

May 31, 2021

Q4FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	92		98	
Sales (Rs. m)	11,249	16,106	15,497	17,400
% Chng.	(27.4)	(7.4)		
EBITDA (Rs. m)	1,663	3,322	3,132	3,577
% Chng.	(46.9)	(7.1)		
EPS (Rs.)	3.9	9.2	8.6	9.8
% Chng.	(54.9)	(6.7)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	15,121	8,346	11,249	16,106
EBITDA (Rs. m)	3,135	870	1,663	3,322
Margin (%)	20.7	10.4	14.8	20.6
PAT (Rs. m)	1,972	134	885	2,099
EPS (Rs.)	8.6	0.6	3.9	9.2
Gr. (%)	29.1	(93.2)	560.6	137.1
DPS (Rs.)	3.5	1.0	1.5	3.0
Yield (%)	4.2	1.1	1.8	3.6
RoE (%)	23.9	1.5	9.2	19.9
RoCE (%)	25.5	5.0	12.1	22.8
EV/Sales (x)	1.5	2.4	1.9	1.3
EV/EBITDA (x)	7.1	22.9	12.6	6.5
PE (x)	9.9	145.4	22.0	9.3
P/BV (x)	2.3	2.1	2.0	1.7

Key Data

NAVN.BO | NELI IN

52-W High / Low	Rs.96 / Rs.65
Sensex / Nifty	51,937 / 15,583
Market Cap	Rs.19bn/ \$ 268m
Shares Outstanding	229m
3M Avg. Daily Value	Rs.86.59m

Shareholding Pattern (%)

Promoter's	62.33
Foreign	4.16
Domestic Institution	15.76
Public & Others	17.75
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	14.0	5.5	24.6
Relative	7.1	(10.4)	(22.2)

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Déjà vu; 2nd wave coincides with academic cycle

Quick Pointers:

- Schools in Maharashtra & Gujarat to open gradually for certain grades (9-12th) during June/July.
- Board has approved a buyback not exceeding Rs100 (maximum size Rs500mn).

While our FY22E estimates have undergone a massive change as 2nd COVID wave has coincided with start of the academic session (similar to 1st wave); the extent of earnings cut for FY23E is not that steep as we expect normalcy to set in by next academic cycle. Though near term outlook is uncertain, management hinted that FY22E is likely to be much better than FY21 on revenue front as 1) staggered opening is expected by June/July in Maharashtra & Gujarat and 2) demand in stationary export business (sales expected to be at FY20 levels of ~Rs5bn odd) continues to remain strong. Further, NELI has also lined up aggressive expansion plans in the Ed-Tech space (launched Digi-Book, Kids Platform and Teachers Online Course) which we believe is a step in right direction as digital learning is expected to become even more relevant post-COVID. Amid expected normalcy from FY23E and renewed focus on Ed-Tech, we maintain ACCUMULATE with a revised TP of Rs92 (earlier Rs98) valuing the stock at 10x FY23 EPS of Rs9.2.

Standalone sales decline 7.9% YoY: Standalone revenues declined 7.9% YoY to Rs1,908mn (PLe of Rs1,777mn). Publishing sales increased 62.3% YoY to Rs907mn while stationary sales declined 34.0% YoY to Rs996mn. Within stationary division – domestic sales were down 49.1% YoY to Rs440mn while export sales were down 13.6% YoY to Rs556mn.

Gross margins improve to 58.2%: Gross profit declined 13.0% YoY to Rs1,111mn (PLe of Rs906mn) with GM of 58.2% (PLe of 51.0%).

Standalone EBITDA declined 9.0% YoY: Standalone EBITDA declined 9.0% YoY to Rs298mn (PLe of Rs124mn) with a margin of 15.6% Publishing EBIT increased from Rs13mn in 4QFY20 to Rs194mn (21.4% margin) while stationary EBIT declined 47.7% YoY to Rs144mn (14.4% margin).

Con-call highlights: 1) Launched two new digital products viz; Digi-Book (available to students who buy physical books) and TOC (Teacher Online Classroom) 2) In E-Sense a new product (assessment platform) is ready for CBSE schools. Addressable target market are children between 0-8 years. 3) Exports stationary revenue is likely to be at Rs5bn in FY22E 4) RM cost inflation is not a major cause of concern (paper prices are rising) as NELI had sufficient inventory at the start of the year. 5) Post money valuation, after roping in a new investor (Sofina) in K-12 Techno (school business) is Rs14bn. NELI owns ~29% stake in the K-12 business and has opened 7 new schools in FY21E (~85% of the students have paid fees). 6) The plan is to invest Rs350-400mn in E-Sense business in FY22E 7) As of now, there is no fresh update on NEP. Change in curriculum for 9th standard is likely to happen next year.

