

August 3, 2022

## Q1FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	163		121	
Sales (Rs. m)	16,220	18,428	16,431	18,608
% Chng.	(1.3)	(1.0)		
EBITDA (Rs. m)	2,860	3,466	2,976	3,604
% Chng.	(3.9)	(3.8)		
EPS (Rs.)	8.1	9.7	8.4	10.1
% Chng.	(3.4)	(3.5)		

### Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	8,346	11,143	16,220	18,428
EBITDA (Rs. m)	870	1,626	2,860	3,466
Margin (%)	10.4	14.6	17.6	18.8
PAT (Rs. m)	134	560	1,835	2,205
EPS (Rs.)	0.6	2.5	8.1	9.7
Gr. (%)	(93.2)	322.6	227.8	20.2
DPS (Rs.)	1.0	1.5	1.8	2.3
Yield (%)	0.9	1.3	1.5	2.0
RoE (%)	1.5	5.8	17.1	17.9
RoCE (%)	5.0	12.3	20.5	21.1
EV/Sales (x)	3.3	2.5	1.8	1.5
EV/EBITDA (x)	31.4	17.0	9.9	8.2
PE (x)	200.2	47.4	14.5	12.0
P/BV (x)	2.9	2.6	2.3	2.0

### Key Data

NAVN.BO | NELI IN

52-W High / Low	Rs.127 / Rs.81
Sensex / Nifty	58,351 / 17,388
Market Cap	Rs.27bn/ \$ 335m
Shares Outstanding	226m
3M Avg. Daily Value	Rs.35.21m

### Shareholding Pattern (%)

Promoter's	63.31
Foreign	2.42
Domestic Institution	13.24
Public & Others	21.03
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	22.7	29.4	13.9
Relative	11.2	30.3	5.1

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## Steady quarter; on a re-rating path

### Quick Pointers:

- Revenue to surpass pre-pandemic base while standalone EBITDA margin will be maintained at 21-22% in FY23E.

**While NELI's top-line of Rs6,828mn (PLe of Rs6,872 mn) was ~14% lower than pre-pandemic base, PAT was almost similar due to improvement in publishing margins. Though syllabus change schedule for FY23E is not exciting (see exhibit 6); calibrated price hikes and lower usage of 2nd hand books given last academic cycle was impacted by COVID is likely to aid growth in publishing segment. However, management commentary on stationary exports for FY23E was a bit cautious (~15-17% growth guidance) given inflationary environment prevailing in the US. Nonetheless, beyond FY23E, target is to aim for a growth of ~20-25%.**

**Post COVID, NELI has intensified focus on Ed-Tech. Apart from investing in SFA, separate SBUs have been created and explicit hiring for Navneet Future Tech is in pipeline. Management expects EdTech losses of Rs300-400mn in FY23E. As NELI is migrating from a pure play publishing business to a phygital conglomerate we change our valuation methodology to SOTP (see exhibit 7)) as EdTech losses will have to be seeded in the interim. Our revised TP stands at Rs163 (earlier Rs121), and we assign 12x P/E multiple (no change) to core business. We arrive at per share value of EdTech/K12 at Rs7/Rs19 respectively. NELI trades at core P/E (ex of EdTech losses) of 11.4x/10.3x over our FY23E/FY24E EPS and valuations appear undemanding for a business with RoE/RoCE of ~21%/27% (pre-pandemic 5-year average). Retain BUY.**

**Standalone sales increase 114.5% YoY:** Standalone revenues increased 114.5% YoY to Rs6,828mn (PLe of Rs6,872mn). Publishing and stationery sales increased 261.5%/48.7% YoY to Rs3,571mn/ Rs3,247mn respectively.

**Gross/EBITDA margins at 49.6%/30.3%:** Gross profit increased 121.1% YoY to Rs3,388mn with GM of 49.6% (PLe of 48.0%). Standalone EBITDA increased 235% YoY Rs2,069mn (PLe of Rs1,979mn) with a margin of 30.3% (PLe of 28.8%). Publishing and stationery EBIT margin was 41.8% and 19.6%.

