

Rating matrix	
Rating	Buy
Target	₹ 204
Target Period	12 months
Potential Upside	17%

What's changed?	
Target	Unchanged
EPS FY18E	Unchanged
EPS FY19E	Unchanged
Rating	Unchanged

Quarterly performance					
	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Revenue	209.8	187.5	11.9	156.6	34.0
EBITDA	27.9	24.9	12.1	20.3	37.8
EBITDA (%)	13.3	13.3	3 bps	13.0	36 bps
PAT	16.9	9.4	80.1	12.6	33.5

Key financials				
(₹ crore)	FY16	FY17E	FY18E	FY19E
Net Sales	953	1,181	1,344	1,595
EBITDA	206	281	325	388
Net Profit	108	171	204	239
EPS (₹)	4.5	7.3	8.7	10.2

Valuation summary				
	FY16	FY17E	FY18E	FY19E
P/E	42.2	24.0	20.1	17.1
Target P/E	49.4	28.1	23.5	20.0
EV to EBITDA	21.0	15.1	13.0	10.8
Price to book	7.2	5.9	5.9	5.1
RONW (%)	17.7	26.8	27.3	27.5
ROCE (%)	26.8	34.1	34.2	36.3

Stock data	
Particular	Amount
Market Capitalisation (₹ Crore)	4,088.0
Debt (FY17) (₹ Crore)	159.4
Cash (FY17) (₹ Crore)	9.8
EV (₹ Crore)	4,237.6
52 week H/L	182 / 85
Equity Capital (₹ Crore)	46.7
Face Value (₹)	2

Price performance				
	1M	3M	6M	12M
Navneet Education	-5.4	12.8	52.0	81.5
Kokuyo Camlin	6.2	17.4	21.5	21.8

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Navneet Education (NAVEDU)

₹ 175

Stationery segment drives performance ...

- Navneet's Q4FY17 results were better than our expectations on the revenue and profitability front
- Revenues for the quarter came in at ₹ 209.8 crore (I-direct estimate: ₹ 186.4 crore), up 12% YoY. Segment per se, publishing revenue degrew 8% YoY to ₹ 53.6 crore (Q4 being a seasonally weak quarter), whereas stationery segment reported healthy revenue growth of 21% YoY to ₹ 155.3 crore
- EBITDA margins remained flat YoY to 13.3% (I-direct estimate: 12.6%). Subsequently, absolute EBITDA grew 12% YoY to ₹ 27.9 crore (I-direct estimate: ₹ 23.4 crore). On account of a decline in revenues for the publications segment, EBIT margins for publications contracted 487 bps YoY to 24.9%. However, EBIT margins for the stationery segment expanded 302 bps YoY to 10%, partly aiding margin growth
- Other income rose 54% YoY to ₹ 4 crore, leading to 80% YoY growth to ₹ 16.9 crore at the PAT level

Back to high growth trajectory

After a tepid FY16, FY17 turned out to be a strong year for Navneet with revenue, EBITDA, PAT increasing 24%, 36%, 59% to ₹ 1181 crore, ₹ 281 crore, ₹ 171 crore, respectively. Revenue growth was driven by both, publication and stationery segments, up 14% 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, recorded robust growth of 34% YoY to ₹ 231.5 crore for FY17. Export business for stationery segment is now evenly spread across all quarters.

Acquisition of Britannica & change in syllabus to drive publication growth

We expect publication segment revenue (including Britannica) to maintain higher trajectory with 18.5% 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 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. Britannica is present in 25 states with a strong presence in Delhi, Punjab, Rajasthan, Haryana and Uttar Pradesh.

Stationery segment to grow on improved export demand

We expect stationery segment to also to perk up, driven by improved demand from international markets and domestic demand, leading to revenue CAGR of 12.2% in FY17-19E.

Revenue, PAT traction to remain strong; maintain BUY

We expect revenues to grow at a CAGR of 16.2% in FY17-19E driven by geographical expansion, entry into CBSE curriculum and change in syllabus for Maharashtra and Gujarat state boards. With addition of Britannica, Navneet would have higher offerings in the Indian curriculum segment and would be able to tap newer markets in India. We ascribe a multiple of 20.0x FY19E EPS and have a target price of ₹ 204 with a **BUY** recommendation on Navneet Education.

