

IPO Report

“AVOID” to

Veranda Learning Solutions Ltd.



IPO Report

Salient features of the FPO:

- South India based off-line hybrid edu-tech company **Veranda Learning Solutions Ltd.** (VLS), is coming up with an IPO to raise Rs. 200cr, which opens on 29th Mar. and closes on 31st Mar. 2022. The price band is Rs. 130 - 137 per share.
- The IPO only comprises of fresh issue of shares. From the net proceeds, Rs. 60cr will be utilized for the repayment/pre-payment of borrowings; Rs. 50cr will be used for future growth initiatives and around Rs. 25cr will be used for the payment/funding the acquisition of Edureka - a software education company.

Key competitive strengths:

- Proven track record of the promoters
- Result oriented method of teaching with 360 degree approach
- Diversified course offerings and delivery channels
- Extensive experience in the education business and professionally qualified human capital
- Strong presence of brands
- Track record of successful acquisition and expansion
- Efficient infrastructure and resource management with strict quality control standards and affordable courses
- Technology driven, asset light & scalable business model
- Pandemic proof model

Risk and concerns:

- Unfavorable government policies and regulations
- Unsuccessful inorganic expansion steps
- Difficulty in expanding in the K-12 edu-tech market
- Unfavorable revenue-mix
- Business seasonality
- Continued loss making operation
- Difficulty in managing the debt levels
- Competition

Below are the key highlights of the company:

- In India, online education offers a variety of courses including curriculum-based coaching, test preparatory coaching, higher education degree courses, reskilling & skill enhancement programs, and language & casual learning. The domestic edu-tech market is estimated at USD 2.8bn in 2020, which is anticipated to grow 39% CAGR to USD 10.4bn in 2025.
- Kindergarten to 12th grade education (K-12) had the highest market share of 41.4% in 2020 and is expected to retain the top spot with an expected market share of 41.3% in 2025. This will be followed by test preparation and online certification. Test preparation market share is expected to increase fastest from 28.6% in 2020 to 38.4% market share in 2025.
- Incorporated in Nov. 2018, VLS offers diversified & integrated learning solutions via online, offline hybrid and offline blended formats to students, aspirants and graduates (collectively students); professionals and corporate employees (learners); which are enrolled across different courses like competitive exams, professional courses, exam-oriented courses, short term upskilling & reskilling courses etc.
- The company provides comprehensive long term and short term preparatory courses in a simple and lucid manner to the students preparing for UPSC Exams, State Public Service Commission, Staff Selection Commission, Banking, Insurance, Railways and Chartered Accountancy. It also provides customized short term skilling courses, long term courses and other corporate courses for its Learners category of the customers.

Recommendation	AVOID
Price band	Rs. 130 - 137 per share
Face value	Rs. 10
Shares for fresh issue	1.460 - 1.538cr shares
Shares for OFS	Nil
Fresh issue size	Rs. 200cr
OFS issue size	N/a
Total issue size	1.460 - 1.538cr shares (Rs. 200cr)
Bidding date	29 th Mar. - 31 st Mar. 2022
MCAP at higher price band	Rs. 764.1cr
Enterprise value at higher price band	Rs. 459.9cr
Book running lead manager	Systematix Corporate Services Ltd.
Registrar	KFin Technologies Ltd.
Sector	Edu-Tech
Promoters	Mr. Kalpathi S. Aghoram, Mr. Kalpathi S. Ganesh and Mr. Kalpathi S. Suresh

Issue breakup

Category	Percent of issue (%)	Number of shares
QIB portion	75%	1.095 - 1.154cr shares
Non institutional portion	15%	0.219 - 0.231cr shares
Retail portion	10%	0.146 - 0.154cr shares

Indicative IPO process time line

Finalization of basis of allotment	5 th Apr. 2022
Unblocking of ASBA account	6 th Apr. 2022
Credit to demat accounts	6 th Apr. 2022
Commencement of trading	7 th Apr. 2022

