

February 11, 2023

Q3FY23 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		BUY	
Target Price	148		163	
Sales (Rs. m)	18,338	20,668	18,109	20,523
% Chng.	1.3	0.7		
EBITDA (Rs. m)	2,883	3,420	3,278	3,806
% Chng.	(12.1)	(10.1)		
EPS (Rs.)	7.5	9.1	8.8	10.3
% Chng.	(14.9)	(12.2)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	11,143	16,058	18,338	20,668
EBITDA (Rs. m)	1,626	2,617	2,883	3,420
Margin (%)	14.6	16.3	15.7	16.5
PAT (Rs. m)	560	1,267	1,696	2,048
EPS (Rs.)	2.5	5.6	7.5	9.1
Gr. (%)	322.6	126.4	33.9	20.7
DPS (Rs.)	1.5	1.9	1.8	2.2
Yield (%)	1.4	1.8	1.7	2.1
RoE (%)	5.8	11.8	13.9	15.1
RoCE (%)	12.3	17.9	17.1	18.3
EV/Sales (x)	2.2	1.6	1.4	1.2
EV/EBITDA (x)	15.3	9.8	9.0	7.6
PE (x)	42.5	18.8	14.0	11.6
P/BV (x)	2.4	2.1	1.9	1.7

Key Data

NAVN.BO | NELI IN

52-W High / Low	Rs.151 / Rs.81
Sensex / Nifty	60,683 / 17,857
Market Cap	Rs.24bn/ \$ 288m
Shares Outstanding	226m
3M Avg. Daily Value	Rs.41.15m

Shareholding Pattern (%)

Promoter's	63.31
Foreign	3.10
Domestic Institution	12.04
Public & Others	21.54
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(10.2)	(18.1)	15.7
Relative	(11.0)	(20.6)	12.4

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Navneet Education (NELI IN)

Rating: ACCUMULATE | CMP: Rs105 | TP: Rs148

EdTech venture to drag profitability

Quick Pointers:

- EdTech opex to be in the band of Rs200-250mn per quarter.

We cut our FY24E/FY25E EPS estimates by 15%/12% and downgrade the stock to ACCUMULATE (earlier BUY) with a revised TP of Rs148 as 1) management commentary on widening EdTech losses and 2) persistent margin pressure in stationary division is likely to drag profitability. Navneet Education's (NELI) results were below our estimates with standalone EBITDA margin of 12.2% (PLe 18%) while PAT was aided by revaluation gain of Rs578mn arising from deemed disposal adjustment in K12 business. NELI's core publishing business is facing challenges amid slow migration of students from government to private schools post COVID while RM cost inflation has put stationary margins under pressure. Consequently, we cut our core business target P/E multiple to 10x (12x earlier). Further, we now value EdTech business at 0.8x BV (1x BV earlier) given widening losses (Rs700-750mn in FY24E) accompanied by long gestation timeline to achieve break even. We cut our rating to ACCUMULATE with a revised SOTP based TP of Rs148 after including per share value of EdTech/K12 businesses at Rs8/Rs19 respectively.

Standalone sales increase 10.2% YoY: Standalone revenues increased 10.2% YoY to Rs2,592mn (PLe of Rs2,629mn). Publishing sales decreased 9.0% YoY to Rs860mn while stationery sales increased 23.5% YoY to Rs1,729mn.

Standalone Gross/EBITDA margins at 51.2%/12.2%: Gross profit increased 6.0% YoY to Rs1,328mn with GM of 51.2% (PLe of 53.0%). Standalone EBITDA declined 12.2% YoY to Rs316mn (PLe of Rs473mn) with a margin of 12.2% (PLe of 18.0%) as compared to margin of 15.3%/15.9% in 3QFY22/2QFY23 respectively. Publishing/stationery EBIT margin stood at 31.1%/3.6% respectively. PAT declined 55.2% YoY to Rs245mn (PLe of Rs292mn) with a margin of 9.4% versus 23.2% in 3QFY22, aided by a one off gain of Rs63mn arising from sale of property.

Consolidated PAT aided by revaluation in K12 business: Consolidated PAT of Rs307mn (down 39.0% YoY) was aided by revaluation gain of Rs578mn in K12 business.

Con-call highlights: 1) Post-COVID, migration of students from government to private schools has been slow. 2) Stationary margin was low at 3.6% due to persistent RM cost inflation and inability to pass it on in exports market as contracts are fixed in nature. However, fresh negotiations are done and margins are likely to improve. 3) Price hike of 15-17% is taken in publishing business. 4) K12's business loss restatement is on account of ESOP accounting and change in policy of recognizing marketing expenditure (fully expensed now versus earlier practice of carrying it forward) 5) For TopTech, the target is to reach 40-45 schools (current base is 10-12 schools) 6) EdTech losses to be at ~Rs700-750mn in FY24E and possible fund raising will be explored in future. 7) NCF of K-2 has been announced.

