

Robust performance by stationery division in FY19

Navneet reported healthy revenue growth in a seasonally weak quarter for the publications segment. Overall revenues grew 15.5% YoY to ₹ 245.5 crore. On segmental front, revenues from publishing segment grew 14.4% YoY to ₹ 62.2 crore while revenue from the stationery segment increased 16.0% YoY to ₹ 182.9 crore. Growth in the publication segment was driven by higher sales of '21 most likely questions' owing to syllabus change in Maharashtra for X standard. EBITDA margins improved marginally by 30 bps YoY to 11.5% on lower raw material expenses (down 80 bps YoY). Higher finance cost (up 145.9% YoY, owing to increase in inventory on anticipation of spike in paper prices) impacted PAT (down 2.3% YoY to ₹ 14.7 crore).

Syllabus change aids revenue growth for publication segment

After subdued growth in FY18 (5.7% YoY), the publication segment exited FY19 with healthy topline growth of 13.1% YoY to ₹ 710.8 crore. There was a revival in revenue owing to syllabus change in Maharashtra for academic year 2018-19 (for I/VIII/X standards). For FY20, we expect revenues to increase ~11% on syllabus change in Gujarat (across all standards). We model in 10% revenue CAGR for the publication segment (excluding Indiannica) in FY19-21E. Scaling-up of Indiannica (the company's recent acquisition into CBSE curriculum) is taking longer than anticipated, with subdued revenue growth of 12% YoY to ₹ 64.5 crore in FY19. EBITDA losses widened to ₹ 19.7 crore (vs. ₹ 10.6 crore in FY18) while loss at the PAT level ballooned to ₹ 28.7 crore (vs. ₹ 19.4 crore in FY18).

Stationery reports healthy growth driven by exports

FY19 was an eventful year for the stationery segment with robust revenue growth of 29.4% YoY to ₹ 648.0 crore. Growth was mainly driven by 60% YoY growth in exports to ₹ 379.2 crore, while revenues from domestic segment up 2% YoY to ₹ 268.3 crore. Rising share of exports augurs well, since the margin profile is much superior compared to domestic markets. We model 12% revenue CAGR for stationery segment in FY19-21E, driven by strong growth in export markets.

Valuation & Outlook

Navneet reported healthy revenue growth of 20% YoY to ₹ 1445.0 crore in FY19, on the back of strong performance across its divisions. However, on the profitability front, consolidated EBITDA margins remained constant at 18.7% YoY mainly on account of widening of losses for Indiannica (standalone EBITDA margins expanded ~ 40 bps YoY to 21.1%). Going forward, we expect Navneet to report revenue and earnings CAGR of 11.2% and 19.3% in FY19-21E, driven by syllabus change for the publication segment, stabilisation of Indiannica business and higher export orders for stationery division. We maintain our **BUY** rating on the stock with a target price of ₹ 130, valuing at a multiple of 14.0x FY21E EPS.

Key Financial Summary

₹ crore	FY18	FY19E	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	1,204.0	1,445.0	1,623.9	1,788.0	11.2%
EBITDA	222.5	270.8	316.7	361.2	15.5%
PAT	127.4	152.8	187.9	219.2	19.8%
P/E (x)	19.8	16.5	13.2	11.3	
EV/Sales (x)	2.3	1.9	1.7	1.5	
EV/EBITDA (x)	12.3	10.3	8.7	7.5	
RoCE (%)	19.6	21.2	22.6	27.2	
RoE (%)	16.9	19.3	20.8	20.9	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	2,472.1
Debt (FY19) (₹ Crore)	334.1
Cash (FY19) (₹ Crore)	20.8
EV (₹ Crore)	2,716.8
52 week H/L	142 / 98
Equity Capital (₹ Crore)	45.8
Face Value (₹)	2

Key Highlights

- Publication segment revenues grew 13% YoY to ₹ 711 crore in FY19
- Stationery segment reported robust revenue growth of 29% YoY to ₹ 648 crore in FY19
- Syllabus change in Gujarat for the publication segment and higher export demand for the stationery division are key growth drivers
- Maintain **BUY** with target price of ₹ 130