Pre and post - issue shareholding pattern

	Pre-issue	Post-issue
Promoter & promoter group	89.22%	65.87%
Public	10.78%	34.13%
Total	100.00%	100.00%

Retail application money at higher cut-off price per lot

Number of shares per lot	100
Application money	Rs. 13,700 per Lot

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Key highlights of the company (Contd...):

- VLS seems to have mainly followed an inorganic growth model to strengthen its portfolio of service, content and offerings. Upon the commencement of operations in Dec. 2020, the company acquired the content, brand, education materials and IPR from Chennai Race in order to gain a foothold in the market. Further in Sept. 2021, VLS acquired 100% stake in Brain4ce Education Solutions Pvt. Ltd. (Edureka). Moreover, for the digital content and related study materials for UPSC and CA courses, the company collaborated with SAI IAS Academy and Trans Learning LLP, respectively. It also operated offline hybrid and offline blended learning model business through preferred delivery partners (PDP).
- During the nine month period ended 31st Dec. 2021, a total of 42,667 students and professionals have enrolled across its courses, of which around 40% were from offline mode. In terms of educational courses/programs, 58% of the enrolments were for the Veranda Race (which offers courses for competitive exams), 40.8% were for Edureka (which provides online education for technology professionals). This is followed by Veranda IAS (1.1%) and Veranda CA (0.1%).
- With business operations commencement in Dec. 2020, VLS reported a very short financial history with loss at operating levels. The company reported a consolidated top-line of Rs. 2.54cr, with EBITDA and PAT loss of Rs. 7.63cr and Rs. 8.28cr, respectively. For H1 FY22, VLS reported a top-line of Rs. 15.46cr with an EBITDA and PAT loss of Rs. 15.25cr and Rs. 18.27cr, respectively. Since last three fiscals, i.e. from FY19-21, the company had negative net worth. By infusing equity to the tune of Rs. 111cr during H1 FY22, the company turned the net worth positive.

Peer comparison and valuation: K-12 education is over 40% of the total edu-tech market in India. This is followed by test preparation and online certification. VLS has presence in test preparation market and intends to have services for the K-12 segment in future. Having commenced its operations in Dec. 2020, the company is in growth phase. Currently the company is loss making and is forecasted to remain loss making in the medium term. Thus we are assigning an “**AVOID**” rating for the issue.

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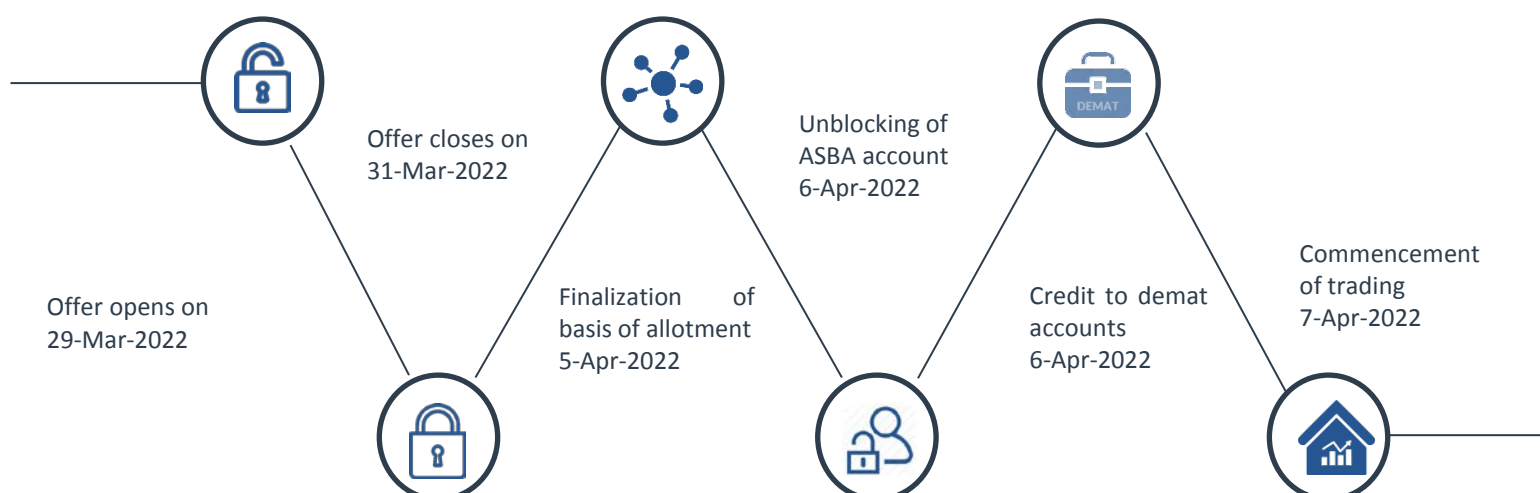
About the issue:

