

Stationery exports profitability gets enhanced in FY20

Navneet reported mixed Q4FY20 results wherein revenues were impacted by Covid-19 disruptions while better gross margins supported PAT growth. Revenue for the quarter declined 15.6% YoY to ₹ 207.2 crore (publication: -10% to ₹ 55.9 crore, stationery: -17.5% to ₹ 151.0 crore). According to the management, due to lockdown company, lost revenues worth ₹ 54 crore (publication: ₹ 10 crore, stationery: ₹ 44 crore). Gross margins improved substantially by 950 bps YoY to 61.6% owing to benefits of a decline in paper prices (~600 bps) and favourable product mix for stationery exports. EBITDA grew 16% YoY to ₹ 32.7 crore with margin expansion of 430 bps YoY. PAT for the quarter grew 10% YoY to ₹ 62.0 crore. On the balance sheet front, efficient working capital policy led to a decline in NWC days by ~14 to 155 days. Subsequently, higher generation of CFO led to a decline in borrowings by ~₹ 100.0 crore (D/E: 0.3x) in FY20.

Healthy performance in stationery exports continues

Stationery exports have been the new growth engine for Navneet. Share of stationery exports has increased from 20% in FY18 to 32% in FY20, translating into impressive 44% CAGR. Despite weak Q4FY20, stationery exports posted robust revenue growth of 30% YoY in FY20 to ₹ 492.0 crore. The company had started shipments of exports consignment from April first week itself and has recouped lost revenue (~₹ 15.0 crore). The management expects the high growth rate to be sustainable in FY21E owing to immense opportunity in the export market and healthy order book (no cancellation of orders as of now). Overall stationery segment grew 14.4% YoY to ₹ 741 crore in FY20 as domestic business continued to stay under stress (fell 7% YoY to ₹ 249.0 crore). Export business has superior operating metrics in terms of both, margins and capital employed. Hence, higher share of exports led to significant expansion in EBIT margin (up 660 bps YoY to 16.5%) and RoIC (up from 12.3% to 28.6%) for stationery segment.

Publication revenues to remain subdued in FY21E

Revenue from publication segment is heavily skewed towards Q1FY21 (50%+). However, due to delay in opening of schools owing to Covid-19, the segment is expected to be materially impacted. While revenues may get deferred in Q2FY21, entire revenue loss may not be recouped in FY21E. Furthermore, with limited changes in the FY21 syllabus for Maharashtra, the outlook stays subdued. We model revenue de-growth of 25% YoY in FY21E and growth of 22% in FY22E for the publication segment.

Valuation & outlook

We cut our revenue, earnings estimates for FY21E by ~26%, 37%, respectively, factoring in Covid-19 disruptions. We introduce FY22E estimates, with revenue, earnings growth of 20%, 46% YoY, respectively. Navneet over the years has maintained b/s prudence having virtually debt free status and generating healthy RoCE of 24%. The stock is available at reasonable valuations trading at 8.4x FY22E EPS. We reiterate **BUY** rating on the stock with revised TP of ₹95 (10.0x FY22E EPS) (previous TP: ₹ 115).

Key Financial Summary

₹ crore	FY19	FY20A	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1,445.0	1,512.1	1,348.2	1,611.9	3.2%
EBITDA	270.8	313.5	250.8	328.8	2.4%
PAT	152.8	197.3	146.2	213.7	4.1%
P/E (x)	11.9	9.1	12.2	8.4	
EV/Sales (x)	1.5	1.3	1.5	1.2	
EV/EBITDA (x)	7.8	6.4	8.1	6.0	
RoCE (%)	21.2	24.3	19.2	24.4	
RoE (%)	19.3	22.9	15.7	20.7	

