

August 13, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	94		89	
Sales (Rs. m)	12,813	15,945	13,878	16,487
% Chng.	(7.7)	(3.3)		
EBITDA (Rs. m)	2,466	3,188	2,476	3,181
% Chng.	(0.4)	0.2		
EPS (Rs.)	6.4	8.9	6.7	8.9
% Chng.	(5.8)	0.7		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	15,121	12,813	15,945	17,914
EBITDA (Rs. m)	3,135	2,466	3,188	3,645
Margin (%)	20.7	19.2	20.0	20.3
PAT (Rs. m)	1,973	1,455	2,046	2,333
EPS (Rs.)	8.6	6.4	8.9	10.2
Gr. (%)	29.1	(26.3)	40.6	14.0
DPS (Rs.)	3.5	2.3	3.1	3.5
Yield (%)	4.4	2.8	3.9	4.4
RoE (%)	23.9	16.0	20.0	19.4
RoCE (%)	26.0	18.4	22.7	22.2
EV/Sales (x)	1.4	1.6	1.3	1.2
EV/EBITDA (x)	6.6	8.2	6.6	5.7
PE (x)	9.3	12.7	9.0	7.9
P/BV (x)	2.1	1.9	1.7	1.4

Key Data

NAVN.BO | NELI IN

52-W High / Low	Rs.114 / Rs.45
Sensex / Nifty	38,310 / 11,300
Market Cap	Rs.18bn/ \$ 246m
Shares Outstanding	229m
3M Avg. Daily Value	Rs.19.13m

Shareholding Pattern (%)

Promoter's	62.38
Foreign	3.77
Domestic Institution	16.50
Public & Others	17.35
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.9	(10.9)	(24.1)
Relative	1.4	(3.6)	(26.7)

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NEP provides long term visibility

Quick Pointers:

- Management hopeful that schools will re-open in a phased manner from Sep onwards. Publication revenue to fall by ~20% in a truncated academic year.
- Revenue from domestic stationary/exports is expected to decline by ~20%/remain flat in FY21.

We cut our sales/PAT estimates by 7.7%/6.0% for FY21E as 1) in a truncated academic year, recouping the entire lost sales of 1Q (strongest quarter) can be a challenge 2) domestic stationary business is expected to suffer due to delay in opening of schools 3) exports stationary business has witnessed some order cancellations and revenue is expected to be flat and 4) ILL business can face growth headwinds as penetrating newer schools can get difficult in such an environment. However, our FY22E estimates are more or less unchanged as we expect normalcy to resume by next academic cycle. While there are near term growth challenges, NELI has taken steps to rationalize fixed cost and is envisaging a reduction of ~10-15% in FY21E. Further, formal induction of New Education Policy (NEP) provides long term visibility as it shall pave way for syllabus changes in a staggered manner over the next 2-3 years. We thus maintain our ACCUMULATE rating with a TP of Rs94 (earlier Rs89) by raising our target P/E multiple to 10.5x (earlier 10x) driven by NEP sweetener. Strong BS (D/E of 0.3x as of FY20) and return ratios with healthy dividend pay-outs give us additional comfort.

Sales decline 59.1% YoY as schools remain closed: Standalone revenues declined 59.1% YoY to Rs3,249mn (PLe of Rs3,312mn). Publishing sales were down 71.4% YoY to Rs1,236mn while stationery sales declined 44.6% YoY to Rs2,008mn as business was impacted due to delay in opening of schools & educational institutions. Within stationary division, domestic sales were down 58% YoY to Rs461mn while export sales were down 39% YoY to Rs1,547mn.

Better cost control leads to EBITDA beat: Standalone EBITDA declined 66.4% YoY to Rs778mn (PLe of Rs258mn) due to 57.7% YoY fall in other expenses to Rs455mn (PLe of Rs944mn; In 1QFY18/1QFY19/1QFY20 other expenses stood at Rs745mn/871mn/1,076mn respectively). Better cost control within the other expenses category led to EBITDA beat. EBITDA margin declined 520bps YoY to 23.9% (PLe of 7.8%).

Con-call highlights: 1) Most of the publication sales in 1QFY21 pertained to guides and management does not expect any kind of exceptional sales return (no provision created either) in case there is further delay in re-opening of schools 2) Inventory/Receivables/Debt stood at Rs3.5bn/3.3bn/Rs1.5bn respectively as of 1QFY21 3) Rs70mn was invested in K-12 business at pre-money valuation of Rs11.5bn, no plans to exit the business 4) Workbooks contribute ~45% of revenue. YTD sales have been less than 2-3% 5) ILL to breakeven in FY21 at PBDT level 6) There are sufficient export orders in hand for next 2 quarters. Fresh bidding will begin in Aug/Sep 7) For stationary exports, capex of Rs200mn/400-500mn is lined up in FY21/FY22 respectively 8) CP money was raised at 5-6% 9) Invested Rs230mn in E-Sense in 1QFY21.

