Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Navneet Education (NELI IN)

Rating: ACCUMULATE | CMP: Rs107 | TP: Rs123

November 2, 2021

Q2FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	**ACCUMULATE**		**ACCUMULATE**	
Target Price	**123**		**122**	
Sales (Rs. m)	16,421	18,081	16,421	18,081
% Chng.	-	-		
EBITDA (Rs. m)	3,416	3,762	3,416	3,762
% Chng.	-	-		
EPS (Rs.)	9.9	10.8	9.8	10.7
% Chng.	*0.7*	*0.3*		

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	8,346	11,249	16,421	18,081
EBITDA (Rs. m)	870	1,663	3,416	3,762
Margin (%)	*10.4*	*14.8*	*20.8*	*20.8*
PAT (Rs. m)	134	904	2,241	2,447
EPS (Rs.)	0.6	4.0	9.9	10.8
Gr. (%)	*(93.2)*	*579.9*	*148.0*	*9.2*
DPS (Rs.)	1.0	1.6	3.3	3.6
Yield (%)	*0.9*	*1.5*	*3.0*	*3.3*
RoE (%)	*1.5*	*9.4*	*21.2*	*20.1*
RoCE (%)	*5.0*	*13.0*	*23.5*	*22.1*
EV/Sales (x)	3.0	2.3	1.7	1.5
EV/EBITDA (x)	28.8	15.6	8.0	7.1
PE (x)	183.6	27.0	10.9	10.0
P/BV (x)	2.6	2.5	2.2	1.9

Key Data

Key Data	NAVN.BO | NELI IN
52-W High / Low	Rs.122 / Rs.72
Sensex / Nifty	60,029 / 17,889
Market Cap	Rs.24bn/ $ 326m
Shares Outstanding	227m
3M Avg. Daily Value	Rs.112.28m

Shareholding Pattern (%)

Promoter's	62.84
Foreign	3.78
Domestic Institution	14.88
Public & Others	18.50
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.0)	44.0	41.3
Relative	(6.0)	17.0	(6.4)

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2H to witness improved traction

Quick Pointers:

- Majority of 8-12th grade schools have opened up and remaining to open by Q4, provided there is no 3rd wave.
- Focus on scaling Ed-Tech is clearly evident.

NELI's results were ahead of our estimates due to swift recovery in publishing & stationary sales amid staggered re-opening of higher grades (8-12th) due to declining COVID cases. Management hinted that publishing & stationary revenue will be better than FY21 and can breach pre-COVID levels in FY23.

NELI has lined up aggressive expansion plans in the Ed-Tech space with a target to spend Rs700mn in FY23. It has already launched Digi-Book and Smart-Book and has plans to launch a platform for kids aged between 2-8 years by Feb-22. We believe this is a step in right direction as digital learning is expected to become even more relevant post-COVID. We keep our EPS estimates broadly unchanged and expect revenue/PAT CAGR of 29%/64% respectively over FY21-FY24E. Amid expected normalcy from FY23, strong momentum in exports (25% CAGR expected over 5 years) and renewed focus on Ed-Tech, we maintain our target P/E multiple to 12.5x (no change) and arrive at a TP of Rs123 (earlier Rs122). Maintain ACCUMULATE.

Standalone sales increase 43.2% YoY: Standalone revenues increased 43.2% YoY to Rs2,291mn. Publishing and stationery sales increased 61.7%/32.4% to Rs890mn/Rs1,385mn respectively. Within stationery division – domestic sales were up 184% YoY to Rs236mn and export sales were up 19% YoY to Rs1,149mn.

Gross/EBITDA margins at 52.4%/19.4%: Gross profit increased 42.7% YoY to Rs1,201mn with GM of 52.4%. Standalone EBITDA grew 246.5% YoY to Rs318mn with a margin of 13.9%. Publishing and stationery EBIT margin was 14.8% and 16.0%.