Variance analysis

	Q4FY17	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Comments
Revenue	209.8	186.4	187.5	11.9	156.6	34.0	Revenues grew 12% owing to a 21% YoY increase in stationery revenues while publication segment de-grew 8% YoY
Other Income	4.0	2.5	2.6	53.9	5.5	-27.4	Other income rose 54% YoY
Employee Expense	23.4	29.9	25.7	-9.0	26.7	-12.3	
Raw Material Expense	102.1	82.8	83.9	21.7	65.6	55.7	
Other Expenses	56.4	50.3	53.1	6.3	44.1	28.0	
EBITDA	27.9	23.4	24.9	12.1	20.3	37.8	
EBITDA Margin (%)	13.3	12.6	13.3	3 bps	13.0	36 bps	EBITDA margins remained flat on account of decline in EBIT margins for the publication segment
Depreciation	6.4	8.0	7.2	-11.6	6.5	-0.9	
Interest	1.1	1.1	0.4	159.1	0.1	2,180.0	
PBT	24.4	16.8	19.8	22.9	19.3	26.6	
Tax Outgo	7.5	6.2	10.5	-28.2	6.6	13.6	
PAT	16.9	10.6	9.4	80.1	12.6	33.5	Higher other income led to a strong PAT growth

Key Metrics
Revenues

Publication Segment	53.6	58.7	58.2	-7.8	94.4	-43.2
Stationery Segment	155.3	127.7	128.1	21.2	61.7	151.6

EBIT Margin

Publication Segment	24.8	NA	29.7	-488 bps	27.5	-270 bps
Stationery Segment	10.0	NA	7.0	302 bps	-4.1	

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY18E			FY19E		
	Old	New	% Change	Old	New	% Change
Revenue	1,368.6	1,343.6	-1.8	1,600.0	1,595.0	-0.3
EBITDA	331.2	325.1	-1.8	390.4	387.6	-0.7
EBITDA Margin (%)	24.2	24.2	0 bps	24.4	24.3	-10 bps
PAT	203.4	206.5	1.5	240.1	241.3	0.5
EPS (₹)	8.7	8.7	0.2	10.2	10.2	0.5

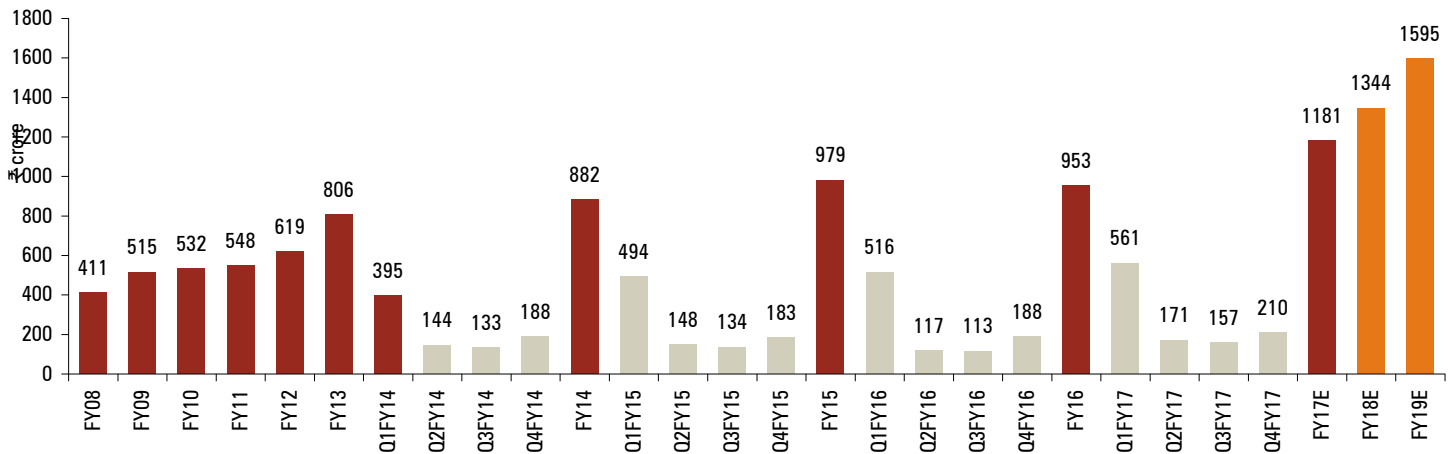
Source: Company, ICICIdirect.com Research.

Company Analysis

Acquisition of Britannica to boost revenue growth going forward

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 & 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. Export business is now evenly spread across all quarters.

Exhibit 1: Revenue trend



Source: Company, ICICIdirect.com Research

We expect publication segment revenue (including Britannica) to maintain higher trajectory with 18.5% 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 the revenue growth for 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.

