

August 10, 2017

# Navneet Education (NAVEDU)

₹ 155

## Syllabus change to spur revenue growth...

- Navneet reported flattish revenue growth of 0.9% to ₹ 565.2 crore (I-direct estimate: ₹ 618.9 crore). In segment per se, publishing revenue grew 10.1% YoY to ₹ 372.1 crore. Growth in publication segment was moderated as text books of ninth grade in Maharashtra were published late by the education board. Revenues from the stationery segment declined 12.2% YoY to ₹ 191.9 crore on account of de-stocking of inventory prior to the implementation of GST
- The EBITDA margin for the quarter declined 250 bps YoY to 28.7% (I-direct estimate: 33%) largely on the back of increase in raw material expenses (up 130 bps YoY) and higher other expenses (up 78 bps YoY). Subsequently, EBITDA de-grew 7.2% YoY to ₹ 162.4 crore (I-direct estimate: ₹ 204.2 crore). EBIT margins for the publication segment declined 150 bps YoY to 40.1%, while EBIT margins for the stationery segment came in at 15.2% vs. 20% in Q1FY17
- On the back of a subdued operational performance, PAT declined 3.4% YoY to ₹ 109.7 crore (I-direct estimate: ₹ 130.7 crore). Higher other income (up 61.2% YoY), moderated PAT de-growth to a certain extent

### Deferral of revenue stems publication segment growth

Growth momentum in the publication segment was stemmed as text books of ninth grade in Maharashtra were published late by the education board. The spillover of revenues from its supplementary books is expected to improve Q2FY18 revenues. We expect publication segment revenue (excluding Britannica) to maintain a higher trajectory with 14.0% CAGR in FY17-19E driven by syllabus changes in Gujarat and Maharashtra. Change of Syllabus in X and XII in Gujarat in FY18 and X and VIII in Maharashtra in FY19 provide strong triggers for growth in the next two years.

### De-stocking, lower exports dent stationery segment performance

Due to the prevailing uncertainty prior to GST related to old and new taxation rates, various trade channels started downsizing the inventory stocked. This impacted the stationery segment in the domestic market. In addition, exports for the quarter declined 22% YoY leading to an overall decline in the stationery segment by 12% YoY. We have revised our revenue estimates for the stationery segment downwards.

### Tapping CBSE curriculum based books market through Britannica

The CBSE curriculum based books is a large opportunity. Navneet is expected to tap this through acquisition of Britannica's Indian business. Britannica would provide a pan-India platform for Navneet as it is present in 25 states with a strong presence in Delhi, Punjab, Rajasthan, Haryana and Uttar Pradesh. Britannica derives ~97% of revenues from outside Maharashtra and Gujarat while majority of Navneet's publication revenues are derived from these two states.

### Change in syllabus to maintain growth momentum; maintain BUY

We expect the publications segment to continue on its strong growth trajectory driven by geographical expansion, entry into CBSE curriculum and change in syllabus for Maharashtra and Gujarat state boards. However, we expect the stationery segment to remain under pressure in the near term owing to the subdued scenario in export markets. Accordingly, we revise our estimates downwards for FY18E and FY19E. We maintain our **BUY** rating on the stock with a revised target price of ₹ 195, valuing at a multiple of 20.0x FY19E EPS.

Rating matrix		
Rating	:	Buy
Target	:	₹ 195
Target Period	:	12 months
Potential Upside	:	26%

What's changed?		
Target	Changed from ₹ 204 to ₹ 195	
EPS FY18E	Changed from ₹ 8.7 to ₹ 8.3	
EPS FY19E	Changed from ₹ 10.2 to ₹ 9.7	
Rating	Unchanged	

Quarterly performance					
	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenue	565.2	560.2	0.9	209.8	169.4
EBITDA	162.4	174.9	(7.2)	27.9	481.2
EBITDA (%)	28.7	31.2	-249 bps	13.3	1542 bps
PAT	109.7	113.6	(3.4)	16.9	550.4

Key financials				
(₹ crore)	FY16	FY17E	FY18E	FY19E
Net Sales	953	1,181	1,323	1,534
EBITDA	206	281	306	362
Net Profit	241	342	193	227
EPS (₹)	4.5	7.3	8.3	9.7

