

August 6, 2023

## Q1FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	192		152	
Sales (Rs. m)	19,148	21,275	19,053	21,073
% Chng.	0.5	1.0		
EBITDA (Rs. m)	3,612	4,361	3,391	3,829
% Chng.	6.5	13.9		
EPS (Rs.)	9.2	11.4	8.3	9.5
% Chng.	10.3	19.3		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	11,143	16,968	19,148	21,275
EBITDA (Rs. m)	1,626	2,980	3,612	4,361
Margin (%)	14.6	17.6	18.9	20.5
PAT (Rs. m)	(32)	1,405	2,082	2,570
EPS (Rs.)	(0.1)	6.2	9.2	11.4
Gr. (%)	NA	NA	48.2	23.4
DPS (Rs.)	1.5	2.6	2.2	2.7
Yield (%)	1.0	1.8	1.5	1.9
RoE (%)	NA	13.0	16.9	18.3
RoCE (%)	12.3	19.8	21.0	23.1
EV/Sales (x)	3.0	2.1	1.8	1.6
EV/EBITDA (x)	20.6	11.8	9.6	7.8
PE (x)	NA	23.1	15.6	12.6
P/BV (x)	3.2	2.8	2.5	2.2

### Key Data

NAVN.BO | NELI IN

52-W High / Low	Rs.162 / Rs.88
Sensex / Nifty	65,721 / 19,517
Market Cap	Rs.32bn/ \$ 392m
Shares Outstanding	226m
3M Avg. Daily Value	Rs.61.92m

### Shareholding Pattern (%)

Promoter's	63.31
Foreign	3.36
Domestic Institution	11.15
Public & Others	22.17
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	17.4	29.9	9.9
Relative	17.0	20.3	(2.5)

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## EdTech strategy under review

### Quick Pointers:

- Investments in Ed-Tech business under evaluation.
- Levy of anti-dumping duty by the US led to revenue loss of Rs400mn in stationary business.

**We increase our FY24/FY25E EPS estimates by 10%/19%, as we cut our Ed-Tech loss assumptions to Rs400mn/Rs300mn over next 2 years given the expansion strategy is under review. Strategic review is an indication losses are likely to narrow down resulting in an earnings upgrade. In a seasonally strong quarter, NELI reported decent performance with topline of Rs7,915mn (PLe Rs7,937mn), while EBITDA margin of 26.4% was above our estimate led by better than expected profitability in publishing division. Turnaround in Indiannica business (expected to be profitable in FY24E), back ended recovery in GM amid softening paper prices, narrowing losses in Ed-Tech and impending benefits from NEP is expected to result in sales/PAT CAGR of 12%/35% over FY23-FY25E. We retain 'BUY' with a SOTP based TP of Rs192 (refer exhibit 6 for more details) as we increase core business target multiple to 12x (10x earlier) and roll forward to FY25E.**

**Consolidated sales increase 14% YoY:** Consolidated revenues increased 14% YoY to Rs7,915mn (PLe of Rs7,937mn). Publishing sales increased 18% YoY to Rs4,292mn due to strategic price hikes and higher volumes. Stationery sales growth moderated to 10% YoY due to revenue loss of Rs400mn amid levy of anti-dumping duty in the US on one of the product categories.

**Consolidated Gross/EBITDA margins at 46.6%/26.4%:** Gross profit increased 6% YoY to Rs3,688mn with GM of 46.6% (PLe of 48.0%). Consolidated EBITDA increased 7% YoY to Rs2,089mn (PLe of Rs1,865mn) with a margin of 26.4% (PLe of 23.5%) as compared to a margin of 28.2% in 1QFY23. Consolidated publishing/stationery EBIT margin stood at 39%/15% respectively, while EdTech business reported an EBIT loss of Rs116mn.

**Consolidated net profit declines 5% YoY:** Consolidated net profit declined 5% YoY to Rs1,449mn (PLe of Rs1,229mn) with a margin of 18.3%.

**Con-call highlights:** 1) Publication business is expected to grow by mid-teens in FY24E, and at a CAGR of 15% subsequently post implementation of NEP. 2) A product category, accounting for ~8%-10% of stationary export revenue, faces potential anti-dumping duty in the USA. Orders from this category were not received during 1QFY24, resulting in a revenue loss of Rs400mn. However, production has been relocated to a different location ensuring minimal business loss in future. 3) ILL business is expected to grow by 15-20% YoY and turn profitable in FY24E. 4) K12's post money valuation is at ~Rs29.5-Rs30bn. 5) Publication volumes were up 11% YoY. 6) Domestic/Exports stationery business is expected to grow by ~15%/10% in FY24E. 7) NELI typically maintains 2 months' worth of RM inventory, of which ~5-7% is imported. 8) Sales is expected to be Rs19bn in FY24E.

