

November 7, 2023

Q2FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	195		205	
Sales (Rs.m)	18,354	20,177	19,298	21,425
% Chng.	(4.9)	(5.8)		
EBITDA (Rs.m)	3,265	4,042	3,660	4,411
% Chng.	(10.8)	(8.4)		
EPS (Rs.)	7.8	11.2	9.2	11.4
% Chng.	(15.8)	(1.7)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	16,968	18,354	20,177	22,651
EBITDA (Rs. m)	2,980	3,265	4,042	4,655
Margin (%)	17.6	17.8	20.0	20.6
PAT (Rs. m)	1,405	1,756	2,532	2,839
EPS (Rs.)	6.2	7.8	11.2	12.5
Gr. (%)	NA	25.0	44.2	12.1
DPS (Rs.)	2.6	2.6	2.7	3.0
Yield (%)	1.9	1.8	1.9	2.2
RoE (%)	13.0	14.1	17.7	17.4
RoCE (%)	19.8	18.1	20.7	21.1
EV/Sales (x)	2.0	1.8	1.6	1.4
EV/EBITDA (x)	11.5	10.2	8.1	6.9
PE (x)	22.5	18.0	12.5	11.2
P/BV (x)	2.8	2.4	2.1	1.8

Key Data

NAVN.BO | NELI IN

52-W High / Low	Rs.176 / Rs.88
Sensex / Nifty	64,942 / 19,407
Market Cap	Rs.32bn/ \$ 380m
Shares Outstanding	226m
3M Avg. Daily Value	Rs.103.89m

Shareholding Pattern (%)

Promoter's	63.31
Foreign	4.03
Domestic Institution	11.39
Public & Others	21.61
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(15.4)	22.3	(2.7)
Relative	(14.1)	15.0	(8.3)

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Navneet Education (NELI IN)

Rating: BUY | CMP: Rs140 | TP: Rs195

Growth challenges emerge in publishing

Quick Pointers:

- Higher sales return, change in paper pattern for Gujarat board and rising prevalence of 2nd hand books impacted publishing business.

We cut our EPS estimates by 16%/2%3% for FY24E/FY25E/FY26E as we re-align our assumptions for publishing business amid rising growth challenges in near term. While operating profitability has undergone a downward revision in the band of ~6-11% over FY24E-FY26E, impact on bottom-line is miniscule as we adjust our tax rate forecast given demerger of Ed-Tech business into Navneet which has accumulated losses of ~Rs0.8-1bn. Navneet reported weaker than expected performance with EBITDA loss of Rs43mn as publishing business reported a 46% YoY fall in top-line led by higher sales return, change in paper pattern of Gujarat board and rising prevalence of 2nd hand books. Though there are near term challenges 1) turnaround in Indiannica business (expected to be profitable in FY24E), 2) narrowing losses in Ed-Tech and 3) impending benefits of NEP is expected to result in sales/PAT CAGR of 10%/26% over FY23-FY26E. We retain 'BUY' rating with a SOTP based TP of Rs195 (refer exhibit 6 for more details).

Consolidated sales decrease 19% YoY: Consolidated revenues fell 19% YoY to Rs2,658mn (PLe of Rs3,279mn), due to a 46% YoY decline in publishing sales to Rs732mn. Stationery sales decreased 1% YoY to Rs1,909mn.

Consolidated gross margin at 50.6%: Gross profit decreased 18% YoY to Rs1,344mn with GM of 50.6% (PLe of 47.5%). Consolidated EBITDA loss stood at Rs43mn (PLe of Rs184mn) as compared to an EBITDA of Rs326mn in 2QFY23. Consolidated stationery EBIT margin stood at 8.5%, while publishing business reported an EBIT loss of Rs257mn.

