

November 12, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	HOLD		HOLD	
Target Price	139		164	
Sales (Rs. m)	19,945	22,249	20,717	23,036
% Chng.	(3.7)	(3.4)		
EBITDA (Rs. m)	3,595	4,117	3,850	4,377
% Chng.	(6.6)	(5.9)		
EPS (Rs.)	9.3	10.8	10.1	11.6
% Chng.	(7.3)	(6.7)		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	17,513	17,911	19,945	22,249
EBITDA (Rs. m)	2,951	3,055	3,595	4,117
Margin (%)	16.9	17.1	18.0	18.5
PAT (Rs. m)	1,834	1,728	2,062	2,388
EPS (Rs.)	8.1	7.8	9.3	10.8
Gr. (%)	30.6	(3.7)	19.3	15.8
DPS (Rs.)	2.6	2.6	2.6	2.6
Yield (%)	1.9	1.9	1.9	1.9
RoE (%)	15.0	10.8	10.4	11.1
RoCE (%)	16.3	14.2	13.5	14.2
EV/Sales (x)	1.9	1.7	1.6	1.4
EV/EBITDA (x)	11.1	10.2	8.8	7.5
PE (x)	16.7	17.3	14.5	12.5
P/BV (x)	2.4	1.6	1.5	1.3

Key Data

NAVN.BO | NELI IN

52-W High / Low	Rs.179 / Rs.129
Sensex / Nifty	78,675 / 23,883
Market Cap	Rs.30bn / \$ 354m
Shares Outstanding	221m
3M Avg. Daily Value	Rs.60.99m

Shareholding Pattern (%)

Promoter's	63.31
Foreign	3.35
Domestic Institution	12.38
Public & Others	20.96
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.7)	(11.3)	(2.8)
Relative	(2.5)	(18.0)	(19.4)

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Growth struggle continues

Quick Pointers:

- Domestic stationery & publication business witnessing pricing pressure.

We cut our EPS estimates by 7.8%/7.3%/6.7% for FY25E/FY26E/FY27E given near-term growth challenges in publishing division and rising competitive intensity in the domestic stationery market. NELI reported weak set of numbers with revenue miss of 5% and a break-even at operating level as publishing and domestic stationery business suffered amid fall in realization. The publishing division has been facing considerable growth challenges of late due to increasing usage of second hand books. While ~15 subjects from Grade 1 to 4 in Gujarat are likely to undergo a curriculum change in FY26E, we believe material volume delta would accrue only after higher grades witness a syllabus change. Further, declining ASP in the domestic stationery market indicates rising competitive pressure, while slow offtake in channel inventory is a reflection of weak demand environment. We expect sales/PAT CAGR of 11%/18% over FY25E-FY27E and retain 'HOLD' with revised SOTP-based TP of Rs139 (refer Exhibit 5 for more details).

Revenue increased 2.3% YoY: Consolidated revenue increased 2.3% YoY to Rs2,718mn (PLe Rs2,863mn). Publishing sales increased 12.3% YoY to Rs823mn (PLe Rs747mn), while stationery sales decreased 1.6% YoY to Rs1,879mn (PLe Rs2,100mn).

GM stood at 52.0%: Gross profit increased 5.2% YoY to Rs1,414mn (PLe Rs1,474mn) with GM of 52.0% (PLe 51.5%). Consolidated EBITDA stood at Rs26mn (PLe Rs86mn) with a margin of 0.9% (PLe 3.0%) as compared to an EBITDA loss of Rs43mn in 2QFY24. Consolidated stationery EBIT margin stood at 8.7%, while publishing business reported an EBIT loss of Rs192mn.

PAT enters red zone: Consolidated net loss stood at Rs49mn (PLe loss of Rs56mn) as compared to an adjusted net loss of Rs302mn in 2QFY24.

Con-call highlights: 1) In 2QFY25, publishing volume increased 4%. However, realization was down by 6% as curriculum change for specific grades led to repricing of books at a lower level. **2)** EdTech loss is likely to be at Rs150mn in FY25E. **3)** In the CBSE business, NELI's reach was 8,500 schools (orders received from 4,700 schools) in FY24. In FY25E, the target is to reach 11,000 schools (aim is to get orders from 6,000 schools). **4)** Volume in the domestic stationery business is likely to grow by 12-15% in FY25E. **5)** 10-12% price cut is expected in the domestic stationery business due to product repricing following fall in RM prices. **6)** In Gujarat, ~15 subjects from Grade 1 to 4 may undergo a curriculum change during FY26E, and in Maharashtra, Grade 1 and 2 may undergo a syllabus change. **7)** 5-7% of the paper consumed is imported; rest is sourced domestically.

