

May 26, 2024

Q4FY24 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		BUY	
Target Price	167		182	
Sales (Rs. m)	19,009	21,462	19,134	21,631
% Chng.	(0.7)	(0.8)		
EBITDA (Rs. m)	3,546	4,118	3,614	4,203
% Chng.	(1.9)	(2.0)		
EPS (Rs.)	9.3	10.6	9.6	11.1
% Chng.	(2.6)	(4.5)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	16,968	17,513	19,009	21,462
EBITDA (Rs. m)	2,980	2,951	3,546	4,118
Margin (%)	17.6	16.9	18.7	19.2
PAT (Rs. m)	1,405	1,834	2,111	2,387
EPS (Rs.)	6.2	8.1	9.3	10.6
Gr. (%)	NA	30.6	15.1	13.1
DPS (Rs.)	2.6	2.6	2.2	2.5
Yield (%)	1.7	1.7	1.4	1.6
RoE (%)	13.0	15.0	15.4	15.5
RoCE (%)	19.8	16.3	18.3	19.0
EV/Sales (x)	2.2	2.1	1.9	1.7
EV/EBITDA (x)	12.7	12.7	10.4	9.0
PE (x)	25.0	19.1	16.6	14.7
P/BV (x)	3.1	2.7	2.4	2.1

Key Data

NAVN.BO | NELI IN

52-W High / Low	Rs.176 / Rs.116
Sensex / Nifty	75,410 / 22,957
Market Cap	Rs.35bn/ \$ 423m
Shares Outstanding	226m
3M Avg. Daily Value	Rs.44.69m

Shareholding Pattern (%)

Promoter's	63.31
Foreign	3.67
Domestic Institution	12.45
Public & Others	20.56
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.1	12.3	28.7
Relative	1.0	(1.7)	5.5

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Navneet Education (NELI IN)

Rating: ACCUMULATE | CMP: Rs155 | TP: Rs167

Publishing recovery is key to re-rating

Quick Pointers:

- Publishing EBIT margin increased to 25.7%.

We cut our EPS estimates by 3%/5% for FY25E/FY26E and downgrade the stock to 'ACCUMULATE' given near term growth challenges in publishing division amid delay in NEP implementation. NELI reported strong operational performance with EBITDA margin of 19.9% (PLe 15.7%) given margin recovery in publishing division but near term outlook is bleak amid status quo in syllabus schedule for FY25E. Nonetheless, we expect stationary division to grow at 12% CAGR over next 2 years as new designs launched in paper segment have received good response while there are plans to introduce non-paper based products in near future. Overall, we expect sales/PAT CAGR of 11%/14% over FY24-FY26E and downgrade to 'ACCUMULATE' with revised SOTP based TP of Rs167 (earlier Rs 182). We have eliminated illiquidity discount factor from our K12 valuation post recent stake sale and have discontinued valuing EdTech piece separately amid demerger of Navneet FutureTech into parent.

Consolidated sales increased 6.4% YoY: Consolidated revenues increased 6.4% YoY to Rs4,353mn (PLe of Rs4,350mn). Publishing sales decreased 4.8% YoY to Rs1,443mn (PLe Rs1,714mn) while stationery sales increased 13.1% YoY to Rs2,906mn (PLe Rs2,650mn).

Consolidated gross margin at 55.3%: Gross profit increased 17.0% YoY to Rs2,408mn with GM of 55.3% (PLe of 51.9%). Consolidated EBITDA increased by 44.7% YoY to Rs865mn (PLe of Rs683mn) with a margin of 19.9% (PLe 15.7%). Consolidated publishing EBIT margin stood at 25.7% whereas stationery EBIT margin stood at 12.8% for the quarter. Consolidated net profit stood at Rs479mn (PLe Rs366mn).

