

May 18, 2023

Q4FY23 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		ACCUMULATE	
Target Price	152		147	
Sales (Rs. m)	19,053	21,073	18,290	20,414
% Chng.	4.2	3.2		
EBITDA (Rs. m)	3,391	3,829	2,869	3,344
% Chng.	18.2	14.5		
EPS (Rs.)	8.3	9.5	7.5	8.8
% Chng.	12.0	8.0		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	11,143	16,968	19,053	21,073
EBITDA (Rs. m)	1,626	2,980	3,391	3,829
Margin (%)	14.6	17.6	17.8	18.2
PAT (Rs. m)	(32)	1,405	1,888	2,153
EPS (Rs.)	(0.1)	6.2	8.3	9.5
Gr. (%)	NA	NA	34.4	14.0
DPS (Rs.)	1.5	2.6	2.0	2.3
Yield (%)	1.3	2.3	1.8	2.0
RoE (%)	NA	13.0	15.5	15.7
RoCE (%)	12.3	19.8	19.3	20.0
EV/Sales (x)	2.4	1.7	1.5	1.3
EV/EBITDA (x)	16.4	9.5	8.2	7.1
PE (x)	NA	18.2	13.5	11.9
P/BV (x)	2.5	2.2	2.0	1.8

Key Data

NAVN.BO | NELI IN

52-W High / Low	Rs.151 / Rs.82
Sensex / Nifty	61,561 / 18,182
Market Cap	Rs.26bn / \$ 310m
Shares Outstanding	226m
3M Avg. Daily Value	Rs.34.27m

Shareholding Pattern (%)

Promoter's	63.31
Foreign	3.42
Domestic Institution	11.28
Public & Others	21.98
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.3	(13.9)	21.7
Relative	(1.4)	(13.6)	7.4

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Navneet Education (NELI IN)

Rating: BUY | CMP: Rs113 | TP: Rs152

EdTech aggression constrained

Quick Pointers:

- After being in single digit for 2 quarters, stationary EBIT margin witnessed a sharp swing to 13.2%.
- ILL business finally manages to break-even in FY23.

We increase our FY24E/FY25E EPS estimates by 12%/8% and upgrade our rating from Accumulate to 'BUY' given 1) re-alignment in growth assumptions for publishing business amid expected fillip in volumes, as students have started returning back to private schools from government schools post-COVID 2) constrained aggression in Ed-Tech business (discontinued a B2C product amid non-viability in operations) and 3) sharp swing in stationary EBIT margin. Navneet Education's (NELI) results were above our estimates with consolidated EBITDA margin of 14.6% (PLe 9.6%) driven by sharp recovery in stationary segment. Turnaround in Indiannica (ILL) business (managed to achieve break-even in FY23) and decision to discontinue LeapBridge, a B2C Ed-Tech product, is likely to provide earnings cushion. We expect sales/PAT CAGR of 11%/24% over FY23-FY25E and upgrade to BUY with a TP of Rs152 after including per share value of EdTech/K12 businesses at Rs9/Rs19 respectively.

Consolidated sales increase 27% YoY: Consolidated revenues increased 27% YoY to Rs4,090mn (PLe of Rs3,522mn). Publishing sales increased 14% YoY to Rs1,497mn, while stationery sales increased 37% YoY to Rs2,571mn.

Consolidated Gross/EBITDA margins at 50.3%/14.6%: Gross profit increased 13% YoY to Rs2,058mn with GM of 50.3% (PLe of 54.3%). Consolidated EBITDA declined 5% YoY to Rs598mn (PLe of Rs339mn) with a margin of 14.6% (PLe of 9.6%) as compared to margin of 19.5%/3.9% in 4QFY22/3QFY23 respectively. Publishing/stationery EBIT margin stood at 26%/13% respectively, while EdTech business reported an EBIT loss of Rs232mn.

Consolidated PAT declines 24% YoY: Consolidated PAT declined 24% YoY to Rs229mn (PLe of Rs140mn) with a margin of 6% vs 9% in 4QFY22.