- VLS is coming up with an IPO with 1.460 - 1.538cr shares (fresh issue: 1.460 - 1.538cr shares; OFS shares: Nil) in offering. The offer represents around 26.2% of its post issue paid-up equity shares of the company. Total FPO size is Rs. 200cr.
- The issue will open on 29th Mar. 2022 and close on 31st Mar. 2022.
- The issue is through book building process with a price band of Rs. 130 - 137 per share.
- The IPO only comprises of fresh issue of shares. From the net proceeds, Rs. 60cr will be utilized for the repayment/pre-payment of borrowings; Rs. 50cr will be used for future growth initiatives and around Rs. 25cr will be used for the payment/funding the acquisition of Edureka - a software education company.
- 75% of the net issue are reserved for qualified institutional buyers, while 15% and 10% of the net issue is reserved for non-institutional bidders and retail investors, respectively.
- Promoter currently holds 89.22% stake in the company and post-IPO this will come down to 65.87%. Public holding will increase from current 10.78% to 34.13%.

Pre and post-issue shareholding pattern (%)		
	Pre-issue	Post-issue (at higher price band)
Promoter & promoter group	89.22%	65.87%
Public	10.78%	34.13%

Source: Choice Equity Broking

Indicative IPO process time line:



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Financial performance:

Performance over FY19-21: With business operations commencement in Dec. 2020, VLS reported a very short financial history with loss at operating levels. The company reported a consolidated top-line of Rs. 2.54cr, with EBITDA and PAT loss of Rs. 7.63cr and Rs. 8.28cr, respectively.

For H1 FY22, VLS reported a top-line of Rs. 15.46cr with an EBITDA and PAT loss of Rs. 15.25cr and Rs. 18.27cr, respectively.

Since last three fiscals, i.e. from FY19-21, the company had negative net worth. By infusing equity in the tune of Rs. 111cr during H1 FY22, the company turned the net worth positive.

Financial snapshot (Rs. cr)	FY19	FY20	FY21	H1 FY22	CAGR over FY19-21	Y-o-Y (Annual)
Revenue from operations	0.00	0.00	2.54	15.46		
EBITDA	(0.10)	(0.20)	(7.63)	(15.25)	782.5%	3793.9%
Reported PAT	(0.10)	(0.20)	(8.28)	(18.27)	819.1%	4124.0%
Restated reported EPS	(0.02)	(0.04)	(1.48)	(3.28)	819.1%	4124.0%
Cash flow from operating activities	(0.05)	(0.06)	(5.22)	(4.99)	892.3%	8184.1%
NOPLAT	(0.10)	(0.20)	(8.26)	(17.11)	818.0%	4113.3%
RoIC (%)	101.0%	66.9%	1716.8%	-8.9%		
Revenue growth rate (%)						
Gross profit growth rate (%)						
Gross profit margin (%)			89.7%	95.8%		
EBITDA growth rate (%)			3793.9%			
EBITDA margin (%)			-300.5%	-98.6%		
EBIT growth rate (%)			4117.3%			
EBIT margin (%)			-325.4%	-111.9%		
Restated reported PAT growth rate (%)			4124.0%			
Restated reported PAT margin (%)			-325.9%	-118.1%		
Inventories turnover ratio (x)			3.50			
Trade receivable turnover ratio (x)			8.06			
Accounts payable turnover ratio (x)			0.76			
Fixed asset turnover ratio (x)			0.42	0.06		
Total asset turnover ratio (x)			0.22	0.05		
Current ratio (x)	0.34	0.00	0.44	0.38	12.9%	12810.9%
Quick ratio (x)	0.34	0.00	0.38	0.37	4.5%	10963.2%
Total debt (Rs.)	0.05	0.12	6.94	215.80	1044.0%	5879.3%
Net debt (Rs.)	0.05	0.12	6.49	194.63	1017.1%	5542.6%
Debt to equity (x)	(0.55)	(0.40)	(111.87)	9.50	1330.9%	28157.1%
Net debt to EBITDA (x)	(0.53)	(0.59)	(0.85)	(12.76)	26.6%	44.9%
RoE (%)	101.0%	66.9%		-80.5%		
RoA (%)			-71.9%	-5.9%		
RoCE (%)	101.0%	66.9%		-8.9%		