Exhibit 1: Q4FY21 Standalone Result Overview (Rs mn)

Y/e March	Q4FY21	Q4FY20	YoY gr (%)	Q3FY21	QoQ gr. (%)	FY21	FY20	YoY gr. (%)
Net Sales	1,908	2,072	(7.9)	1,274	49.8	8,030	14,418	(44.3)
Expenditure								
Raw Materials	797	795	0.2	599	33.0	3,846	7,069	(45.6)
<i>% of Net sales</i>	<i>41.8</i>	<i>38.4</i>		<i>47.0</i>		<i>47.9</i>	<i>49.0</i>	
Personnel	360	347	3.7	341	5.4	1,361	1,478	(7.9)
<i>% of Net sales</i>	<i>18.8</i>	<i>16.7</i>		<i>26.8</i>		<i>16.9</i>	<i>10.3</i>	
Selling, dist & Other Exp	454	603	(24.8)	388	17.0	1,710	2,690	(36.4)
<i>% of Net sales</i>	<i>23.8</i>	<i>29.1</i>		<i>30.4</i>		<i>21.3</i>	<i>18.7</i>	
Total Expenditure	1,610	1,745	(7.7)	1,328	21.2	6,916	11,237	(38.4)
EBITDA	298	327	(9.0)	(54)	NM	1,113	3,181	(65.0)
<i>Margin (%)</i>	<i>15.6</i>	<i>15.8</i>		<i>NM</i>		<i>13.9</i>	<i>22.1</i>	
Depreciation	89	94	(5.6)	89	(0.8)	347	353	(1.6)
EBIT	209	233	(10.4)	(144)	NM	766	2,828	(72.9)
Interest	8	38	(80.2)	9	(14.6)	68	131	(47.7)
Other Income	29	29	0.7	50	(41.6)	145	254	(42.8)
PBT	231	224	2.9	(102)	NM	843	2,951	(71.4)
Tax	68	62	8.7	(26)	NM	227	758	(70.1)
<i>Tax Rate (%)</i>	<i>29.4</i>	<i>27.8</i>		<i>25.7</i>		<i>26.9</i>	<i>25.7</i>	
Share of profit/loss from associates	-	-	-	-	-	-	-	-
Adjusted PAT	163	162	0.7	(76)	NM	616	2,194	(71.9)
Reported PAT	163	162	0.7	(76)	NM	616	2,194	(71.9)
EPS	0.7	0.7	0.4	(0.3)	NM	2.7	9.6	(71.9)

Source: Company, PL

Exhibit 2: Standalone segment revenue & EBIT table

Y/e March (Rs mn)	Q4FY21	Q4FY20	YoY gr (%)	Q3FY21	QoQ gr. (%)
Segment Revenue					
Publishing Content	907	559	62.3	253	258.3
Stationery Products	996	1,510	(34.0)	1,017	(2.0)
Others	8	12	(35.5)	7	9.9
Segment EBIT					
Publishing Content	194	13	1,370.5	(178)	NM
Stationery Products	144	275	(47.7)	145	(0.8)
Others	2	6	(74.6)	3	(40.0)
EBIT Margin (%)					
Publishing Content	21.4%	2.4%	1,904 bps	-70.5%	NM
Stationery Products	14.4%	18.2%	(377)bps	14.3%	17 bps
Others	19.2%	48.8%	(2,953)bps	35.2%	(1,598)bps

Source: Company, PL

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

Particulars	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Publishing revenue	543	3,660	1,795	1,031	622	4,322	1,277	830	559	1,236	550	253	907
YoY growth	1.3%	-1.5%	52.5%	22.0%	14.4%	18.1%	-28.9%	-19.5%	-10.1%	-71.4%	-56.9%	-69.5%	62.3%
As a % of sales	25.6%	54.7%	68.2%	56.9%	25.4%	54.4%	51.8%	43.2%	27.0%	38.1%	34.5%	19.9%	47.6%
Stationary revenue	1,578	3,034	836	783	1,829	3,625	1,187	1,092	1,510	2,008	1,046	1,017	996
YoY growth	1.6%	59.6%	31.0%	-12.4%	16.0%	19.5%	42.0%	39.5%	-17.5%	-44.6%	-11.8%	-6.9%	-34.0%
As a % of sales	74.4%	45.3%	31.8%	43.1%	74.6%	45.6%	48.2%	56.8%	73.0%	61.9%	65.5%	80.1%	52.4%
Total sales	2,121	6,693	2,631	1,814	2,451	7,947	2,463	1,922	2,068	3,244	1,597	1,270	1,903

