

Veranda Learning Solutions

Education | India

IPO | 28 March 2022

Banking on Edureka's Offerings

About the Company

Veranda Learning Solutions (Veranda) offers online and offline coaching services for career-defining courses like UPSE, chartered accountancy, banking, government exams and corporate employees. Moreover, the company also offers personality tests and short-term skilling courses, long-term courses and corporate learning courses. Veranda has acquired a 100% stake in 'Edureka' at Rs2.45bn in Sep'21, which offers services to working professionals in the IT sector through a live instructor-led service model -- academic learning, professional skilling and corporate training services in trending courses related to emerging technologies such as cloud computing, AI/ML, data science, robotic process automation, full stack web development, programming, and big data. All services are offered through its wholly-owned subsidiaries namely Veranda Race Learning Solutions Private Ltd (Veranda Race), Veranda XL Learning Solutions Private Ltd (Veranda CA), Veranda IAS Learning Solutions Private Ltd (Veranda IAS), and Brain4ce Education Solutions Private Ltd (Edureka). The company is coming out with an IPO that has an issue size of Rs2bn, with the market cap at a higher band of ~Rs7.6bn. The issue's price band is Rs130-Rs137 and objectives are to repay the debt, pay for the acquisition of 'Edureka' and growth initiatives.

Strong Management and Team

The management has a collective experience of over 40 years in the education sector. It started the entrepreneurial journey in 1991 with the establishment of SSI and was listed on the Indian stock exchanges. SSI was engaged in training students in short-term computer software courses with a franchise network rolled out across India. In Apr'03, SSI hived off its education division and merged it with Aptech Ltd. Veranda has an in-house content team, third party mentors and instructors and an editorial team with vast experience in their respective domains that curate and prepare content for the study material. It also obtains services of other publishers to provide content for study materials. It has a centralized content development process to ensure quality and error-free content across all courses. Veranda continuously updates and upgrades content so that students and corporates can acquire new skills, sharpen existing ones, perform better and increase productivity. It has a centralized in-house process to train mentors to ensure consistent standards of quality and delivery across courses.

Financials in Brief

Veranda was incorporated in Nov'18 as 'Andromeda Edutech Private Ltd' and started its business operations in Dec'20 by acquiring the content of Chennai RACE. Veranda has been incurring losses since its incorporation. During 9MFY22, a total of 42,667 students and professionals have enrolled across all courses, of which 16,793 enrolled for the offline model and 25,874 for online. Veranda has a limited financial history; during FY21, it reported a revenue of Rs25mn and a net loss of Rs83mn. For 1HFY22, it reported a revenue of Rs155mn and a net loss of Rs183mn. The company has not paid any dividend in the past due to losses.

Our View

On FY22 annualized financials, the IPO is at 25x market cap/sales for a loss-making company with a low track which looks expensive. Though Veranda has a diversified course offerings and delivery channels, a professionally qualified human capital and strong brand presence, its business operations with losses raise concerns. The IPO is aggressively priced and hardly leaves anything meaningful on the table for investors in the medium term perspective. The market is highly competitive but lack of premium educational institutions is a notable factor. Over the past decade, the education sector clocked a CAGR of 14% led by rapid urbanization and increased educational spend. Urban areas offer better job opportunities and higher wages, while providing better access to quality education. Thus, an increased urbanization will also result in higher spending on education. India's growing prosperity and rising disposable income have seen increased spending by households on education. However, all these positives are captured in its valuation and valuation is not favourable for investors.

IPO Details

Price Band (Rs)	Rs. 130-137
Face Value (Rs)	10
Issue Open/Closing Date	29-Mar/31-Mar
Fresh Issues (mn)	14.6
OFS (mn)	-
Total Issue (mn)	14.6
Minimum Bid Qty. (Nos)	100
Issue Size (Rs bn)	2.0
QIB / HNI / Retail	75%/15%/10%
Implied Market Cap (Rs bn)	7.6

*At a higher band

Object of the Issue

- ▶ Repayment of borrowings.
- ▶ Payment of acquisition for Edureka
- ▶ Growth initiatives

Key Risk

- ▶ Unable to successfully identify and integrate acquisitions, growth strategy and business
- ▶ Failure to attract students or working professionals in the courses
- ▶ Decrease in the number of mentors
- ▶ inability to adapt and update study materials and learning methodologies

