

August 9, 2019

Q1FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	134		142	
Sales (Rs. m)	16,815	19,173	16,678	19,017
% Chng.	0.8	0.8		
EBITDA (Rs. m)	3,291	3,801	3,277	3,795
% Chng.	0.4	0.2		
EPS (Rs.)	9.0	10.4	8.9	10.2
% Chng.	1.2	1.8		

Key Financials - Consolidated

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	12,040	14,450	16,815	19,173
EBITDA (Rs. m)	2,225	2,708	3,291	3,801
Margin (%)	18.5	18.7	19.6	19.8
PAT (Rs. m)	1,270	1,528	2,052	2,382
EPS (Rs.)	5.4	6.7	9.0	10.4
Gr. (%)	(25.6)	22.8	34.2	16.1
DPS (Rs.)	1.5	2.3	3.4	4.0
Yield (%)	1.5	2.3	3.3	3.9
RoE (%)	17.6	19.8	24.2	24.6
RoCE (%)	23.6	24.0	26.9	27.5
EV/Sales (x)	2.2	1.8	1.6	1.4
EV/EBITDA (x)	11.8	9.8	8.1	7.0
PE (x)	18.8	15.3	11.4	9.9
P/BV (x)	3.2	3.0	2.6	2.3

Key Data

NAVN.BO | NELI IN

52-W High / Low	Rs.139 / Rs.95
Sensex / Nifty	37,327 / 11,032
Market Cap	Rs.23bn / \$ 332m
Shares Outstanding	229m
3M Avg. Daily Value	Rs.6.59m

Shareholding Pattern (%)

Promoter's	61.79
Foreign	4.25
Domestic Institution	17.65
Public & Others	16.31
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.5)	(2.3)	(12.4)
Relative	0.1	(4.4)	(11.1)

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In line show in a seasonally strong quarter

Quick Pointers:

- Stationary exports increased 26.7% YoY to Rs2,530mn, contributing ~70% to the stationary revenue.
- Publishing EBIT margins declined 440bps YoY to 37.9% while stationary EBIT margins increased 360bps YoY to 21.8%.
- E-sense reported a PAT of Rs11mn & ILL losses stood at Rs78mn.

Navneet's (NELI) results were broadly in-line with our estimates in a seasonally strong quarter with revenues increasing 18.7% YoY to Rs7,950mn (PL of Rs7,353mn; beat by ~8%) aided by 1) syllabus changes in Gujarat & Maharashtra (refer exhibit 6 for full syllabus change schedule) and 2) low base effect (publishing revenue declined in 1QFY19 due to lack of clarity over license issue with Maharashtra State Board). EBITDA increased 17.2% YoY to Rs2,314mn and was in-line with our estimate with margins declining 40bps YoY to 29.1%. PAT increased 16.7% YoY to Rs1,474mn (PL of Rs1,436mn). However, PAT margin declined 40bps YoY to 18.5%. Given the current quarter performance, we believe NELI is on track to achieve growth guidance of ~15% in publishing business and ~16-17% in stationary business for FY20. Thus, we keep our estimates broadly unchanged. Valuations at 11x FY20E and 10x FY21E appear attractive given 24.8% bottom line CAGR over FY19-21E, superior return ratios, strong dividend pay-out and narrowing losses in E-sense. However, we marginally cut our target multiple to 15x (earlier 16x) given delay in turnaround time of ILL acquisition. Maintain BUY with a TP of Rs134 (earlier Rs142).

Syllabus changes & stationary exports drive sales: Publishing sales were up 18.1% YoY to Rs4,322mn aided by syllabus changes in Gujarat & Maharashtra and low base effect. Stationary sales were up 19.5% YoY to Rs3,625mn backed by 26.7% YoY growth in exports (contributed ~70% to the stationary revenue).

Stationary margins expand but publishing margins contract: Publishing EBIT margin declined 440bps YoY to 37.9% amid raw material cost inflation while stationary EBIT margin increased 360bps YoY to 21.8% due to rising contribution from exports (has higher margin as compared to domestic sales)

Other highlights: 1) The receivable/finished goods inventory/raw material inventory days stood at 236/156/255 respectively at the end of June 2019. 2) Domestic stationary revenues increased 6% YoY to 1,095mn. 3) ILL reported EBITDA loss of Rs42mn 5) E-sense reported EBITDA of Rs23mn 4) NELI had 25 operational schools (24K+ students; capacity of 34K+ students) with a reported PAT of Rs55mn.