**Exhibit 1: Q1FY24 Consolidated Result Overview (Rs mn)**

Y/e March	Q1FY24	Q1FY23	YoY gr (%)	Q4FY23	QoQ gr. (%)
<b>Net Sales</b>	<b>7,915</b>	<b>6,937</b>	<b>14.1</b>	<b>4,090</b>	<b>93.5</b>
<b>Expenditure</b>					
Raw Materials	4,227	3,460	22.2	2,032	108.0
<i>% of Net sales</i>	<i>53.4</i>	<i>49.9</i>		<i>49.7</i>	
Personnel	629	545	15.6	649	(3.0)
<i>% of Net sales</i>	<i>8.0</i>	<i>7.8</i>		<i>15.9</i>	
Selling , dist & Other Exp	970	980	(1.0)	812	19.5
<i>% of Net sales</i>	<i>12.2</i>	<i>14.1</i>		<i>19.8</i>	
Total Expenditure	5,826	4,984	16.9	3,492	66.8
<b>EBITDA</b>	<b>2,089</b>	<b>1,953</b>	<b>6.9</b>	<b>598</b>	<b>249.4</b>
<i>Margin (%)</i>	<i>26.4</i>	<i>28.2</i>		<i>14.6</i>	
Depreciation	130	112	16.1	197	(34.1)
<b>EBIT</b>	<b>1,959</b>	<b>1,841</b>	<b>6.4</b>	<b>401</b>	<b>388.7</b>
Interest	75	28	172.1	44	70.3
Other Income	35	42	(16.8)	43	(17.2)
<b>PBT</b>	<b>1,919</b>	<b>1,856</b>	<b>3.4</b>	<b>399</b>	<b>380.6</b>
Tax	542	519	4.5	103	428.0
<i>Tax Rate (%)</i>	<i>28.2</i>	<i>27.9</i>		<i>25.7</i>	
Share of profit/loss from associates	72	186		(67)	
<b>Adjusted PAT</b>	<b>1,449</b>	<b>1,523</b>	<b>(4.8)</b>	<b>229</b>	<b>531.8</b>
<b>Reported PAT</b>	<b>1,449</b>	<b>1,523</b>	<b>(4.8)</b>	<b>229</b>	<b>531.8</b>
<b>EPS</b>	<b>6.4</b>	<b>6.8</b>	<b>(5.3)</b>	<b>1.0</b>	<b>534.7</b>

Source: Company, PL

**Exhibit 2: Consolidated stationary margin at 15.2%**

Y/e March (Rs mn)	Q1FY24	Q1FY23	YoY gr (%)	Q4FY23	QoQ gr (%)
<b>Segment Revenue</b>					
Publishing Content	4,292	3,640	17.9	1,497	186.8
Stationery Products	3,578	3,247	10.2	2,571	39.2
Others	18	20	(12.3)	12	47.1
Ed-Tech	37	41	(9.1)	20	82.7
<b>Segment EBIT</b>					
Publishing Content	1,690	1,454	16.2	389	334.8
Stationery Products	543	637	(14.8)	339	60.2
Others	9	9	2.3	7	35.4
Ed-Tech	(116)	(118)	NM	(232)	NM
<b>EBIT Margin</b>					
Publishing Content	39.4%	40.0%	(58)bps	26.0%	1,340 bps
Stationery Products	15.2%	19.6%	(444)bps	13.2%	199 bps
Others	49.4%	42.4%	707 bps	53.7%	(428)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	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Publishing revenue	1,236	550	253	907	988	890	945	893	3,571	1,331	860	1,022	4,273
YoY growth	-71.4%	-56.9%	-69.5%	62.3%	-20.1%	61.7%	273.2%	-1.5%	261.5%	49.5%	-9.0%	14.4%	19.7%
As a % of sales	38.1%	34.5%	19.9%	47.6%	31.1%	39.1%	40.3%	32.2%	52.4%	40.9%	33.2%	28.4%	54.5%
Stationery revenue	2,008	1,046	1,017	996	2,184	1,385	1,400	1,878	3,247	1,924	1,729	2,571	3,569
YoY growth	-44.6%	-11.8%	-6.9%	-34.0%	8.7%	32.4%	37.7%	88.5%	48.7%	39.0%	23.5%	36.9%	9.9%
As a % of sales	61.9%	65.5%	80.1%	52.4%	68.9%	60.9%	59.7%	67.8%	47.6%	59.1%	66.8%	71.6%	45.5%
<b>Total sales</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>	<b>3,255</b>	<b>2,589</b>	<b>3,592</b>	<b>7,842</b>

