Navneet Education (NAVEDU)

ICICI direct Research

CMP: ₹ 86 | Target: ₹ 100 (17%) | Target Period: 12-15 months | BUY

June 2, 2021

Publication segment revival to improve performance

Navneet Education reported a subdued financial performance in Q4FY21. Revenues de-grew 8% YoY to ₹ 191 crore on a low base (Q4FY20: YoY revenue decline of 16%). Gross margins declined 340 bps YoY to 58.2%. Though staff cost (as percentage of sales) grew 212 bps to 18.9%, other expenses declined 533 bps to 23.8%, which enabled the company to restrict the decline in EBITDA margin to 20 bps YoY to 15.9% with absolute EBITDA declining 9% YoY to ₹ 30.3 crore. However, a decline in interest cost by 80% YoY to ₹ 80 lakh enabled the company to report a flattish PAT of ₹ 16.9 crore (Q4FY20: ₹ 16.8 crore). For FY21, revenues declined 45% YoY to ₹ 835 crore with PAT declining 72% YoY to ₹ 56 crore.

Gradual reopening of schools to aid publication segment

The pandemic impacted Navneet's publication segment the most as schools remained closed during FY21 with publication segment revenues declining ~58% to ₹ 296 crore. Revenue from the publication segment is heavily skewed towards Q1 every year (50%+). Q1FY22 has been disrupted owing to resurgence of pandemic and revenues may get deferred to Q2FY21, though entire revenue loss may not be recouped in FY22E. The management indicated that schools for 8-12 standard could open in a staggered manner from June-July 2021 in Gujarat and Maharashtra. The reopening of schools would lead to a recovery in the publication segment. We expect FY22E to be a better year compared to FY21.

Strong exports to drive stationery demand

Demand for stationery exports continues to remain strong and the management expects stationery exports in FY22E to clock revenues of ~₹ 500 crore (FY21: 389 crore). The company indicated that it was getting enquiries for larger quantities of existing products along with new product enquiries from both existing and new clients. Global brands are re-arranging their sourcing and supply chain with efforts to reduce dependence on China, which is leading to improved business traction for players in countries like India. The shift may happen gradually but players with strong capacities and good product bouquet like Navneet are expected to be beneficiaries.

Valuation & Outlook

Expectations of a gradual reopening of schools in FY22E augur well for Navneet as its publication segment derives revenues from supplementary books for state board based school curriculum. After a weak FY21 with publication revenues declining ~58% YoY, we expect publication revenues to revive with re-opening of schools in FY22. We also introduce FY23E estimates and expect revenue, earnings CAGR of 38%, 97%, respectively, over FY21-23E (on a low base). Navneet has, over the years, maintained balance sheet prudence having a virtually debt free status and generating healthy RoCE of 24%. The stock is available at reasonable valuations trading at 8.9x FY23E EPS. We reiterate our **BUY** rating on the stock with a revised TP of ₹ 100 (~10.0x FY23E EPS, earlier TP: ₹ 95).

Key Financial Summary

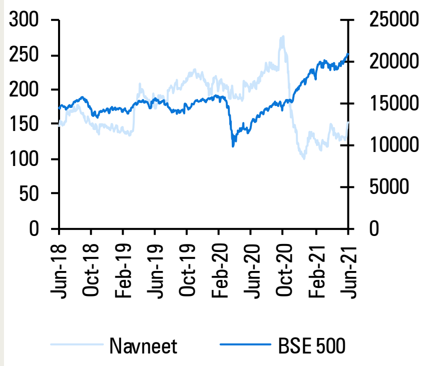
₹ crore	FY20	FY21A	FY22E	FY23E	CAGR (FY21-22E)
Net Sales	1,512.1	834.6	1,177.8	1,602.3	38.6%
EBITDA	313.5	87.0	188.4	331.7	95.3%
PAT	197.3	55.9	112.1	216.8	96.9%
P/E (x)	10.0	66.5	17.6	8.9	
EV/Sales (x)	1.5	2.4	1.7	1.3	
EV/EBITDA (x)	7.0	22.8	10.6	6.2	
RoCE (%)	24.3	4.1	15.2	24.9	
RoE (%)	22.9	6.0	11.6	18.2	