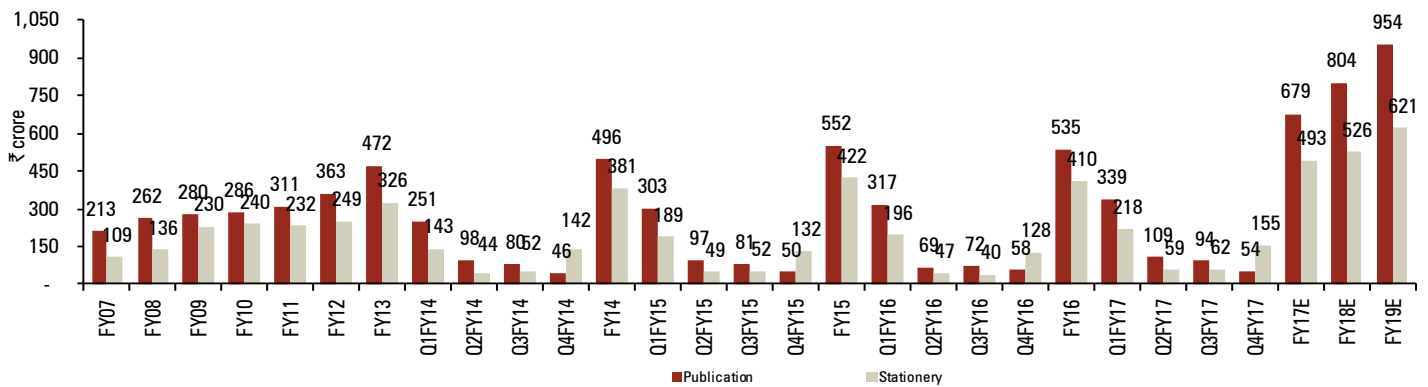
The stationery segment recorded revenue growth of 18.4%, albeit on a small base, in FY07-15. We expect stationery segment to also perk up, driven by improved demand from international markets and domestic demand, leading to revenue CAGR of 12.2% in FY17-19E.

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 (Gujarati medium)
	IX	Marathi & Hindi	XI	All subjects (Gujarati 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

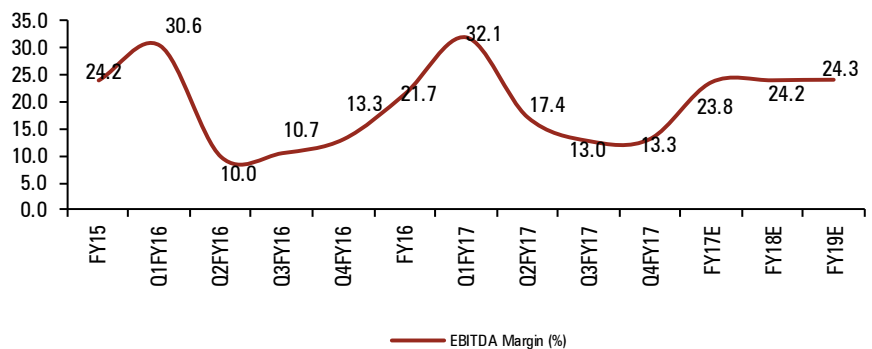


Source: Company, ICICIdirect.com Research

Margins expected in range of 23-25%

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%. Segment per se, EBIT margins for publication segment expanded 200 bps while EBIT margins for stationery segment grew 250 bps on improved product mix.