Exhibit 1: Q1FY21 Standalone Result Overview (Rs mn)

Y/e March	Q1FY21	Q1FY20	YoY gr (%)	Q4FY20	QoQ gr. (%)
Net Sales	3,249	7,950	(59.1)	2,072	56.8
Expenditure					
Raw Materials	1,692	4,177	(59.5)	795	112.8
<i>% of Net sales</i>	<i>52.1</i>	<i>52.5</i>		<i>38.4</i>	
Personnel	324	383	(15.5)	347	(6.6)
<i>% of Net sales</i>	<i>10.0</i>	<i>4.8</i>		<i>16.7</i>	
Selling, dist & Other Exp	455	1,076	(57.7)	603	(24.6)
<i>% of Net sales</i>	<i>14.0</i>	<i>13.5</i>		<i>29.1</i>	
Total Expenditure	2,471	5,636	(56.2)	1,745	41.6
EBITDA	778	2,314	(66.4)	327	137.8
<i>Margin (%)</i>	<i>23.9</i>	<i>29.1</i>		<i>15.8</i>	
Depreciation	83	80	3.1	94	(11.7)
EBIT	695	2,234	(68.9)	233	197.9
Interest	36	70	(48.6)	38	(6.0)
Other Income	23	98	(77.0)	29	(22.6)
PBT	682	2,262	(69.9)	224	204.1
Tax	175	788	(77.8)	62	180.8
<i>Tax Rate (%)</i>	<i>25.7</i>	<i>34.8</i>		<i>27.8</i>	
Share of profit/loss from associates	-	-	-	-	-
Adjusted PAT	507	1,474	(65.6)	162	213.0
Reported PAT	507	1,474	(65.6)	162	213.0
EPS	2.2	6.4	(65.6)	0.7	213.0

Source: Company, PL

Exhibit 2: Standalone segment revenue & EBIT table

Y/e March (Rs mn)	Q1FY21	Q1FY20	YoY gr (%)	Q4FY20	QoQ gr. (%)
Segment Revenue					
Publishing Content	1,236	4,322	(71.4)	559	121.2
Stationery Products	2,008	3,625	(44.6)	1,510	33.0
Segment EBIT					
Publishing Content	377	1,638	(77.0)	13	2,758.3
Stationery Products	387	790	(51.0)	275	41.0
EBIT Margin (%)					
Publishing Content	30.5	37.9	(737)bps	2.4	2,817 bps
Stationery Products	19.3	21.8	(252)bps	18.2	108 bps

Source: Company, PL

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

Particulars	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Publishing revenue	536	3,716	1,178	845	543	3,660	1,795	1,031	622	4,322	1,277	830	559	1,236
<i>YoY growth</i>	<i>-7.8%</i>	<i>9.9%</i>	<i>8.4%</i>	<i>-10.4%</i>	<i>1.3%</i>	<i>-1.5%</i>	<i>52.5%</i>	<i>22.0%</i>	<i>14.4%</i>	<i>18.1%</i>	<i>-28.9%</i>	<i>-19.5%</i>	<i>-10.1%</i>	<i>-71.4%</i>
<i>As a % of sales</i>	<i>25.7%</i>	<i>66.2%</i>	<i>64.9%</i>	<i>48.6%</i>	<i>25.6%</i>	<i>54.7%</i>	<i>68.2%</i>	<i>56.9%</i>	<i>25.4%</i>	<i>54.4%</i>	<i>51.8%</i>	<i>43.2%</i>	<i>27.0%</i>	<i>38.1%</i>
Stationary revenue	1,553	1,901	638	893	1,578	3,034	836	783	1,829	3,625	1,187	1,092	1,510	2,008
<i>YoY growth</i>	<i>21.2%</i>	<i>-13.0%</i>	<i>8.7%</i>	<i>44.7%</i>	<i>1.6%</i>	<i>59.6%</i>	<i>31.0%</i>	<i>-12.4%</i>	<i>16.0%</i>	<i>19.5%</i>	<i>42.0%</i>	<i>39.5%</i>	<i>-17.5%</i>	<i>-44.6%</i>
<i>As a % of sales</i>	<i>74.3%</i>	<i>33.8%</i>	<i>35.1%</i>	<i>51.4%</i>	<i>74.4%</i>	<i>45.3%</i>	<i>31.8%</i>	<i>43.1%</i>	<i>74.6%</i>	<i>45.6%</i>	<i>48.2%</i>	<i>56.8%</i>	<i>73.0%</i>	<i>61.9%</i>
Total sales	2,089	5,617	1,816	1,738	2,121	6,693	2,631	1,814	2,451	7,947	2,463	1,922	2,068	3,244