Exhibit 1: Q1FY20 Result Overview (Rs mn)

Y/e March	Standalone				Consolidated			
	Q1FY20	Q1FY19	YoY gr (%)	Q4FY19	Q1FY20	Q1FY19	YoY gr (%)	Q4FY19
Net Sales	7,950	6,700	18.7	2,455	8,115	6,864	18.2	3,053.4
Expenditure								
Raw Materials	4,177	3,525	18.5	1,175	4,201	3,555	18.2	1,340
% of Net sales	52.5	52.6		47.9	51.8	51.8		43.9
Personnel	383	330	16.3	342	478	420	13.8	439
% of Net sales	4.8	4.9		13.9	5.9	6.1		14.4
Selling , dist & Other Exp	1,076	871	23.5	655	1,141	935	21.9	811
% of Net sales	13.5	13.0		26.7	14.1	13.6		26.6
Total Expenditure	5,636	4,726	19.3	2,173	5,819	4,910	18.5	2,590
EBITDA	2,314	1,974	17.2	282	2,296	1,953	17.6	463
Margin (%)	29.1	29.5		11.5	28.3	28.5		15.2
Depreciation	80	57	40.3	65	106	74	42.7	92
EBIT	2,234	1,917	16.5	217	2,190	1,879	16.6	371
Interest	70	42	66.9	42	80	48	66.9	54
Other Income	98	71	38.8	22	88	62	41.6	16
PBT	2,262	1,946	16.3	196	2,198	1,893	16.1	332
Tax	788	683	15.4	49	792	681	16.3	42
Tax Rate (%)	34.8	35.1		25.1	36.0	36.0		12.6
Share of profit/loss from associates	-	-	-	-	54.9	31.3		1.6
Adjusted PAT	1,474	1,263	16.7	147	1,461	1,244	17.5	292
Reported PAT	1,474	1,263	16.7	147	1,461	1,244	17.5	292

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs mn)

Y/e March	Standalone				Consolidated			
	Q1FY20	Q1FY19	YoY gr (%)	Q4FY19	Q1FY20	Q1FY19	YoY gr (%)	Q4FY19
Segmental Revenue								
Publishing Content	4,322	3,660	18.1	622	4,485	3,823	17.3	1,212
Stationery Products	3,625	3,034	19.5	1,829	3,627	3,034	19.5	1,837
Segment EBIT								
Publishing Content	1,638	1,548	5.8	101	1,578	1,495	5.5	251
Stationery Products	790	553	43.0	207	787	553	42.3	192
EBIT Margin								
Publishing Content	37.9%	42.3%	(440)bps	16.2%	35.2%	39.1%	(393)bps	20.7%
Stationery Products	21.8%	18.2%	358 bps	11.3%	21.7%	18.2%	347 bps	10.5%

Source: Company, PL

Exhibit 3: Publishing segment has higher revenue share in first quarter due to seasonality

Particulars	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Publishing revenue	3,381	1,086	944	536	3,716	1,178	845	543	3,660	1,795	1,031	622	4,322
YoY growth	6.6%	57.7%	31.5%	-7.8%	9.9%	8.4%	-10.4%	1.3%	-1.5%	52.5%	22.0%	14.4%	18.1%
As a % of sales	60.7%	64.9%	60.5%	25.7%	66.2%	64.9%	48.6%	25.6%	54.7%	68.2%	56.9%	25.4%	54.4%
Stationary revenue	2,185	587	617	1,553	1,901	638	893	1,578	3,034	836	783	1,829	3,625
YoY growth	11.6%	25.7%	54.7%	21.2%	-13.0%	8.7%	44.7%	1.6%	59.6%	31.0%	-12.4%	16.0%	19.5%
As a % of sales	39.3%	35.1%	39.5%	74.3%	33.8%	35.1%	51.4%	74.4%	45.3%	31.8%	43.1%	74.6%	45.6%
Total sales	5,565	1,674	1,561	2,089	5,617	1,816	1,738	2,121	6,693	2,631	1,814	2,451	7,947

Source: Company, PL

Note: The contribution is calculated ex-of inter-segment revenues & miscellaneous contribution from other segment

Exhibit 4: Margins in stationery division are low due to stiff competition

Particulars	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Publishing EBIT margin	41.6%	30.9%	27.5%	24.8%	40.2%	32.3%	20.3%	15.5%	42.3%	32.4%	23.0%	16.2%	37.9%
Stationery EBIT margin	20.0%	-2.3%	-4.1%	10.0%	15.4%	-8.7%	6.5%	13.4%	18.2%	-5.8%	-8.9%	11.3%	21.8%

Source: Company, PL

Exhibit 5: Snapshot of consolidated results

Particulars	1QFY20			1QFY19		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
NEL	7,949.9	2,412.7	1,474.3	6,699.6	2,045.0	1,262.8
Esense	90.7	23.1	10.8	96.4	47.7	41.3
ILL	72.9	(42.2)	(77.7)	70.5	(69.8)	(87.8)
NHKL	5.7	-	-	-	-	-
K12	-	-	54.9	-	-	31.3
Inter-segment	(4.0)	(9.5)	(1.2)	(3.0)	(7.8)	(4.2)
Total	8,115.2	2,384.1	1,461.1	6,863.5	2,015.1	1,243.4