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	89.2	65.9
Public	10.8	34.1

Key Financials

(Rs mn)	FY21	1HFY22
Revenue	25	155
EBITDA	(76)	(153)
EBITDA Margin (%)	(300)	(99)
PAT	(83)	(183)
PAT Margin (%)	(325.9)	(118.1)
EPS (Rs)	(1.5)	(3.3)
P/E (x)	(92)	(42)
EV/EBITDA (x)	(101)	(60)
EV/Sales (x)	303	59
Net Worth	(1)	227
Gross Debt	62	1,652
Net Block	14	16
Net Asset Turnover (x)	1.8	9.6

Source: RHP

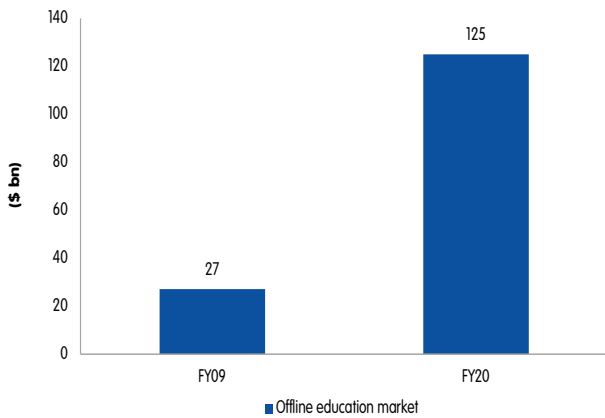
Research Analyst:

Arafat Saiyed

Contact: (022) 41681371 / 9819503007

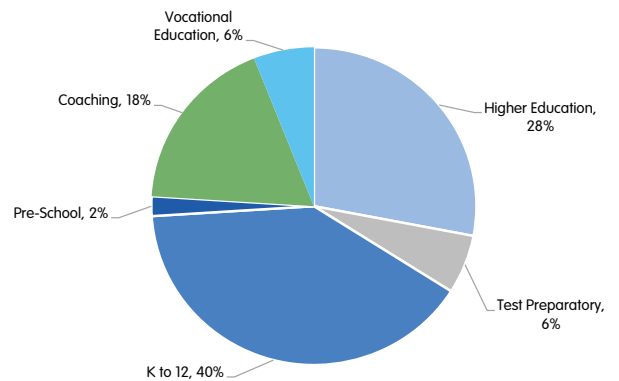
Email : arafat.saiyed@relianceada.com

Exhibit 1: Offline Education Market



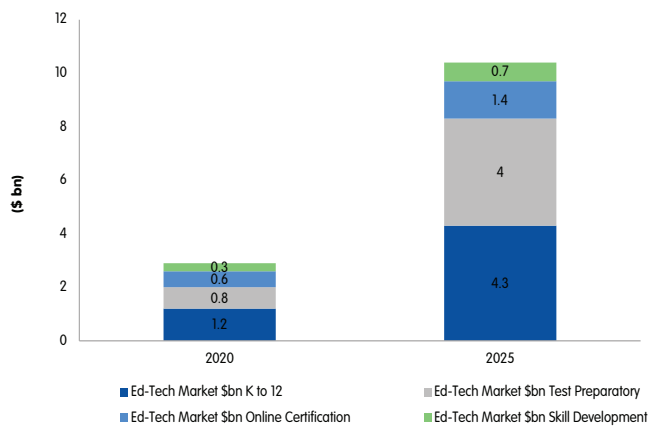
Source: RHP

Exhibit 2: Segments of Offline Education Market (2020)