Source: Company, PL

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

Particulars	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Publishing EBIT margin	24.8%	40.2%	32.3%	20.3%	15.5%	42.3%	32.4%	23.0%	16.2%	37.9%	20.1%	19.8%	2.4%	30.5%
Stationery EBIT margin	10.0%	15.4%	-8.7%	6.5%	13.4%	18.2%	-5.8%	-8.9%	11.3%	21.8%	6.6%	7.4%	18.2%	19.3%

Source: Company, PL

Exhibit 5: Snapshot of consolidated results

Particulars	Q1FY21			Q1FY20		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
NEL	3,248.7	800.6	506.5	7,949.9	2,412.7	1,474.3
Esense	11.0	(25.5)	(39.7)	90.7	23.1	10.8
ILL	60.3	(60.7)	(74.7)	72.9	(42.4)	(77.7)
NHKL + NLLP	9.0	-	-	5.7	-	-
K12	-	-	8.5	-	-	54.9
Inter-segment	(9.0)	(7.6)	(6.8)	(4.0)	(9.5)	(1.2)
Total	3,320.0	706.8	393.8	8,115.2	2,383.9	1,461.1

Source: Company, PL

Exhibit 6: Syllabus change schedule FY21

Academic Year	Maharashtra		Gujarat	
	Class	Subject	Class	Subject
2020-2021	3	All subjects (All medium)	2	English medium - English language, Hindi medium - Hindi language
	12	All subjects (All medium)	3	Gujarati medium - Gujarati language
			4	Hindi & English medium - Environment, English medium - Gujarati second language
			5	Gujarati medium - Environment
			6	English & Hindi medium - Social studies
			7	Gujarati medium - General science

Source: Company, PL

Note: Syllabus change schedule for FY22 is not announced as yet

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	15,121	12,813	15,945	17,914
YoY gr. (%)	4.6	(15.3)	24.4	12.4
Cost of Goods Sold	7,289	6,201	7,749	8,706
Gross Profit	7,831	6,612	8,196	9,208
Margin (%)	51.8	51.6	51.4	51.4
Employee Cost	1,801	1,711	1,882	2,052
Other Expenses	2,895	2,434	3,125	3,511
EBITDA	3,135	2,466	3,188	3,645
YoY gr. (%)	15.8	(21.3)	29.3	14.3
Margin (%)	20.7	19.2	20.0	20.3
Depreciation and Amortization	469	502	544	617
EBIT	2,666	1,964	2,644	3,028
Margin (%)	17.6	15.3	16.6	16.9
Net Interest	171	190	210	230
Other Income	224	160	290	310
Profit Before Tax	2,719	1,934	2,724	3,108
Margin (%)	18.0	15.1	17.1	17.3
Total Tax	746	487	687	783
Effective tax rate (%)	27.4	25.2	25.2	25.2
Profit after tax	1,973	1,447	2,038	2,325
Minority interest	-	0	0	0
Share Profit from Associate	(1)	8	8	8
Adjusted PAT	1,973	1,455	2,046	2,333
YoY gr. (%)	29.1	(26.3)	40.6	14.0
Margin (%)	13.0	11.4	12.8	13.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,973	1,455	2,046	2,333
YoY gr. (%)	29.1	(26.3)	40.6	14.0
Margin (%)	13.0	11.4	12.8	13.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,973	1,455	2,046	2,333
Equity Shares O/s (m)	229	229	229	229
EPS (Rs)	8.6	6.4	8.9	10.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	5,533	5,983	6,713	7,393
Tangibles	4,791	5,191	5,891	6,541
Intangibles	742	792	822	852
Acc: Dep / Amortization	3,417	3,966	4,559	5,227
Tangibles	2,981	3,483	4,027	4,644
Intangibles	435	483	532	583
Net fixed assets	2,525	2,426	2,563	2,575
Tangibles	2,219	2,117	2,273	2,306
Intangibles	307	309	290	269
Capital Work In Progress	57	57	57	57
Goodwill	457	457	457	457
Non-Current Investments	1,109	1,152	1,191	1,251
Net Deferred tax assets	97	111	128	147
Other Non-Current Assets	78	80	81	83
Current Assets				
Investments	-	-	-	-
Inventories	4,710	4,739	6,116	7,117
Trade receivables	2,679	2,808	3,713	4,417
Cash & Bank Balance	101	704	176	759
Other Current Assets	525	630	756	907
Total Assets	12,897	13,821	15,986	18,659
Equity				
Equity Share Capital	458	458	458	458
Other Equity	8,170	9,101	10,430	12,763
Total Network	8,628	9,559	10,888	13,221
Non-Current Liabilities				
Long Term borrowings	4	4	4	4
Provisions	10	11	11	12
Other non current liabilities	337	337	337	337
Current Liabilities				
ST Debt / Current of LT Debt	2,352	2,494	2,908	3,089
Trade payables	463	421	743	883
Other current liabilities	1,100	990	1,090	1,108
Total Equity & Liabilities	12,897	13,821	15,986	18,659