Consolidated net profit at Rs356mn: Consolidated net profit stood at Rs356mn with a margin of 13.4% aided by exceptional gain of Rs682mn (Rs302mn from sale of property and Rs379mn from deemed disposal of stake in K12). Adjusting for the same, loss stood at Rs326mn (PLe PAT of Rs36mn) in 2QFY24.

Con-call highlights: 1) Loss of revenue due to change in paper pattern of Gujarat board was Rs200mn. There is a revenue spill-over and related exam books will now be released in 3QFY24. 2) Volume de-growth was 10% in 1HFY24 and major impact was in guide category due to price hike. 3) NEP roll out for grades 1 & 2 will happen in FY25E and implementation for all other grades should be complete by FY28. 4) NELI plans to introduce 3-4 new products in the stationery segment, requiring an initial capex of Rs500mn, an additional capex of Rs500-600mn for land & building, and Rs200-300mn for machinery, each year, for 5 years, with an expected asset turnover of 4x. 5) Ed-Tech losses for FY25E is expected to be Rs300mn, and will reduce further in future. 6) After fresh fund infusion, NELI's stake in K12 is valued at ~Rs8,000mn. 7) Sales returns for 2QFY24 stood at Rs360mn (management expectation was Rs200mn).

Exhibit 1: Q2FY24 Consolidated Result Overview (Rs mn)

Y/e March	Q2FY24	Q2FY23	YoY gr (%)	Q1FY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr (%)
Net Sales	2,658	3,298	(19.4)	7,915	(66.4)	10,572	10,235	3.3
Expenditure								
Raw Materials	1,314	1,664	(21.0)	4,227	(68.9)	5,541	5,125	8.1
<i>% of Net sales</i>	<i>49.4</i>	<i>50.5</i>		<i>53.4</i>		<i>52.4</i>	<i>50.1</i>	
Personnel	643	518	24.2	629	2.2	1,272	1,062	19.8
<i>% of Net sales</i>	<i>24.2</i>	<i>15.7</i>		<i>8.0</i>		<i>12.0</i>	<i>10.4</i>	
Selling , dist & Other Exp	744	790	(5.8)	970	(23.3)	1,713	1,769	(3.2)
<i>% of Net sales</i>	<i>28.0</i>	<i>23.9</i>		<i>12.2</i>		<i>16.2</i>	<i>17.3</i>	
Total Expenditure	2,701	2,972	(9.1)	5,826	(53.6)	8,527	7,956	7.2
EBITDA	(43)	326	NM	2,089	NM	2,046	2,279	(10.2)
<i>Margin (%)</i>	<i>NM</i>	<i>9.9</i>		<i>26.4</i>		<i>19.4</i>	<i>22.3</i>	
Depreciation	146	141	3.3	130	12.6	276	253	8.9
EBIT	(189)	185	NM	1,959	NM	1,770	2,026	(12.6)
Interest	39	19	105.9	75	(48.5)	114	46	145.3
Other Income	22	34	(33.9)	35	(36.9)	57	76	(24.4)
PBT	476	200	138.6	1,919	(75.2)	1,714	2,056	(16.6)
Tax	161	120	34.2	542	(70.3)	703	638	10.1
<i>Tax Rate (%)</i>	<i>33.8</i>	<i>60.1</i>		<i>28.2</i>		<i>41.0</i>	<i>31.1</i>	
Share of profit/loss from associates	41	(102)		72		113	84	34.0
Adjusted PAT	(326)	(22)	NM	1,449	NM	1,124	1,501	(25.1)
Reported PAT	356	(22)	NM	1,449	(75.4)	1,805	1,501	20.3
EPS	1.6	(0.1)	NM	6.4	(75.5)	8.0	6.7	19.6