Source: ICICI Direct Research, Company

Stock data

Particular	Amount
Market Capitalisation (₹ Crore)	1,968.5
Debt (FY21) (₹ Crore)	43.6
Cash (FY21) (₹ Crore)	24.4
EV (₹ Crore)	1,987.7
52 week H/L	96 / 65
Equity Capital (₹ Crore)	45.8
Face Value (₹)	2

Price Performance



Key Risks

- Extended closure of schools could lead to lower than estimated revenue growth for the publication segment
- Significant increase in input cost (paper) may negatively impact the margin profile

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Company update

ICICI Securities – Retail Equity Research

Conference call highlights

- Revenue from publication segment (excluding Indiannica) de-grew 58% YoY to ₹ 296 crore in FY21 owing to the impact of the pandemic with schools remaining closed
- Indiannica reported revenue de-growth 43% YoY to ₹ 31 crore while 'E-sense' revenues declined ~ 50% to ₹ 10 crore in FY21
- Stationery segment de-grew 32% YoY to ₹ 507 crore in FY21 due to 21% decline in stationery exports to ₹ 389 crore and 53% decline in domestic business to ₹ 118 crore. The company believes that stationery export segment has strong growth potential and is targeting revenue of ~ ₹ 500 crore in FY22 and strong double digit growth over the next few years
- The company is investing in enhancing its digital content with the launch of new products (Digi-book, Kids platform and online course for teachers). Initially the company is providing free access to the Digi-book to students who buy physical book. The management wants the students to get used to the digital platform before enabling a pricing structure for the same. The management also said that the free access to Digi-book would not hamper its margins as the cost of digitising a book is not significant
- The company is developing an online platform for students up to eighth standard. The same is expected to be launched in Q3FY22
- On the raw material inflation front, the management indicated that it has sufficient inventory and increasing paper prices are not a concern
- Navneet has proposed a buyback of equity shares at a price not exceeding more than ₹ 100 per share with aggregate buyback amount not exceeding ₹ 50 crore
- The management believes that the National Education Policy, which was announced last year in July, is beneficial for the education sector and also for Navneet. The New Education Policy aims to add new subjects, new methods of teaching and various changes in the curriculum, which will be beneficial for Navneet from a long term growth perspective
- The management also indicated that small publishers were under stress owing to the pandemic and finding it difficult to survive. This could benefit larger players with stronger balance sheets over the longer term

Financial summary

Exhibit 1: Profit & Loss Statement

(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	**1,512.1**	**834.6**	**1,177.8**	**1,602.3**
Growth (%)	4.6	-44.8	41.1	36.0
Raw Material Expenses	728.9	397.1	565.3	769.1
Employee Expenses	180.1	164.1	176.7	197.1
Manufacturing Expenses & Other	289.5	186.4	247.3	304.4
Total Operating Expenditure	1,198.5	747.6	989.4	1,270.6
EBITDA	**313.5**	**87.0**	**188.4**	**331.7**
Growth (%)	15.8	-72.2	116.6	76.0
Depreciation	46.9	47.1	52.6	57.7
EBIT	266.6	39.9	135.8	274.0
Interest	17.1	10.1	6.5	10.7
Other Income	22.4	13.7	16.5	22.4
Exceptional Income		42.5		
PBT	271.9	85.9	145.8	285.7
Total Tax	74.6	32.8	36.7	71.9
PAT	197.3	53.1	109.1	213.8
Share of associates	-0.1	2.8	3.0	3.0
PAT after Share of Associates	**197.3**	**55.9**	**112.1**	**216.8**
Growth (%)	54.9	-71.7	100.6	93.4
EPS (₹)	**8.6**	**2.4**	**5.0**	**9.7**