Valuation summary				
	FY16	FY17E	FY18E	FY19E
P/E	34.3	21.2	18.8	15.9
Target P/E	43.2	26.7	23.6	20.0
EV to EBITDA	18.4	13.4	12.3	10.4
Price to book	6.3	5.2	5.2	5.0
RONW (%)	19.1	26.7	27.1	28.6
ROCE (%)	27.5	34.9	34.3	37.1

Stock data	
Particular	Amount
Market Capitalisation (₹ Crore)	3,620.8
Debt (FY17) (₹ Crore)	159.4
Cash (FY17) (₹ Crore)	9.7
EV (₹ Crore)	3,770.5
52 week H/L	193 / 94
Equity Capital (₹ Crore)	46.7
Face Value (₹)	2

Price performance				
	1M	3M	6M	12M
Navneet Education	-10.1	-4.6	12.2	54.8
Kokuyo Camlin	-18.5	-10.5	10.9	16.8

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## Variance analysis

	Q1FY18	Q1FY18E	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	Comments
Revenue	565.2	618.9	560.2	0.9	209.8	169.4	Segment per se, publishing revenue grew 10.1% YoY to ₹ 372.1 crore while stationery segment declined 12.2% YoY to ₹ 192 crore
Other Income	12.3	3.0	7.6	61.2	4.0	209.3	
Employee Expense	31.1	24.8	28.1	10.6	23.4	32.9	
Raw Material Expense	294.9	321.8	285.4	3.3	102.1	188.8	
Other Expenses	76.9	68.1	71.8	7.1	56.4	36.3	
EBITDA	162.4	204.2	174.9	-7.2	27.9	481.2	
EBITDA Margin (%)	28.7	33.0	31.2	-249 bps	13.3	1542 bps	The EBITDA margin for the quarter declined 250 bps YoY largely on the back of increase in raw material expenses (up 130 bps YoY) and higher other expenses (up 78 bps YoY)
Depreciation	5.3	6.6	6.0	-11.7	6.4	-17.1	
Interest	2.6	2.0	2.3	14.2	1.1	125.4	
PBT	166.8	198.6	174.3	-4.3	24.4	584.2	
Tax Outgo	57.2	67.9	60.7	-5.9	7.5	660.0	
PAT	109.7	130.7	113.6	-3.4	16.9	550.4	Higher other income moderated the PAT de-growth to a certain extent

## Key Metrics

### Revenues

Publication Segment	372.1	387.0	338.1	10.1	53.6	594.1
Stationery Segment	191.9	226.9	218.5	-12.2	155.3	23.6
<b>EBIT Margin</b>						
Publication Segment	40.1	NA	41.6	-152 bps	24.8	1528 bps
Stationery Segment	15.2	NA	20.0	-478 bps	10.0	521 bps

Source: Company, ICICIdirect.com Research

## Change in estimates

(₹ Crore)	FY18E			FY19E		
	Old	New	% Change	Old	New	% Change
Revenue	1,343.6	1,323.1	-1.5	1,595.0	1,533.6	-3.8
EBITDA	325.1	305.6	-6.0	387.6	361.9	-6.6
EBITDA Margin (%)	24.2	23.1	-110 bps	24.3	23.6	-70 bps
PAT	206.5	195.9	-5.1	241.3	229.5	-4.9
EPS (₹)	8.7	8.3	-5.1	10.2	9.7	-4.5