Con-call highlights: **1)** In 1QFY25, NELI sold 5.1% stake in K12 Techno Services to Venturi Partners for Rs.2.3bn. NELI's existing stake is 14.9% and proceeds will be allocated to strengthen core business. **2)** Domestic stationery business is expected to grow by 12-15% with EBIT margins in the range of 12-14% in FY25E. **3)** Nominal growth to be seen in publication segment in FY25E. **4)** In 4QFY24, SFA investment witnessed a mark down (exceptional loss of Rs488mn) due to lower revenues. **5)** Domestic stationery segment margins to expand by ~100bps in FY25E. **6)** Capex of Rs400mn incurred in FY24 towards land & building will be capitalized in FY25E. On the other hand, in order to expand stationary business, Rs300mn/Rs600mn has been earmarked towards setting up a new building in FY25E/FY26E respectively. For machinery capex, Rs400-450mn/Rs700-800mn has been earmarked for FY25E/FY26E. **7)** In FY24, ILL business experienced a decline due to increased sales returns and inability to supply digital products demanded by schools. **8)** In stationary business, asset turnover is ~3x of machinery investment. **9)** Ed-tech loss stood at Rs95mn/Rs440mn (higher due to severances) in 4QFY24/FY24. **10)** Ed-tech revenues for FY24 stood at Rs215mn.

Exhibit 1: Q4FY24 Consolidated Result Overview (Rs mn)

Y/e March	Q4FY24	Q4FY23	YoY gr (%)	Q3FY24	QoQ gr (%)	FY24	FY23	YoY gr (%)
Net Sales	4,353	4,090	6.4	2,588	68.2	17,513	16,968	3.2
Expenditure								
Raw Materials	1,945	2,032	(4.3)	1,296	50.0	8,783	8,459	3.8
<i>% of Net sales</i>	<i>44.7</i>	<i>49.7</i>		<i>50.1</i>		<i>50.1</i>	<i>49.9</i>	
Personnel	674	649	3.9	632	6.7	2,578	2,322	11.1
<i>% of Net sales</i>	<i>15.5</i>	<i>15.9</i>		<i>24.4</i>		<i>14.7</i>	<i>13.7</i>	
Selling , dist & Other Exp	868	812	7.0	619	40.3	3,201	3,207	(0.2)
<i>% of Net sales</i>	<i>19.9</i>	<i>19.8</i>		<i>23.9</i>		<i>18.3</i>	<i>18.9</i>	
Total Expenditure	3,488	3,492	(0.1)	2,547	36.9	14,561	13,988	4.1
EBITDA	865	598	44.7	40	2,046.9	2,951	2,980	(1.0)
<i>Margin (%)</i>	<i>19.9</i>	<i>14.6</i>		<i>1.6</i>		<i>16.9</i>	<i>17.6</i>	
Depreciation	214	197	8.9	164	30.6	654	581	12.7
EBIT	651	401	62.3	(124)	NM	2,297	2,399	(4.3)
Interest	50	44	12.5	36	37.0	200	116	71.5
Other Income	46	43	8.0	31	49.0	134	147	(9.0)
PBT	647	399	62.1	(129)	NM	2,232	2,430	(8.2)
Tax	106	103	2.9	(56)	NM	388	942	(58.8)
<i>Tax Rate (%)</i>	<i>16.3</i>	<i>25.7</i>		<i>43.1</i>		<i>13.3</i>	<i>30.7</i>	
Share of profit/loss from associates	(62)	(67)		(58)		(7)	(92)	NM
Adjusted PAT	479	229	108.8	(131)	NM	1,834	1,405	30.6
Reported PAT	479	229	108.8	(131)	NM	2,516	2,045	23.0
EPS	2.1	1.0	108.9	(0.6)	NM	11.1	9.0	23.0

Source: Company, PL

Exhibit 2: Consolidated stationary margin at 12.8%

Y/e March (Rs mn)	Q4FY24	Q4FY23	YoY gr (%)	Q3FY24	QoQ gr (%)
Segment Revenue	1,443	1,517	(4.8)	844	70.9
Publishing Content	2,906	2,571	13.1	1,733	67.7
Stationery Products	13	12	3.3	17	(27.3)
Others					
Segment EBIT					
Publishing Content	372	157	137.4	(106)	NM
Stationery Products	373	339	10.2	85	340.7
Others	7	7	3.1	5	45.7
EBIT Margin					
Publishing Content	25.7%	10.3%	1,542 bps	NM	NM
Stationery Products	12.8%	13.2%	(33)bps	4.9%	796 bps
Others	53.6%	53.7%	(12)bps	26.7%	2,686 bps