Exhibit 1: Q2FY25 Consolidated Result Overview (Rs mn)

Y/e March	Q2FY25	Q2FY24	YoY gr (%)	Q1FY25	QoQ gr (%)	Q2FY25E	% Var	H1FY25	H1FY24	YoY gr (%)
Net Sales	2,718	2,658	2.3	7,978	(65.9)	2,863	(5.1)	10,696	10,572	1.2
Expenditure										
Raw Materials	1,304	1,314	(0.8)	4,047	(67.8)	1,389	(6.1)	5,351	5,541	(3.4)
% of Net sales	48.0	49.4		50.7		48.5		50.0	52.4	
Personnel	670	643	4.2	710	(5.6)	687	(2.5)	1,380	1,272	8.5
% of Net sales	24.7	24.2		8.9		24.0		12.9	12.0	
Selling , dist & Other Exp	719	744	(3.4)	1,023	(29.8)	701	2.4	1,742	1,713	1.6
% of Net sales	26.4	28.0		12.8		24.5		16.3	16.2	
Total Expenditure	2,692	2,701	(0.3)	5,779	(53.4)	2,777	(3.0)	8,472	8,527	(0.6)
EBITDA	26	(43)	NM	2,199	(98.8)	86	(70.3)	2,224	2,046	8.7
Margin (%)	0.9	(1.6)		27.6		3.0		20.8	19.4	
Depreciation	154	146	5.8	150	2.7	150	2.9	305	276	10.6
EBIT	(129)	(189)	NM	2,048	NM	(64)	NM	1,919	1,770	8.4
Interest	39	39	(0.3)	67	(42.6)	39	(1.0)	106	114	(7.0)
Other Income	107	22	383.8	81	32.6	28	283.6	188	57	228.2
PBT	(60)	476	NM	8,667	NM	(75)	NM	2,002	1,714	16.8
Tax	(12)	137	NM	1,210	NM	(19)	NM	1,198	339	254.0
Tax Rate (%)	NM	28.8		14.0		NM		59.9	19.8	
Share of profit/loss from associates	(1)	41		(0)		-		(1)	113	NM
Adjusted PAT	(49)	(302)	NM	851	NM	(56)	NM	803	1,488	(46.0)
Reported PAT	(49)	380	NM	7,457	NM	(56)	NM	7,408	2,169	241.5
EPS	(0.2)	1.7	NM	31.0	NM	(0.3)	NM	30.8	9.6	221.2

Source: Company, PL

Exhibit 2: Consolidated stationery margin at 8.7%

Y/e March (Rs mn)	Q2FY25	Q2FY24	YoY gr (%)	Q1FY25	QoQ gr (%)
Segment Revenue					
Publishing Content	823	732	12.3	4,204	(80.4)
Stationery Products	1,879	1,909	(1.6)	3,752	(49.9)
Others	24	23	2.6	35	(30.9)
Segment EBIT					
Publishing Content	(192)	(257)	NM	1,564	NM
Stationery Products	163	162	0.6	651	(75.0)
Others	8	7	21.7	11	(21.5)
EBIT Margin					
Publishing Content	NM	NM	NM	37.2%	NM
Stationery Products	8.7%	8.5%	18 bps	17.4%	(869)bps
Others	35.1%	29.6%	553 bps	30.9%	422 bps

Source: Company, PL

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

Particulars	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Publishing revenue	890	945	893	3,571	1,331	860	1,036	4,306	729	883	1,012	4,167	811
YoY growth	61.7%	273.2%	-1.5%	261.5%	49.5%	-9.0%	16.1%	20.6%	-45.2%	2.7%	-2.3%	-3.2%	11.2%
As a % of sales	39.1%	40.3%	32.2%	52.4%	40.9%	30.9%	28.7%	54.7%	27.7%	34.7%	26.3%	52.6%	30.1%
Stationery revenue	1,385	1,400	1,878	3,247	1,924	1,924	2,571	3,569	1,899	1,660	2,835	3,752	1,879
YoY growth	32.4%	37.7%	88.5%	48.7%	39.0%	37.5%	36.9%	9.9%	-1.3%	-13.7%	10.3%	5.1%	-1.0%
As a % of sales	60.9%	59.7%	67.8%	47.6%	59.1%	69.1%	71.3%	45.3%	72.3%	65.3%	73.7%	47.4%	69.9%
Total sales	2,275	2,344	2,771	6,818	3,255	2,784	3,607	7,874	2,629	2,543	3,847	7,918	2,691

