

November 11, 2022

Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	163		170	
Sales (Rs. m)	18,109	20,523	18,428	20,855
% Chng.	(1.7)	(1.6)		
EBITDA (Rs. m)	3,278	3,806	3,466	4,009
% Chng.	(5.4)	(5.1)		
EPS (Rs.)	8.8	10.3	9.7	11.3
% Chng.	(9.5)	(8.7)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	11,143	15,921	18,109	20,523
EBITDA (Rs. m)	1,626	2,785	3,278	3,806
Margin (%)	14.6	17.5	18.1	18.5
PAT (Rs. m)	560	1,643	1,994	2,332
EPS (Rs.)	2.5	7.3	8.8	10.3
Gr. (%)	322.6	193.6	21.4	16.9
DPS (Rs.)	1.5	1.6	2.1	2.5
Yield (%)	1.2	1.3	1.7	1.9
RoE (%)	5.8	15.4	16.5	17.0
RoCE (%)	12.3	19.8	20.1	20.6
EV/Sales (x)	2.7	1.9	1.7	1.5
EV/EBITDA (x)	18.3	11.0	9.4	8.0
PE (x)	51.3	17.5	14.4	12.3
P/BV (x)	2.9	2.5	2.2	2.0

Key Data

NAVN.BO | NELI IN

52-W High / Low	Rs.151 / Rs.81
Sensex / Nifty	61,795 / 18,350
Market Cap	Rs.29bn/ \$ 355m
Shares Outstanding	226m
3M Avg. Daily Value	Rs.118.71m

Shareholding Pattern (%)

Promoter's	63.31
Foreign	2.65
Domestic Institution	12.40
Public & Others	21.63
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.7)	42.0	13.8
Relative	(9.1)	24.3	10.4

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Rating: BUY | CMP: Rs127 | TP: Rs163

Subsidiary performance turns out to be a drag

Quick Pointers:

- Consolidated/Standalone PAT is expected to be at Rs1.6bn/Rs2.1bn respectively in FY23E.

NELI reported consolidated loss of Rs22mn due to rising losses in K12 business amid change in accounting policy relating to recognition of marketing expenses and higher tax outgo of Rs120mn since set off against losses incurred in subsidiaries was not availed. Performance of standalone business was broadly in-line with our expectations with revenues of Rs3,262mn (PLe of Rs3,132mn) and EBITDA margin of 15.9% (PLe 18.0%).

Post COVID, as NELI has intensified focus on Ed-Tech, losses will have to be seeded over the next 2-3 years. Consequently, we cut our consolidated EPS estimates by ~9-10% over FY23-FY25E. However, core business remains on strong footing with NEP implementation around the corner coupled with healthy traction in stationary exports which is expected to result in standalone PAT (excluding losses from EdTech and K12 Techno) CAGR of 13% over FY23-FY25E. We value NELI on SOTP basis given diversity in the business. Core publication and stationary segment is valued at 12x Sep24E EPS while we arrive at per share value of EdTech/K12 businesses at Rs9/Rs19 respectively. Retain BUY with a TP of Rs163.

Standalone sales increase 42.4% YoY: Standalone revenues increased 42.4% YoY to Rs3,262mn (PLe of Rs3,132mn). Publishing and stationery sales increased 49.5%/39% YoY to Rs1,331mn/Rs1,924mn respectively.

Standalone Gross/EBITDA margins at 49.5%/15.9%: Gross profit increased 34.4% YoY to Rs1,614mn with GM of 49.5% (PLe of 51.0%). Standalone EBITDA increased 63.1% YoY to Rs519mn (PLe of Rs564mn) with a margin of 15.9% (PLe of 18%) as compared to margin of 13.9%/30.3% in 2QFY22/1QFY23 respectively. Publishing and stationery EBIT margin was at 23.9% and 7.5% respectively.

