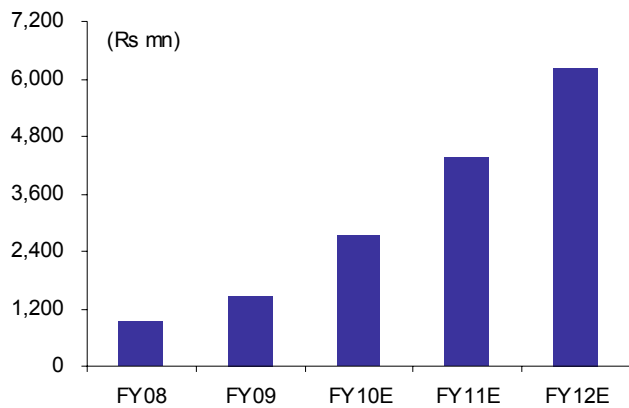
Consolidated revenues to witness a robust 63% CAGR over FY09-12

OPM is estimated to be sustained near 35%

Consolidated revenues to witness 63% CAGR over FY09-12; OPM to be sustained despite revenue mix headwinds

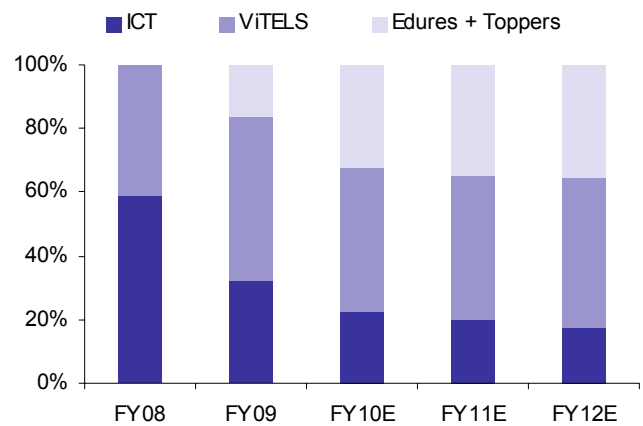
We expect Everonn's consolidated revenues to witness a robust 63% CAGR over FY09-12 driven by strong growth in ViTELS segment and subsidiary revenues. Revenue mix is estimated to shift towards these two businesses as a result. Though increasing share of subsidiary revenues and decline in ICT profitability would act as margin headwinds, consolidate OPM is estimated to be sustained near 35% cushioned by material margin expansion in the ViTELS segment.

Consolidated revenues to witness 63% CAGR over FY09-12E

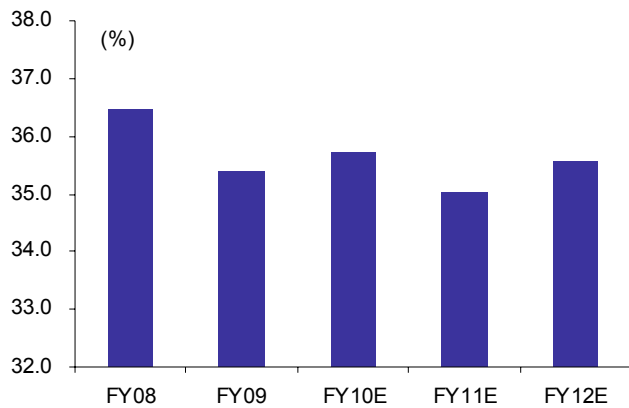


Source: Company, India Infoline Research

Revenue mix to change significantly

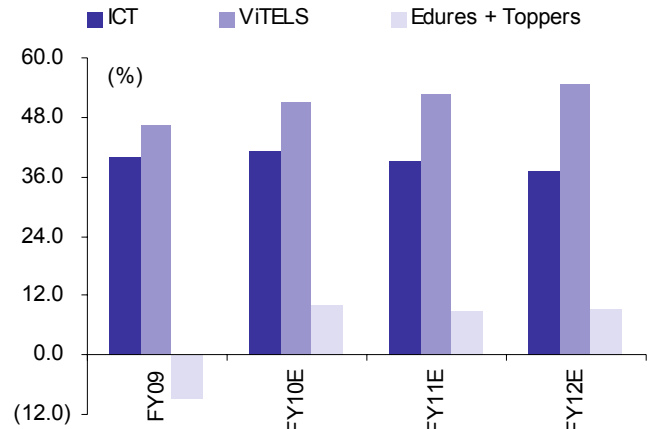


OPM would be sustained despite revenue mix headwinds



Source: Company, India Infoline Research

ViTELS margin expansion to support consolidated OPM



Everonn to attain OCF breakeven in FY10; leverage to remain comfortable despite majority debt funding

We expect Everonn to attain operating cash flow (OCF) breakeven in FY10 and generate significant positive OCF from FY11. OCF is likely to reach 80% of PAT in FY12. Improvement in cash flow would be aided by significant cash profit generation and decline in working capital cycle. We have factored a gradual improvement in receivable cycle over FY09-12 on account of declining share of ICT revenues.