Con-call highlights: 1) NELI has sufficient RM inventory, ensuring hedge against rising paper prices. RM inflation will be passed on, if fresh stock has to be bought for next year 2) Digital platform for kids aged between 2-8 years is to be launched around Feb 2022. 3) Invested in Tinkerly, by putting up STEM libraries in collaboration with schools on revenue sharing basis. 4) Plans to launch Be-Galileo (46% stake) in domestic market. 5) As part of Ed-Tech initiative, Rs200-250mn to be spent in FY22. 6) For FY23, ~Rs700mn will be spent towards Ed-Tech, of which, Rs400-500mn will be for marketing and ~Rs200mn for further product development. 7) Publishing and stationery performance is expected to be better than FY21 and breach pre-COVID levels in FY23 8) ~800-900 English medium affiliated SSC schools have converted to CBSE pattern schools in Gujarat. 9) Exports expected to grow at 25% CAGR for next 5 years 10) ~40% of ILL's revenue comes from NCR belt. 11) ILL CEO has moved out and a new person from NELI has been appointed.

Exhibit 1: Q2FY22 Standalone Result Overview (Rs mn)

Y/e March	Q2FY22	Q2FY21	YoY gr (%)	Q1FY22	QoQ gr. (%)	H1FY22	H1FY21	YoY gr (%)
Net Sales	**2,291**	**1,599**	***43.2***	**3,183**	***(28.0)***	**5,474**	**4,848**	***12.9***
Expenditure								
Raw Materials	1,090	757	*43.9*	1,651	*(34.0)*	2,740	2,450	*11.9*
% of Net sales	*47.6*	*47.4*		*51.9*		*50.1*	*50.5*	
Personnel	370	336	*10.0*	362	*2.1*	732	660	*10.9*
% of Net sales	*16.1*	*21.0*		*11.4*		*13.4*	*13.6*	
Selling , dist & Other Exp	513	414	*23.9*	553	*(7.2)*	1,066	869	*22.7*
% of Net sales	*22.4*	*25.9*		*17.4*		*19.5*	*17.9*	
Total Expenditure	1,973	1,508	*30.8*	2,566	*(23.1)*	4,538	3,978	*14.1*
EBITDA	**318**	**92**	***246.5***	**618**	***(48.4)***	**936**	**870**	***7.6***
Margin (%)	*13.9*	*5.7*		*19.4*		*17.1*	*17.9*	
Depreciation	82	87	*(5.5)*	80	*2.3*	162	169	*(4.6)*
EBIT	**237**	**5**	***4,283.3***	**538**	***(56.0)***	**774**	**701**	***10.5***
Interest	9	16	*(43.4)*	12	*(23.7)*	21	52	*(59.9)*
Other Income	79	43	*85.1*	69	*15.9*	148	66	*125.8*
PBT	**307**	**32**	***847.8***	**594**	***(48.3)***	**901**	**714**	***26.2***
Tax	82	10	*741.2*	149	*(45.2)*	231	185	*24.7*
Tax Rate (%)	*26.6*	*29.9*		*25.1*		*25.6*	*25.9*	
Share of profit/loss from associates	-	-		-		-	-	-
Adjusted PAT	**226**	**23**	***893.4***	**445**	***(49.4)***	**671**	**529**	***26.8***
Reported PAT	**226**	**23**	***893.4***	**445**	***(49.4)***	**671**	**529**	***26.8***
EPS	**1.0**	**0.1**	***890.0***	**2.0**	***(49.2)***	**2.9**	**2.3**	***27.3***

Source: Company, PL

Exhibit 2: Standalone segment revenue & EBIT table

Y/e March (Rs mn)	Q2FY22	Q2FY21	YoY gr (%)	Q1FY22	QoQ gr. (%)
Segment Revenue					
Publishing Content	890	550	*61.7*	988	*(9.9)*
Stationery Products	1,385	1,046	*32.4*	2,184	*(36.6)*
Others	22	6	*255.6*	20	*12.0*
Segment EBIT					
Publishing Content	132	13	*883.6*	207	*(36.2)*
Stationery Products	221	89	*147.8*	443	*(50.1)*
Others	10	2	*500.0*	7	*31.5*
EBIT Margin (%)					
Publishing Content	*14.8%*	*2.4%*	*1,238 bps*	*20.9%*	*(610)bps*
Stationery Products	*16.0%*	*8.5%*	*743 bps*	*20.3%*	*(432)bps*
Others	*42.9%*	*25.4%*	*1,746 bps*	*36.5%*	*636 bps*