**Con-call highlights:** 1) Publishing revenue to spillover in 2Q due to delayed opening of regional medium schools and ongoing migration of students from government schools. 2) Indiannica is expected to grow 15-20% YoY and is likely to be profitable in FY23E. 3) K12 has targets to open 20 new schools next year, thus taking the total to 80 schools. 4) NELI's share in K-12 profits for FY23E is expected to be Rs120-150mn. 5) Publishing volumes were 10-12% below pre-pandemic levels. Spillover expected in 2Q. 6) Publishing revenues expected to reach FY20 levels with 33-35% EBITDA margins in FY23E. 7) Implementation of NEP can lead to 15% growth on a steady state basis in publishing for 4-5 years. 8) Stationery segment to grow 12% over FY20 in FY23E and then at the rate of ~18-20% from FY24E. Margins to be maintained at 12-13%.

**Exhibit 1: Q1FY23 Standalone Result Overview (Rs mn)**

Y/e March	Q1FY23	Q1FY22	YoY gr (%)	Q4FY22	QoQ gr. (%)
<b>Net Sales</b>	<b>6,828</b>	<b>3,183</b>	<b>114.5</b>	<b>2,779</b>	<b>145.7</b>
<b>Expenditure</b>					
Raw Materials	3,440	1,651	108.4	1,285	167.7
<i>% of Net sales</i>	<i>50.4</i>	<i>51.9</i>		<i>46.2</i>	
Personnel	436	362	20.3	428	1.8
<i>% of Net sales</i>	<i>6.4</i>	<i>11.4</i>		<i>15.4</i>	
Selling, dist & Other Exp	884	553	59.8	660	33.9
<i>% of Net sales</i>	<i>12.9</i>	<i>17.4</i>		<i>23.7</i>	
Total Expenditure	4,759	2,566	85.5	2,373	100.5
<b>EBITDA</b>	<b>2,069</b>	<b>618</b>	<b>235.0</b>	<b>406</b>	<b>410.0</b>
<i>Margin (%)</i>	<i>30.3</i>	<i>19.4</i>		<i>14.6</i>	
Depreciation	80	80	0.4	83	(3.5)
<b>EBIT</b>	<b>1,988</b>	<b>538</b>	<b>269.9</b>	<b>323</b>	<b>516.6</b>
Interest	20	12	70.3	10	107.2
Other Income	47	69	(30.8)	26	82.3
<b>PBT</b>	<b>2,016</b>	<b>594</b>	<b>239.2</b>	<b>339</b>	<b>495.0</b>
Tax	519	149	248.2	90	474.8
<i>Tax Rate (%)</i>	<i>25.7</i>	<i>25.1</i>		<i>26.6</i>	
Share of profit/loss from associates	-	-		-	
<b>Adjusted PAT</b>	<b>1,497</b>	<b>445</b>	<b>236.1</b>	<b>249</b>	<b>502.3</b>
<b>Reported PAT</b>	<b>1,497</b>	<b>445</b>	<b>236.1</b>	<b>249</b>	<b>502</b>
<b>EPS</b>	<b>6.6</b>	<b>2.0</b>	<b>239.5</b>	<b>1.1</b>	<b>507.3</b>

Source: Company, PL

**Exhibit 2: Standalone segment revenue & EBIT table**

Y/e March (Rs mn)	Q1FY23	Q1FY22	YoY gr (%)	Q4FY22	QoQ gr. (%)
<b>Segment Revenue</b>					
Publishing Content	3,571	988	261.5	893	299.9
Stationery Products	3,247	2,184	48.7	1,878	72.9
Others	20	20	2.0	15	37.8
<b>Segment EBIT</b>					
Publishing Content	1,493	207	623.2	167	794.8
Stationery Products	636	443	43.5	270	135.7
Others	9	7	19.2	5	93.3
<b>EBIT Margin (%)</b>					
Publishing Content	41.8%	20.9%	2,091 bps	18.7%	2,313 bps
Stationery Products	19.6%	20.3%	(70)bps	14.4%	521 bps
Others	42.6%	36.5%	615 bps	30.4%	1,224 bps