We estimate company's capex at Rs750mn in FY10, RS950mn in FY11 and Rs105mn in FY12 which would be mainly funded by debt in the first two years. However, leverage levels are expected to remain extremely comfortable with net debt/equity remaining below 0.5x. Further, the interest cover is expected to remain healthy at 7-8x between FY10-12.

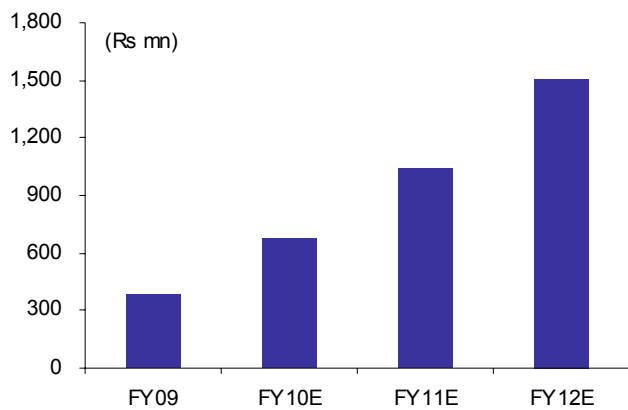
OCF is likely to reach 80% of PAT in FY12

Receivable cycle to gradually improve over FY09-12 on account of declining share of ICT revenues

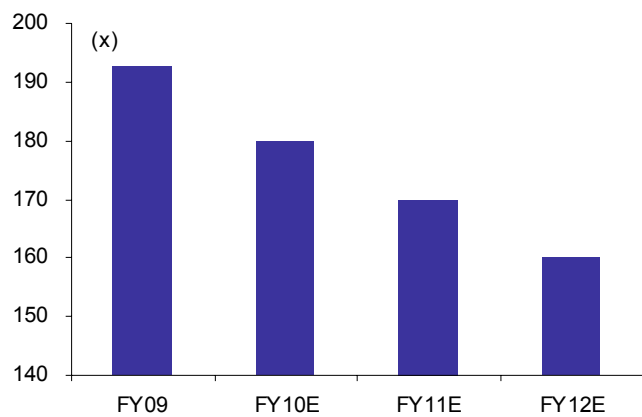
Net debt/equity to remain below 0.5x in the next two years