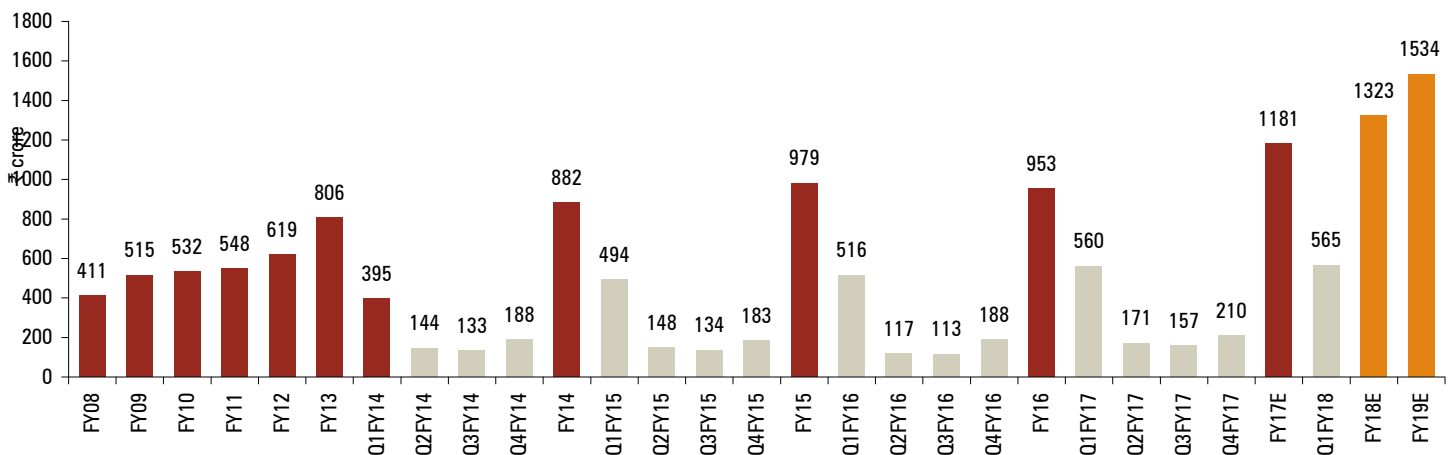
Source: Company, ICICIdirect.com Research.

## Company Analysis

### Syllabus changes, acquisition of Britannica to boost revenue growth

Navneet Education is an established player in the supplementary book publishing and stationery segment. It has a market share in excess of 60% in educational publishing in Maharashtra and Gujarat. Navneet has a stable business model with steady revenue growth in the publication business with years that have syllabus change showing strong double digit growth in the publication segment. FY16 registered a weak performance mainly due to lack of government orders and scrapping of scholarship programme in Maharashtra for FY16. FY17 turned out to be a strong year for Navneet with revenue increasing 24% YoY to ₹ 1181 crore. Revenue growth was driven by both publication and stationery segment, up 13% and 20% YoY, respectively. Government orders for FY17 were at ₹ 11.9 crore. Exports for the stationery segment, which constitutes ~47% of total stationery sales, registered robust growth of 34% YoY to ₹ 231.5 crore for FY17.

Exhibit 1: Revenue trend



Source: Company, ICICIdirect.com Research

We expect publication segment revenue (including Britannica) to maintain a higher trajectory with 17.6% CAGR in FY17-19E driven by syllabus changes in Gujarat and Maharashtra. Also, the company's foray into CBSE curriculum through acquisition of Britannica's Indian curriculum business will boost revenue growth for the publication segment. Britannica derives ~97% of revenues from outside Maharashtra & Gujarat states. This will enable Navneet to diversify its geographical reach as currently majority of Navneet's publication revenues are derived from these two states.

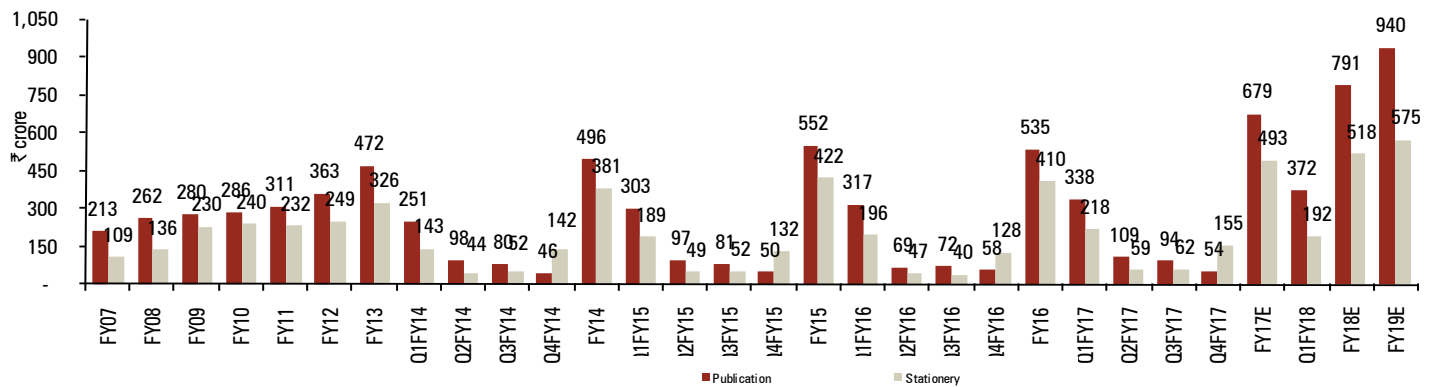
Due to the prevailing uncertainty prior to GST related to old and new taxation rates, various trade channels started downsizing the inventory stocked. This impacted the stationery segment in the domestic market. In addition, exports for the quarter declined 22% YoY leading to an overall decline in the stationery segment by 12% YoY. We revise our revenue estimates for the stationery segment marginally downwards. We expect stationery to grow at a CAGR of 8% in FY17-19E.