Source: Company, PL

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

Particulars	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Publishing revenue	907	988	890	945	893	3,571	1,331	860	1,022	4,273	696	883	1,012
YoY growth	62.3%	-20.1%	61.7%	273.2%	-1.5%	261.5%	49.5%	-9.0%	14.4%	19.7%	-47.7%	2.7%	-2.3%
As a % of sales	47.6%	31.1%	39.1%	40.3%	32.2%	52.4%	40.9%	30.9%	28.4%	54.5%	26.8%	34.7%	26.3%
Stationery revenue	996	2,184	1,385	1,400	1,878	3,247	1,924	1,924	2,571	3,569	1,899	1,660	2,835
YoY growth	-34.0%	8.7%	32.4%	37.7%	88.5%	48.7%	39.0%	37.5%	36.9%	9.9%	-1.3%	-13.7%	10.3%
As a % of sales	52.4%	68.9%	60.9%	59.7%	67.8%	47.6%	59.1%	69.1%	71.6%	45.5%	73.2%	65.3%	73.7%
Total sales	1,903	3,171	2,275	2,344	2,771	6,818	3,255	2,784	3,592	7,842	2,595	2,543	3,847

Source: Company, PL

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

Particulars	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Publishing EBIT margin	21.4%	20.9%	14.8%	20.4%	18.7%	41.8%	23.9%	31.1%	14.1%	41.5%	0.9%	6.7%	9.3%
Stationery EBIT margin	14.4%	20.3%	16.0%	14.2%	14.4%	19.6%	7.5%	3.2%	13.2%	15.2%	8.7%	5.7%	14.3%

Source: Company, PL

Exhibit 5: Consolidated snapshot of FY24* results

Particulars (Rs mn)	FY24			FY23		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
NEL	16,930.0	3,130.0	2,070.0	16,360.0	3,060.0	1,930.0
NFL (Esense)	40.0	-	-	20.0		
ILL (Indiannica)	590.0	-	(100.0)	650.0	90.0	
NHKL	210.0	10.0	10.0	70.0		
K12	-	180.0	(10.0)	-	110.0	(70.0)
Carveniche Tech	-	-	-	-	(20.0)	(20.0)
Excep Item	-	-	680.0	-		640.0
Inter co Adjust	(260.0)	(60.0)	(140.0)	(130.0)	(120.0)	(450.0)
Total	17,510.0	3,260.0	2,510.0	16,970.0	3,120.0	2,030.0