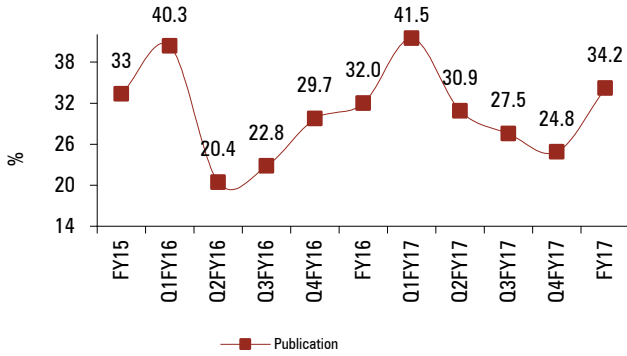
Exhibit 4: Operating margin trend



Source: Company, ICICIdirect.com Research

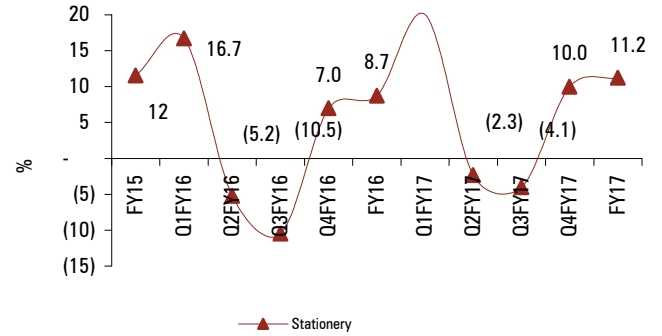
While the publication segment has had sustainable margins over the years, the stationery segment is subject to currency fluctuations considering the exposure to exports. We expect operating margins to improve, from 23.8% in FY17 to 24.3% in FY19E driven by operating leverage benefit and cost efficiency.

Exhibit 5: Publication segment EBIT margin



Source: Company, ICICIdirect.com Research

Exhibit 6: Stationery segment EBIT margin

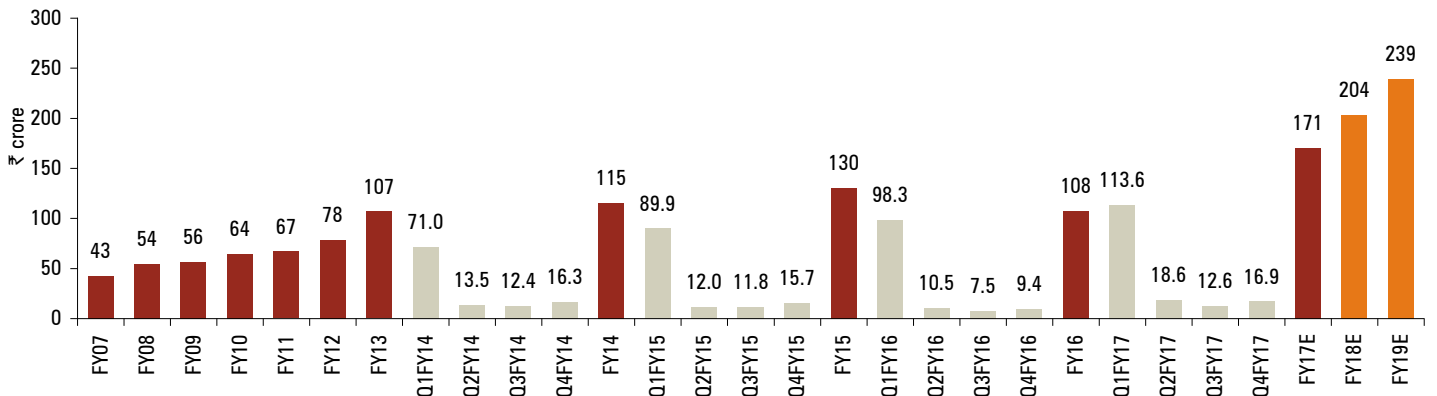


Source: Company, ICICIdirect.com Research

Strong operational performance to boost PAT growth

Navneet reported robust PAT growth of 59% YoY 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 ₹ 204 crore and ₹ 239 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 and 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. Navneet 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.

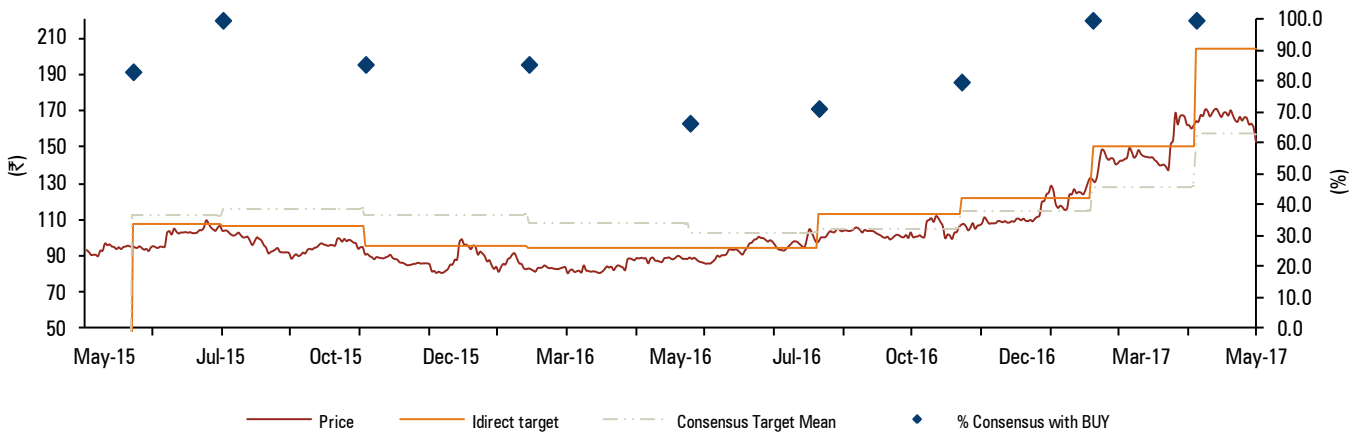
We expect revenues to grow at a CAGR of 16.2% in FY17-19E driven by geographical expansion, entry into CBSE curriculum and change in syllabus for Maharashtra and Gujarat state boards. With addition of Britannica, Navneet would have higher offerings in the Indian curriculum segment and would be able to tap newer markets in India. We ascribe a multiple of 20.0x FY19E EPS and have a target price of ₹ 204 with a **BUY** recommendation on Navneet Education.