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	2,719	1,934	2,724	3,108
Add. Depreciation	469	502	544	617
Add. Interest	171	190	210	230
Less Financial Other Income	224	160	290	310
Add. Other	40	(96)	(174)	(186)
Op. profit before WC changes	3,398	2,530	3,304	3,769
Net Changes-WC	195	(499)	(2,063)	(1,815)
Direct tax	(761)	(437)	(637)	(733)
Net cash from Op. activities	2,832	1,593	604	1,221
Capital expenditures	(12,717)	(402)	(681)	(629)
Interest / Dividend Income	38	96	174	186
Others	12,090	(44)	(39)	(60)
Net Cash from Inv. activities	(589)	(350)	(546)	(503)
Issue of share cap. / premium	-	-	-	-
Debt changes	11,373	143	413	181
Dividend paid	(1,104)	(809)	(524)	(716)
Interest paid	(140)	(190)	(210)	(230)
Others	(12,138)	0	-	-
Net cash from Fin. activities	(2,009)	(856)	(320)	(765)
Net change in cash	235	387	(262)	(47)
Free Cash Flow	(9,906)	1,191	(76)	592

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	8.6	6.4	8.9	10.2
CEPS	10.7	8.5	11.3	12.9
BVPS	37.7	41.7	47.5	57.7
FCF	(43.3)	5.2	(0.3)	2.6
DPS	3.5	2.3	3.1	3.5
Return Ratio(%)				
RoCE	26.0	18.4	22.7	22.2
ROIC	24.3	17.8	19.9	19.5
RoE	23.9	16.0	20.0	19.4
Balance Sheet				
Net Debt : Equity (x)	0.3	0.2	0.3	0.2
Net Working Capital (Days)	167	203	208	217
Valuation(x)				
PER	9.3	12.7	9.0	7.9
P/B	2.1	1.9	1.7	1.4
P/CEPS	7.5	9.4	7.1	6.2
EV/EBITDA	6.6	8.2	6.6	5.7
EV/Sales	1.4	1.6	1.3	1.2
Dividend Yield (%)	4.4	2.8	3.9	4.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	2,468	1,928	2,072	3,249
YoY gr. (%)	(6.3)	6.2	(15.6)	(59.1)
Raw Material Expenses	1,235	862	795	1,692
Gross Profit	1,233	1,066	1,277	1,557
Margin (%)	50.0	55.3	61.6	47.9
EBITDA	318	222	327	778
YoY gr. (%)	(31.4)	41.4	16.0	(66.4)
Margin (%)	12.9	11.5	15.8	23.9
Depreciation / Depletion	88	91	94	83
EBIT	230	131	233	695
Margin (%)	9.3	6.8	11.3	21.4
Net Interest	18	5	38	36
Other Income	66	60	29	23
Profit before Tax	279	187	224	682
Margin (%)	11.3	9.7	10.8	21.0
Total Tax	(147)	54	62	175
Effective tax rate (%)	(52.6)	29.0	27.8	25.7
Profit after Tax	425	132	162	507
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	425	132	162	507
YoY gr. (%)	47.0	75.6	10.0	(65.6)
Margin (%)	17.2	6.9	7.8	15.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	425	132	162	507
YoY gr. (%)	47.0	75.6	10.0	(65.6)
Margin (%)	17.2	6.9	7.8	15.6
Other Comprehensive Income	(30)	8	(98)	71
Total Comprehensive Income	395	140	64	577
Avg. Shares O/s (m)	229	229	229	229
EPS (Rs)	1.9	0.6	0.7	2.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	Accumulate	89	78
2	18-Jun-20	Accumulate	89	79
3	19-Apr-20	BUY	82	66
4	03-Feb-20	BUY	108	91
5	03-Jan-20	BUY	142	92
6	14-Nov-19	BUY	142	98
7	03-Oct-19	BUY	153	106

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	157	129
3	Indian Railway Catering and Tourism Corporation	Accumulate	1,495	1,401
4	Inox Leisure	Accumulate	262	235
5	Music Broadcast	Hold	18	16
6	Navneet Education	Accumulate	89	78
7	PVR	Accumulate	1,107	1,073
8	S Chand and Company	Accumulate	57	51
9	V.I.P. Industries	Hold	240	262

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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