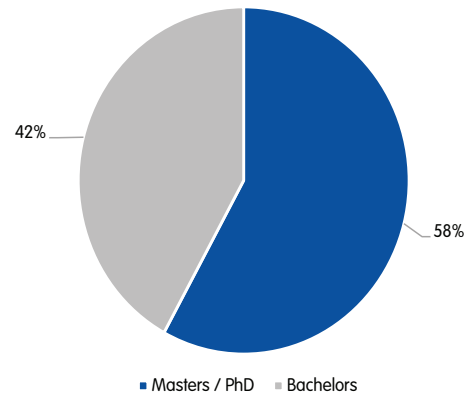
Source: RHP

Exhibit 3: Ed-Tech Market to grow at a 30% CAGR



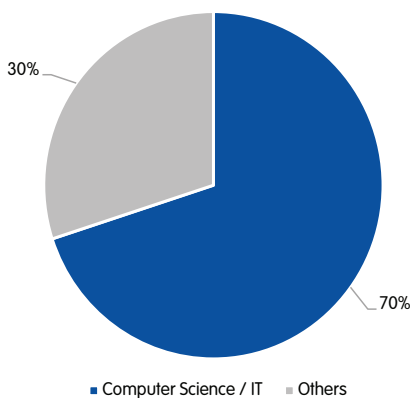
Source: RHP

Exhibit 4: Instructor Profile by degree



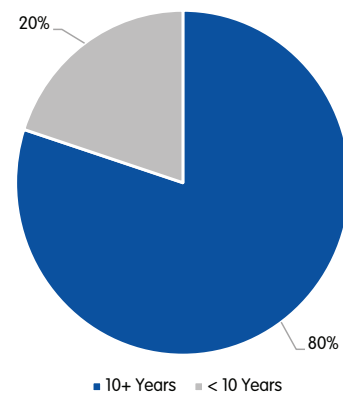
Source: RHP

Exhibit 5: 70% Instructor studied computer Science



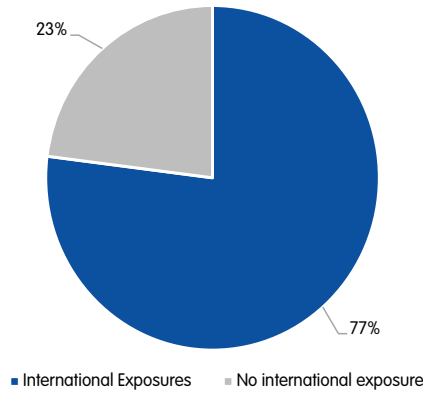
Source: RHP

Exhibit 6: Instructor Profile by Work Experience



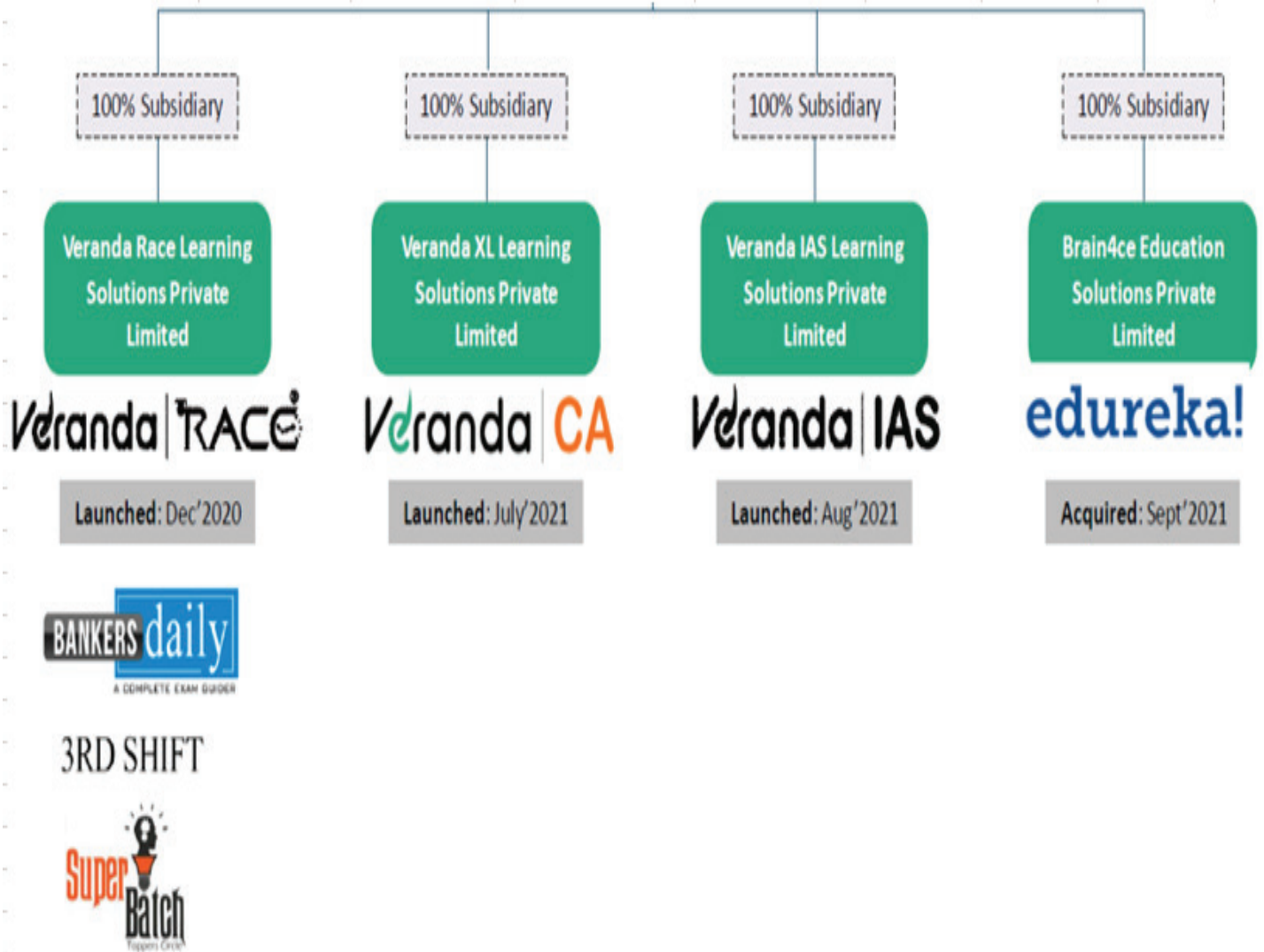
Source: RHP

Exhibit 7: Instructor Profile by International Exposure



Source: RHP

Exhibit 8: Group Structure - Veranda



Source: RHP

Exhibit 9: Courses Offered

	Veranda RACE	Veranda CA	Veranda IAS	edureka!
Courses Offered	<ul style="list-style-type: none"> SSC State PSC Banking & Insurance RRB 	<ul style="list-style-type: none"> CA Foundation CA Intermediate CA Final 	<ul style="list-style-type: none"> Integrated Learning Program – Prelims, Mains and personality tests State PSC Group I 	<ul style="list-style-type: none"> Short term skilling courses Long term courses Corporate learning courses (B2B)
Languages	<ul style="list-style-type: none"> Tamil Telugu Malayalam Kannada English Hindi 	<ul style="list-style-type: none"> English 	<ul style="list-style-type: none"> English 	<ul style="list-style-type: none"> English
Fee Structure per Course (INR)	<ul style="list-style-type: none"> 9k – 15.5k 	<ul style="list-style-type: none"> 10k – 39.5k 	<ul style="list-style-type: none"> 30k – 75k 	<ul style="list-style-type: none"> 5k – 275k
Average Course Duration	<ul style="list-style-type: none"> 3 – 12 months 	<ul style="list-style-type: none"> 6 – 24 months 	<ul style="list-style-type: none"> 12 months 	<ul style="list-style-type: none"> 2 – 12 months