### Exhibit 2: Syllabus change to drive revenue growth

Academic Year	Maharashtra Standard	Subjects	Gujarat Standard	Subjects
2016-17	VI	All subjects(All medium)	IX	All subjects (Guajarati medium)
	IX	Marathi & Hindi	XI	All subjects (Guajarati medium)
	X	Marathi & Hindi		
2017-18	VII	All subjects(All medium)	X	All subjects except Maths & Science (All medium)
	IX	All subjects(All medium)	XII	All commerce & Arts subject (All medium)
2018-19	VIII	All subjects(All medium)		Not yet announced
	X	All subjects(All medium)		

Source: Company, ICICIdirect.com Research

### Exhibit 3: Segmental revenue trend

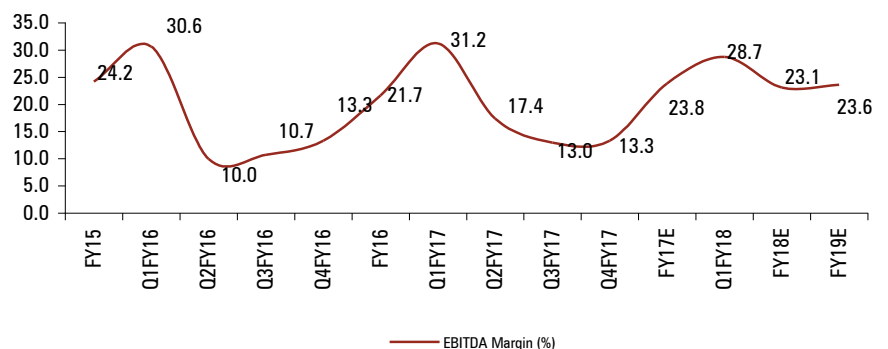


Source: Company, ICICIdirect.com Research

### Margins expected in range of 23-24%

In the last several years, Navneet has sustained operating margins in the range of 20-24%. Healthy topline growth in FY17 led to positive operating leverage, which resulted in an EBITDA growth of 36% YoY to ₹ 281 crore with margin expansion of 210 bps YoY to 23.8%. In the segment per se, EBIT margins for publication segment expanded 200 bps while EBIT margins for stationery segment grew 250 bps on improved product mix in FY17.