Source: Company, PL

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

Particulars	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Publishing EBIT margin	15.5%	42.3%	32.4%	23.0%	16.2%	37.9%	20.1%	19.8%	2.4%	30.5%	2.4%	-70.5%	21.4%
Stationary EBIT margin	13.4%	18.2%	-5.8%	-8.9%	11.3%	21.8%	6.6%	7.4%	18.2%	19.3%	8.5%	14.3%	14.4%

Source: Company, PL

Exhibit 5: Snapshot of consolidated results

Particulars	FY21			FY20		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
NEL	8,029.7	1,258.5	616.3	14,418.0	3,435.0	2,193.5
Esense	103.7	(83.9)	(142.8)	205.8	(5.5)	(68.4)
ILL	310.7	(161.1)	(258.7)	549.7	(73.9)	(185.6)
NHKL + NLLP	21.1	(0.7)	(0.7)	28.3	(0.3)	(0.3)
K12	-	-	28.1	-	-	(0.6)
K12 Diminution Gain	-	-	327.9	-	-	-
Inter-segment	(119.5)	(6.2)	(11.1)	(81.4)	4.0	33.9
Total	8,345.7	1,006.6	559.0	15,120.4	3,359.3	1,972.5

Source: Company, PL

Exhibit 6: Syllabus change schedule FY22

Academic Year	Maharashtra		Gujarat	
	Class	Subject	Class	Subject
2021-2022	Not Yet Communicated		5	Gujarati (First Language)
			4	Marigold (English), RimJim (First Language)
			6	Gujarati (Second Language)
			8	Social Science

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	15,121	8,346	11,249	16,106
YoY gr. (%)	4.6	(44.8)	34.8	43.2
Cost of Goods Sold	7,289	3,971	5,445	7,763
Gross Profit	7,831	4,375	5,805	8,343
Margin (%)	51.8	52.4	51.6	51.8
Employee Cost	1,801	1,641	1,723	1,912
Other Expenses	2,895	1,864	2,419	3,108
EBITDA	3,135	870	1,663	3,322
YoY gr. (%)	15.8	(72.2)	91.1	99.8
Margin (%)	20.7	10.4	14.8	20.6
Depreciation and Amortization	469	471	500	546
EBIT	2,666	399	1,164	2,776
Margin (%)	17.6	4.8	10.3	17.2
Net Interest	171	101	160	200
Other Income	224	137	180	230
Profit Before Tax	2,719	434	1,184	2,806
Margin (%)	18.0	5.2	10.5	17.4
Total Tax	746	328	298	707
Effective tax rate (%)	27.4	75.6	25.2	25.2
Profit after tax	1,973	106	885	2,099
Minority interest	-	-	0	0
Share Profit from Associate	(1)	28	-	-
Adjusted PAT	1,972	134	885	2,099
YoY gr. (%)	29.1	(93.2)	561.1	137.1
Margin (%)	13.0	1.6	7.9	13.0
Extra Ord. Income / (Exp)	-	425	-	-
Reported PAT	1,972	559	885	2,099
YoY gr. (%)	29.1	(71.7)	58.3	137.1
Margin (%)	13.0	6.7	7.9	13.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,972	559	885	2,099
Equity Shares O/s (m)	229	229	229	229
EPS (Rs)	8.6	0.6	3.9	9.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	5,322	5,576	6,164	6,844
Tangibles	4,519	4,851	5,301	5,951
Intangibles	803	725	863	893
Acc: Dep / Amortization	3,205	3,677	4,278	4,877
Tangibles	2,710	3,181	3,680	4,226
Intangibles	496	496	597	651
Net fixed assets	2,525	2,173	2,159	2,240
Tangibles	2,218	1,944	1,894	1,998
Intangibles	307	229	265	242
Capital Work In Progress	57	224	224	224
Goodwill	457	433	433	433
Non-Current Investments	1,109	1,640	1,857	2,196
Net Deferred tax assets	97	(24)	(24)	(24)
Other Non-Current Assets	78	97	98	99
Current Assets				
Investments	-	-	-	-
Inventories	4,710	4,156	4,469	5,295
Trade receivables	2,679	1,845	2,620	3,751
Cash & Bank Balance	101	244	810	902
Other Current Assets	525	690	793	873
Total Assets	12,897	11,805	13,789	16,374
Equity				
Equity Share Capital	458	458	458	458
Other Equity	8,170	8,847	9,378	10,784
Total Networkth	8,628	9,305	9,836	11,242
Non-Current Liabilities				
Long Term borrowings	341	220	220	220
Provisions	10	11	12	13
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,442	521	2,021	2,782
Trade payables	463	784	647	883
Other current liabilities	1,009	937	1,025	1,206
Total Equity & Liabilities	12,897	11,805	13,789	16,374