Con-call highlights: 1) Rs155mn was incurred to develop LeapBridge, a B2C product, that has been discontinued. Out of 57 employees that were engaged on the product, 7 have been retained. 2) BeMasterly, a B2B, tutoring product has been launched in the month of April. 3) Funding requirement for EdTech business is in the region of Rs500-600mn. 4) ILL business is expected to grow by 15-20% YoY with a peak margin potential of 25%. 5) There has been a provision reversal of Rs240mn on ILL business. 6) Price hike in publication/domestic stationary/exports stationary was 17%/8%/NIL respectively. 7) At the blended level, EBITDA margin is likely to remain at ~21% odd levels. 8) Publication business is expected to grow by 20% in FY24E as students that had migrated from private schools to government schools during COVID time have staged a come-back.

Exhibit 1: Q4FY23 Consolidated Result Overview (Rs mn)

Y/e March	Q4FY23	Q4FY22	YoY gr (%)	Q3FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Net Sales	4,090	3,221	27.0	2,643	54.8	16,968	11,143	52.3
Expenditure								
Raw Materials	2,032	1,404	44.7	1,303	56.0	8,459	5,317	59.1
% of Net sales	49.7	43.6		49.3		49.9	47.7	
Personnel	649	496	30.8	611	6.2	2,322	1,839	26.2
% of Net sales	15.9	15.4		23.1		13.7	16.5	
Selling , dist & Other Exp	812	693	17.2	626	29.5	3,207	2,361	35.9
% of Net sales	19.8	21.5		23.7		18.9	21.2	
Total Expenditure	3,492	2,593	34.7	2,540	37.5	13,988	9,517	47.0
EBITDA	598	629	(4.9)	103	479.8	2,980	1,626	83.3
Margin (%)	14.6	19.5		3.9		17.6	14.6	
Depreciation	197	160	22.9	131	50.7	581	497	16.9
EBIT	401	468	(14.4)	(28)	NM	2,399	1,129	112.4
Interest	44	15	190.1	26	70.3	116	62	86.8
Other Income	43	19	128.5	29	46.6	147	188	(21.6)
PBT	399	472	(15.3)	616	(35.2)	2,430	1,255	93.6
Tax	103	91	12.4	201	(49.0)	942	607	55.3
Tax Rate (%)	25.7	19.4		32.6		30.7	29.7	
Share of profit/loss from associates	(67)	(78)		(108)		(92)	(693)	NM
Adjusted PAT	229	303	(24.2)	(334)	NM	1,405	(32)	NM
Reported PAT	229	303	(24.2)	307	(25)	2,045	756	170.7
EPS	1.0	1.4	(25.2)	1.4	(25.7)	9.0	5.8	56.7

Source: Company, PL

Exhibit 2: Consolidated stationary margin at 13.2%

Y/e March (Rs mn)	Q4FY23	Q4FY22	YoY gr (%)	Q3FY23	QoQ gr (%)
Segment Revenue					
Publishing Content	1,497	1,315	13.8	891	68.0
Stationery Products	2,571	1,878	36.9	1,729	48.7
Others	12	15	(17.7)	11	14.2
Ed-Tech	20	20	2.0	19	6.9
Segment EBIT					
Publishing Content	389	388	0.1	166	133.7
Stationery Products	339	269	25.7	64	432.5
Others	7	5	38.3	4	80.6
Ed-Tech	(232)	(85)	NM	(171)	NM
EBIT Margin					
Publishing Content	26.0%	29.5%	(355)bps	18.7%	731 bps
Stationery Products	13.2%	14.3%	(117)bps	3.7%	950 bps
Others	53.7%	32.0%	2,175 bps	34.0%	1,976 bps
Ed-Tech	NM	NM	NM	NM	NM