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	197.3	55.9	112.1	216.8
Add: Depreciation	46.9	47.1	52.6	57.7
(Inc)/dec in Current Assets	54.9	149.3	-138.0	-263.3
Inc/(dec) in CL and Provisions	-41.1	23.9	-46.9	22.9
Others	0.0	0.0	0.0	0.0
CF from operating activities	**257.9**	**276.3**	**-20.2**	**34.1**
(Inc)/dec in Investments	-22.1	-53.5	82.6	-20.0
(Inc)/dec in Fixed Assets	-52.7	-24.2	-45.0	-60.0
(Inc)/dec in CWIP	11.0	-16.8	7.4	5.0
Others	26.5	0.6	-10.0	-10.0
CF from investing activities	**-37.2**	**-93.8**	**35.0**	**-85.0**
Issue/(Buy back) of Equity	0.0	0.0	-1.0	0.0
Inc/(dec) in loan funds	-98.6	-192.0	50.0	60.0
Others	-129.4	23.8	-71.9	3.2
CF from financing activities	**-228.0**	**-168.1**	**-22.9**	**63.2**
Net Cash flow	-7.2	14.3	-8.0	12.3
Opening Cash	17.3	10.1	24.4	16.4
Closing Cash	**10.1**	**24.4**	**16.4**	**28.7**

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	45.8	45.8	44.8	44.8
Reserve and Surplus	817.0	884.7	924.9	1,144.9
Total Shareholders funds	862.8	930.5	969.7	1,189.7
Total Debt	235.5	43.6	93.6	153.6
Deferred Tax Liability	-9.7	2.4	2.4	2.4
Minority Interest / Others	0.4	0.4	0.4	0.4
Total Liabilities	**1,089.1**	**976.8**	**1,066.0**	**1,346.0**
Assets				
Gross Block	547.3	573.9	618.9	678.9
Less: Accu Depreciation	337.0	384.1	436.7	494.4
Net Block	210.3	189.8	182.2	184.5
Capital WIP	5.7	22.4	15.0	10.0
Total Fixed Assets	216.0	212.2	197.2	194.5
Goodwill on Consolidation	45.7	43.3	43.3	43.3
Investments	89.2	142.6	60.0	80.0
Other Non-Current Assets	7.2	6.5	16.6	26.6
Inventory	471.0	415.6	467.9	614.6
Debtors	267.9	184.5	264.6	360.0
Loans and Advances	63.7	28.9	58.9	80.1
Other Current Assets	66.5	90.8	66.5	66.5
Cash	10.1	24.4	16.4	28.7
Total Current Assets	879.2	744.2	874.2	1,149.8
Creditors	46.3	78.4	38.7	48.5
Provisions	47.2	45.7	50.0	50.0
Other Current Liabilities	54.7	48.0	36.5	49.7
Total Current Liabilities	148.2	172.1	125.2	148.1
Application of Funds	**1,089.1**	**976.8**	**1,066.0**	**1,346.0**

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	8.6	2.4	5.0	9.7
Cash EPS	10.7	0.7	7.1	12.1
BV	37.7	40.7	43.3	53.1
Cash Per Share	0.4	1.1	0.7	1.3
Operating Ratios				
EBITDA Margin (%)	20.7	10.4	16.0	20.7
PBT Margin (%)	18.0	5.2	12.4	17.8
PAT Margin (%)	13.0	6.4	9.3	13.3
Inventory days	113.7	181.8	145.0	140.0
Debtor days	64.7	80.7	82.0	82.0
Creditor days	23.2	28.0	25.0	23.0
Return Ratios (%)				
RoE	22.9	6.0	11.6	18.2
RoCE	24.3	4.1	15.2	24.9
Valuation Ratios (x)				
P/E	9.1	60.3	15.9	8.1
EV / EBITDA	6.4	20.7	9.7	5.6
EV / Net Sales	1.3	2.2	1.5	1.2
Market Cap / Sales	1.2	2.1	1.5	1.1
Price to Book Value	2.1	1.9	1.8	1.5
Solvency Ratios				
Debt/EBITDA	0.8	0.5	0.5	0.5
Debt / Equity	0.3	0.0	0.1	0.1
Current Ratio	5.9	4.3	7.0	7.8
Quick Ratio	6.2	5.0	9.3	9.4

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey | Head – Research | pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093

research@icicidirect.com

ANALYST CERTIFICATION

I/We, Bharat Chhoda, MBA, Cheragh Sidhwa MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulator Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number - INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investmen banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media o reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not trea recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independen judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any othe assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this repor for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICIC Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subjec company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability o use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subjec company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.