Con-call highlights: 1) Publishing volumes are down ~14-15% over pre-pandemic base 2) Domestic stationary business to grow by ~15-17% (over pre-pandemic base) in FY23E 3) Stationary exports to grow by 15% YoY in FY23E 4) ILL is expected to be PAT positive in FY23E 5) Stationary EBIT margin was low at 7.5% as export orders are fixed price contracts and paper prices have been on a rise 6) K12 Techno is expected to add another 23 schools in FY24E 7) K12 business witnessed losses of Rs97mn in 2QFY23 due to change in accounting policy whereby marketing cost is now fully expensed in the year it is incurred versus earlier practice of capitalizing some portion of it on the BS 8) EdTech losses to be at ~Rs500mn in FY23E 9) EdTech business will take 2-3 years to breakeven 10) Additional fund raise is lined up in K12 business, subsequent to which NELI's stake can come down to ~21% odd 11) K12 Techno is expected to be profitable in FY23E 12) Tax expense was high at Rs120mn as set off from losses in subsidiaries was not available.

Exhibit 1: Q2FY23 Standalone Result Overview (Rs mn)

Y/e March	Q2FY23	Q2FY22	YoY gr (%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
Net Sales	3,262	2,291	42.4	6,828	(52.2)	10,089	5,474	84.3
Expenditure								
Raw Materials	1,648	1,090	51.2	3,440	(52.1)	5,087	2,740	85.7
<i>% of Net sales</i>	<i>50.5</i>	<i>47.6</i>		<i>50.4</i>		<i>50.4</i>	<i>50.1</i>	
Personnel	387	370	4.5	436	(11.3)	823	732	12.4
<i>% of Net sales</i>	<i>11.9</i>	<i>16.1</i>		<i>6.4</i>		<i>8.2</i>	<i>13.4</i>	
Selling , dist & Other Exp	708	513	38.0	884	(19.9)	1,591	1,066	49.3
<i>% of Net sales</i>	<i>21.7</i>	<i>22.4</i>		<i>12.9</i>		<i>15.8</i>	<i>19.5</i>	
Total Expenditure	2,742	1,973	39.0	4,759	(42.4)	7,501	4,538	65.3
EBITDA	519	318	63.1	2,069	(74.9)	2,588	936	176.5
<i>Margin (%)</i>	<i>15.9</i>	<i>13.9</i>		<i>30.3</i>		<i>25.7</i>	<i>17.1</i>	
Depreciation	109	82	32.8	80	35.3	189	162	16.8
EBIT	411	237	73.6	1,988	(79.3)	2,399	774	209.9
Interest	11	9	20.0	20	(46.3)	31	21	48.6
Other Income	37	79	(52.9)	47	(21.1)	85	148	(42.7)
PBT	438	307	42.5	2,016	(78.3)	2,453	901	172.2
Tax	120	82	47.2	519	(76.8)	639	231	177.0
<i>Tax Rate (%)</i>	<i>27.5</i>	<i>26.6</i>		<i>25.7</i>		<i>26.0</i>	<i>25.6</i>	
Share of profit/loss from associates	-	-		-		-	-	-
Adjusted PAT	317	226	40.8	1,497	(78.8)	1,815	671	170.5
Reported PAT	317	226	40.8	1,497	(79)	1,815	671	170.5
EPS	1.4	1.0	41.4	6.6	(78.9)	8.0	2.9	172.8

Source: Company, PL

Exhibit 2: Standalone segment revenue & EBIT table

Y/e March (Rs mn)	Q2FY23	Q2FY22	YoY gr (%)	Q1FY23	QoQ gr. (%)
Segment Revenue					
Publishing Content	1,331	890	49.5	3,571	(62.7)
Stationery Products	1,924	1,385	39.0	3,247	(40.7)
Others	17	22	(24.6)	20	(17.2)
Segment EBIT					
Publishing Content	318	132	141.0	1,493	(78.7)
Stationery Products	144	221	(34.8)	636	(77.3)
Others	7	10	(25.0)	9	(17.2)
EBIT Margin (%)					
Publishing Content	23.9%	14.8%	906 bps	41.8%	(1,795)bps
Stationery Products	7.5%	16.0%	(848)bps	19.6%	(1,209)bps
Others	42.6%	42.9%	(25)bps	42.6%	(4)bps