Source: Company, PL

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

Particulars	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Publishing revenue	559	1,236	550	253	907	988	890	945	893	3,571	1,331	860	1,022
YoY growth	-10.1%	-71.4%	-56.9%	-69.5%	62.3%	-20.1%	61.7%	273.2%	-1.5%	261.5%	49.5%	-9.0%	14.4%
As a % of sales	27.0%	38.1%	34.5%	19.9%	47.6%	31.1%	39.1%	40.3%	32.2%	52.4%	40.9%	33.2%	28.4%
Stationery revenue	1,510	2,008	1,046	1,017	996	2,184	1,385	1,400	1,878	3,247	1,924	1,729	2,571
YoY growth	-17.5%	-44.6%	-11.8%	-6.9%	-34.0%	8.7%	32.4%	37.7%	88.5%	48.7%	39.0%	23.5%	36.9%
As a % of sales	73.0%	61.9%	65.5%	80.1%	52.4%	68.9%	60.9%	59.7%	67.8%	47.6%	59.1%	66.8%	71.6%
Total sales	2,068	3,244	1,597	1,270	1,903	3,171	2,275	2,344	2,771	6,818	3,255	2,589	3,592

Source: Company, PL

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

Particulars	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Publishing EBIT margin	2.4%	30.5%	2.4%	-70.5%	21.4%	20.9%	14.8%	20.4%	18.7%	41.8%	23.9%	31.1%	14.1%
Stationery EBIT margin	18.2%	19.3%	8.5%	14.3%	14.4%	20.3%	16.0%	14.2%	14.4%	19.6%	7.5%	3.6%	13.2%

Source: Company, PL

Exhibit 5: ILL achieves break-even in FY23

Particulars (Rs mn)	FY23			FY22		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
NEL	16,277.0	3,542.0	2,290.0	10,605.0	1,903.0	973.0
Esense	115.0	(325.0)	(471.0)	105.0	(78.0)	(191.0)
ILL	652.0	86.0	3.0	546.0	19.0	(59.0)
NHKL + NLLP	66.0	1.0	1.0	52.0	0.1	0.1
GeNext	1.0	(93.0)	(122.0)	4.0	(16.0)	(25.0)
NTVPL	-	(0.1)	(0.2)	-	(4.0)	(5.0)
K12	-	113.0	(72.0)	-	(634.0)	(685.0)
Carveniche Tech	-	(19.0)	(19.0)	-	(8.0)	(8.0)
Inter-segment	(142.0)	(84.0)	(443.0)	(169.0)	(10.0)	(78.0)
Exceptional Item	-	-	1,260.0	-	-	788.0
Total	16,969.0	3,220.9	2,426.8	11,143.0	1,172.1	710.1

Source: Company, PL

Exhibit 6: SOTP Valuation Table – Core business valued at 10x; while combined per share value of subs is Rs28