Source: Company, PL

Exhibit 6: Syllabus change schedule for FY20 & FY21

Academic Year	Maharashtra		Gujarat	
	Class	Subject	Class	Subject
2019-20	2	All Subjects (All Mediums)	1 to 8	Maths (English & Hindi medium)
	11	All Subjects (All Mediums)	1	English & Hindi
			2	Gujarati (Gujarati medium)
			3	EVS, English & Hindi (English & Hindi medium)
			4	Environment (Gujarati medium)
			6	Science, English & Hindi (Gujarati medium)
			6 to 8	Science (English & Hindi medium)
			10	Maths & Science (All medium)
2020-2021	3	All subjects (All medium)	12	Maths, Physics, Chemistry & Biology (All medium)
	12	All subjects (All medium)		Not yet communicated

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	12,040	14,450	16,815	19,173
YoY gr. (%)	2.7	20.0	16.4	14.0
Cost of Goods Sold	5,849	7,021	8,139	9,280
Gross Profit	6,191	7,430	8,677	9,893
Margin (%)	51.4	51.4	51.6	51.6
Employee Cost	1,468	1,713	1,921	2,162
Other Expenses	2,499	3,009	3,464	3,930
EBITDA	2,225	2,708	3,291	3,801
YoY gr. (%)	(18.8)	21.7	21.5	15.5
Margin (%)	18.5	18.7	19.6	19.8
Depreciation and Amortization	307	327	354	392
EBIT	1,918	2,381	2,937	3,409
Margin (%)	15.9	16.5	17.5	17.8
Net Interest	77	153	150	130
Other Income	260	169	250	260
Profit Before Tax	2,100	2,397	3,037	3,539
Margin (%)	17.4	16.6	18.1	18.5
Total Tax	829	925	1,045	1,218
Effective tax rate (%)	39.5	38.6	34.4	34.4
Profit after tax	1,272	1,472	1,992	2,322
Minority interest	-	-	0	0
Share Profit from Associate	(1)	56	60	60
Adjusted PAT	1,270	1,528	2,052	2,382
YoY gr. (%)	(25.6)	20.3	34.3	16.1
Margin (%)	10.5	10.6	12.2	12.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,270	1,528	2,052	2,382
YoY gr. (%)	(25.6)	20.3	34.3	16.1
Margin (%)	10.5	10.6	12.2	12.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,270	1,528	2,052	2,382
Equity Shares O/s (m)	234	229	229	229
EPS (Rs)	5.4	6.7	9.0	10.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	4,748	4,961	5,441	5,771
Tangibles	4,076	4,229	4,679	4,979
Intangibles	673	732	762	792
Acc: Dep / Amortization	2,659	2,902	3,302	3,741
Tangibles	2,356	2,513	2,867	3,259
Intangibles	303	390	435	483
Net fixed assets	2,089	2,059	2,139	2,030
Tangibles	1,719	1,716	1,812	1,720
Intangibles	370	343	327	309
Capital Work In Progress	42	167	167	167
Goodwill	457	457	457	457
Non-Current Investments	667	866	882	900
Net Deferred tax assets	32	22	22	22
Other Non-Current Assets	108	340	355	371
Current Assets				
Investments	-	-	-	-
Inventories	4,282	5,513	5,759	6,409
Trade receivables	3,181	2,924	3,686	4,465
Cash & Bank Balance	68	207	208	843
Other Current Assets	536	460	506	557
Total Assets	11,536	13,176	14,429	16,469
Equity				
Equity Share Capital	467	458	458	458
Other Equity	7,050	7,451	8,568	9,863
Total Network	7,517	7,909	9,026	10,321
Non-Current Liabilities				
Long Term borrowings	-	4	-	-
Provisions	166	180	194	210
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,438	3,370	3,409	3,929
Trade payables	736	839	921	1,051
Other current liabilities	674	869	875	955
Total Equity & Liabilities	11,536	13,176	14,429	16,469

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	2,099	2,453	3,037	3,539
Add. Depreciation	307	327	354	392
Add. Interest	77	153	150	130
Less Financial Other Income	260	169	250	260
Add. Other	(131)	(48)	(150)	(156)
Op. profit before WC changes	2,352	2,885	3,391	3,905
Net Changes-WC	(1,155)	(969)	(1,156)	(1,287)
Direct tax	(882)	(963)	(995)	(1,168)
Net cash from Op. activities	315	953	1,240	1,450
Capital expenditures	(550)	(3,662)	(434)	(282)
Interest / Dividend Income	187	49	150	156
Others	(8)	3,182	(17)	(18)
Net Cash from Invt. activities	(371)	(431)	(301)	(144)
Issue of share cap. / premium	-	-	-	-
Debt changes	(9)	(781)	(258)	520
Dividend paid	(703)	(422)	(642)	(936)
Interest paid	(77)	(153)	(150)	(130)
Others	-	1,244	0	-
Net cash from Fin. activities	(790)	(113)	(1,050)	(546)
Net change in cash	(846)	409	(111)	760
Free Cash Flow	(46)	(2,715)	806	1,168