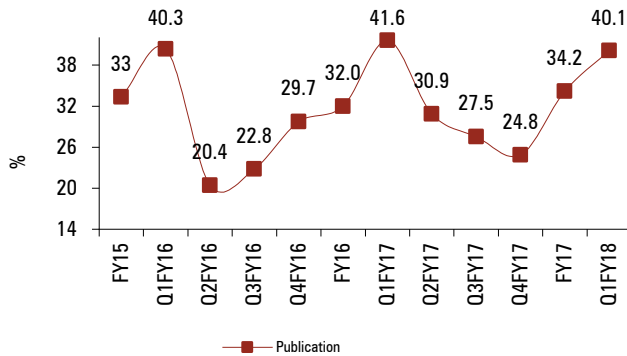
### Exhibit 4: Operating margin trend



Source: Company, ICICIdirect.com Research

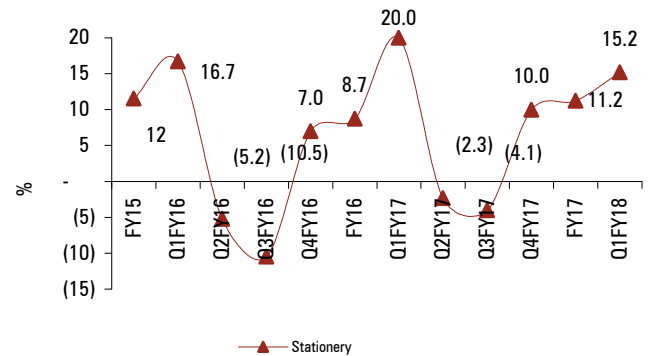
While the publication segment has had sustainable margins over the years, the stationery segment is subject to currency fluctuations considering the exposure to exports. We expect operating margins to decline marginally from 23.8% in FY17 to 23.1% in FY18E mainly on account of increase in royalty expense and decline in stationery exports leading to negative operating leverage.

**Exhibit 5: Publication segment EBIT margin**



Source: Company, ICICIdirect.com Research

**Exhibit 6: Stationery segment EBIT margin**



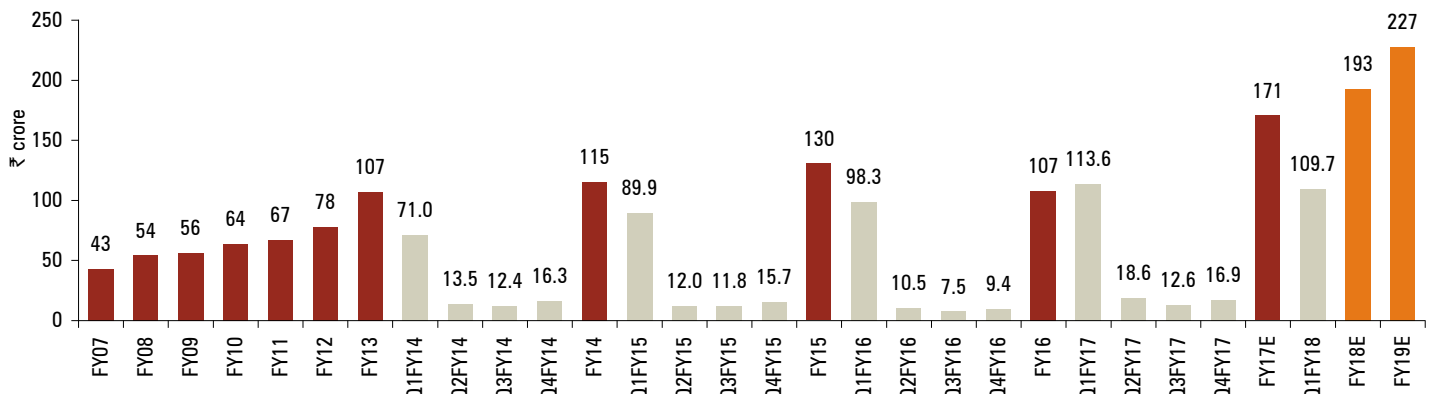
Source: Company, ICICIdirect.com Research

### Strong operational performance to aid PAT growth

Navneet reported robust PAT growth of 59% YoY in FY17 to ₹ 171 crore led by healthy topline growth and better cost efficiencies.

On the back of consistent revenue growth and a stable margin profile, we expect PAT to grow steadily to ₹ 192.9 crore and ₹ 227.5 crore in FY18E and FY19E, respectively.

**Exhibit 7: Net profit trend**



Source: Company, ICICIdirect.com Research

## Valuation

In the publication and e-learning business, content is king. Navneet has over five decades of experience in developing content. It has an asset base of over 185 authors who create content and update the same timely. Even as an established player in this business it takes almost two years for Navneet to enter newer markets. It takes Navneet even longer for it to set up, create content and build distribution channels.