Exhibit 1: Q3FY23 Standalone Result Overview (Rs mn)

Y/e March	Q3FY23	Q3FY22	YoY gr (%)	Q2FY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Net Sales	2,592	2,352	10.2	3,262	(20.5)	12,682	7,827	62.0
Expenditure								
Raw Materials	1,264	1,100	14.9	1,648	(23.3)	6,352	3,840	65.4
<i>% of Net sales</i>	<i>48.8</i>	<i>46.8</i>		<i>50.5</i>		<i>50.1</i>	<i>49.1</i>	
Personnel	470	388	20.9	387	21.5	1,292	1,121	15.3
<i>% of Net sales</i>	<i>18.1</i>	<i>16.5</i>		<i>11.9</i>		<i>10.2</i>	<i>14.3</i>	
Selling , dist & Other Exp	542	504	7.6	708	(23.4)	2,134	1,570	35.9
<i>% of Net sales</i>	<i>20.9</i>	<i>21.4</i>		<i>21.7</i>		<i>16.8</i>	<i>20.1</i>	
Total Expenditure	2,276	1,992	14.3	2,742	(17.0)	9,778	6,530	49.7
EBITDA	316	360	(12.2)	519	(39.1)	2,904	1,296	124.1
<i>Margin (%)</i>	<i>12.2</i>	<i>15.3</i>		<i>15.9</i>		<i>22.9</i>	<i>16.6</i>	
Depreciation	84	82	1.7	109	(22.9)	7,020	244	2,778.2
EBIT	233	278	(16.3)	411	(43.4)	(4,116)	1,052	NM
Interest	19	6	195.2	11	72.2	50	27	82.7
Other Income	36	28	27.9	37	(4.3)	121	176	(31.4)
PBT	313	758	(58.7)	438	(28.5)	2,766	1,659	66.7
Tax	68	211	(67.6)	120	(43.1)	707	441	60.2
<i>Tax Rate (%)</i>	<i>21.8</i>	<i>27.8</i>		<i>27.5</i>		<i>25.6</i>	<i>26.6</i>	
Share of profit/loss from associates	-	-		-		-	-	-
Adjusted PAT	181	89	104.3	317	(42.8)	1,996	760	162.7
Reported PAT	245	547	(55.2)	317	(23)	2,059	1,218	69.1
EPS	1.1	2.4	(55.0)	1.4	(22.9)	9.1	5.3	70.4

Source: Company, PL

Exhibit 2: Standalone stationary margin at 3.6% due to persistent RM cost inflation

Y/e March (Rs mn)	Q3FY23	Q3FY22	YoY gr (%)	Q2FY23	QoQ gr (%)
Segment Revenue					
Publishing Content	860	945	(9.0)	1,331	(35.4)
Stationery Products	1,729	1,400	23.5	1,924	(10.1)
Others	10	14	(27.5)	17	(39.1)
Segment EBIT					
Publishing Content	267	193	38.8	318	(15.9)
Stationery Products	62	199	(68.7)	144	(56.8)
Others	3	5	(32.6)	7	(56.9)
EBIT Margin (%)					
Publishing Content	31.1%	20.4%	1,070 bps	23.9%	721 bps
Stationery Products	3.6%	14.2%	(1,058)bps	7.5%	(389)bps
Others	30.1%	32.4%	(230)bps	42.6%	(1,251)bps

Source: Company, PL

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

Particulars	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Publishing revenue	830	559	1,236	550	253	907	988	890	945	893	3,571	1,331	860
YoY growth	-19.5%	-10.1%	-71.4%	-56.9%	-69.5%	62.3%	-20.1%	61.7%	273.2%	-1.5%	261.5%	49.5%	-9.0%
As a % of sales	43.2%	27.0%	38.1%	34.5%	19.9%	47.6%	31.1%	39.1%	40.3%	32.2%	52.4%	40.9%	33.2%
Stationery revenue	1,092	1,510	2,008	1,046	1,017	996	2,184	1,385	1,400	1,878	3,247	1,924	1,729
YoY growth	39.5%	-17.5%	-44.6%	-11.8%	-6.9%	-34.0%	8.7%	32.4%	37.7%	88.5%	48.7%	39.0%	23.5%
As a % of sales	56.8%	73.0%	61.9%	65.5%	80.1%	52.4%	68.9%	60.9%	59.7%	67.8%	47.6%	59.1%	66.8%
Total sales	1,922	2,068	3,244	1,597	1,270	1,903	3,171	2,275	2,344	2,771	6,818	3,255	2,589