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Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	245.5	217.7	212.6	15.5	181.6	35.2	Stationery segment grew 16% YoY to ₹ 182.9 crore while publication revenues grew 14% YoY to ₹ 62.2 crore
Other Income	2.2	8.0	7.9	-72.3	3.0	-26.4	
Employee Expense	34.2	32.2	28.7	19.3	32.3	6.1	
Raw Material Expense	117.5	105.1	103.4	13.7	83.6	40.6	
Other Expenses	65.5	56.6	56.8	15.5	50.1	30.9	
EBITDA	28.2	23.7	23.8	18.7	15.7	79.8	
EBITDA Margin (%)	11.5	10.9	11.2	31 bps	8.6	285 bps	EBITDA margins for the quarter improved marginally on account of decline in raw material expense as a percentage of sales
Depreciation	6.5	6.5	6.4	1.2	6.2	5.0	
Interest	4.2	1.8	1.7	145.9	1.1	281.1	
PBT	19.7	23.4	23.5	-16.4	11.3	73.3	
Tax Outgo	4.9	8.2	8.4	-41.5	3.8	30.0	
PAT	14.7	15.2	15.1	-2.3	7.5	95.1	Lower other income and higher finance cost impacted PAT growth negatively

Key Metrics
Revenues

Publication Segment	62.2	57.7	54.3	14.4	103.1	-39.7
Stationery Segment	182.9	158.9	157.8	16.0	78.3	133.7
EBIT Margin						
Publication Segment	16.2	NA	15.5	67 bps	23.0	-683 bps
Stationery Segment	11.3	NA	13.4	-212 bps	-8.9	2018 bps

Source: Company, ICICI Direct Research

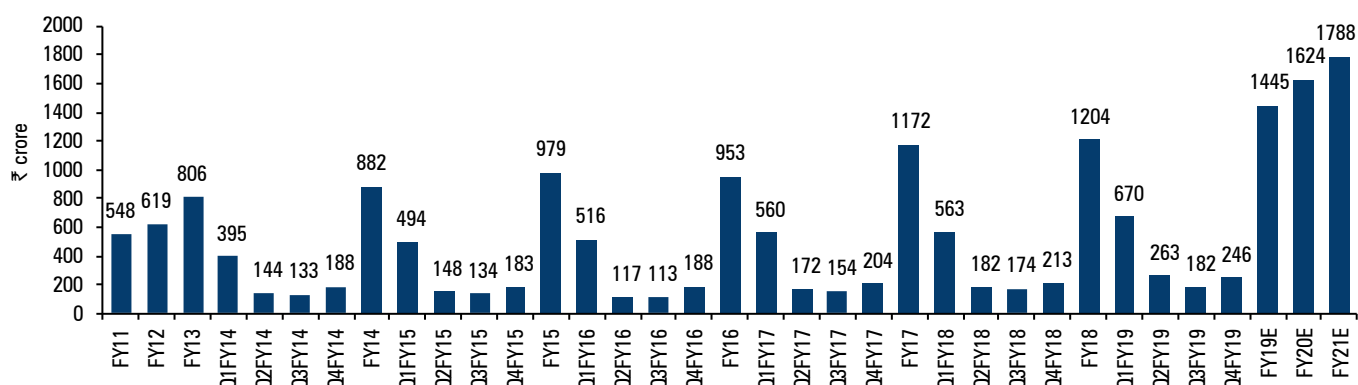
Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E
	Old	New	% Change	Introduced
Revenue	1,550.5	1,623.9	4.7	1,788.0
EBITDA	338.0	316.7	-6.3	361.2
EBITDA Margin (%)	21.8	19.5	-230 bps	20.2
PAT	203.8	184.9	-9.3	216.2
EPS (₹)	8.8	8.2	-6.7	9.6