Source: Company, PL

Exhibit 6: 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	11	31,411	139	We assign P/E multiple of 11x to our standalone PAT
K12	1,186	Third party benchmarking	NM	6,300	28	NELI recently divested 5% stake in K12 at Rs2,250mn. It now owns 14.3% stake in K12 business. We value NELI's residual stake in K12 at par (without any illiquidity discount) given it has managed an successful partial exit.
SOTP value				37,711	167	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	16,968	17,513	19,009	21,462
YoY gr. (%)	52.3	3.2	8.5	12.9
Cost of Goods Sold	8,459	8,783	9,219	10,409
Gross Profit	8,509	8,730	9,790	11,053
Margin (%)	50.1	49.9	51.5	51.5
Employee Cost	2,322	2,578	2,784	3,007
Other Expenses	2,128	2,175	2,281	2,575
EBITDA	2,980	2,951	3,546	4,118
YoY gr. (%)	83.3	(1.0)	20.1	16.1
Margin (%)	17.6	16.9	18.7	19.2
Depreciation and Amortization	581	654	723	853
EBIT	2,399	2,297	2,823	3,265
Margin (%)	14.1	13.1	14.8	15.2
Net Interest	116	200	170	160
Other Income	147	134	150	180
Profit Before Tax	2,430	2,232	2,803	3,285
Margin (%)	14.3	12.7	14.7	15.3
Total Tax	942	388	622	828
Effective tax rate (%)	38.8	17.4	22.2	25.2
Profit after tax	1,488	1,843	2,181	2,457
Minority interest	(8)	2	0	0
Share Profit from Associate	(92)	(7)	(70)	(70)
Adjusted PAT	1,405	1,834	2,111	2,387
YoY gr. (%)	(4,434.9)	30.6	15.1	13.1
Margin (%)	8.3	10.5	11.1	11.1
Extra Ord. Income / (Exp)	641	682	-	-
Reported PAT	2,045	2,516	2,111	2,387
YoY gr. (%)	170.7	23.0	(16.1)	13.1
Margin (%)	12.1	14.4	11.1	11.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,045	2,516	2,111	2,387
Equity Shares O/s (m)	226	226	226	226
EPS (Rs)	6.2	8.1	9.3	10.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	6,283	7,046	7,761	9,091
Tangibles	5,036	5,754	6,454	7,754
Intangibles	1,247	1,292	1,307	1,337
Acc: Dep / Amortization	4,210	4,906	5,708	6,641
Tangibles	3,266	3,886	4,609	5,462
Intangibles	944	1,020	1,099	1,179
Net fixed assets	2,167	2,259	2,173	2,570
Tangibles	1,863	1,988	1,965	2,412
Intangibles	303	272	208	158
Capital Work In Progress	74	64	64	64
Goodwill	239	239	239	239
Non-Current Investments	3,228	3,085	3,104	3,125
Net Deferred tax assets	(375)	(339)	(339)	(339)
Other Non-Current Assets	314	760	776	793
Current Assets				
Investments	-	-	-	-
Inventories	6,247	6,388	7,395	8,526
Trade receivables	3,314	3,673	4,166	4,822
Cash & Bank Balance	275	247	718	800
Other Current Assets	457	619	712	818
Total Assets	16,567	17,472	19,507	21,942
Equity				
Equity Share Capital	452	452	452	452
Other Equity	11,051	12,482	14,086	15,900
Total Network	11,503	12,934	14,538	16,352
Non-Current Liabilities				
Long Term borrowings	4	91	91	91
Provisions	11	12	13	14
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,875	2,485	2,405	2,776
Trade payables	645	524	781	882
Other current liabilities	1,122	1,041	1,292	1,440
Total Equity & Liabilities	16,565	17,472	19,507	21,942

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	2,980	2,906	2,803	3,285
Add. Depreciation	581	654	723	853
Add. Interest	116	200	170	160
Less Financial Other Income	147	134	150	180
Add. Other	(588)	(733)	(90)	(108)
Op. profit before WC changes	3,089	3,027	3,606	4,190
Net Changes-WC	(2,638)	(676)	(1,102)	(1,661)
Direct tax	(667)	(791)	(572)	(778)
Net cash from Op. activities	(216)	1,560	1,932	1,751
Capital expenditures	(10,816)	(11,528)	(636)	(1,250)
Interest / Dividend Income	16	19	90	108
Others	9,940	11,154	(19)	(21)
Net Cash from Invt. activities	(860)	(355)	(565)	(1,163)
Issue of share cap. / premium	-	-	-	-
Debt changes	5,912	7,761	(79)	371
Dividend paid	(342)	(590)	(588)	(507)
Interest paid	(101)	(183)	(170)	(160)
Others	(4,458)	(8,205)	-	-
Net cash from Fin. activities	1,011	(1,217)	(837)	(296)
Net change in cash	(64)	(13)	529	293
Free Cash Flow	(725)	810	1,295	501

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	6.2	8.1	9.3	10.6
CEPS	8.8	11.0	12.5	14.3
BVPS	50.9	57.2	64.3	72.3
FCF	(3.2)	3.6	5.7	2.2
DPS	2.6	2.6	2.2	2.5
Return Ratio(%)				
RoCE	19.8	16.3	18.3	19.0
ROIC	18.0	16.9	18.2	18.8
RoE	13.0	15.0	15.4	15.5
Balance Sheet				
Net Debt : Equity (x)	0.2	0.2	0.1	0.1
Net Working Capital (Days)	192	199	207	212
Valuation(x)				
PER	25.0	19.1	16.6	14.7
P/B	3.1	2.7	2.4	2.1
P/CEPS	17.7	14.1	12.4	10.8
EV/EBITDA	12.7	12.7	10.4	9.0
EV/Sales	2.2	2.1	1.9	1.7
Dividend Yield (%)	1.7	1.7	1.4	1.6