Source: Company, PL

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

Particulars	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
Publishing revenue	1,795	1,031	622	4,322	1,277	830	559	1,236	550	253	907	988	890
YoY growth	*52.5%*	*22.0%*	*14.4%*	*18.1%*	*-28.9%*	*-19.5%*	*-10.1%*	*-71.4%*	*-56.9%*	*-69.5%*	*62.3%*	*-20.1%*	*61.7%*
As a % of sales	*68.2%*	*56.9%*	*25.4%*	*54.4%*	*51.8%*	*43.2%*	*27.0%*	*38.1%*	*34.5%*	*19.9%*	*47.6%*	*31.1%*	*39.1%*
Stationery revenue	836	783	1,829	3,625	1,187	1,092	1,510	2,008	1,046	1,017	996	2,184	1,385
YoY growth	*31.0%*	*-12.4%*	*16.0%*	*19.5%*	*42.0%*	*39.5%*	*-17.5%*	*-44.6%*	*-11.8%*	*-6.9%*	*-34.0%*	*8.7%*	*32.4%*
As a % of sales	*31.8%*	*43.1%*	*74.6%*	*45.6%*	*48.2%*	*56.8%*	*73.0%*	*61.9%*	*65.5%*	*80.1%*	*52.4%*	*68.9%*	*60.9%*
Total sales	**2,631**	**1,814**	**2,451**	**7,947**	**2,463**	**1,922**	**2,068**	**3,244**	**1,597**	**1,270**	**1,903**	**3,171**	**2,275**

Source: Company, PL

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

Particulars	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
Publishing EBIT margin	32.4%	23.0%	16.2%	37.9%	20.1%	19.8%	2.4%	30.5%	2.4%	-70.5%	21.4%	20.9%	14.8%
Stationery EBIT margin	-5.8%	-8.9%	11.3%	21.8%	6.6%	7.4%	18.2%	19.3%	8.5%	14.3%	14.4%	20.3%	16.0%

Source: Company, PL

Exhibit 5: Snapshot of consolidated results

Particulars	H1FYF22		H1FYF21	
	Sales	**EBITDA**	**Sales**	**EBITDA**
NEL	5,474.1	1,083.9	4,848.1	935.4
Esense	50.4	(38.6)	44.3	(38.0)
ILL	111.9	(68.3)	73.9	(124.3)
NHKL + NLLP	23.4	0.2	11.9	(0.2)
GeNext	0.9	(7.4)		
Inter-segment	(70.6)	(3.0)	(20.9)	(11.4)
Total	5,590.1	966.8	4,957.3	761.5