Source: Company, PL

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

Particulars	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Publishing revenue	4,322	1,277	830	559	1,236	550	253	907	988	890	945	893	3,571
YoY growth	18.1%	-28.9%	-19.5%	-10.1%	-71.4%	-56.9%	-69.5%	62.3%	-20.1%	61.7%	273.2%	-1.5%	261.5%
As a % of sales	54.4%	51.8%	43.2%	27.0%	38.1%	34.5%	19.9%	47.6%	31.1%	39.1%	40.3%	32.2%	52.4%
Stationery revenue	3,625	1,187	1,092	1,510	2,008	1,046	1,017	996	2,184	1,385	1,400	1,878	3,247
YoY growth	19.5%	42.0%	39.5%	-17.5%	-44.6%	-11.8%	-6.9%	-34.0%	8.7%	32.4%	37.7%	88.5%	48.7%
As a % of sales	45.6%	48.2%	56.8%	73.0%	61.9%	65.5%	80.1%	52.4%	68.9%	60.9%	59.7%	67.8%	47.6%
<b>Total sales</b>	<b>7,947</b>	<b>2,463</b>	<b>1,922</b>	<b>2,068</b>	<b>3,244</b>	<b>1,597</b>	<b>1,270</b>	<b>1,903</b>	<b>3,171</b>	<b>2,275</b>	<b>2,344</b>	<b>2,771</b>	<b>6,818</b>

Source: Company, PL

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

Particulars	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Publishing EBIT margin	37.9%	20.1%	19.8%	2.4%	30.5%	2.4%	-70.5%	21.4%	20.9%	14.8%	20.4%	18.7%	41.8%
Stationery EBIT margin	21.8%	6.6%	7.4%	18.2%	19.3%	8.5%	14.3%	14.4%	20.3%	16.0%	14.2%	14.4%	19.6%

Source: Company, PL

**Exhibit 5: Snapshot of consolidated results**

Particulars	Q1FY23			Q1FY22		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
NEL	6,827.8	2,116.0	1,497.2	3,183.2	686.0	445.4
Esense	40.5	(70.5)	(89.1)	22.6	(19.2)	(50.2)
ILL	75.9	(22.5)	(41.9)	96.1	(15.9)	(34.6)
NHKL + NLLP	16.9	0.4	0.4	15.4	2.1	2.1
GeNext	0.1	(13.4)	(16.7)	-	-	-
NTVPL	-	-	-	-	-	-
K12	-	84.0	53.7	-	(23.2)	(43.6)
Carveniche Tech	-	(5.5)	(5.7)	-	-	-
Inter-segment	(23.8)	(14.6)	(12.3)	(38.8)	1.4	2.1
<b>Total</b>	<b>6,937.4</b>	<b>2,073.9</b>	<b>1,385.6</b>	<b>3,278.5</b>	<b>631.2</b>	<b>321.2</b>

Source: Company, PL

**Exhibit 6: Syllabus change schedule FY23**

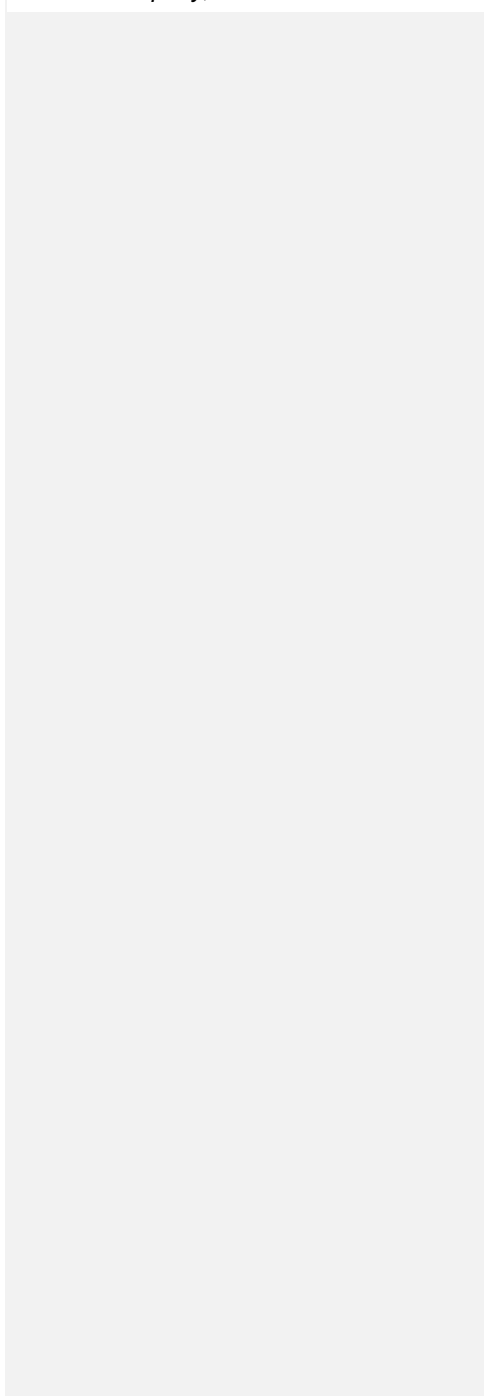
Academic Year	Maharashtra		Gujarat	
	Class	Subject	Class	Subject
2022-2023	1	All Subjects for Marathi & Urdu Medium	5	Gujarat (First Language, FL)
			4	Marigold (English, (FL)), RimJim (FL)
			6	Gujarati (Second Language)
			8	Social Science
			3	English