Source: Company, PL

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

Particulars	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Publishing EBIT margin	30.5%	2.4%	-70.5%	21.4%	20.9%	14.8%	20.4%	18.7%	41.8%	23.9%	31.1%	14.1%	41.5%
Stationery EBIT margin	19.3%	8.5%	14.3%	14.4%	20.3%	16.0%	14.2%	14.4%	19.6%	7.5%	3.6%	13.2%	15.2%

Source: Company, PL

**Exhibit 5: Consolidated snapshot of 1QFY24 results**

Particulars (Rs mn)	Q1FY24			Q1FY23		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
NEL	7,849.0	2,269.0	1,579.0	6,828.0	2,116.0	1,497.0
NFL (Esense)	47.0	(39.0)	(72.0)	40.0	(70.0)	(89.0)
ILL (Indiannica)	33.0	(66.0)	(90.0)	76.0	(22.0)	(42.0)
NLLP	-	#	#	-	#	#
NHKL	14.0	1.0	1.0	17.0	-	-
GeNext	1.0	(39.0)	(44.0)	-	(13.0)	(17.0)
N.Tech Venture	-	-	-	-	#	#
Inter co Adjust	(30.0)	(1.0)	3.0	(24.0)	(14.0)	(12.0)
<b>Total</b>	<b>7,914.0</b>	<b>2,125.0</b>	<b>1,377.0</b>	<b>6,937.0</b>	<b>1,997.0</b>	<b>1,337.0</b>

Source: Company, PL

**Exhibit 6: SOTP Valuation Table – Core business valued at 12x; while combined per share value of subs/associates is Rs25**

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	37,965	168	We assign P/E multiple of 12x to our standalone PAT
Ed-Tech	2,730	Book value	0.5	1,365	6	Total amount includes SFA investment. We value EdTech venture at 0.5x book value given rejig in strategy which can lead to write-off in past investments.
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.
<b>SOTP value</b>				<b>43,516</b>	<b>192</b>	