Navneet has a long standing relationship with state boards and also schools. This is very important in this business as state boards recommend which workbooks, guides, etc. should be used. The company also has a strong distribution channel, which enables easy distribution and supply of its products.

Recently, Navneet has taken several initiatives like entry into CBSE books business, enhancing its presence in digital content. Through its enhanced content it is looking to enter new states in India and gradually establish itself in new states. These steps should enable it to improve its revenue growth over the next few years.

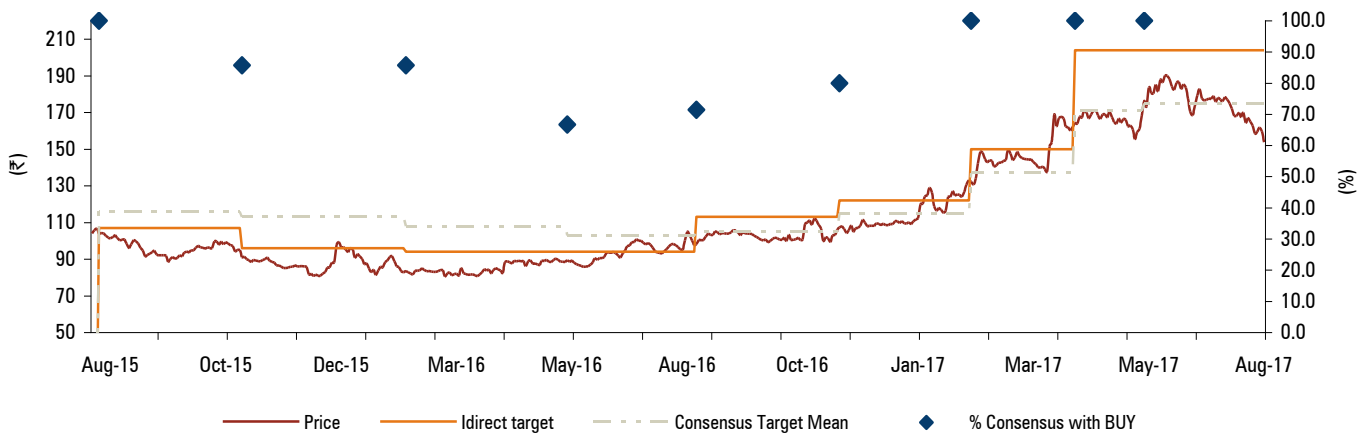
We expect the publications segment to continue on its strong growth trajectory driven by geographical expansion, entry into CBSE curriculum and change in syllabus for Maharashtra and Gujarat state boards. However, we expect the stationery segment to remain under pressure in the near term owing to the subdued scenario in export markets. Accordingly, we revise downwards our estimates for FY18E and FY19E. We maintain our **BUY** rating on the stock with a target price of ₹ 195, valuing at a multiple of 20.0x FY19E EPS.

**Exhibit 8: Valuations**

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	952.6	-2.7	4.5	-17.0	34.3	18.4	19.1	27.5
FY17E	1181.3	24.0	7.3	61.9	21.2	13.4	26.7	34.9
FY18E	1323.1	12.0	8.3	13.1	18.8	12.2	25.5	32.6
FY19E	1533.6	15.9	9.7	17.9	15.9	10.3	25.7	33.8

Source: Company, ICICIdirect.com Research

### Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICIdirect.com Research

### Key events

Date	Event
May-09	Operating margin bounces back to 20% range (after slipping marginally below 20% in FY09). Despite a flattish topline growth, PAT increases 13.4% YoY
Jul-09	Announces bonus issue (3:2)
Oct-10	After two consecutive years of flattish topline growth, the company returns to early teen topline growth in FY12
Sep-11	Continues its growth trajectory, led by well rounded growth in both segments - publication & stationery
Dec-12	Reports 30%+ topline and bottomline growth in FY13
Jun-14	The stock rallies in anticipation of strong Q1FY15 results
Oct-15	Company reports disappointing set of results in Q2FY16 with revenue, EBITDA & PAT declining 20.5%, 55% & 12%, respectively
Oct-16	Acquires Britannica's Indian curriculum business for a consideration of ~ ₹ 90 crore
Jan-17	Buys back 46.6 lakh shares at ₹ 125/ share