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	2,635	1,816	2,455	7,950
YoY gr. (%)	44.5	4.1	15.5	18.7
Raw Material Expenses	1,207	836	1,175	4,177
Gross Profit	1,427	980	1,280	3,773
Margin (%)	54.2	54.0	52.1	47.5
EBITDA	463	157	282	2,314
YoY gr. (%)	65.0	(23.3)	18.7	17.2
Margin (%)	17.6	8.6	11.5	29.1
Depreciation / Depletion	60	62	65	80
EBIT	403	95	217	2,234
Margin (%)	15.3	5.2	8.8	28.1
Net Interest	23	11	42	70
Other Income	72	30	22	98
Profit before Tax	451	113	196	2,262
Margin (%)	17.1	6.2	8.0	28.5
Total Tax	162	38	49	788
Effective tax rate (%)	35.9	33.5	25.1	34.8
Profit after Tax	289	75	147	1,474
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	289	75	147	1,474
YoY gr. (%)	73.9	(36.5)	(2.3)	16.7
Margin (%)	11.0	4.2	6.0	18.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	289	75	147	1,474
YoY gr. (%)	73.9	(36.5)	(2.3)	16.7
Margin (%)	11.0	4.2	6.0	18.5
Other Comprehensive Income	(33)	80	31	(32)
Total Comprehensive Income	256	156	178	1,443
Avg. Shares O/s (m)	234	229	229	229
EPS (Rs)	1.2	0.3	0.6	6.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	5.4	6.7	9.0	10.4
CEPS	6.8	8.1	10.5	12.1
BVPS	32.2	34.6	39.4	45.1
FCF	(0.2)	(11.9)	3.5	5.1
DPS	1.5	2.3	3.4	4.0
Return Ratio(%)				
RoCE	23.6	24.0	26.9	27.5
ROIC	19.3	20.6	22.8	23.1
RoE	17.6	19.8	24.2	24.6
Balance Sheet				
Net Debt : Equity (x)	0.3	0.4	0.4	0.3
Net Working Capital (Days)	204	192	185	187
Valuation(x)				
PER	18.8	15.3	11.4	9.9
P/B	3.2	3.0	2.6	2.3
P/CEPS	15.2	12.6	9.8	8.5
EV/EBITDA	11.8	9.8	8.1	7.0
EV/Sales	2.2	1.8	1.6	1.4
Dividend Yield (%)	1.5	2.3	3.3	3.9

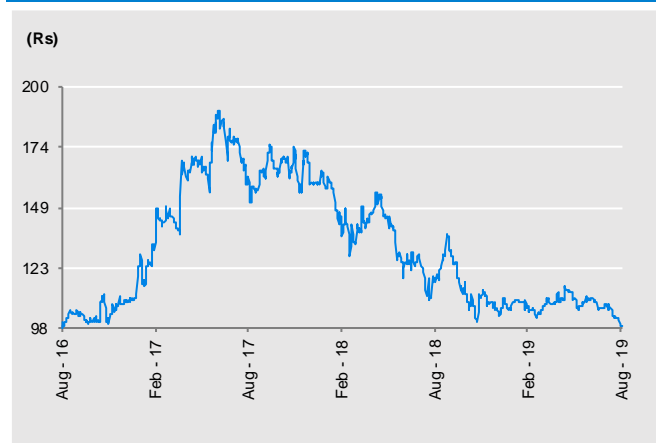
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Segment Revenues				
Publishing	6,402	7,275	8,366	9,370
Stationery	5,010	6,481	7,583	8,720
EBIT				
Publishing	1,903	2,192	2,761	3,092
Stationery	507	641	773	889

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-19	BUY	142	108
2	16-May-19	BUY	142	107
3	16-Apr-19	BUY	157	115
4	05-Apr-19	BUY	157	110
5	05-Feb-19	BUY	157	106
6	07-Jan-19	BUY	150	109
7	01-Nov-18	BUY	150	111
8	15-Oct-18	BUY	146	107

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	483	384
3	Music Broadcast	Hold	58	46
4	Navneet Education	BUY	142	108
5	S Chand and Company	Hold	125	85
6	V.I.P. Industries	BUY	488	386
7	Zee Media Corporation	Under Review	-	14

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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