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 3: Revenue trend



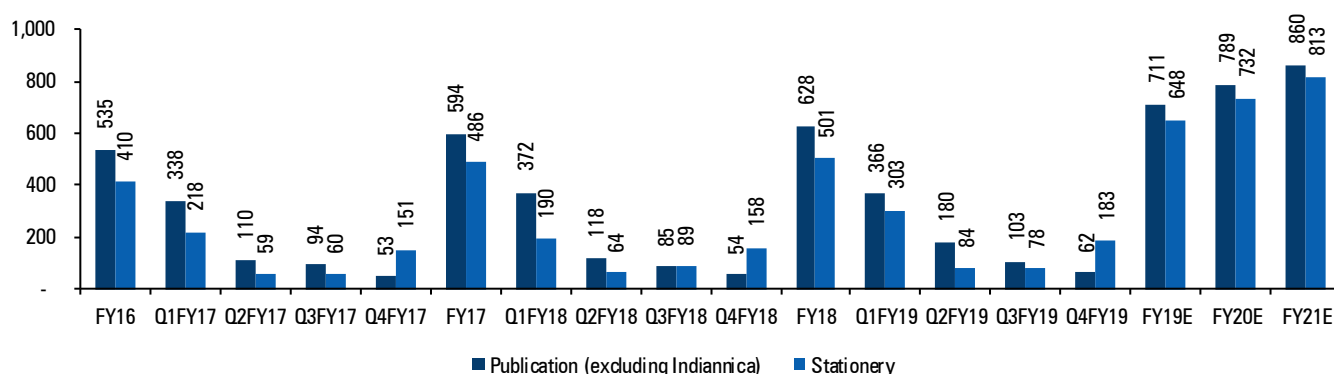
Source: Company, ICICI Direct Research

Exhibit 4: Syllabus change to drive revenue growth

Academic Year	Maharashtra Standard	Subjects	Gujarat Standard	Subjects
2018-19	I	All subjects(All medium)	IX	Maths, Science, English as per NCERT
	VIII	All subjects(All medium)	XI	Maths, Physics, Chemistry, Biology, English as per NCERT
	X	All subjects(All medium)		
2019-2020	II	All subjects(All medium)	I - VIII	Maths
	III	All subjects(All medium)	VI - VIII	Science
	XI	All subjects(All medium)	X	Maths & Science
			XII	Maths, Physics, Chemistry & Biology