Source: Company, PL

**Exhibit 7: SOTP Valuation Table**

Particulars	Amount invested (Rs mn)	Valuation method	Multiple assigned (x)	Business valuation (Rs mn)	Per share value (Rs)	Comments
Core business (Printing + Stationary)	NA	P/E	12	31,209	138	We assign P/E multiple of 12x to our standalone PAT
Ed-Tech	1,473	Book value	1	1,473	7	Total amount includes SFA investment of Rs563mn. We value EdTech venture at 1x book value as business is in nascent stage.
K12	1,200	Third party benchmarking	NM	4,200	19	As per last funding round, NELI's 27% stake in K12 is valued at Rs6,000mn. We assign 30% discount to this value as the investment is illiquid in nature.
<b>SOTP value</b>				<b>36,882</b>	<b>163</b>	

Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>8,346</b>	<b>11,143</b>	<b>16,220</b>	<b>18,428</b>
YoY gr. (%)	(44.8)	33.5	45.6	13.6
Cost of Goods Sold	3,971	5,317	7,786	8,753
Gross Profit	4,375	5,826	8,435	9,675
Margin (%)	52.4	52.3	52.0	52.5
Employee Cost	1,642	1,839	1,990	2,173
Other Expenses	1,315	1,572	2,482	2,746
<b>EBITDA</b>	<b>870</b>	<b>1,626</b>	<b>2,860</b>	<b>3,466</b>
YoY gr. (%)	(72.2)	86.9	75.9	21.2
Margin (%)	10.4	14.6	17.6	18.8
Depreciation and Amortization	471	497	517	608
<b>EBIT</b>	<b>399</b>	<b>1,129</b>	<b>2,343</b>	<b>2,858</b>
Margin (%)	4.8	10.1	14.4	15.5
Net Interest	101	62	120	140
Other Income	137	188	230	230
<b>Profit Before Tax</b>	<b>434</b>	<b>1,255</b>	<b>2,453</b>	<b>2,948</b>
Margin (%)	5.2	11.3	15.1	16.0
Total Tax	328	599	618	743
Effective tax rate (%)	75.7	47.7	25.2	25.2
<b>Profit after tax</b>	<b>106</b>	<b>657</b>	<b>1,835</b>	<b>2,205</b>
Minority interest	0	(12)	0	0
Share Profit from Associate	28	(109)	-	-
<b>Adjusted PAT</b>	<b>134</b>	<b>560</b>	<b>1,835</b>	<b>2,205</b>
YoY gr. (%)	(93.2)	317.7	227.8	20.2
Margin (%)	1.6	5.0	11.3	12.0
Extra Ord. Income / (Exp)	425	752	-	-
<b>Reported PAT</b>	<b>559</b>	<b>1,312</b>	<b>1,835</b>	<b>2,205</b>
YoY gr. (%)	(71.6)	134.6	39.8	20.2
Margin (%)	6.7	11.8	11.3	12.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	559	1,312	1,835	2,205
<b>Equity Shares O/s (m)</b>	<b>229</b>	<b>226</b>	<b>226</b>	<b>226</b>
<b>EPS (Rs)</b>	<b>0.6</b>	<b>2.5</b>	<b>8.1</b>	<b>9.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>5,388</b>	<b>5,981</b>	<b>6,611</b>	<b>7,241</b>
Tangibles	4,547	4,928	5,528	6,128