Source: Company, PL

Exhibit 2: Consolidated stationary margin at 8.5%

Y/e March (Rs mn)	Q2FY24	Q2FY23	YoY gr (%)	Q1FY24	QoQ gr (%)
Segment Revenue					
Publishing Content	732	1,367	(46.4)	4,329	(83.1)
Stationery Products	1,909	1,924	(0.8)	3,578	(46.6)
Others	23	17	37.1	18	30.9
Segment EBIT					
Publishing Content	(257)	85	NM	1,574	NM
Stationery Products	162	143	13.1	543	(70.1)
Others	7	7	(1.4)	9	(21.6)
EBIT Margin					
Publishing Content	-35.1%	6.2%	NM	36.4%	(7,149)bps
Stationery Products	8.5%	7.4%	104 bps	15.2%	(668)bps
Others	29.6%	41.2%	(1,156)bps	49.4%	(1,982)bps

Source: Company, PL

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

Particulars	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Publishing revenue	550	253	907	988	890	945	893	3,571	1,331	860	1,022	4,273	696
YoY growth	-56.9%	-69.5%	62.3%	-20.1%	61.7%	273.2%	-1.5%	261.5%	49.5%	-9.0%	14.4%	19.7%	-47.7%
As a % of sales	34.5%	19.9%	47.6%	31.1%	39.1%	40.3%	32.2%	52.4%	40.9%	33.2%	28.4%	54.5%	26.8%
Stationery revenue	1,046	1,017	996	2,184	1,385	1,400	1,878	3,247	1,924	1,729	2,571	3,569	1,899
YoY growth	-11.8%	-6.9%	-34.0%	8.7%	32.4%	37.7%	88.5%	48.7%	39.0%	23.5%	36.9%	9.9%	-1.3%
As a % of sales	65.5%	80.1%	52.4%	68.9%	60.9%	59.7%	67.8%	47.6%	59.1%	66.8%	71.6%	45.5%	73.2%
Total sales	1,597	1,270	1,903	3,171	2,275	2,344	2,771	6,818	3,255	2,589	3,592	7,842	2,595

Source: Company, PL

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

Particulars	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Publishing EBIT margin	2.4%	-70.5%	21.4%	20.9%	14.8%	20.4%	18.7%	41.8%	23.9%	31.1%	14.1%	41.5%	0.9%
Stationery EBIT margin	8.5%	14.3%	14.4%	20.3%	16.0%	14.2%	14.4%	19.6%	7.5%	3.6%	13.2%	15.2%	8.7%

Source: Company, PL

Exhibit 5: Consolidated snapshot of 1HFY24 results

Particulars (Rs mn)	1HFY24			1HFY23		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
NEL	10,461.0	2,452.0	1,873.0	10,089.0	2,673.0	1,815.0
NFL (Esense)	90.0	(102.0)	(180.0)	66.0	(159.0)	(196.0)
ILL (Indiannica)	41.0	(139.0)	(186.0)	87.0	(100.0)	(140.0)
NHKL	25.0	1.0	1.0	23.0	1.0	1.0
GeNext (Be Masterly)	2.0	(102.0)	(111.0)	-	(41.0)	(47.0)
Inter co Adjust	(47.0)	(8.0)	(84.0)	(30.0)	(18.0)	(15.0)
Total	10,572.0	2,102.0	1,313.0	10,235.0	2,356.0	1,418.0

Source: Company, PL

Exhibit 6: SOTP Valuation Table – Core business valued at 12x; while combined per share value of subs/associates is Rs29