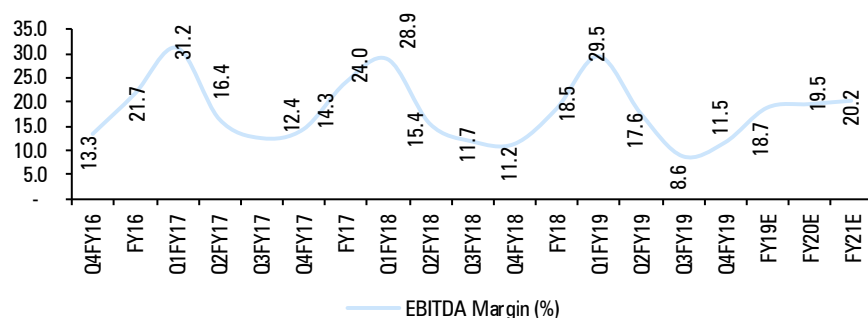
Source: Company, ICICI Direct Research

Exhibit 5: Segmental revenue trend



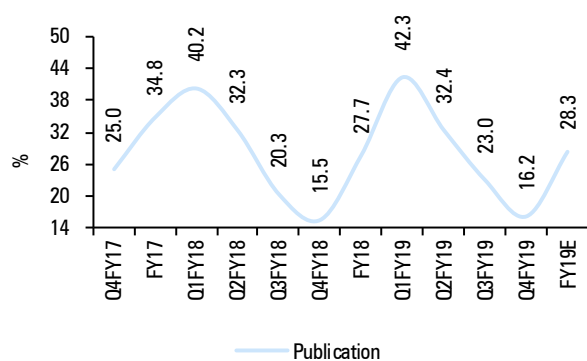
Source: Company, ICICI Direct Research

Exhibit 6: Operating margin trend



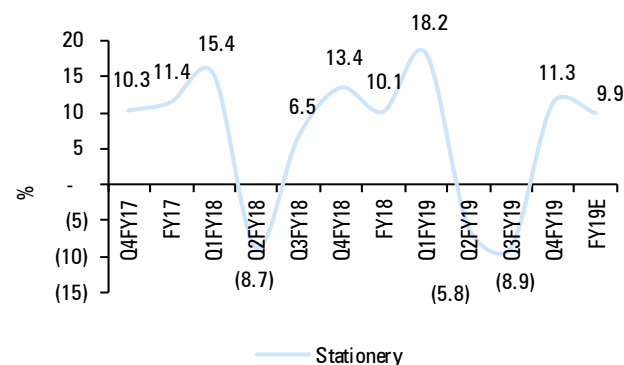
Source: Company, ICICI Direct Research

Exhibit 7: Publication segment EBIT margin



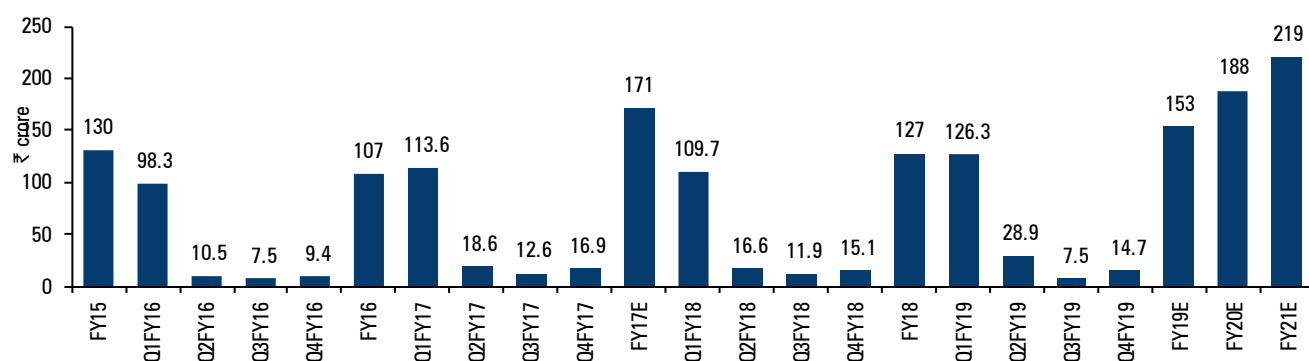
Source: Company, ICICI Direct Research

Exhibit 8: Stationery segment EBIT margin



Source: Company, ICICI Direct Research

Exhibit 9: Net profit trend



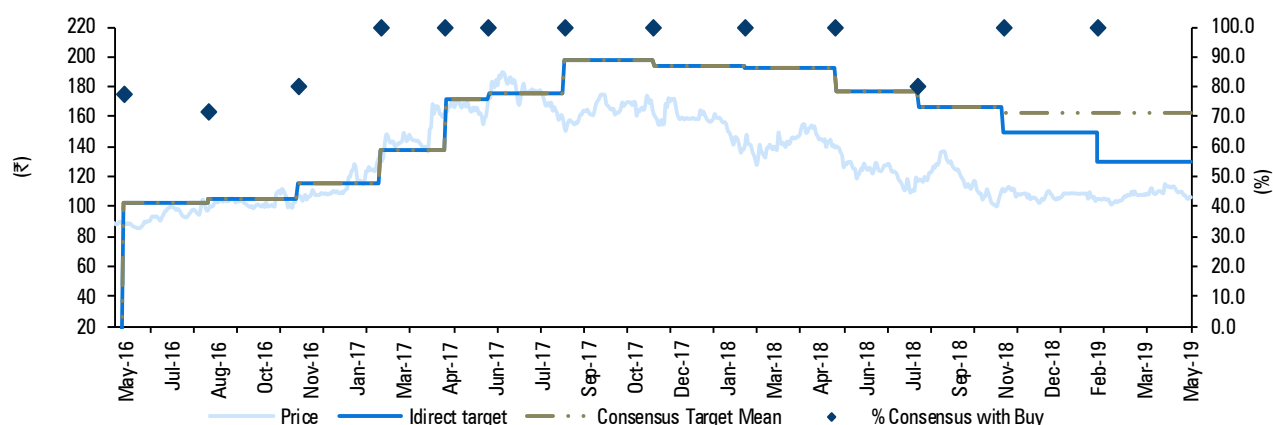
Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	1204.0	2.7	5.5	-25.4	19.8	12.3	16.9	19.6
FY19E	1445.0	20.0	6.7	22.4	16.5	10.3	19.3	21.2
FY20E	1623.9	12.4	8.2	23.0	13.2	8.7	20.8	22.6
FY21E	1788.0	10.1	9.6	16.6	11.3	7.5	20.9	27.2

Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S Position (m)	Change (m)
1	Navneet Trust	31-Mar-19	39.73%	90.92
2	HDFC Asset Management Co., Ltd.	31-Mar-19	9.84%	22.52
3	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-Mar-19	4.18%	9.56
4	Somerset Capital Management, L.L.P.	31-Mar-19	2.37%	5.42
5	UTI Asset Management Co. Ltd.	31-Mar-19	1.99%	4.54
6	Gala (Gnanesh D)	31-Mar-19	1.84%	4.20
7	Gala (Kalpesh H)	31-Mar-19	1.83%	4.19
8	Kotak Mahindra Asset Management Company Ltd.	31-Mar-19	1.58%	3.61
9	Gala (Ranjanaben B)	31-Mar-19	1.54%	3.53
10	Gala (Anil Dungarshi)	31-Mar-19	1.45%	3.31

Source: Reuters, ICICI Direct Research

Exhibit 13: Recent Activity

BUY			SELL		
Investor name	Value (Mn)	Shares (Mn)	Investor name	Value (Mn)	Shares (Mn)
Franklin Templeton Asset Management (India) Pvt. Ltd.	1.22	0.78	ICICI Prudential Asset Management Co. Ltd.	-0.18	-0.12
Gala (Sanjeev J & Jasmine S) HUF	1.01	0.67	Nuveen LLC	-0.06	-0.04
Gala (Sanjeev J & Aditya S)HUF	0.93	0.62	BlackRock Institutional Trust Company, N.A.	-0.04	-0.03
			Fidelity Investments Canada ULC	-0.04	-0.03
			BlackRock Advisors (UK) Limited	-0.03	-0.02

Source: Reuters, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	61.8	61.8	61.8	61.9	61.9
FII	6.5	6.8	5.3	5.0	4.9
DII	17.0	16.6	16.7	17.0	17.3
Others	14.8	14.8	16.3	16.2	15.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total operating Income	1,204.0	1,445.0	1,623.9	1,788.0
Growth (%)	2.7	20.0	12.4	10.1
Raw Material Expenses	584.9	702.1	782.7	858.2
Employee Expenses	146.8	171.3	190.0	207.4
Manufacturing Expenses & Other	249.9	300.9	334.5	361.2
Total Operating Expenditure	981.6	1,174.2	1,307.2	1,426.8
EBITDA	222.5	270.8	316.7	361.2
Growth (%)	-20.9	21.7	16.9	14.1
Depreciation	30.7	32.7	35.1	38.2
EBIT	191.8	238.1	281.6	323.0
Interest	7.7	15.3	15.7	12.6
Other Income	26.0	16.9	19.5	23.2
PBT	210.0	239.7	285.4	333.6
Total Tax	82.5	92.5	100.5	117.4
PAT	127.5	147.2	184.9	216.2
Share of associates	-0.1	5.6	3.0	3.0
PAT after Share of Associates	127.4	152.8	187.9	219.2
Growth (%)	-29.6	20.0	23.0	16.6
EPS (₹)	5.5	6.7	8.2	9.6