Source: Company, ICICIdirect.com Research

### Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Navneet Trust	30-Jun-17	39.63%	92.57	0.00
2	HDFC Asset Management Co., Ltd.	31-Mar-16	8.63%	20.16	0.00
3	UTI Asset Management Co. Ltd.	30-Jun-16	2.74%	6.41	0.00
4	Somerset Capital Management, L.L.P.	30-Jun-17	2.38%	5.55	0.00
5	Gala (Gnanesh D)	30-Jun-17	1.80%	4.20	0.00
6	Gala (Kalpesh H)	30-Jun-17	1.55%	3.61	0.00
7	Gala (Ranjanaben B)	30-Jun-17	1.54%	3.60	2.79
8	Gala (Ranjanben B & Bipin A)	31-Mar-17	1.47%	3.44	0.00
9	Franklin Templeton Asset Management (India) Pvt. Ltd.	30-Jun-17	1.45%	3.39	-0.08
10	Kotak Mahindra Asset Management Company Ltd.	30-Jun-17	1.44%	3.36	0.12

Source: Reuters, ICICIdirect.com Research

### Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	61.8	61.8	61.8	61.8	61.8
FII	7.1	7.3	4.5	6.2	6.3
DII	15.2	15.2	14.8	15.5	15.8
Others	15.9	15.7	19.0	16.5	16.1

### Recent Activity

BUY			SELL		
Investor name	Value (Mn)	Shares (Mn)	Investor name	Value (Mn)	Shares (Mn)
Gala (Ranjanaben B)	7.75	2.79	Gala (Amarchand R)	-0.92	-0.32
Gala (Ketan B)	5.94	2.14	Fidelity Management & Research Company	-0.64	-0.26
Gala (Bipin A)	0.44	0.16	Franklin Templeton Asset Management (India) Pvt. Ltd.	-0.21	-0.08
Kotak Mahindra Asset Management Company Ltd.	0.34	0.12	State Street Global Advisors Ltd. (Canada)	-0.04	-0.02
Sundaram Asset Management Company Limited	0.22	0.08			

Source: Reuters, ICICIdirect.com Research



## Financial summary

Profit and loss statement					₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E					
Total operating Income	952.6	1,181.3	1,323.1	1,533.6					
Growth (%)	-2.8	24.0	12.0	15.9					
Raw Material Expenses	459.7	544.7	621.8	720.8					
Employee Expenses	99.4	118.7	132.3	145.7					
Royalty Expenses	17.9	26.0	31.8	36.8					
Manufacturing Expenses & Other	169.2	210.8	231.5	268.4					
Total Operating Expenditure	746.2	900.1	1,017.4	1,171.7					
EBITDA	206.4	281.2	305.6	361.9					
Growth (%)	-12.9	36.3	8.7	18.4					
Depreciation	29.7	28.4	32.3	38.8					
EBIT	176.7	252.9	273.3	323.1					
Interest	3.6	4.3	3.9	4.6					
Other Income	16.7	15.2	23.8	27.6					
PBT	189.9	263.8	293.3	346.1					
Total Tax	69.7	82.7	97.4	116.6					
PAT	120.2	181.1	195.9	229.5					
Share of associates	-12.7	-10.5	-3.0	-2.0					
PAT after Share of Associates	107.5	170.6	192.9	227.5					
Growth (%)	-17.6	58.7	13.1	17.9					
EPS (₹)	4.5	7.3	8.3	9.7					