Intangibles	841	1,053	1,083	1,113
<b>Acc: Dep / Amortization</b>	<b>3,489</b>	<b>3,919</b>	<b>4,501</b>	<b>5,176</b>
Tangibles	2,877	3,090	3,608	4,215
Intangibles	612	828	893	960
<b>Net fixed assets</b>	<b>2,173</b>	<b>2,246</b>	<b>2,294</b>	<b>2,249</b>
Tangibles	1,944	2,021	2,104	2,096
Intangibles	229	225	190	153
Capital Work In Progress	224	39	39	39
Goodwill	433	239	239	239
Non-Current Investments	1,640	2,456	2,850	2,872
Net Deferred tax assets	(24)	(170)	(170)	(170)
Other Non-Current Assets	97	110	112	113
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	4,156	4,696	5,777	6,816
Trade receivables	1,845	2,422	3,644	4,291
Cash & Bank Balance	244	293	300	560
Other Current Assets	690	592	651	748
<b>Total Assets</b>	<b>11,805</b>	<b>13,240</b>	<b>16,072</b>	<b>18,123</b>
<b>Equity</b>				
Equity Share Capital	458	452	452	452
Other Equity	8,847	9,583	11,014	12,690
<b>Total Networkth</b>	<b>9,305</b>	<b>10,035</b>	<b>11,466</b>	<b>13,142</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	220	119	119	119
Provisions	11	14	15	16
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	521	1,232	2,094	2,288
Trade payables	784	688	1,111	1,161
Other current liabilities	936	963	1,078	1,207
<b>Total Equity &amp; Liabilities</b>	<b>11,805</b>	<b>13,240</b>	<b>16,073</b>	<b>18,123</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	888	1,899	2,453	2,948
Add. Depreciation	471	497	517	608
Add. Interest	101	62	120	140
Less Financial Other Income	137	188	230	230
Add. Other	(345)	(660)	(138)	(138)
Op. profit before WC changes	1,115	1,798	2,952	3,558
Net Changes-WC	1,819	(1,291)	(1,826)	(1,606)
Direct tax	(255)	(446)	(568)	(693)
<b>Net cash from Op. activities</b>	<b>2,679</b>	<b>61</b>	<b>558</b>	<b>1,259</b>
Capital expenditures	(10,863)	(9,754)	(565)	(563)
Interest / Dividend Income	18	9	138	138
Others	10,443	9,504	(20)	(22)
<b>Net Cash from Inv. activities</b>	<b>(401)</b>	<b>(241)</b>	<b>(447)</b>	<b>(447)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	3,103	2,115	647	194
Dividend paid	-	-	(339)	(404)
Interest paid	(73)	(41)	(120)	(140)
Others	(5,171)	(1,865)	-	-
<b>Net cash from Fin. activities</b>	<b>(2,141)</b>	<b>209</b>	<b>187</b>	<b>(350)</b>
<b>Net change in cash</b>	<b>137</b>	<b>29</b>	<b>299</b>	<b>462</b>
Free Cash Flow	2,364	(321)	(7)	695