Modes of Delivery	<ul style="list-style-type: none"> Online: Recorded & Live instructor Offline blended model Offline hybrid model 	<ul style="list-style-type: none"> Online: Recorded & Live instructor Offline blended Campus - in- Campus 	<ul style="list-style-type: none"> Online Offline blended Campus - in- Campus 	<ul style="list-style-type: none"> Online live instructor led platform
Enrolled no. of students*	<ul style="list-style-type: none"> 24,741 	<ul style="list-style-type: none"> 480 	<ul style="list-style-type: none"> 34 	<ul style="list-style-type: none"> 17,412

Source: RHP

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India's leading retail broking houses. Reliance Capital is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website www.reliancecapital.co.in. RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

General Disclaimers: This Research Report (hereinafter called 'Report') is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

Risks: Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

Disclaimers in respect of jurisdiction: The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Disclosure of Interest: The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL's Associates may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services. RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)?: No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies)?: No

Copyright: The copyright in this Report belongs exclusively to RSL. This Report shall only be read by those persons to whom it has been delivered. No reprinting, reproduction, copying, distribution of this Report in any manner whatsoever, in whole or in part, is permitted without the prior express written consent of RSL.

RSL's activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

RSL CIN: U65990MH2005PLC154052. SEBI registration no. (Stock Broker: INZ000172433, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.