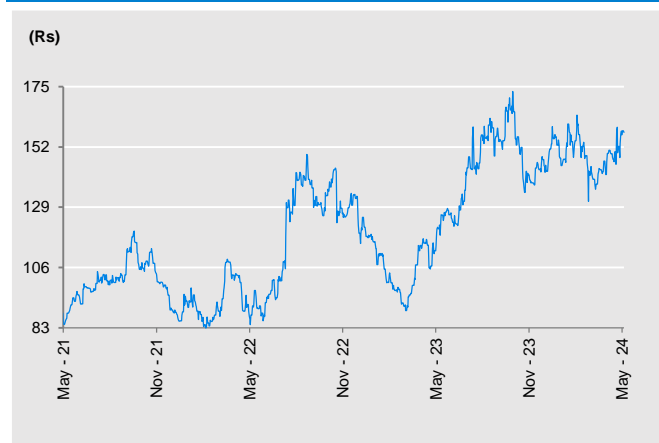
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	7,915	2,658	2,588	4,353
YoY gr. (%)	14.1	(19.4)	(2.1)	6.4
Raw Material Expenses	4,227	1,314	1,296	1,945
Gross Profit	3,688	1,344	1,291	2,408
Margin (%)	46.6	50.6	49.9	55.3
EBITDA	2,089	(43)	40	865
YoY gr. (%)	6.9	(113.2)	(60.9)	44.7
Margin (%)	26.4	(1.6)	1.6	19.9
Depreciation / Depletion	130	146	164	214
EBIT	1,959	(189)	(124)	651
Margin (%)	24.8	NA	NA	15.0
Net Interest	75	39	36	50
Other Income	35	22	31	46
Profit before Tax	1,919	476	(129)	647
Margin (%)	24.2	17.9	NA	14.9
Total Tax	542	161	(56)	106
Effective tax rate (%)	28.2	33.8	43.1	16.3
Profit after Tax	1,378	315	(74)	542
Minority interest	-	-	-	-
Share Profit from Associates	72	41	(58)	(62)
Adjusted PAT	1,449	(326)	(131)	479
YoY gr. (%)	(4.8)	NA	NA	108.8
Margin (%)	18.3	NA	NA	11.0
Extra Ord. Income / (Exp)	-	682	-	-
Reported PAT	1,449	356	(131)	479
YoY gr. (%)	(4.8)	NA	NA	108.8
Margin (%)	18.3	13.4	NA	11.0
Other Comprehensive Income	17	(4)	16	(526)
Total Comprehensive Income	1,466	352	(115)	(47)
Avg. Shares O/s (m)	226	226	226	226
EPS (Rs)	6.4	(1.4)	(0.6)	2.1

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	22-Apr-24	BUY	182	151
2	09-Apr-24	BUY	182	142
3	09-Feb-24	BUY	182	153
4	08-Jan-24	BUY	206	155
5	08-Nov-23	BUY	195	140
6	07-Oct-23	BUY	205	166
7	06-Aug-23	BUY	192	144
8	05-Jul-23	BUY	152	125

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	Accumulate	830	789
2	Imagicaaworld Entertainment	BUY	108	80
3	Indian Railway Catering and Tourism Corporation	Hold	825	1,023
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	Accumulate	4,315	3,982
6	Lemon Tree Hotels	BUY	153	141
7	Navneet Education	BUY	182	151
8	Nazara Technologies	BUY	826	671
9	PVR Inox	Accumulate	1,431	1,285
10	S Chand and Company	BUY	315	245
11	Safari Industries (India)	BUY	2,225	2,019
12	V.I.P. Industries	Hold	557	528
13	Zee Entertainment Enterprises	Hold	160	141

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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