Source: Choice Equity Broking

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Competitive strengths:

- Proven track record of the promoters
- Result oriented method of teaching with 360 degree approach
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- Extensive experience in the education business and professionally qualified human capital
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- Track record of successful acquisition and expansion
- Efficient infrastructure and resource management with strict quality control standards and affordable courses
- Technology driven, asset light & scalable business model
- Pandemic proof model

Business strategy:

- Use opportunistic and strategic acquisitions to rapidly expand offerings and customer reach
- Geographic expansion through its preferred delivery centers
- Addition of new courses & offerings, meeting the education need from an early age to post academic study and to the professional employment
- Create a model for learning that spans leveraging on a defined learning plan, subscription and creation of a community model with an underlying fabric of social commerce
- Expand focus on B2C and B2B models to include individual students, corporates and educational institutions including schools and colleges
- Brand building strategy that covers a judicious mix of print, video, digital and social media
- Develop and expand the publishing and content development
- Drive economy of scale
- Focus on rationalizing the indebtedness



Risk and concerns:

- Unfavorable government policies and regulations
- Unsuccessful inorganic expansion steps
- Difficulty in expanding in the K-12 edu-tech market
- Unfavorable revenue-mix
- Business seasonality
- Continued loss making operation
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Financial statements:

Consolidated profit and loss statement (Rs. cr)						
	FY19	FY20	FY21	H1 FY22	CAGR over FY19 - 21	Annual growth over FY20
Revenue from operations	0.00	0.00	2.54	15.46		
Cost of materials consumed			(0.01)	(0.01)		
Purchase of stock-in-trade			(0.97)	(0.69)		
Changes in inventory of Stock-in-trade			0.71	0.04		
Gross profit	0.00	0.00	2.28	14.81		
Employee benefits expense			(3.21)	(7.18)		
Other expenses	(0.10)	(0.20)	(6.71)	(22.88)	727.2%	3321.4%
EBITDA	(0.10)	(0.20)	(7.63)	(15.25)	782.5%	3793.9%
Depreciation and amortization expense			(0.63)	(2.06)		
EBIT	(0.10)	(0.20)	(8.27)	(17.31)	818.4%	4117.3%
Finance costs			(0.03)	(1.37)		
Other income			0.01	0.20		
Exceptional items						
PBT	(0.10)	(0.20)	(8.29)	(18.48)	819.6%	4128.1%
Tax expenses			0.01	0.21		
Reported PAT	(0.10)	(0.20)	(8.28)	(18.27)	819.1%	4124.0%