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	FY21	FY22E	FY23E	FY24E
Net Revenues	**8,346**	**11,249**	**16,421**	**18,081**
YoY gr. (%)	*(44.8)*	*34.8*	*46.0*	*10.1*
Cost of Goods Sold	3,971	5,445	7,915	8,715
Gross Profit	4,375	5,805	8,506	9,366
Margin (%)	*52.4*	*51.6*	*51.8*	*51.8*
Employee Cost	1,641	1,723	1,921	2,132
Other Expenses	1,864	2,419	3,169	3,472
EBITDA	**870**	**1,663**	**3,416**	**3,762**
YoY gr. (%)	*(72.2)*	*91.1*	*105.4*	*10.1*
Margin (%)	*10.4*	*14.8*	*20.8*	*20.8*
Depreciation and Amortization	471	468	499	561
EBIT	**399**	**1,195**	**2,917**	**3,201**
Margin (%)	*4.8*	*10.6*	*17.8*	*17.7*
Net Interest	101	100	150	160
Other Income	137	250	230	230
Profit Before Tax	**434**	**1,345**	**2,997**	**3,271**
Margin (%)	*5.2*	*12.0*	*18.2*	*18.1*
Total Tax	328	339	755	824
Effective tax rate (%)	*75.6*	*25.2*	*25.2*	*25.2*
Profit after tax	**106**	**1,006**	**2,241**	**2,447**
Minority interest	-	0	0	0
Share Profit from Associate	28	(102)	-	-
Adjusted PAT	**134**	**904**	**2,241**	**2,447**
YoY gr. (%)	*(93.2)*	*575.0*	*148.0*	*9.2*
Margin (%)	*1.6*	*8.0*	*13.6*	*13.5*
Extra Ord. Income / (Exp)	425	-	-	-
Reported PAT	**559**	**904**	**2,241**	**2,447**
YoY gr. (%)	*(71.7)*	*61.7*	*148.0*	*9.2*
Margin (%)	*6.7*	*8.0*	*13.6*	*13.5*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	559	904	2,241	2,447
Equity Shares O/s (m)	**229**	**227**	**227**	**227**
EPS (Rs)	**0.6**	**4.0**	**9.9**	**10.8**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	**5,272**	**5,710**	**6,340**	**6,970**
Tangibles	4,547	4,847	5,447	6,047
Intangibles	725	863	893	923
Acc: Dep / Amortization	**3,373**	**3,943**	**4,495**	**5,112**
Tangibles	2,877	3,345	3,844	4,405
Intangibles	496	597	651	706
Net fixed assets	**2,173**	**2,041**	**2,118**	**2,132**
Tangibles	1,944	1,775	1,876	1,915
Intangibles	229	265	242	216
Capital Work In Progress	224	224	224	224
Goodwill	433	433	433	433
Non-Current Investments	1,640	1,926	2,279	2,700
Net Deferred tax assets	(24)	(24)	(24)	(24)
Other Non-Current Assets	97	98	99	100
Current Assets				
Investments	-	-	-	-
Inventories	4,156	4,623	6,074	6,440
Trade receivables	1,845	2,681	3,824	4,211
Cash & Bank Balance	244	716	498	1,244
Other Current Assets	690	793	873	960
Total Assets	**11,805**	**13,861**	**16,782**	**18,845**
Equity				
Equity Share Capital	458	454	454	454
Other Equity	8,847	9,389	10,891	12,530
Total Networth	**9,305**	**9,843**	**11,345**	**12,984**
Non-Current Liabilities				
Long Term borrowings	220	220	220	220
Provisions	11	12	13	14
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	521	2,085	3,058	3,276
Trade payables	784	647	900	991
Other current liabilities	937	1,025	1,219	1,332
Total Equity & Liabilities	**11,805**	**13,861**	**16,782**	**18,845**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	888	1,345	2,997	3,271
Add. Depreciation	471	468	499	561
Add. Interest	101	100	150	160
Less Financial Other Income	137	250	230	230
Add. Other	(345)	(150)	(138)	(138)
Op. profit before WC changes	1,115	1,763	3,508	3,854
Net Changes-WC	1,819	(1,458)	(2,230)	(640)
Direct tax	(255)	(289)	(705)	(774)
Net cash from Op. activities	**2,679**	**16**	**572**	**2,440**
Capital expenditures	(10,863)	(336)	(576)	(575)
Interest / Dividend Income	18	150	138	138
Others	10,443	(10)	(21)	(23)
Net Cash from Invt. activities	**(401)**	**(196)**	**(460)**	**(460)**
Issue of share cap. / premium	-	-	-	-
Debt changes	3,103	1,565	972	218
Dividend paid	-	(229)	(361)	(740)
Interest paid	(73)	(100)	(150)	(160)
Others	(5,171)	3	-	-
Net cash from Fin. activities	**(2,141)**	**1,239**	**461**	**(681)**
Net change in cash	**137**	**1,059**	**573**	**1,299**
Free Cash Flow	2,364	(320)	(4)	1,865