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	127.4	152.8	187.9	219.2
Add: Depreciation	30.7	32.7	35.1	38.2
(Inc)/dec in Current Assets	-108.3	-95.8	-99.1	-98.2
Inc/(dec) in CL and Provisions	8.5	13.2	9.2	12.8
Others	0.0	0.0	0.0	0.0
CF from operating activities	58.3	102.9	133.2	172.0
(Inc)/dec in Investments	-20.0	-2.5	7.1	0.0
(Inc)/dec in Fixed Assets	-34.4	-47.1	-45.0	-22.0
(Inc)/dec in CWIP	-1.4	-12.6	9.7	0.0
Others	0.7	-23.0	-10.0	-10.0
CF from investing activities	-55.0	-85.1	-38.2	-32.0
Issue/(Buy back) of Equity	0.0	-0.9	0.0	0.0
Inc/(dec) in loan funds	65.9	108.8	6.9	-72.8
Others	-72.2	-111.6	-75.0	-74.9
CF from financing activities	-6.2	-3.8	-68.1	-147.7
Net Cash flow	-2.9	14.1	26.9	-7.7
Opening Cash	9.7	6.8	20.8	47.7
Closing Cash	6.8	20.8	47.7	40.0

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	46.7	45.8	45.8	45.8
Reserve and Surplus	705.2	745.1	857.5	1,001.2
Total Shareholders funds	751.9	790.9	903.3	1,046.9
Total Debt	225.3	334.1	341.0	268.2
Deferred Tax Liability	-3.2	-2.2	-1.6	-0.9
Minority Interest / Others	0.2	0.4	0.4	0.4
Total Liabilities	974.2	1,123.3	1,243.1	1,314.6
Assets				
Gross Block	447.5	494.7	539.7	561.7
Less: Accu Depreciation	257.4	290.1	325.2	363.4
Net Block	190.1	204.5	214.4	198.3
Capital WIP	4.1	16.7	7.0	7.0
Total Fixed Assets	194.2	221.2	221.4	205.3
Goodwill on Consolidation	45.7	45.7	45.7	45.7
Investments	64.7	67.1	60.0	60.0
Other Non-Current Assets	10.8	33.7	43.7	53.7
Inventory	428.2	551.3	605.1	666.2
Debtors	318.1	292.4	333.7	367.4
Loans and Advances	28.4	28.5	32.5	35.8
Other Current Assets	53.6	51.9	51.9	51.9
Cash	6.8	20.8	47.7	40.0
Total Current Assets	835.0	944.8	1,070.8	1,161.2
Creditors	75.3	83.9	96.5	105.8
Provisions	42.9	54.1	50.0	50.0
Other Current Liabilities	58.0	51.3	52.0	55.4
Total Current Liabilities	176.1	189.2	198.5	211.2
Application of Funds	974.2	1,123.3	1,243.1	1,314.6

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
EPS	5.5	6.7	8.2	9.6
Cash EPS	6.8	7.7	9.6	11.1
BV	32.2	34.6	39.5	45.7
Cash Per Share	0.3	0.9	2.1	1.7
Operating Ratios				
EBITDA Margin (%)	18.5	18.7	19.5	20.2
PBT Margin (%)	17.4	16.6	17.6	18.7
PAT Margin (%)	10.6	10.2	11.4	12.1
Inventory days	129.8	139.2	136.0	136.0
Debtor days	96.4	73.8	75.0	75.0
Creditor days	47.0	43.6	45.0	45.0
Return Ratios (%)				
RoE	16.9	19.3	20.8	20.9
RoCE	19.6	21.2	22.6	27.2
Valuation Ratios (x)				
P/E	19.8	16.5	13.2	11.3
EV / EBITDA	12.3	10.3	8.7	7.5
EV / Net Sales	2.3	1.9	1.7	1.5
Market Cap / Sales	2.1	1.7	1.5	1.4
Price to Book Value	3.4	3.1	2.7	2.4
Solvency Ratios				
Debt/EBITDA	1.0	1.2	1.1	0.7
Debt / Equity	0.3	0.4	0.4	0.3
Current Ratio	4.7	5.0	5.4	5.5
Quick Ratio	6.1	6.7	8.0	8.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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