

April 20, 2011

Reco	Previous Reco
Not Rated	Not Rated
CMP	Target Price
Rs 681	NA
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Sensex	19,091
Nifty	5,729

Price Performance

(%)	1M	3M	6M	12M
Absolute	24	9	(3)	76
Rel. to Nifty	16	8	1	61

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	EEDU@IN
Equity Capital (Rs mn)	190
Face Value(Rs)	10
No of shares o/s (mn)	19
52 Week H/L	756/334
Market Cap (Rs bn/USD mn)	13/287
Daily Avg Volume (No of sh)	864915
Daily Avg Turnover (US\$mn)	11.7

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	42.6	26.9	26.9
FII/NRI	37.7	42.6	38.0
Institutions	1.2	5.0	7.0
Private Corp	5.0	6.9	7.7
Public	13.5	18.7	20.4

Source: Capitaline

Priya Gajwani

priya.gajwani@emkayglobal.com
+91 22 6612 1385

Manik Taneja

manik.taneja@emkayglobal.com
+91 22 6612 1253

Everonn Education has signed a Joint Venture Agreement with India's National Skill Development Corporation (NSDC) to impart vocational training across the country over 12 years. We attended the Analyst meet and present our key takeaways:

- Everonn and NSDC have jointly launched 'International Skills School' to impart vocational training with respect to various technical courses. Everonn's wholly owned Skill development subsidiary, Everonn SKILL development Ltd. has been mandated by NSDC to train 15 million people (10% of NSDC's overall target of 150 million) by 2022. NSDC will invest 27% as equity in the wholly owned Skill development subsidiary of Everonn Education Ltd. i.e. Everonn Skill development Limited (ESDL).
- The NSDC was set up as part of a national skill development mission to fulfill the growing need in India for skilled manpower across sectors and narrow the existing gap between the demand and supply of skills. The NSDC is a public-private partnership, wherein 49% is owned by the finance ministry and the remaining 51% held by various industry bodies like the CII, NASSCOM, FICCI, Assocham, etc.
- The courses offered under the same will be for nine different industries like Textile and apparel, Retail, Hospitality, Automobile, Healthcare, Construction, IT and ITeS (IT-enabled Services), Basic engineering and Multimedia. Duration differs from course to course and ranges between 3 weeks to 6 months.
- Average fees for such technical courses works out to be Rs. 9000 (Ranges between Rs. 24,000 to Rs. 3,000 for different courses). Considering the estimated number of students at 15 mn, this turns out to be the revenues of Rs. 135-145 bn over next 12 years for Everonn. EBITDA margin to remain in the range of 23-25% initially and should improve going further, per management.
- Everonn is looking to set up 271 centers across India. Currently there are 9 operational centers and company is planning to roll out 70 more such centers in next three months.
- Capex requirement will be Rs. 3 bn in next 3 years. Of this, NSDC would provide Rs 0.142 bn as equity for 27% stake and Rs. 1.01 bn in the form of debt at a subsidized interest of 6%. The remaining Rs1.85bn will be funded by Everonn through internal accruals and external debt funding.
- Vocational training, unlike other educational segments, does not face regulatory hurdles and remains attractive, per management. There will be no government intervention in the business. Two board members on the Board of Everonn Skill will be represented by NSDC.
- We believe Government's partnership, great demand for the vocational courses and lack of skilled manpower, seem to be favorable for Everonn. However, there are several challenges with respect to (a) student acquisition being responsibility of Everonn (either though B2B or B2C) (b) Execution & scalability of the venture (c) Affordability of students and (d) industry and market acceptance of courses offered.
- We do not have any rating on the stock. Company has done Revenue/EPS of Rs. 2908 mn (+54% YoY) & Rs. 25 (+33% YoY) for 9M FY11. At CMP of Rs. 681, the stock trades at 20x/14.8x/11x for FY11E/12E/13E consensus earnings of Rs.34/46/62.