Source: Company, PL

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

Particulars	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Publishing revenue	1,277	830	559	1,236	550	253	907	988	890	945	893	3,571	1,331
YoY growth	-28.9%	-19.5%	-10.1%	-71.4%	-56.9%	-69.5%	62.3%	-20.1%	61.7%	273.2%	-1.5%	261.5%	49.5%
As a % of sales	51.8%	43.2%	27.0%	38.1%	34.5%	19.9%	47.6%	31.1%	39.1%	40.3%	32.2%	52.4%	40.9%
Stationery revenue	1,187	1,092	1,510	2,008	1,046	1,017	996	2,184	1,385	1,400	1,878	3,247	1,924
YoY growth	42.0%	39.5%	-17.5%	-44.6%	-11.8%	-6.9%	-34.0%	8.7%	32.4%	37.7%	88.5%	48.7%	39.0%
As a % of sales	48.2%	56.8%	73.0%	61.9%	65.5%	80.1%	52.4%	68.9%	60.9%	59.7%	67.8%	47.6%	59.1%
Total sales	2,463	1,922	2,068	3,244	1,597	1,270	1,903	3,171	2,275	2,344	2,771	6,818	3,255

Source: Company, PL

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

Particulars	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Publishing EBIT margin	20.1%	19.8%	2.4%	30.5%	2.4%	-70.5%	21.4%	20.9%	14.8%	20.4%	18.7%	41.8%	23.9%
Stationery EBIT margin	6.6%	7.4%	18.2%	19.3%	8.5%	14.3%	14.4%	20.3%	16.0%	14.2%	14.4%	19.6%	7.5%

Source: Company, PL

Exhibit 5: Snapshot of consolidated results

Particulars	H1FY23			H1FY22		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
NEL	10,089.4	2,672.8	1,814.6	5,474.1	1,083.8	670.9
Esense	65.5	(158.9)	(195.9)	50.4	(38.6)	(78.5)
ILL	87.3	(100.0)	(139.6)	111.9	(68.3)	(106.8)
NHKL + NLLP	23.0	0.7	0.7	23.4	0.2	0.2
GeNext	0.2	(40.7)	(47.4)	0.9	(7.4)	(10.3)
NTVPL	-	-	-	-	-	-
K12	-	26.8	(43.5)	-	(53.7)	(101.8)
Carveniche Tech	-	(10.2)	(10.1)	-	(0.3)	(0.4)
Inter-segment	(30.2)	(18.4)	(15.0)	(70.6)	(3.0)	(2.0)
Total	10,235.2	2,372.1	1,363.8	5,590.1	912.7	371.3

Source: Company, PL

Exhibit 6: Syllabus change schedule FY23

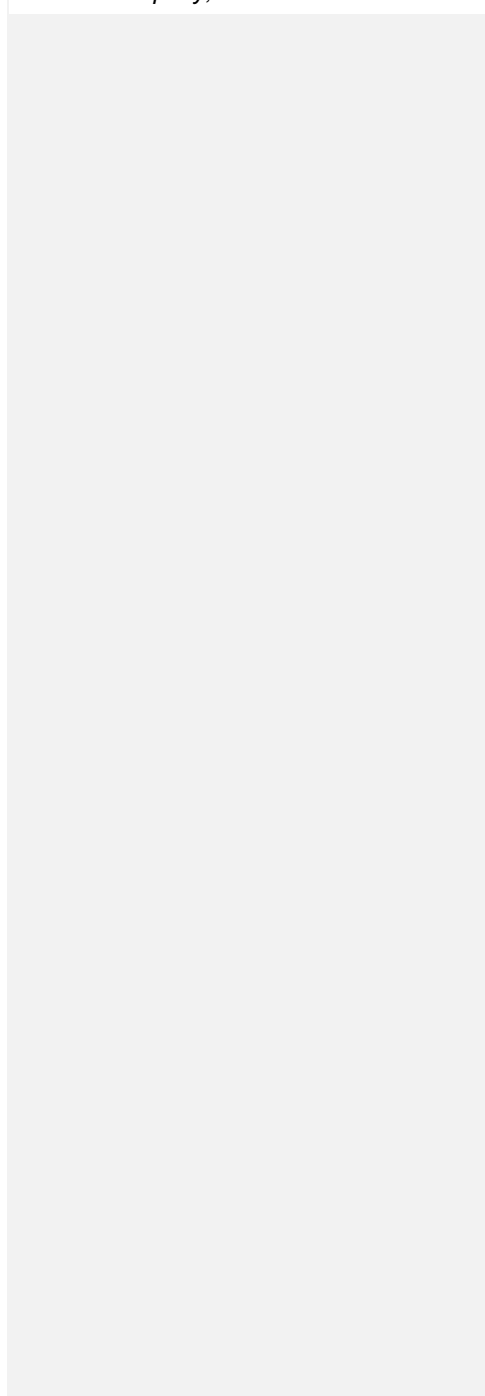
Academic Year	Maharashtra		Gujarat	
	Class	Subject	Class	Subject
2022-2023	1	All Subjects for Marathi & Urdu Medium	5	Gujarat (First Language, FL)
			4	Marigold (English, (FL)), RimJim (FL)
			6	Gujarati (Second Language)
			8	Social Science
			3	English