Source: Company, PL

Exhibit 4: Standalone margin in stationery division is low due to stiff competition

Particulars	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Publishing EBIT margin	14.8%	20.4%	18.7%	41.8%	23.9%	31.1%	-10.7%	38.6%	-22.5%	6.7%	9.3%	39.3%	-13.8%
Stationery EBIT margin	16.0%	14.2%	14.4%	19.6%	7.5%	3.2%	13.2%	15.2%	8.7%	5.7%	14.3%	17.3%	8.6%

Source: Company, PL

Exhibit 5: 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 + Stationery)	NA	P/E	11	24,475	111	We assign P/E multiple of 11x to our Sep'26E consolidated 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 a successful partial exit
SOTP value				30,775	139	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	17,513	17,911	19,945	22,249
YoY gr. (%)	3.2	2.3	11.4	11.6
Cost of Goods Sold	8,783	8,776	9,673	10,791
Gross Profit	8,730	9,135	10,272	11,458
Margin (%)	49.9	51.0	51.5	51.5
Employee Cost	2,578	2,784	3,007	3,248
Other Expenses	2,175	2,185	2,413	2,692
EBITDA	2,951	3,055	3,595	4,117
YoY gr. (%)	(1.0)	3.5	17.7	14.5
Margin (%)	16.9	17.1	18.0	18.5
Depreciation and Amortization	654	673	804	881
EBIT	2,297	2,382	2,791	3,236
Margin (%)	13.1	13.3	14.0	14.5
Net Interest	200	170	160	160
Other Income	134	250	220	210
Profit Before Tax	2,232	9,112	2,851	3,286
Margin (%)	12.7	50.9	14.3	14.8
Total Tax	388	1,321	718	828
Effective tax rate (%)	17.4	14.5	25.2	25.2
Profit after tax	1,843	7,790	2,132	2,458
Minority interest	2	0	0	0
Share Profit from Associate	(7)	(70)	(70)	(70)
Adjusted PAT	1,834	1,728	2,062	2,388
YoY gr. (%)	30.6	(5.8)	19.3	15.8
Margin (%)	10.5	9.6	10.3	10.7
Extra Ord. Income / (Exp)	682	6,650	-	-
Reported PAT	2,516	7,720	2,062	2,388
YoY gr. (%)	23.0	206.9	(73.3)	15.8
Margin (%)	14.4	43.1	10.3	10.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,516	7,720	2,062	2,388
Equity Shares O/s (m)	226	221	221	221
EPS (Rs)	8.1	7.8	9.3	10.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	6,797	7,527	8,857	9,587
Tangibles	5,309	6,009	7,309	8,009
Intangibles	1,488	1,518	1,548	1,578
Acc: Dep / Amortization	4,657	5,421	6,318	7,294
Tangibles	3,441	4,114	4,918	5,799
Intangibles	1,216	1,307	1,400	1,495
Net fixed assets	2,260	2,225	2,659	2,413
Tangibles	1,988	2,014	2,510	2,329
Intangibles	272	211	148	83
Capital Work In Progress	64	64	64	64
Goodwill	239	239	239	239
Non-Current Investments	3,085	7,804	7,825	7,848
Net Deferred tax assets	(339)	(339)	(339)	(339)
Other Non-Current Assets	760	776	793	810
Current Assets				
Investments	-	-	-	-
Inventories	6,388	6,968	7,923	8,839
Trade receivables	3,673	3,926	4,481	4,998
Cash & Bank Balance	247	948	852	1,820
Other Current Assets	619	712	818	941
Total Assets	17,472	23,821	25,839	28,189
Equity				
Equity Share Capital	452	442	442	442
Other Equity	12,482	18,637	20,124	21,936
Total Networth	12,934	19,079	20,566	22,379
Non-Current Liabilities				
Long Term borrowings	91	91	91	91
Provisions	12	13	14	15
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,485	2,268	2,582	2,877
Trade payables	524	736	820	914
Other current liabilities	1,041	1,248	1,380	1,527
Total Equity & Liabilities	17,472	23,822	25,839	28,189