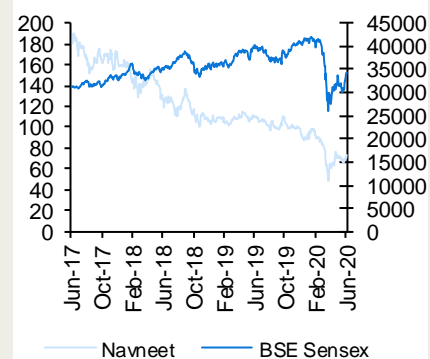
Source: ICICI Direct Research, Company



Particulars

Particular	Amount
Market Capitalisation (₹Crore)	1,785.4
Debt (FY 20) (₹Crore)	235.5
Cash (FY 20) (₹Crore)	10.1
EV (₹Crore)	2,010.9
52 week H/L	112 / 53
Equity Capital (₹Crore)	45.8
Face Value (₹)	2

Price Chart



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Other key highlights

- Revenue from publication segment (excluding Indiannica) de-grew 1.7% YoY to ₹ 698.8 crore. The company lost revenue worth ₹ 10.0 crore due to lockdown measures in Q4FY20. EBIT margin for the segment declined 430 bps YoY to 27.5% in FY20
- Indiannica segment reported revenue de-growth 14.7% YoY to ₹ 55.0 crore. Since Q4 is a critical quarter, impact of lockdown was material on this segment. The company lost revenue worth ₹ 15.0 crore in Q4FY20. Adjusting for the same, growth was at 8.5% YoY. EBITDA losses from the segment narrowed down to ₹ 7.4 crore (vs. ₹ 19.7 crore in FY19) owing to aggressive cost rationalisation measures. The outlook for the segment remains challenging owing to intensive competitive scenario
- Stationery segment de-grew 17.5% YoY to ₹ 151.0 crore in Q4FY20, on the back of 15% decline in stationery exports to ₹ 64.4 crore and 19% decline in domestic business to ₹ 86.5 crore. Due to lockdown, the company lost ₹ 29.0 crore revenue in domestic stationery business and ~₹ 15.0 crore revenue in the exports business
- The company had started shipments of exports consignment from April first week itself and has recouped lost revenue (~₹ 15.0 crore). The management expects the high growth rate for export stationery (32% of overall sales) to be sustainable in FY21E owing to immense opportunity in the export market and healthy order book (no cancellation of orders as of now)
- The domestic stationery business (16% of sales) is expected to remain under pressure in the near term
- Export stationery has a better margin profile (16-17%) vs. domestic segment (5-6%). Also, working capital requirements are optimal in case of export segment (receivable days: ~60 days)
- For the publication segment, the company expects the workbook category (~45% of sales) to be impacted the most if there is further postponement in school openings. While revenue may be deferred in Q2FY21, entire revenue loss is challenging to be recouped in FY21E
- As per the company, if schools re-open from July onwards (in Maharashtra or Gujarat) the quantum of revenue loss will be significantly curtailed

Financial summary

Exhibit 1: Profit & Loss Statement

(Year-end March)	FY19	FY20E	FY21E	FY22E
Total operating Income	1,445.0	1,512.1	1,348.2	1,611.9
Growth (%)	20.0	4.6	-10.8	19.6
Raw Material Expenses	702.1	728.9	640.4	773.7
Employee Expenses	171.3	180.1	172.6	185.4
Manufacturing Expenses & Othe	300.9	289.5	284.5	324.0
Total Operating Expenditure	1,174.2	1,198.5	1,097.4	1,283.1
EBITDA	270.8	313.5	250.8	328.8
Growth (%)	21.7	15.8	-20.0	31.1
Depreciation	32.7	46.9	49.5	53.3
EBIT	238.1	266.6	201.3	275.5
Interest	15.3	17.1	21.6	15.8
Other Income	16.9	22.4	18.9	22.6
PBT	239.7	271.9	198.6	282.3
Total Tax	92.5	74.6	50.4	71.6
PAT	147.2	197.3	148.2	210.7
Share of associates	5.6	-0.1	-2.0	3.0
PAT after Share of Associate	152.8	197.3	146.2	213.7
Growth (%)	20.0	29.1	-25.9	46.1
EPS (₹)	6.7	8.6	6.4	9.3