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	2,719	888	1,184	2,806
Add. Depreciation	469	471	500	546
Add. Interest	171	101	160	200
Less Financial Other Income	224	137	180	230
Add. Other	40	(345)	(108)	(138)
Op. profit before WC changes	3,398	1,115	1,735	3,414
Net Changes-WC	195	1,819	(1,242)	(1,624)
Direct tax	(761)	(255)	(248)	(657)
Net cash from Op. activities	2,832	2,679	245	1,133
Capital expenditures	(12,717)	(10,863)	(486)	(626)
Interest / Dividend Income	38	18	108	138
Others	12,090	10,443	(10)	(21)
Net Cash from Inv. activities	(589)	(401)	(388)	(510)
Issue of share cap. / premium	-	-	-	-
Debt changes	11,373	3,103	1,500	762
Dividend paid	(1,104)	-	-	(354)
Interest paid	(140)	(73)	(160)	(200)
Others	(12,138)	(5,171)	0	-
Net cash from Fin. activities	(2,009)	(2,141)	1,340	208
Net change in cash	235	137	1,196	830
Free Cash Flow	(9,906)	(8,188)	(242)	506

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Net Revenue	3,249	1,599	1,274	1,908
YoY gr. (%)	(59.1)	(35.2)	(33.9)	(7.9)
Raw Material Expenses	1,692	757	599	797
Gross Profit	1,557	842	675	1,111
Margin (%)	47.9	52.6	53.0	58.2
EBITDA	778	92	(54)	298
YoY gr. (%)	(66.4)	(71.1)	NA	NA
Margin (%)	23.9	5.7	NA	15.6
Depreciation / Depletion	83	87	89	89
EBIT	695	5	(144)	209
Margin (%)	21.4	0.3	NA	11.0
Net Interest	36	16	9	8
Other Income	23	43	50	29
Profit before Tax	682	32	(102)	231
Margin (%)	21.0	2.0	NA	12.1
Total Tax	175	10	(26)	68
Effective tax rate (%)	25.7	29.9	25.7	29.4
Profit after Tax	507	23	(76)	163
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	507	23	(76)	163
YoY gr. (%)	(65.6)	(94.7)	NA	NA
Margin (%)	15.6	1.4	NA	8.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	507	23	(76)	163
YoY gr. (%)	(65.6)	(94.7)	NA	NA
Margin (%)	15.6	1.4	NA	8.5
Other Comprehensive Income	71	43	7	(5)
Total Comprehensive Income	577	65	(69)	158
Avg. Shares O/s (m)	229	229	229	229
EPS (Rs)	2.2	0.1	(0.3)	0.7

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	8.6	0.6	3.9	9.2
CEPS	10.7	2.6	6.0	11.5
BVPS	37.7	40.7	43.0	49.1
FCF	(43.3)	(35.8)	(1.1)	2.2
DPS	3.5	1.0	1.5	3.0
Return Ratio(%)				
RoCE	25.5	5.0	12.1	22.8
ROIC	24.3	7.4	12.1	20.3
RoE	23.9	1.5	9.2	19.9
Balance Sheet				
Net Debt : Equity (x)	0.3	0.1	0.1	0.2
Net Working Capital (Days)	167	228	209	185
Valuation(x)				
PER	9.9	145.4	22.0	9.3
P/B	2.3	2.1	2.0	1.7
P/CEPS	8.0	32.2	14.1	7.4
EV/EBITDA	7.1	22.9	12.6	6.5
EV/Sales	1.5	2.4	1.9	1.3
Dividend Yield (%)	4.2	1.1	1.8	3.6

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Apr-21	Accumulate	98	82
2	15-Feb-21	Accumulate	94	84
3	11-Jan-21	Accumulate	93	76
4	11-Nov-20	Accumulate	93	79
5	09-Oct-20	Accumulate	95	76
6	13-Aug-20	Accumulate	94	81
7	08-Jul-20	Accumulate	89	78
8	18-Jun-20	Accumulate	89	79

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Accumulate	210	155
3	Indian Railway Catering and Tourism Corporation	BUY	2,179	1,707
4	Inox Leisure	BUY	368	276
5	Music Broadcast	Hold	23	24
6	Navneet Education	Accumulate	98	82
7	PVR	BUY	1,544	1,139
8	S Chand and Company	BUY	127	109
9	V.I.P. Industries	Hold	376	366
10	Zee Entertainment Enterprises	BUY	278	192

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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