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	37,484	166	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	5,200	23	As per last funding round, NELI's 20% stake in K12 is valued at Rs8,000mn. We assign 35% discount to this value as the investment is illiquid in nature.
SOTP value				44,049	195	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	16,968	18,354	20,177	22,651
YoY gr. (%)	52.3	8.2	9.9	12.3
Cost of Goods Sold	8,459	9,177	9,786	10,986
Gross Profit	8,509	9,177	10,391	11,665
Margin (%)	50.1	50.0	51.5	51.5
Employee Cost	2,322	2,554	2,758	2,979
Other Expenses	2,128	2,203	2,320	2,605
EBITDA	2,980	3,265	4,042	4,655
YoY gr. (%)	83.3	9.5	23.8	15.2
Margin (%)	17.6	17.8	20.0	20.6
Depreciation and Amortization	581	648	717	786
EBIT	2,399	2,616	3,325	3,869
Margin (%)	14.1	14.3	16.5	17.1
Net Interest	116	140	160	160
Other Income	147	140	180	180
Profit Before Tax	2,430	2,616	3,345	3,889
Margin (%)	14.3	14.3	16.6	17.2
Total Tax	942	790	743	980
Effective tax rate (%)	38.8	30.2	22.2	25.2
Profit after tax	1,488	1,826	2,602	2,909
Minority interest	(8)	0	0	0
Share Profit from Associate	(92)	(70)	(70)	(70)
Adjusted PAT	1,405	1,756	2,532	2,839
YoY gr. (%)	(4,434.9)	25.0	44.2	12.1
Margin (%)	8.3	9.6	12.5	12.5
Extra Ord. Income / (Exp)	641	682	-	-
Reported PAT	2,045	2,438	2,532	2,839
YoY gr. (%)	170.7	19.2	3.9	12.1
Margin (%)	12.1	13.3	12.5	12.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,045	2,438	2,532	2,839
Equity Shares O/s (m)	226	226	226	226
EPS (Rs)	6.2	7.8	11.2	12.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	6,283	6,913	7,543	8,173
Tangibles	5,036	5,636	6,236	6,836
Intangibles	1,247	1,277	1,307	1,337
Acc: Dep / Amortization	4,210	4,934	5,730	6,596
Tangibles	3,266	3,914	4,631	5,418
Intangibles	944	1,020	1,099	1,179
Net fixed assets	2,167	2,072	1,906	1,670
Tangibles	1,863	1,815	1,698	1,512
Intangibles	303	257	208	158
Capital Work In Progress	74	74	74	74
Goodwill	239	239	239	239
Non-Current Investments	3,258	3,277	3,299	3,322
Net Deferred tax assets	(375)	(375)	(375)	(375)
Other Non-Current Assets	284	296	309	322
Current Assets				
Investments	-	-	-	-
Inventories	6,247	7,040	7,850	8,998
Trade receivables	3,314	3,771	4,422	5,089
Cash & Bank Balance	275	910	1,616	2,641
Other Current Assets	457	526	605	695
Total Assets	16,567	18,503	20,673	23,470
Equity				
Equity Share Capital	452	452	452	452
Other Equity	11,051	12,903	14,828	16,985
Total Network	11,503	13,356	15,280	17,437
Non-Current Liabilities				
Long Term borrowings	4	4	4	4
Provisions	11	12	12	13
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,875	2,639	2,630	3,007
Trade payables	645	704	829	931
Other current liabilities	1,122	1,382	1,511	1,671
Total Equity & Liabilities	16,565	18,503	20,673	23,470

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	2,980	2,616	3,345	3,889
Add. Depreciation	581	648	717	786
Add. Interest	116	140	160	160
Less Financial Other Income	147	140	180	180
Add. Other	(588)	(84)	(108)	(108)
Op. profit before WC changes	3,089	3,321	4,114	4,727
Net Changes-WC	(2,638)	(1,012)	(1,300)	(1,658)
Direct tax	(667)	(740)	(693)	(930)
Net cash from Op. activities	(216)	1,568	2,122	2,139
Capital expenditures	(10,816)	(553)	(552)	(550)
Interest / Dividend Income	16	84	108	108
Others	9,940	(19)	(21)	(23)
Net Cash from Invt. activities	(860)	(489)	(465)	(465)
Issue of share cap. / premium	-	-	-	-
Debt changes	5,912	(537)	(9)	377
Dividend paid	(342)	(588)	(585)	(608)
Interest paid	(101)	(140)	(160)	(160)
Others	(4,458)	-	-	-
Net cash from Fin. activities	1,011	(1,265)	(754)	(391)
Net change in cash	(64)	(185)	902	1,283
Free Cash Flow	(725)	1,015	1,570	1,589