Interest cover is expected to remain healthy at 7-8x between FY10-12

Cash profits to increase significantly

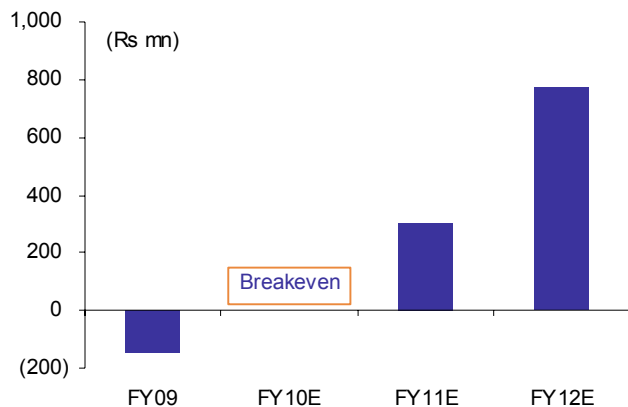


Debtors days to decline as revenue mix moves away from ICT

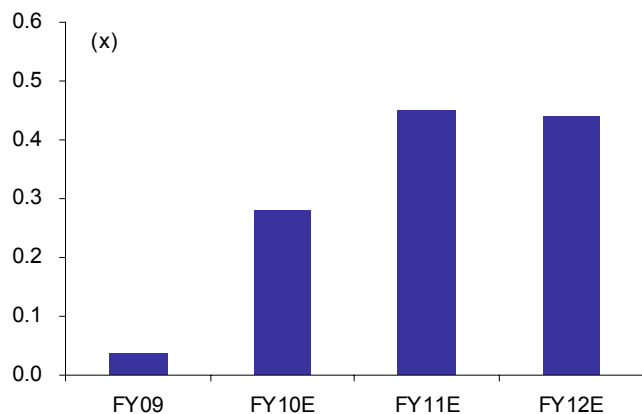


Source: Company, India Infoline Research

Operating cash flow to breakeven in FY10 and increase from FY11



Net Debt/Equity to remain comfortable at below 0.5x



Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Revenue	1,447	2,730	4,368	6,212
Operating profit	512	976	1,529	2,208
Depreciation	(159)	(264)	(407)	(568)
Interest expense	(52)	(90)	(163)	(214)
Other income	39	8	12	16
Profit before tax	341	629	972	1,442
Taxes	(120)	(219)	(340)	(505)
Net profit	221	410	632	937

Balance sheet

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Equity capital	151	151	151	151
Reserves	2,077	2,451	3,030	3,896
Net worth	2,229	2,603	3,181	4,047
Debt	487	1,237	1,937	2,237
Total liabilities	2,715	3,839	5,117	6,284
Fixed assets	1,176	1,662	2,205	2,687
Intangible assets	5	5	5	5
Investments	235	100	100	100
Net working capital	1,300	2,073	2,808	3,492
Sundry debtors	764	1,346	2,034	2,723
Cash	403	505	503	451
Other current assets	576	976	1,376	1,776
Sundry creditors	(174)	(299)	(431)	(545)
Other current liab	(268)	(455)	(675)	(914)
Total assets	2,715	3,839	5,117	6,284

Cash flow statement

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Profit before tax	341	629	972	1,442
Depreciation	159	264	407	568
Tax paid	(120)	(219)	(340)	(505)
Working capital Δ	(527)	(670)	(737)	(736)
Operating cash flow	(148)	3	302	769
Capital expenditure	(713)	(750)	(950)	(1,050)
Free cash flow	(861)	(747)	(648)	(281)
Equity raised	998	-	-	-
Investments	(148)	135	-	-
Debt finan/diposal	28	750	700	300
Dividends paid	-	(36)	(53)	(71)
Net Δ in cash	17	102	(2)	(52)

Key ratios

Y/e 31 Mar	FY09	FY10E	FY11E	FY12E
Growth matrix (%)				
Revenue growth	57.9	88.7	60.0	42.2
Op profit growth	53.3	90.5	56.7	44.4
EBIT growth	56.5	83.2	57.8	45.9
Net profit growth	60.0	85.5	54.2	48.4

Profitability ratios (%)

OPM	35.4	35.7	35.0	35.5
EBIT margin	27.1	26.3	26.0	26.7
Net profit margin	15.3	15.0	14.5	15.1
RoCE	18.8	21.9	25.3	29.0
RoNW	13.6	17.0	21.8	25.9
RoA	9.2	10.6	11.7	13.4

Per share ratios

EPS	14.6	27.1	41.8	62.0
Dividend per share	0.0	2.0	3.0	4.0
Cash EPS	25.1	44.6	68.7	99.6
Book value per share	141.3	166.1	204.3	261.6

Valuation Ratios

P/E (x)	27.3	14.7	9.5	6.4
Price/CEPS	15.9	8.9	5.8	4.0
Price/Book (x)	2.8	2.4	1.9	1.5
EV/EBITDA (x)	11.9	6.9	4.9	3.5

Leverage ratios

Interest coverage	7.6	8.0	7.0	7.8
Net debt / equity	0.0	0.3	0.5	0.4
Net debt / op. profit	0.2	0.7	0.9	0.8

Payout (%)

Dividend payout	0.0	8.7	8.4	7.6
Tax payout	35.2	34.9	35.0	35.0

Liquidity ratios

Debtor days	193	180	170	160
Inventory days	0	0	0	0
Creditor days	44	40	36	32

Du-Pont Analysis

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Tax burden (x)	0.65	0.65	0.65	0.65
Interest burden (x)	0.87	0.87	0.86	0.87
EBIT margin (x)	0.27	0.26	0.26	0.27
Asset turnover (x)	0.60	0.70	0.81	0.89
Financial leverage (x)	1.49	1.60	1.87	1.93
RoE (%)	13.6	17.0	21.8	25.9

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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