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>11,143</b>	<b>16,968</b>	<b>19,148</b>	<b>21,275</b>
YoY gr. (%)	33.5	52.3	12.8	11.1
Cost of Goods Sold	5,317	8,459	9,478	10,318
Gross Profit	5,826	8,509	9,670	10,957
Margin (%)	52.3	50.1	50.5	51.5
Employee Cost	1,839	2,322	2,554	2,809
Other Expenses	1,572	2,128	2,298	2,447
<b>EBITDA</b>	<b>1,626</b>	<b>2,980</b>	<b>3,612</b>	<b>4,361</b>
YoY gr. (%)	86.9	83.3	21.2	20.7
Margin (%)	14.6	17.6	18.9	20.5
Depreciation and Amortization	497	581	604	676
<b>EBIT</b>	<b>1,129</b>	<b>2,399</b>	<b>3,008</b>	<b>3,684</b>
Margin (%)	10.1	14.1	15.7	17.3
Net Interest	62	116	140	160
Other Income	188	147	160	180
<b>Profit Before Tax</b>	<b>1,255</b>	<b>2,430</b>	<b>3,028</b>	<b>3,704</b>
Margin (%)	11.3	14.3	15.8	17.4
Total Tax	607	942	854	1,045
Effective tax rate (%)	48.3	38.8	28.2	28.2
<b>Profit after tax</b>	<b>648</b>	<b>1,488</b>	<b>2,174</b>	<b>2,660</b>
Minority interest	(12)	(8)	0	0
Share Profit from Associate	(693)	(92)	(92)	(90)
<b>Adjusted PAT</b>	<b>(32)</b>	<b>1,405</b>	<b>2,082</b>	<b>2,570</b>
YoY gr. (%)	NA	NA	48.2	23.4
Margin (%)	NA	8.3	10.9	12.1
Extra Ord. Income / (Exp)	788	641	-	-
<b>Reported PAT</b>	<b>756</b>	<b>2,045</b>	<b>2,082</b>	<b>2,570</b>
YoY gr. (%)	35.1	170.7	1.8	23.4
Margin (%)	6.8	12.1	10.9	12.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	756	2,045	2,082	2,570
<b>Equity Shares O/s (m)</b>	<b>226</b>	<b>226</b>	<b>226</b>	<b>226</b>
<b>EPS (Rs)</b>	<b>(0.1)</b>	<b>6.2</b>	<b>9.2</b>	<b>11.4</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>5,981</b>	<b>6,283</b>	<b>6,913</b>	<b>7,543</b>
Tangibles	4,928	5,036	5,636	6,236
Intangibles	1,053	1,247	1,277	1,307
<b>Acc: Dep / Amortization</b>	<b>3,919</b>	<b>4,210</b>	<b>4,891</b>	<b>5,645</b>
Tangibles	3,090	3,266	3,870	4,547
Intangibles	828	944	1,020	1,099
<b>Net fixed assets</b>	<b>2,246</b>	<b>2,167</b>	<b>2,116</b>	<b>1,991</b>
Tangibles	2,021	1,863	1,859	1,783
Intangibles	225	303	257	208
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
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	4,696	6,247	7,082	7,869
Trade receivables	2,422	3,314	3,935	4,663
Cash & Bank Balance	293	275	497	1,166
Other Current Assets	592	457	526	605
<b>Total Assets</b>	<b>13,240</b>	<b>16,567</b>	<b>18,339</b>	<b>20,567</b>
<b>Equity</b>				
Equity Share Capital	452	452	452	452
Other Equity	9,583	11,051	12,633	14,586
<b>Total Network</b>	<b>10,035</b>	<b>11,503</b>	<b>13,085</b>	<b>15,038</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	119	4	4	4
Provisions	14	11	12	12
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,232	2,875	2,683	2,677
Trade payables	688	645	734	874
Other current liabilities	963	1,122	1,414	1,554
<b>Total Equity &amp; Liabilities</b>	<b>13,240</b>	<b>16,565</b>	<b>18,339</b>	<b>20,567</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	1,899	2,980	3,028	3,704
Add. Depreciation	497	581	604	676
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	3,676	4,433
Net Changes-WC	(1,291)	(2,638)	(1,156)	(1,327)
Direct tax	(446)	(667)	(804)	(995)
<b>Net cash from Op. activities</b>	<b>61</b>	<b>(216)</b>	<b>1,717</b>	<b>2,111</b>
Capital expenditures	(9,754)	(10,816)	(553)	(552)
Interest / Dividend Income	9	16	96	108
Others	9,504	9,940	(19)	(21)
<b>Net Cash from Invt. activities</b>	<b>(241)</b>	<b>(860)</b>	<b>(477)</b>	<b>(465)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	2,115	5,912	(493)	(6)
Dividend paid	-	(342)	(588)	(500)
Interest paid	(41)	(101)	(140)	(160)
Others	(1,865)	(4,458)	-	-
<b>Net cash from Fin. activities</b>	<b>209</b>	<b>1,011</b>	<b>(1,221)</b>	<b>(666)</b>
<b>Net change in cash</b>	<b>29</b>	<b>(64)</b>	<b>19</b>	<b>981</b>
Free Cash Flow	(321)	(725)	1,163	1,559