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	30,599	135	We assign P/E multiple of 12x to our standalone PAT
Ed-Tech	2,050	Book value	1	2,050	9	Total amount includes SFA investment. 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.
SOTP value				36,849	163	

Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	11,143	15,921	18,109	20,523
YoY gr. (%)	33.5	42.9	13.7	13.3
Cost of Goods Sold	5,317	7,722	8,693	9,851
Gross Profit	5,826	8,199	9,417	10,672
Margin (%)	52.3	51.5	52.0	52.0
Employee Cost	1,839	2,023	2,209	2,412
Other Expenses	1,572	2,309	2,698	3,058
EBITDA	1,626	2,785	3,278	3,806
YoY gr. (%)	86.9	71.3	17.7	16.1
Margin (%)	14.6	17.5	18.1	18.5
Depreciation and Amortization	497	517	608	674
EBIT	1,129	2,268	2,670	3,132
Margin (%)	10.1	14.2	14.7	15.3
Net Interest	62	120	140	160
Other Income	188	200	220	220
Profit Before Tax	1,255	2,348	2,750	3,192
Margin (%)	11.3	14.7	15.2	15.6
Total Tax	599	704	776	900
Effective tax rate (%)	47.7	30.0	28.2	28.2
Profit after tax	657	1,643	1,975	2,292
Minority interest	(12)	0	0	0
Share Profit from Associate	(109)	-	20	40
Adjusted PAT	560	1,643	1,994	2,332
YoY gr. (%)	317.7	193.6	21.4	16.9
Margin (%)	5.0	10.3	11.0	11.4
Extra Ord. Income / (Exp)	752	-	-	-
Reported PAT	1,312	1,643	1,994	2,332
YoY gr. (%)	134.6	25.3	21.4	16.9
Margin (%)	11.8	10.3	11.0	11.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,312	1,643	1,994	2,332
Equity Shares O/s (m)	226	226	226	226
EPS (Rs)	2.5	7.3	8.8	10.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	5,981	6,611	7,241	7,871
Tangibles	4,928	5,528	6,128	6,728
Intangibles	1,053	1,083	1,113	1,143
Acc: Dep / Amortization	3,919	4,501	5,176	5,918
Tangibles	3,090	3,608	4,215	4,889
Intangibles	828	893	960	1,029
Net fixed assets	2,246	2,294	2,249	2,136
Tangibles	2,021	2,104	2,096	2,022
Intangibles	225	190	153	115
Capital Work In Progress	39	39	39	39
Goodwill	239	239	239	239
Non-Current Investments	2,456	2,850	2,872	2,896
Net Deferred tax assets	(170)	(170)	(170)	(170)
Other Non-Current Assets	110	112	113	115
Current Assets				
Investments	-	-	-	-
Inventories	4,696	5,670	6,698	7,591
Trade receivables	2,422	3,577	4,217	5,061
Cash & Bank Balance	293	256	372	992
Other Current Assets	592	651	748	861
Total Assets	13,240	15,854	17,743	20,159
Equity				
Equity Share Capital	452	452	452	452
Other Equity	9,583	10,865	12,380	14,153
Total Network	10,035	11,317	12,833	14,605
Non-Current Liabilities				
Long Term borrowings	119	119	119	119
Provisions	14	15	16	17
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,232	2,058	2,250	2,599
Trade payables	688	1,090	1,141	1,293
Other current liabilities	963	1,066	1,195	1,336
Total Equity & Liabilities	13,240	15,854	17,743	20,159