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	2,643	4,090	7,915	2,658
YoY gr. (%)	13.3	27.0	14.1	(19.4)
Raw Material Expenses	1,303	2,032	4,227	1,314
Gross Profit	1,340	2,058	3,688	1,344
Margin (%)	50.7	50.3	46.6	50.6
EBITDA	103	598	2,089	(43)
YoY gr. (%)	(42.2)	(4.9)	6.9	NA
Margin (%)	3.9	14.6	26.4	NA
Depreciation / Depletion	131	197	130	146
EBIT	(28)	401	1,959	(189)
Margin (%)	NA	9.8	24.8	NA
Net Interest	26	44	75	39
Other Income	29	43	35	22
Profit before Tax	616	399	1,919	476
Margin (%)	23.3	9.8	24.2	17.9
Total Tax	201	103	542	161
Effective tax rate (%)	32.6	25.7	28.2	33.8
Profit after Tax	415	297	1,378	315
Minority interest	-	-	-	-
Share Profit from Associates	(108)	(67)	72	41
Adjusted PAT	(334)	229	1,449	(326)
YoY gr. (%)	NA	(24.2)	(4.8)	NA
Margin (%)	NA	5.6	18.3	NA
Extra Ord. Income / (Exp)	641	-	-	682
Reported PAT	307	229	1,449	356
YoY gr. (%)	(39.0)	(24.2)	(4.8)	(1,725.6)
Margin (%)	11.6	5.6	18.3	13.4
Other Comprehensive Income	71	463	17	(4)
Total Comprehensive Income	378	692	1,466	352
Avg. Shares O/s (m)	226	226	226	226
EPS (Rs)	(1.5)	1.0	6.4	(1.4)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	6.2	7.8	11.2	12.5
CEPS	8.8	10.6	14.4	16.0
BVPS	50.9	59.0	67.6	77.1
FCF	(3.2)	4.5	6.9	7.0
DPS	2.6	2.6	2.7	3.0
Return Ratio(%)				
RoCE	19.8	18.1	20.7	21.1
ROIC	18.0	17.6	19.6	19.8
RoE	13.0	14.1	17.7	17.4
Balance Sheet				
Net Debt : Equity (x)	0.2	0.1	0.1	0.0
Net Working Capital (Days)	192	201	207	212
Valuation(x)				
PER	22.5	18.0	12.5	11.2
P/B	2.8	2.4	2.1	1.8
P/CEPS	15.9	13.2	9.7	8.7
EV/EBITDA	11.5	10.2	8.1	6.9
EV/Sales	2.0	1.8	1.6	1.4
Dividend Yield (%)	1.9	1.8	1.9	2.2

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	BUY	205	166
2	06-Aug-23	BUY	192	144
3	05-Jul-23	BUY	152	125
4	17-May-23	BUY	152	113
5	11-Apr-23	Accumulate	147	102
6	10-Apr-23	Accumulate	147	99
7	11-Feb-23	Accumulate	148	105
8	06-Jan-23	BUY	163	117
9	11-Nov-22	BUY	163	127

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	650	560
2	Entertainment Network (India)	Hold	180	126
3	Indian Railway Catering and Tourism Corporation	Hold	700	720
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	BUY	2,816	2,509
6	Lemon Tree Hotels	BUY	140	119
7	Music Broadcast	Hold	18	11
8	Navneet Education	BUY	205	166
9	Nazara Technologies	Hold	836	834
10	PVR Inox	BUY	1,984	1,745
11	S Chand and Company	BUY	338	280
12	Safari Industries (India)	BUY	4,752	4,232
13	V.I.P. Industries	Hold	689	613
14	Zee Entertainment Enterprises	BUY	314	262

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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