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Net Revenue</b>	<b>3,298</b>	<b>2,643</b>	<b>4,090</b>	<b>7,915</b>
YoY gr. (%)	42.7	13.3	27.0	14.1
Raw Material Expenses	1,664	1,303	2,032	4,227
Gross Profit	1,634	1,340	2,058	3,688
Margin (%)	49.5	50.7	50.3	46.6
<b>EBITDA</b>	<b>326</b>	<b>103</b>	<b>598</b>	<b>2,089</b>
YoY gr. (%)	40.5	(42.2)	(4.9)	6.9
Margin (%)	9.9	3.9	14.6	26.4
Depreciation / Depletion	141	131	197	130
<b>EBIT</b>	<b>185</b>	<b>(28)</b>	<b>401</b>	<b>1,959</b>
Margin (%)	5.6	(1.0)	9.8	24.8
Net Interest	19	26	44	75
Other Income	34	29	43	35
<b>Profit before Tax</b>	<b>200</b>	<b>616</b>	<b>399</b>	<b>1,919</b>
Margin (%)	6.0	23.3	9.8	24.2
Total Tax	120	201	103	542
Effective tax rate (%)	60.1	32.6	25.7	28.2
<b>Profit after Tax</b>	<b>80</b>	<b>415</b>	<b>297</b>	<b>1,378</b>
Minority interest	-	-	-	-
Share Profit from Associates	(102)	(108)	(67)	72
<b>Adjusted PAT</b>	<b>(22)</b>	<b>(334)</b>	<b>229</b>	<b>1,449</b>
YoY gr. (%)	NA	NA	(24.2)	(4.8)
Margin (%)	NA	NA	5.6	18.3
Extra Ord. Income / (Exp)	-	641	-	-
<b>Reported PAT</b>	<b>(22)</b>	<b>307</b>	<b>229</b>	<b>1,449</b>
YoY gr. (%)	NA	(39.0)	(24.2)	(4.8)
Margin (%)	NA	11.6	5.6	18.3
Other Comprehensive Income	(34)	71	463	17
<b>Total Comprehensive Income</b>	<b>(56)</b>	<b>378</b>	<b>692</b>	<b>1,466</b>
Avg. Shares O/s (m)	226	226	226	226
<b>EPS (Rs)</b>	<b>(0.1)</b>	<b>(1.5)</b>	<b>1.0</b>	<b>6.4</b>

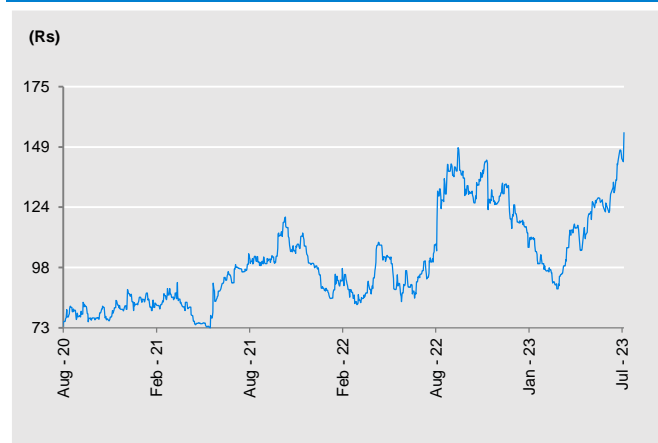
Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	(0.1)	6.2	9.2	11.4
CEPS	2.1	8.8	11.9	14.4
BVPS	44.4	50.9	57.8	66.5
FCF	(1.4)	(3.2)	5.1	6.9
DPS	1.5	2.6	2.2	2.7
<b>Return Ratio(%)</b>				
RoCE	12.3	19.8	21.0	23.1
ROIC	12.3	18.0	19.7	21.2
RoE	NA	13.0	16.9	18.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.1	0.2	0.2	0.1
Net Working Capital (Days)	211	192	196	200
<b>Valuation(x)</b>				
PER	NA	23.1	15.6	12.6
P/B	3.2	2.8	2.5	2.2
P/CEPS	70.0	16.4	12.1	10.0
EV/EBITDA	20.6	11.8	9.6	7.8
EV/Sales	3.0	2.1	1.8	1.6
Dividend Yield (%)	1.0	1.8	1.5	1.9

Source: Company Data, PL Research

### Price Chart



### Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jul-23	BUY	152	125
2	17-May-23	BUY	152	113
3	11-Apr-23	Accumulate	147	102
4	10-Apr-23	Accumulate	147	99
5	11-Feb-23	Accumulate	148	105
6	06-Jan-23	BUY	163	117
7	11-Nov-22	BUY	163	127
8	06-Oct-22	BUY	170	130

### Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	562	489
2	Entertainment Network (India)	Hold	180	126
3	Indian Railway Catering and Tourism Corporation	Hold	679	632
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	BUY	2,855	2,565
6	Music Broadcast	Hold	18	11
7	Navneet Education	BUY	152	125
8	Nazara Technologies	BUY	834	694
9	PVR Inox	BUY	1,797	1,565
10	S Chand and Company	BUY	257	191
11	Safari Industries (India)	BUY	3,202	2,937
12	V.I.P. Industries	Accumulate	707	598
13	Zee Entertainment Enterprises	BUY	236	183

### 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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