Financial Snapshot

								Rs Mn	
Y/E March (in Rs mn)	Net Sales	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA	P/B (x)	
FY07	430	175	40.6	41	4.0	14.8	76.4	19.2	
FY08	916	334	36.4	138	10.0	14.6	39.9	10.0	
FY09	1,447	512	35.4	221	14.6	14.3	26.0	5.0	
FY10	2,935	1,010	34.4	455	29.7	19.4	13.2	4.0	

Financials

Income Statement

Y/E, Mar (Rs. m)	FY07	FY08	FY09	FY10
Net Sales	430	916	1,447	2,935
Growth (%)		112.9	57.9	102.8
Total Expenditure	(256)	(582)	(935)	(1,925)
Growth (%)		127.8	60.5	106.0
EBIDTA	175	334	512	1,010
Growth (%)		91.2	53.4	97.1
EBIDTA %	40.6	36.4	35.4	34.4
Other Income	7	23	56	8
Depreciation	96	99	159	253
EBIT	86	258	409	765
Interest	26	40	68	107
EBT	59	218	341	658
Tax	18	80	120	204
EAT	41	138	221	455
Growth (%)		238.2	60.1	105.7
EAT (%)	9.5	15.1	15.3	15.5

Balance Sheet

Y/E, Mar (Rs. m)	FY07	FY08	FY09	FY10
Equity share capital	103	139	151	151
Reserves & surplus	262	808	1,986	2,408
Networth	365	947	2,137	2,559
Secured Loans	235	453	482	839
Unsecured Loans	-	6	5	-
Loan Funds	235	459	487	839
Deferred Tax Liabilities	55	61	112	179
Total Liabilities	655	1,466	2,736	3,578
Goodwill	-	5	5	5
Gross Block	562	787	1,376	2,159
Less: Depreciation	(197)	(292)	(450)	(703)
Net block	365	500	931	1,461
Capital WIP	-	126	250	246
Investment	-	87	235	11
Current Assets	384	943	1,743	2,218
Inventories	3	-	-	-
Sundry debtors	280	424	764	1,172
Cash & bank balance	44	386	403	439
Loans & advances	58	133	576	605
Other current assets	-	-	1	2
Current Liab & Prov	94	190	442	381
Current liabilities	74	120	310	170
Provisions	21	70	132	211
Net current assets	290	753	1,301	1,837
Misc exps	-	-	-	-
Deferred Tax Assets	1	1	21	26
Total Assets	655	1,466	2,736	3,578

Cash Flow

Y/E, Mar (Rs. m)	FY07	FY08	FY09	FY10
Net Profit after Tax	41	138	221	455
Add : Depreciation	96	99	159	253
Add : Misc exp w/off	-	-	-	-
Net changes in WC	(109)	(171)	(585)	(565)
Operational Cash Flows	63	133	(90)	251
Capital expenditure	(127)	(346)	(710)	(779)
Investments	-	(87)	(148)	224
Investing Cash Flows	(127)	(433)	(858)	(555)
Borrowings	(58)	198	1	340
dividend paid	-1.9	-	-	-
Issue of shares	137	444	964	-
Share Premium				
Financing Cash Flows	78	642	965	340
changes in cash	14	342	17	36
Opening balance	30	44	386	403
Closing balance	44	386	403	439

Key Ratios

Y/E, Mar	FY07	FY08	FY09	FY10
EPS (Rs)	4.0	10.0	14.6	29.7
CEPS (Rs)	13.3	17.7	25.4	46.2
Book Value Per Share (Rs)	35.5	68.4	136.3	169.3
Dividend Per Share (Rs)	-	-	-	2.0
Valuations Ratios (x)				
PER	171.5	68.4	46.6	22.9
P/CEPS	51.1	38.6	26.9	14.7
P/BV	19.2	10.0	5.0	4.0
EV/EBIDTA	76.4	39.9	26.0	13.2
EV/Sales	31.0	14.6	9.2	4.5
M-Cap/sales	30.1	14.1	8.9	4.4
Profitability Ratios (%)				
RoCE	16.2	18.4	20.3	25.4
RoNW	14.8	14.6	14.3	19.4
EBITDA Margin	40.6	36.4	35.4	34.4
EBIT Margins	0.2	0.3	0.3	0.3
Net Profit Margin	9.5	15.1	15.3	15.5

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.