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	28,141	124	We assign P/E multiple of 10x to our standalone PAT
Ed-Tech	2,620	Book value	0.8	2,096	9	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				34,423	152	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	11,143	16,968	19,053	21,073
YoY gr. (%)	33.5	52.3	12.3	10.6
Cost of Goods Sold	5,317	8,459	9,336	10,220
Gross Profit	5,826	8,509	9,717	10,853
Margin (%)	52.3	50.1	51.0	51.5
Employee Cost	1,839	2,322	2,554	2,809
Other Expenses	1,572	2,128	2,515	2,824
EBITDA	1,626	2,980	3,391	3,829
YoY gr. (%)	86.9	83.3	13.8	12.9
Margin (%)	14.6	17.6	17.8	18.2
Depreciation and Amortization	497	581	653	725
EBIT	1,129	2,399	2,738	3,104
Margin (%)	10.1	14.1	14.4	14.7
Net Interest	62	116	140	160
Other Income	188	147	160	180
Profit Before Tax	1,255	2,430	2,758	3,124
Margin (%)	11.3	14.3	14.5	14.8
Total Tax	607	942	778	881
Effective tax rate (%)	48.3	38.8	28.2	28.2
Profit after tax	648	1,488	1,980	2,243
Minority interest	(12)	(8)	0	0
Share Profit from Associate	(693)	(92)	(92)	(90)
Adjusted PAT	(32)	1,405	1,888	2,153
YoY gr. (%)	NA	NA	34.4	14.0
Margin (%)	(0.3)	8.3	9.9	10.2
Extra Ord. Income / (Exp)	788	641	-	-
Reported PAT	756	2,045	1,888	2,153
YoY gr. (%)	35.1	170.7	(7.7)	14.0
Margin (%)	6.8	12.1	9.9	10.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	756	2,045	1,888	2,153
Equity Shares O/s (m)	226	226	226	226
EPS (Rs)	(0.1)	6.2	8.3	9.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	5,981	6,637	7,154	7,784
Tangibles	4,928	5,440	6,040	6,640
Intangibles	1,053	1,196	1,113	1,143
Acc: Dep / Amortization	3,919	4,564	5,284	6,077
Tangibles	3,090	3,671	4,324	5,049
Intangibles	828	893	960	1,029
Net fixed assets	2,246	2,166	1,963	1,799
Tangibles	2,021	1,862	1,809	1,685
Intangibles	225	303	153	115
Capital Work In Progress	39	74	74	74
Goodwill	239	239	239	239
Non-Current Investments	2,456	3,258	3,277	3,299
Net Deferred tax assets	(170)	(375)	(375)	(375)
Other Non-Current Assets	110	284	296	309
Current Assets				
Investments	-	-	-	-
Inventories	4,696	6,247	7,047	7,794
Trade receivables	2,422	3,314	3,915	4,619
Cash & Bank Balance	293	275	537	972
Other Current Assets	592	457	526	605
Total Assets	13,240	16,565	18,172	20,062
Equity				
Equity Share Capital	452	452	452	452
Other Equity	9,583	11,051	12,486	14,122
Total Networkth	10,035	11,503	12,938	14,574
Non-Current Liabilities				
Long Term borrowings	119	4	4	4
Provisions	14	11	12	12
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,232	2,875	2,670	2,653
Trade payables	688	645	731	866
Other current liabilities	963	1,122	1,410	1,546
Total Equity & Liabilities	13,240	16,565	18,171	20,063

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	1,899	2,980	2,758	3,124
Add. Depreciation	497	581	653	725
Add. Interest	62	116	140	160
Less Financial Other Income	188	147	160	180
Add. Other	(660)	(588)	(96)	(108)
Op. profit before WC changes	1,798	3,089	3,455	3,901
Net Changes-WC	(1,291)	(2,638)	(1,108)	(1,272)
Direct tax	(446)	(667)	(728)	(831)
Net cash from Op. activities	61	(216)	1,619	1,798
Capital expenditures	(9,754)	(10,816)	(450)	(561)
Interest / Dividend Income	9	16	96	108
Others	9,504	9,940	(19)	(21)
Net Cash from Invt. activities	(241)	(860)	(373)	(475)
Issue of share cap. / premium	-	-	-	-
Debt changes	2,115	5,912	(204)	(18)
Dividend paid	-	(342)	(588)	(453)
Interest paid	(41)	(101)	(140)	(160)
Others	(1,865)	(4,458)	-	-
Net cash from Fin. activities	209	1,011	(932)	(631)
Net change in cash	29	(64)	313	693
Free Cash Flow	(321)	(725)	1,169	1,237