Consolidated balance sheet statement (Rs. cr)						
	FY19	FY20	FY21	H1 FY22	CAGR over FY19 - 21	Annual growth over FY20
Equity share capital	0.00	0.00	7.00	37.60	8266.6%	699900.0%
Other equity	(0.10)	(0.29)	(7.06)	(14.89)	748.9%	2302.0%
Non current borrowings				126.55		
Other non current financial liabilities				23.90		
Non current provisions			0.05	0.91		
Net deferred tax liabilities				21.33		
Current borrowings	0.05	0.12	6.16	38.65	977.9%	5208.6%
Lease liabilities			0.77	0.51		
Other current financial liabilities			0.01	26.19		
Trade payables	0.09	0.16	3.36	28.78	518.3%	1951.2%
Current provisions			0.00	0.33		
Other current liabilities	0.01	0.01	1.23	17.52	1227.2%	8707.1%
Total liabilities	0.05	0.00	11.52	307.37		
Property, plant and equipment			1.39	1.61		
Intangible assets			1.60	88.28		
Intangible assets under development			2.17	1.45		
Right of use assets			0.77	0.42		
Goodwill on consolidation			0.07	170.68		
Net deferred tax assets			0.01	0.83		
Income tax assets				1.79		
Other non current assets			0.46	0.30		
Inventories			0.73	0.77		
Trade receivables			0.32	4.35		
Cash and cash equivalents	0.00	0.00	0.45	21.17		
Other current financial assets			0.99	2.99		
Net current tax assets			0.23	0.56		
Other current assets	0.05		2.36	12.17		
Total assets	0.05	0.00	11.52	307.37		

Source: Choice Equity Broking

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Financial statements (Contd...):

Consolidated cash flow statement (Rs. cr)						
	FY19	FY20	FY21	H1 FY22	CAGR over FY19 - 21	Annual growth over FY20
Cash flow before working capital changes	(0.10)	(0.20)	(6.12)	(12.10)	690.3%	3023.0%
Working capital changes	0.05	0.13	1.13	10.02	401.8%	751.9%
Cash flow from operating activities	(0.05)	(0.06)	(5.22)	(4.99)	892.3%	8184.1%
Purchase and construction of property, plant and equipment			(5.21)	(2.06)		
Cash flow from investing activities			(6.15)	(165.05)		
Cash flow from financing activities	0.05	0.06	11.79	188.11	1377.4%	18609.5%
Net cash flow	0.00	0.00	0.42	18.07	1944.5%	
Opening balance of cash		0.00	0.01	1.77		800.0%
Closing balance of cash	0.00	0.00	0.43	19.83	1966.4%	42600.0%

Consolidated financial ratios				
Particulars (Rs. mn)	FY19	FY20	FY21	H1 FY22
Revenue growth rate (%)				
Gross profit growth rate (%)				
Gross profit margin (%)			89.7%	95.8%
EBITDA growth rate (%)			3793.9%	
EBITDA margin (%)			-300.5%	-98.6%
EBIT growth rate (%)			4117.3%	
EBIT margin (%)			-325.4%	-111.9%
Restated reported PAT growth rate (%)			4124.0%	
Restated reported PAT margin (%)			-325.9%	-118.1%
Turnover ratios				
Inventories turnover ratio (x)			3.50	
Trade receivable turnover ratio (x)			8.06	
Accounts payable turnover ratio (x)			0.76	
Fixed asset turnover ratio (x)			0.42	0.06
Total asset turnover ratio (x)			0.22	0.05
Return ratios				
RoE (%)	101.0%	66.9%		-80.5%
RoA (%)	0.0%	0.0%	-71.9%	-5.9%
RoCE (%)	101.0%	66.9%		-8.9%
Per share data				
Restated adjusted EPS (Rs.)	(0.02)	(0.04)	(1.48)	(3.28)
DPS (Rs.)	0.00	0.00	0.00	0.00
BVPS (Rs.)	(0.02)	(0.05)	(0.01)	4.07
Operating cash flow per share (Rs.)	(0.01)	(0.01)	(0.94)	(0.90)
Free cash flow per share (Rs.)				
Dividend payout ratio	0.00	0.00	0.00	0.00

Source: Choice Equity Broking

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