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	**1,274**	**1,908**	**3,183**	**2,291**
YoY gr. (%)	*(33.9)*	*(7.9)*	*(2.0)*	*43.2*
Raw Material Expenses	599	797	1,651	1,090
Gross Profit	675	1,111	1,533	1,201
Margin (%)	*53.0*	*58.2*	*48.1*	*52.4*
EBITDA	**(54)**	**298**	**618**	**318**
YoY gr. (%)	*(124.4)*	*(9.0)*	*(20.6)*	*246.5*
Margin (%)	*(4.3)*	*15.6*	*19.4*	*13.9*
Depreciation / Depletion	89	89	80	82
EBIT	**(144)**	**209**	**538**	**237**
Margin (%)	*(11.3)*	*11.0*	*16.9*	*10.3*
Net Interest	9	8	12	9
Other Income	50	29	69	79
Profit before Tax	**(102)**	**231**	**594**	**307**
Margin (%)	*(8.0)*	*12.1*	*18.7*	*13.4*
Total Tax	(26)	68	149	82
Effective tax rate (%)	*25.7*	*29.4*	*25.1*	*26.6*
Profit after Tax	**(76)**	**163**	**445**	**226**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**(76)**	**163**	**445**	**226**
YoY gr. (%)	*(157.3)*	*0.7*	*(12.1)*	*893.4*
Margin (%)	*(6.0)*	*8.5*	*14.0*	*9.8*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**(76)**	**163**	**445**	**226**
YoY gr. (%)	*(157.3)*	*0.7*	*(12.1)*	*893.4*
Margin (%)	*(6.0)*	*8.5*	*14.0*	*9.8*
Other Comprehensive Income	7	(5)	(25)	(4)
Total Comprehensive Income	**(69)**	**158**	**421**	**222**
Avg. Shares O/s (m)	229	229	228	227
EPS (Rs)	**(0.3)**	**0.7**	**2.0**	**1.0**

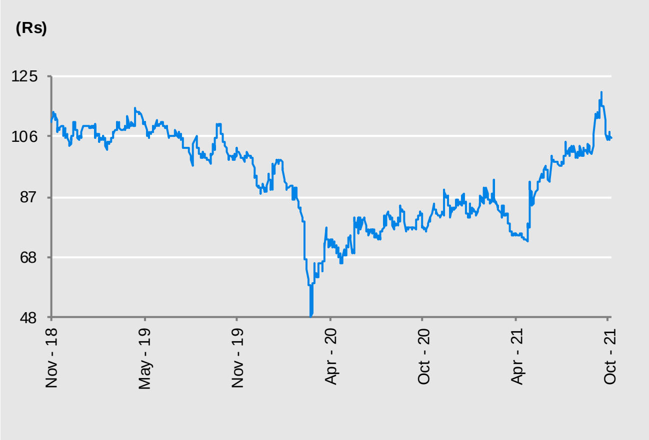
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	0.6	4.0	9.9	10.8
CEPS	2.6	6.0	12.1	13.2
BVPS	40.7	43.3	49.9	57.1
FCF	10.3	(1.4)	0.0	8.2
DPS	1.0	1.6	3.3	3.6
Return Ratio(%)				
RoCE	5.0	13.0	23.5	22.1
ROIC	7.4	12.0	20.4	20.0
RoE	1.5	9.4	21.2	20.1
Balance Sheet				
Net Debt : Equity (x)	0.1	0.2	0.2	0.2
Net Working Capital (Days)	228	216	200	195
Valuation(x)				
PER	183.6	27.0	10.9	10.0
P/B	2.6	2.5	2.2	1.9
P/CEPS	40.6	17.8	8.9	8.1
EV/EBITDA	28.8	15.6	8.0	7.1
EV/Sales	3.0	2.3	1.7	1.5
Dividend Yield (%)	0.9	1.5	3.0	3.3

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-21	Accumulate	122	115
2	12-Aug-21	Accumulate	111	102
3	07-Jul-21	Accumulate	92	98
4	31-May-21	Accumulate	92	85
5	07-Apr-21	Accumulate	98	82
6	15-Feb-21	Accumulate	94	84
7	11-Jan-21	Accumulate	93	76
8	11-Nov-20	Accumulate	93	79

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	197	189
3	Indian Railway Catering and Tourism Corporation	Hold	779	855
4	Inox Leisure	BUY	490	418
5	Music Broadcast	Hold	24	25
6	Navneet Education	Accumulate	122	115
7	Nazara Technologies	BUY	3,125	2,520
8	PVR	BUY	1,896	1,627
9	S Chand and Company	BUY	147	122
10	V.I.P. Industries	BUY	621	543
11	Zee Entertainment Enterprises	BUY	405	293

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

ANALYST CERTIFICATION

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