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	152.8	197.3	146.2	213.7
Add: Depreciation	32.7	46.9	49.5	53.3
(Inc)/dec in Current Assets	-95.8	53.0	-112.4	-77.8
Inc/(dec) in CL and Provision	13.2	-41.1	-7.2	22.6
Others	0.0	0.0	0.0	0.0
CF from operating activiti	102.9	256.0	76.1	211.9
(Inc)/dec in Investments	-2.5	-22.1	29.2	0.0
(Inc)/dec in Fixed Assets	-47.1	-52.7	-35.0	-45.0
(Inc)/dec in CWIP	-12.6	11.0	-1.4	0.0
Others	-23.0	28.5	-10.0	-10.0
CF from investing activitie	-85.1	-35.3	-17.2	-55.0
Issue/(Buy back) of Equity	-0.9	0.0	0.0	0.0
Inc/(dec) in loan funds	108.8	-98.6	34.1	-44.0
Others	-111.6	-132.9	-75.1	-113.9
CF from financing activitie	-3.8	-231.5	-41.0	-157.9
Net Cash flow	14.1	-10.7	17.8	-1.0
Opening Cash	6.8	20.8	10.1	27.9
Closing Cash	20.8	10.1	27.9	26.9

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

(Year-end March)	FY19	FY20E	FY21E	FY22E
Liabilities				
Equity Capital	45.8	45.8	45.8	45.8
Reserve and Surplus	745.1	817.0	887.6	986.8
Total Shareholders funds	790.9	862.8	933.4	1,032.6
Total Debt	334.1	235.5	269.6	225.7
Deferred Tax Liability	-2.2	-9.7	-9.3	-8.7
Minority Interest / Others	0.4	0.4	0.4	0.4
Total Liabilities	1,123.3	1,089.0	1,194.2	1,250.0
Assets				
Gross Block	494.7	547.3	582.3	627.3
Less: Accu Depreciation	290.1	337.0	386.5	439.8
Net Block	204.5	210.3	195.8	187.5
Capital WIP	16.7	5.7	7.0	7.0
Total Fixed Assets	221.2	216.0	202.8	194.5
Goodwill on Consolidation	45.7	45.7	45.7	45.7
Investments	67.1	89.2	60.0	60.0
Other Non-Current Assets	33.7	5.3	15.3	25.3
Inventory	551.3	471.0	572.5	596.2
Debtors	292.4	268.5	277.0	318.0
Loans and Advances	28.5	65.0	67.4	80.6
Other Current Assets	51.9	66.5	66.5	66.5
Cash	20.8	10.1	27.9	26.9
Total Current Assets	944.8	881.1	1,011.3	1,088.1
Creditors	83.9	46.3	49.1	63.6
Provisions	54.1	47.2	50.0	50.0
Other Current Liabilities	51.3	54.7	41.8	50.0
Total Current Liabilities	189.2	148.2	140.9	163.6
Application of Funds	1,123.3	1,089.0	1,194.2	1,250.0

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
EPS	6.7	8.6	6.4	9.3
Cash EPS	7.7	10.7	8.6	11.5
BV	34.6	37.7	40.8	45.1
Cash Per Share	0.9	0.4	1.2	1.2
Operating Ratios				
EBITDA Margin (%)	18.7	20.7	18.6	20.4
PBT Margin (%)	16.6	18.0	14.7	17.5
PAT Margin (%)	10.2	13.0	11.0	13.1
Inventory days	139.2	113.7	155.0	135.0
Debtor days	73.8	64.8	75.0	72.0
Creditor days	43.6	23.2	28.0	30.0
Return Ratios (%)				
RoE	19.3	22.9	15.7	20.7
RoCE	21.2	24.3	19.2	24.4
Valuation Ratios (x)				
P/E	11.9	9.1	12.2	8.4
EV / EBITDA	7.8	6.4	8.1	6.0
EV / Net Sales	1.5	1.3	1.5	1.2
Market Cap / Sales	1.2	1.2	1.3	1.1
Price to Book Value	2.3	2.1	1.9	1.7
Solvency Ratios				
Debt/EBITDA	1.2	0.8	1.1	0.7
Debt / Equity	0.4	0.3	0.3	0.2
Current Ratio	5.0	5.9	7.2	6.7
Quick Ratio	6.7	6.3	8.9	8.5

Source: Company, ICICI Direct Research

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