Source: Company, PL

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

Particulars	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Publishing EBIT margin	19.8%	2.4%	30.5%	2.4%	-70.5%	21.4%	20.9%	14.8%	20.4%	18.7%	41.8%	23.9%	31.1%
Stationery EBIT margin	7.4%	18.2%	19.3%	8.5%	14.3%	14.4%	20.3%	16.0%	14.2%	14.4%	19.6%	7.5%	3.6%

Source: Company, PL

Exhibit 5: Prior period K12 losses for 9MFY22 have expanded due to restatements

Particulars	9MFY23			9MFY22		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
NEL	12,681.8	3,024.8	1,995.9	7,826.5	1,471.9	1,217.6
Esense	85.6	(259.9)	(330.4)	66.2	(63.6)	(113.5)
ILL	125.0	(186.9)	(246.5)	79.1	(218.7)	(278.1)
NHKL + NLLP	40.4	1.4	1.4	42.1	0.2	0.2
GeNext	0.5	(69.8)	(80.5)	2.0	(11.5)	(17.3)
NTVPL	-	-	-	-	-	-
K12	-	108.1	(8.4)	-	(539.9)	(610.9)
Carveniche Tech	-	(15.2)	(15.9)	-	(3.9)	(4.1)
Inter-segment	(55.2)	(22.5)	(148.3)	(93.9)	(11.1)	(82.8)
Exceptional Item	-	-	640.9	-	-	330.0
Total	12,878.1	2,580.0	1,808.2	7,922.0	623.4	441.1

Source: Company, PL

Exhibit 6: Syllabus change schedule FY23E

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 – Core business valued at 10x; while combined per share value of subs is Rs27

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	10	27,352	121	We assign P/E multiple of 10x to our standalone PAT
Ed-Tech	2,370	Book value	0.8	1,896	8	Total amount includes SFA investment. We value EdTech venture at 0.8x book value as the business is competitive and losses will have to be seeded for 2-3 years.
K12	1,186	Third party benchmarking	NM	4,186	19	As per last funding round, NELI's 22% stake in K12 is valued at Rs6,440mn. We assign 35% discount to this value as the investment is illiquid in nature.
SOTP value				33,434	148	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	11,143	16,058	18,338	20,668
YoY gr. (%)	33.5	44.1	14.2	12.7
Cost of Goods Sold	5,317	7,868	8,986	10,024
Gross Profit	5,826	8,190	9,352	10,644
Margin (%)	52.3	51.0	51.0	51.5
Employee Cost	1,839	2,280	2,509	2,759
Other Expenses	1,572	2,248	2,751	3,100
EBITDA	1,626	2,617	2,883	3,420
YoY gr. (%)	86.9	60.9	10.2	18.6
Margin (%)	14.6	16.3	15.7	16.5
Depreciation and Amortization	497	517	608	674
EBIT	1,129	2,100	2,275	2,746
Margin (%)	10.1	13.1	12.4	13.3
Net Interest	62	120	140	160
Other Income	188	150	200	210
Profit Before Tax	1,255	2,130	2,335	2,796
Margin (%)	11.3	13.3	12.7	13.5
Total Tax	599	863	658	789
Effective tax rate (%)	47.7	40.5	28.2	28.2
Profit after tax	657	1,267	1,676	2,008
Minority interest	(12)	0	0	0
Share Profit from Associate	(109)	-	20	40
Adjusted PAT	560	1,267	1,696	2,048
YoY gr. (%)	317.7	126.4	33.9	20.7
Margin (%)	5.0	7.9	9.3	9.9
Extra Ord. Income / (Exp)	752	641	-	-
Reported PAT	1,312	1,908	1,696	2,048
YoY gr. (%)	134.6	45.4	(11.1)	20.7
Margin (%)	11.8	11.9	9.3	9.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,312	1,908	1,696	2,048
Equity Shares O/s (m)	226	226	226	226
EPS (Rs)	2.5	5.6	7.5	9.1

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	5,719	6,783	7,644
Trade receivables	2,422	3,608	4,271	5,096
Cash & Bank Balance	293	415	265	699
Other Current Assets	592	651	748	861
Total Assets	13,240	16,093	17,774	19,955
Equity				
Equity Share Capital	452	452	452	452
Other Equity	9,583	11,071	12,360	13,917
Total Network	10,035	11,524	12,813	14,369
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	2,074	2,277	2,616
Trade payables	688	1,100	1,156	1,302
Other current liabilities	963	1,072	1,204	1,342
Total Equity & Liabilities	13,240	16,092	17,774	19,955