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	2,906	9,112	2,851	3,286
Add. Depreciation	654	673	804	881
Add. Interest	200	170	160	160
Less Financial Other Income	134	250	220	210
Add. Other	(733)	(150)	(132)	(126)
Op. profit before WC changes	3,027	9,805	3,683	4,201
Net Changes-WC	(676)	(523)	(1,420)	(1,332)
Direct tax	(791)	(1,271)	(668)	(778)
Net cash from Op. activities	1,560	8,010	1,595	2,091
Capital expenditures	(11,528)	(639)	(1,237)	(635)
Interest / Dividend Income	19	150	132	126
Others	11,154	(19)	(21)	(23)
Net Cash from Invt. activities	(355)	(508)	(1,126)	(532)
Issue of share cap. / premium	-	-	-	-
Debt changes	7,761	(216)	314	294
Dividend paid	(590)	(588)	(575)	(575)
Interest paid	(183)	(170)	(160)	(160)
Others	(8,205)	10	-	-
Net cash from Fin. activities	(1,217)	(965)	(421)	(441)
Net change in cash	(13)	6,538	47	1,117
Free Cash Flow	810	7,372	357	1,455

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	8.1	7.8	9.3	10.8
CEPS	11.0	10.9	13.0	14.8
BVPS	57.2	86.2	93.0	101.2
FCF	3.6	33.3	1.6	6.6
DPS	2.6	2.6	2.6	2.6
Return Ratio(%)				
RoCE	16.3	14.2	13.5	14.2
ROIC	16.9	12.8	13.9	14.6
RoE	15.0	10.8	10.4	11.1
Balance Sheet				
Net Debt : Equity (x)	0.2	0.1	0.1	0.1
Net Working Capital (Days)	199	207	212	212
Valuation(x)				
PER	16.7	17.3	14.5	12.5
P/B	2.4	1.6	1.5	1.3
P/CEPS	12.3	12.4	10.4	9.1
EV/EBITDA	11.1	10.2	8.8	7.5
EV/Sales	1.9	1.7	1.6	1.4
Dividend Yield (%)	1.9	1.9	1.9	1.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	2,588	4,353	7,978	2,718
YoY gr. (%)	(2.1)	6.4	0.8	2.3
Raw Material Expenses	1,296	1,945	4,047	1,304
Gross Profit	1,291	2,408	3,931	1,414
Margin (%)	49.9	55.3	49.3	52.0
EBITDA	40	865	2,199	26
YoY gr. (%)	(60.9)	44.7	5.3	(159.3)
Margin (%)	1.6	19.9	27.6	0.9
Depreciation / Depletion	164	214	150	154
EBIT	(124)	651	2,048	(129)
Margin (%)	(4.8)	15.0	25.7	NA
Net Interest	36	50	67	39
Other Income	31	46	81	107
Profit before Tax	(129)	647	8,667	(60)
Margin (%)	(5.0)	14.9	108.6	NA
Total Tax	(56)	106	1,210	(12)
Effective tax rate (%)	43.1	16.3	14.0	20.0
Profit after Tax	(74)	542	7,457	(48)
Minority interest	-	-	-	-
Share Profit from Associates	(58)	(62)	-	(1)
Adjusted PAT	(131)	479	851	(49)
YoY gr. (%)	NA	108.8	(52.4)	NA
Margin (%)	NA	11.0	10.7	NA
Extra Ord. Income / (Exp)	-	-	6,605	-
Reported PAT	(131)	479	7,457	(49)
YoY gr. (%)	NA	108.8	316.6	NA
Margin (%)	NA	11.0	93.5	NA
Other Comprehensive Income	16	(526)	(2)	(26)
Total Comprehensive Income	(115)	(47)	7,455	(74)
Avg. Shares O/s (m)	226	226	226	221
EPS (Rs)	(0.6)	2.1	3.8	(0.2)

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-24	Hold	164	143
2	14-Aug-24	Hold	161	156
3	09-Jul-24	Accumulate	167	156
4	26-May-24	Accumulate	167	155
5	22-Apr-24	BUY	182	151
6	09-Apr-24	BUY	182	142
7	09-Feb-24	BUY	182	153
8	08-Jan-24	BUY	206	155

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	Accumulate	921	845
2	Delhivery	Accumulate	430	417
3	DOMS Industries	BUY	3,349	2,924
4	Imagicaaworld Entertainment	BUY	110	74
5	Indian Railway Catering and Tourism Corporation	Hold	833	829
6	InterGlobe Aviation	Accumulate	4,919	4,366
7	Lemon Tree Hotels	BUY	159	121
8	Mahindra Logistics	Hold	496	444
9	Navneet Education	Hold	164	143
10	Nazara Technologies	BUY	1,185	953
11	PVR Inox	Hold	1,598	1,621
12	S Chand and Company	BUY	312	211
13	Safari Industries (India)	BUY	2,989	2,235
14	TCI Express	Accumulate	1,119	977
15	V.I.P. Industries	Hold	494	472
16	Zee Entertainment Enterprises	Hold	145	132

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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