Source: Company Data, PL Research

**Key Financial Metrics**

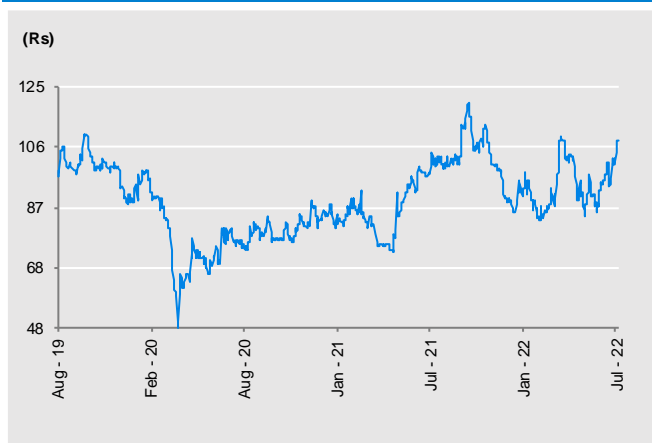
Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	0.6	2.5	8.1	9.7
CEPS	2.6	4.7	10.4	12.4
BVPS	40.7	44.4	50.7	58.1
FCF	10.3	(1.4)	0.0	3.1
DPS	1.0	1.5	1.8	2.3
<b>Return Ratio(%)</b>				
RoCE	5.0	12.3	20.5	21.1
ROIC	7.4	12.3	17.8	19.1
RoE	1.5	5.8	17.1	17.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.1	0.1	0.2	0.1
Net Working Capital (Days)	228	211	187	197
<b>Valuation(x)</b>				
PER	200.2	47.4	14.5	12.0
P/B	2.9	2.6	2.3	2.0
P/CEPS	44.3	25.1	11.3	9.4
EV/EBITDA	31.4	17.0	9.9	8.2
EV/Sales	3.3	2.5	1.8	1.5
Dividend Yield (%)	0.9	1.3	1.5	2.0

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Revenue</b>	<b>2,291</b>	<b>2,352</b>	<b>2,779</b>	<b>6,828</b>
YoY gr. (%)	43.2	84.7	45.7	114.5
Raw Material Expenses	1,090	1,100	1,285	3,440
Gross Profit	1,201	1,252	1,494	3,388
Margin (%)	52.4	53.2	53.8	49.6
<b>EBITDA</b>	<b>318</b>	<b>360</b>	<b>406</b>	<b>2,069</b>
YoY gr. (%)	246.5	NA	36.3	235.0
Margin (%)	13.9	15.3	14.6	30.3
Depreciation / Depletion	82	82	83	80
<b>EBIT</b>	<b>237</b>	<b>278</b>	<b>323</b>	<b>1,988</b>
Margin (%)	10.3	11.8	11.6	29.1
Net Interest	9	6	10	20
Other Income	79	28	26	47
<b>Profit before Tax</b>	<b>307</b>	<b>758</b>	<b>339</b>	<b>2,016</b>
Margin (%)	13.4	32.2	12.2	29.5
Total Tax	82	211	90	519
Effective tax rate (%)	26.6	27.8	26.6	25.7
<b>Profit after Tax</b>	<b>226</b>	<b>547</b>	<b>249</b>	<b>1,497</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>226</b>	<b>89</b>	<b>249</b>	<b>1,497</b>
YoY gr. (%)	893.4	NA	52.5	236.1
Margin (%)	9.8	3.8	8.9	21.9
Extra Ord. Income / (Exp)	-	458	-	-
<b>Reported PAT</b>	<b>226</b>	<b>547</b>	<b>249</b>	<b>1,497</b>
YoY gr. (%)	893.4	NA	52.5	236.1
Margin (%)	9.8	23.2	8.9	21.9
Other Comprehensive Income	(4)	18	(25)	(111)
<b>Total Comprehensive Income</b>	<b>222</b>	<b>565</b>	<b>224</b>	<b>1,387</b>
Avg. Shares O/s (m)	227	226	226	226
<b>EPS (Rs)</b>	<b>1.0</b>	<b>0.4</b>	<b>1.1</b>	<b>6.6</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	BUY	121	97
2	19-May-22	BUY	121	91
3	08-Apr-22	BUY	128	108
4	03-Feb-22	BUY	128	91
5	10-Jan-22	BUY	124	86
6	02-Nov-21	Accumulate	123	107
7	07-Oct-21	Accumulate	122	115
8	12-Aug-21	Accumulate	111	102

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Entertainment Network (India)	Hold	184	180
2	Indian Railway Catering and Tourism Corporation	Hold	648	583
3	Inox Leisure	BUY	668	523
4	Music Broadcast	Hold	24	23
5	Navneet Education	BUY	121	97
6	Nazara Technologies	BUY	911	636
7	PVR	BUY	2,330	1,915
8	S Chand and Company	BUY	156	115
9	Safari Industries (India)	BUY	1,288	931
10	V.I.P. Industries	BUY	857	650
11	Zee Entertainment Enterprises	BUY	358	223

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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