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	1,899	2,130	2,335	2,796
Add. Depreciation	497	517	608	674
Add. Interest	62	120	140	160
Less Financial Other Income	188	150	200	210
Add. Other	(660)	(90)	(120)	(126)
Op. profit before WC changes	1,798	2,677	2,963	3,504
Net Changes-WC	(1,291)	(1,749)	(1,638)	(1,517)
Direct tax	(446)	(813)	(608)	(739)
Net cash from Op. activities	61	116	716	1,249
Capital expenditures	(9,754)	(565)	(563)	(561)
Interest / Dividend Income	9	90	120	126
Others	9,504	(20)	(22)	(24)
Net Cash from Invt. activities	(241)	(495)	(465)	(459)
Issue of share cap. / premium	-	-	-	-
Debt changes	2,115	627	203	339
Dividend paid	-	(339)	(420)	(407)
Interest paid	(41)	(120)	(140)	(160)
Others	(1,865)	-	-	-
Net cash from Fin. activities	209	167	(357)	(228)
Net change in cash	29	(212)	(106)	561
Free Cash Flow	(321)	(449)	153	687

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	2,779	6,828	3,262	2,592
YoY gr. (%)	45.7	114.5	42.4	10.2
Raw Material Expenses	1,285	3,440	1,648	1,264
Gross Profit	1,494	3,388	1,614	1,328
Margin (%)	53.8	49.6	49.5	51.2
EBITDA	406	2,069	519	316
YoY gr. (%)	36.3	235.0	63.1	(12.2)
Margin (%)	14.6	30.3	15.9	12.2
Depreciation / Depletion	83	80	109	84
EBIT	323	1,988	411	233
Margin (%)	11.6	29.1	12.6	9.0
Net Interest	10	20	11	19
Other Income	26	47	37	36
Profit before Tax	339	2,016	438	313
Margin (%)	12.2	29.5	13.4	12.1
Total Tax	90	519	120	68
Effective tax rate (%)	26.6	25.7	27.5	21.8
Profit after Tax	249	1,497	317	245
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	249	1,497	317	181
YoY gr. (%)	52.5	236.1	40.8	104.3
Margin (%)	8.9	21.9	9.7	7.0
Extra Ord. Income / (Exp)	-	-	-	63
Reported PAT	249	1,497	317	245
YoY gr. (%)	52.5	236.1	40.8	(55.2)
Margin (%)	8.9	21.9	9.7	9.4
Other Comprehensive Income	(25)	(111)	(35)	71
Total Comprehensive Income	224	1,387	283	315
Avg. Shares O/s (m)	226	226	226	226
EPS (Rs)	1.1	6.6	1.4	0.8

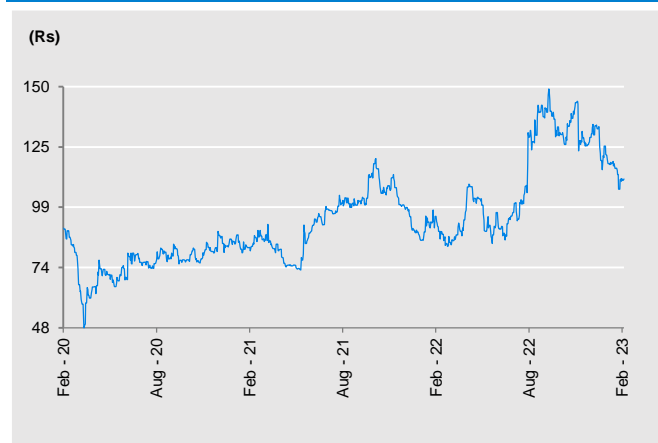
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	2.5	5.6	7.5	9.1
CEPS	4.7	7.9	10.2	12.0
BVPS	44.4	50.9	56.6	63.5
FCF	(1.4)	(2.0)	0.7	3.0
DPS	1.5	1.9	1.8	2.2
Return Ratio(%)				
RoCE	12.3	17.9	17.1	18.3
ROIC	12.3	16.3	16.2	17.1
RoE	5.8	11.8	13.9	15.1
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	42.5	18.8	14.0	11.6
P/B	2.4	2.1	1.9	1.7
P/CEPS	22.5	13.3	10.3	8.7
EV/EBITDA	15.3	9.8	9.0	7.6
EV/Sales	2.2	1.6	1.4	1.2
Dividend Yield (%)	1.4	1.8	1.7	2.1

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	BUY	163	117
2	11-Nov-22	BUY	163	127
3	06-Oct-22	BUY	170	130
4	03-Aug-22	BUY	163	117
5	07-Jul-22	BUY	121	97
6	19-May-22	BUY	121	91
7	08-Apr-22	BUY	128	108

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	474	357
2	Entertainment Network (India)	Hold	189	149
3	Indian Railway Catering and Tourism Corporation	Hold	679	636
4	Inox Leisure	BUY	587	502
5	Music Broadcast	Hold	23	27
6	Navneet Education	BUY	163	117
7	Nazara Technologies	BUY	898	592
8	PVR	BUY	1,983	1,678
9	S Chand and Company	BUY	220	173
10	Safari Industries (India)	BUY	2,553	1,889
11	V.I.P. Industries	BUY	1,014	700
12	Zee Entertainment Enterprises	BUY	309	238

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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