Source: Company, ICICIdirect.com Research

Cash flow statement					₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E					
Profit before Tax	189.9	263.8	293.3	346.1					
Add: Depreciation	29.7	28.4	32.3	38.8					
(Inc)/dec in Current Assets	70.9	-175.6	-43.0	-120.8					
Inc/(dec) in CL and Provisions	-52.9	88.8	-26.8	17.4					
Taxes Paid	-69.7	-82.7	-97.4	-116.6					
Others	18.1	-25.7	-34.1	-15.9					
CF from operating activities	185.9	96.9	124.2	148.9					
(Inc)/dec in Investments	-0.2	5.5	-10.0	-5.3					
(Inc)/dec in Fixed Assets	-22.7	-41.6	-34.7	-34.8					
Others	0.0	-65.7	0.7	0.0					
CF from investing activities	-23.0	-101.8	-44.1	-40.1					
Issue/(Buy back) of Equity	0.0	-0.9	0.0	0.0					
Inc/(dec) in loan funds	-40.1	55.9	-5.4	-1.9					
Dividend paid & dividend tax	-126.2	0.0	-70.0	-99.2					
Others	-3.4	-46.3	-4.7	-5.4					
CF from financing activities	-169.8	8.7	-80.0	-106.5					
Net Cash flow	-6.9	3.8	0.1	2.3					
Opening Cash	12.7	5.9	9.7	9.8					
Closing Cash	5.9	9.7	9.8	12.1					

Source: Company, ICICIdirect.com Research

Balance sheet					₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E					
Liabilities									
Equity Capital	47.6	46.7	46.7	46.7					
Reserve and Surplus	535.4	647.1	768.2	896.5					
Total Shareholders funds	583.0	693.8	815.0	943.2					
Total Debt	103.5	159.4	154.0	152.1					
Deferred Tax Liability	4.1	(0.1)	0.5	1.2					
Minority Interest / Others	0.1	0.1	0.1	0.1					
Total Liabilities	690.6	853.1	969.9	1,096.9					
Assets									
Gross Block	386.4	426.1	461.1	496.1					
Less: Accu Depreciation	222.8	239.7	272.0	310.8					
Net Block	163.6	186.4	189.1	185.3					
Capital WIP	0.8	2.8	2.5	2.2					
Total Fixed Assets	164.4	189.2	191.6	187.5					
Goodwill on Consolidation	-	45.7	45.0	45.0					
Investments	49.4	44.7	54.7	60.0					
Other Non-Current Assets	12.2	11.5	31.5	41.5					
Inventory	307.4	384.3	424.1	495.8					
Debtors	186.8	278.1	271.9	315.1					
Loans and Advances	20.2	27.6	37.0	42.9					
Other Current Assets	23.1	30.0	45.0	55.0					
Cash	5.8	9.7	9.8	12.1					
Total Current Assets	543.3	729.6	787.8	921.0					
Creditors	29.7	76.0	42.6	43.4					
Provisions	10.5	27.7	32.0	38.0					
Other Current Liabilities	38.6	63.9	66.2	76.7					
Total Current Liabilities	78.8	167.6	140.7	158.1					
Application of Funds	690.6	853.1	969.9	1,096.9					

Source: Company, ICICIdirect.com Research

Key ratios					₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E					
Per share data (₹)									
EPS	4.5	7.3	8.3	9.7					
Cash EPS	6.3	9.0	9.0	9.8					
BV	24.5	29.7	29.7	34.9					
DPS	5.3	0.0	0.0	3.0					
Cash Per Share	0.2	0.4	0.4	0.5					
Operating Ratios									
EBITDA Margin (%)	21.7	23.8	23.1	23.6					
PBT Margin (%)	19.9	22.3	22.2	22.6					
PAT Margin (%)	12.6	15.3	14.8	15.0					
Inventory days	117.8	118.7	117.0	118.0					
Debtor days	75.0	75.0	75.0	75.0					
Creditor days	24.0	24.0	25.0	22.0					
Return Ratios (%)									
RoE	19.1	26.7	25.6	25.9					
RoCE	27.5	34.9	32.7	34.1					
RoIC	32.2	34.8	34.8	33.4					
Valuation Ratios (x)									
P/E	34.3	21.2	18.8	15.9					
EV / EBITDA	18.4	13.4	12.3	10.4					
EV / Net Sales	4.0	3.2	2.8	2.5					
Market Cap / Sales	3.9	3.1	2.7	2.4					
Price to Book Value	6.3	5.2	5.2	4.4					
Solvency Ratios									
Debt/EBITDA	0.5	0.6	0.5	0.4					
Debt / Equity	0.2	0.2	0.2	0.2					
Current Ratio	6.9	4.4	5.6	5.8					
Quick Ratio	5.5	4.9	4.8	4.8					

Source: Company, ICICIdirect.com Research



## **RATING RATIONALE**

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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