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	1,899	2,348	2,750	3,192
Add. Depreciation	497	517	608	674
Add. Interest	62	120	140	160
Less Financial Other Income	188	200	220	220
Add. Other	(660)	(120)	(132)	(132)
Op. profit before WC changes	1,798	2,865	3,366	3,894
Net Changes-WC	(1,291)	(1,684)	(1,589)	(1,557)
Direct tax	(446)	(654)	(726)	(850)
Net cash from Op. activities	61	527	1,052	1,487
Capital expenditures	(9,754)	(565)	(563)	(561)
Interest / Dividend Income	9	120	132	132
Others	9,504	(20)	(22)	(24)
Net Cash from Invt. activities	(241)	(465)	(453)	(453)
Issue of share cap. / premium	-	-	-	-
Debt changes	2,115	610	193	348
Dividend paid	-	(339)	(362)	(479)
Interest paid	(41)	(120)	(140)	(160)
Others	(1,865)	-	-	-
Net cash from Fin. activities	209	150	(309)	(290)
Net change in cash	29	212	290	743
Free Cash Flow	(321)	(38)	488	926

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	2,352	2,779	6,828	3,262
YoY gr. (%)	84.7	45.7	114.5	42.4
Raw Material Expenses	1,100	1,285	3,440	1,648
Gross Profit	1,252	1,494	3,388	1,614
Margin (%)	53.2	53.8	49.6	49.5
EBITDA	360	406	2,069	519
YoY gr. (%)	(764.6)	36.3	235.0	63.1
Margin (%)	15.3	14.6	30.3	15.9
Depreciation / Depletion	82	83	80	109
EBIT	278	323	1,988	411
Margin (%)	11.8	11.6	29.1	12.6
Net Interest	6	10	20	11
Other Income	28	26	47	37
Profit before Tax	758	339	2,016	438
Margin (%)	32.2	12.2	29.5	13.4
Total Tax	211	90	519	120
Effective tax rate (%)	27.8	26.6	25.7	27.5
Profit after Tax	547	249	1,497	317
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	89	249	1,497	317
YoY gr. (%)	(217.0)	52.5	236.1	40.8
Margin (%)	3.8	8.9	21.9	9.7
Extra Ord. Income / (Exp)	458	-	-	-
Reported PAT	547	249	1,497	317
YoY gr. (%)	(820.4)	52.5	236.1	40.8
Margin (%)	23.2	8.9	21.9	9.7
Other Comprehensive Income	18	(25)	(111)	(35)
Total Comprehensive Income	565	224	1,387	283
Avg. Shares O/s (m)	226	226	226	226
EPS (Rs)	0.4	1.1	6.6	1.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	2.5	7.3	8.8	10.3
CEPS	4.7	9.6	11.5	13.3
BVPS	44.4	50.0	56.7	64.6
FCF	(1.4)	(0.2)	2.2	4.1
DPS	1.5	1.6	2.1	2.5
Return Ratio(%)				
RoCE	12.3	19.8	20.1	20.6
ROIC	12.3	17.6	18.5	18.9
RoE	5.8	15.4	16.5	17.0
Balance Sheet				
Net Debt : Equity (x)	0.1	0.2	0.2	0.1
Net Working Capital (Days)	211	187	197	202
Valuation(x)				
PER	51.3	17.5	14.4	12.3
P/B	2.9	2.5	2.2	2.0
P/CEPS	27.2	13.3	11.0	9.5
EV/EBITDA	18.3	11.0	9.4	8.0
EV/Sales	2.7	1.9	1.7	1.5
Dividend Yield (%)	1.2	1.3	1.7	1.9

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	170	130
2	03-Aug-22	BUY	163	117
3	07-Jul-22	BUY	121	97
4	19-May-22	BUY	121	91
5	08-Apr-22	BUY	128	108
6	03-Feb-22	BUY	128	91
7	10-Jan-22	BUY	124	86

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Entertainment Network (India)	Hold	189	163
2	Indian Railway Catering and Tourism Corporation	Hold	635	731
3	Inox Leisure	BUY	652	515
4	Music Broadcast	Hold	23	24
5	Navneet Education	BUY	170	130
6	Nazara Technologies	BUY	1,012	670
7	PVR	BUY	2,119	1,689
8	S Chand and Company	BUY	234	187
9	Safari Industries (India)	BUY	2,457	1,811
10	V.I.P. Industries	BUY	1,009	710
11	Zee Entertainment Enterprises	BUY	302	280

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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