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	6,937	3,298	2,643	4,090
YoY gr. (%)	111.6	42.7	13.3	27.0
Raw Material Expenses	3,460	1,664	1,303	2,032
Gross Profit	3,477	1,634	1,340	2,058
Margin (%)	50.1	49.5	50.7	50.3
EBITDA	1,953	326	103	598
YoY gr. (%)	232.6	40.5	(42.2)	(4.9)
Margin (%)	28.2	9.9	3.9	14.6
Depreciation / Depletion	112	141	131	197
EBIT	1,841	185	(28)	401
Margin (%)	26.5	5.6	(1.0)	9.8
Net Interest	28	19	26	44
Other Income	42	34	29	43
Profit before Tax	1,856	200	616	399
Margin (%)	26.8	6.0	23.3	9.8
Total Tax	519	120	201	103
Effective tax rate (%)	27.9	60.1	32.6	25.7
Profit after Tax	1,338	80	415	297
Minority interest	-	-	-	-
Share Profit from Associates	48	(102)	(108)	(67)
Adjusted PAT	1,386	(22)	(334)	229
YoY gr. (%)	331.4	NA	NA	NA
Margin (%)	20.0	NA	NA	5.6
Extra Ord. Income / (Exp)	-	-	641	-
Reported PAT	1,386	(22)	307	229
YoY gr. (%)	331.4	NA	(39.0)	(24.2)
Margin (%)	20.0	NA	11.6	5.6
Other Comprehensive Income	(110)	(34)	71	463
Total Comprehensive Income	1,275	(56)	378	692
Avg. Shares O/s (m)	226	226	226	226
EPS (Rs)	6.1	(0.1)	(1.5)	1.0

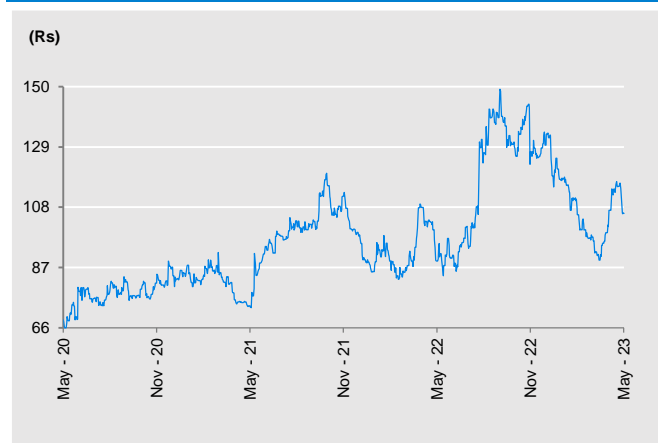
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	(0.1)	6.2	8.3	9.5
CEPS	2.1	8.8	11.2	12.7
BVPS	44.4	50.9	57.2	64.4
FCF	(1.4)	(3.2)	5.2	5.5
DPS	1.5	2.6	2.0	2.3
Return Ratio(%)				
RoCE	12.3	19.8	19.3	20.0
ROIC	12.3	18.0	18.7	19.1
RoE	NA	13.0	15.5	15.7
Balance Sheet				
Net Debt : Equity (x)	0.1	0.2	0.2	0.1
Net Working Capital (Days)	211	192	196	200
Valuation(x)				
PER	NA	18.2	13.5	11.9
P/B	2.5	2.2	2.0	1.8
P/CEPS	55.1	12.9	10.1	8.9
EV/EBITDA	16.4	9.5	8.2	7.1
EV/Sales	2.4	1.7	1.5	1.3
Dividend Yield (%)	1.3	2.3	1.8	2.0

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	Accumulate	147	102
2	10-Apr-23	Accumulate	147	99
3	11-Feb-23	Accumulate	148	105
4	06-Jan-23	BUY	163	117
5	11-Nov-22	BUY	163	127
6	06-Oct-22	BUY	170	130
7	03-Aug-22	BUY	163	117
8	07-Jul-22	BUY	121	97
9	19-May-22	BUY	121	91

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	504	401
2	Entertainment Network (India)	Hold	180	126
3	Indian Railway Catering and Tourism Corporation	Hold	672	582
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	BUY	2,346	1,905
6	Music Broadcast	Hold	18	11
7	Navneet Education	Accumulate	147	102
8	Nazara Technologies	BUY	804	566
9	PVR Inox	BUY	1,879	1,435
10	S Chand and Company	BUY	228	219
11	Safari Industries (India)	BUY	2,790	2,415
12	V.I.P. Industries	BUY	900	623
13	Zee Entertainment Enterprises	BUY	277	211

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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