Exhibit 8: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	952.6	-2.7	4.5	-17.4	38.9	20.9	19.0	26.6
FY17E	1181.3	24.0	7.3	62.6	24.0	15.1	26.6	33.9
FY18E	1343.6	13.7	8.7	19.3	20.1	13.0	27.1	34.1
FY19E	1595.0	18.7	10.2	17.6	17.1	10.8	27.2	36.0

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 reported disappointing set of results in Q2FY16 with Revenue, EBITDA & PAT declining by 20.5%, 55% & 12% respectively
Oct-16	Acquired Britannica's Indian curriculum business for a consideration of ~ ₹ 90 crore
Jan-17	Bought 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	31-Mar-17	0.4992	92.57	0.00
2	HDFC Asset Management Co., Ltd.	31-Mar-17	0.0974	19.84	-0.35
3	Somerset Capital Management, L.L.P.	31-Dec-15	0.0591	6.66	0.00
4	UTI Asset Management Co. Ltd.	31-Mar-17	0.0585	5.89	-0.10
5	Gala (Gnanes H)	31-Mar-17	0.0561	4.20	0.00
6	Gala (Kalpesh H)	31-Mar-17	0.056	3.61	0.00
7	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-Mar-17	0.0252	3.46	-1.09
8	Gala (Ranjanben B & Bipin A)	31-Mar-17	0.0223	3.44	0.00
9	Gala (Anil Dunganarshi)	31-Mar-17	0.0216	3.29	0.00
10	Kotak Mahindra Asset Management Company Ltd.	31-Mar-17	0.0157	3.24	-0.11

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	61.8	61.8	61.8	61.8	61.8
FII	7.0	7.1	7.3	4.5	6.2
DII	15.2	15.2	15.2	14.8	15.5
Others	15.9	15.9	15.7	19.0	16.5

Recent Activity

BUY			SELL		
Investor name	Value (Mn)	Shares (Mn)	Investor name	Value (Mn)	Shares (Mn)
Sampat (Darshan D)	1.75	0.95	Franklin Templeton Asset Management (India) Pvt. Ltd.	-2.73	-1.09
Gala (Bipin A) HUF	1.38	0.75	ICICI Prudential Asset Management Co. Ltd.	-1.20	-0.74
Sundaram Asset Management Company Limited	0.22	0.09	HDFC Asset Management Co., Ltd.	-0.87	-0.35
			Fidelity Management & Research Company	-0.47	-0.29
			J.P. Morgan Asset Management (Hong Kong) Ltd.	-0.39	-0.16

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	1,343.6	1,595.0	
Growth (%)	-2.8	24.0	13.7	18.7	
Raw Material Expenses	459.7	544.7	644.9	765.6	
Employee Expenses	99.4	118.7	120.9	140.4	
Manufacturing Expenses	187.1	236.8	252.6	301.5	
Total Operating Expenditure	746.2	900.1	1,018.4	1,207.4	
EBITDA	206.4	281.3	325.1	387.6	
Growth (%)	-12.9	36.3	15.6	19.2	
Depreciation	29.7	28.4	36.8	40.7	
EBIT	176.8	252.9	288.4	346.9	
Interest	3.6	4.3	3.9	4.0	
Other Income	16.7	15.2	20.2	20.7	
PBT	189.9	263.8	304.6	363.6	
Total Tax	69.7	82.7	98.1	122.3	
PAT	120.2	181.1	206.5	241.3	
Share of associates	-12.7	-10.5	-3.0	-2.0	
PAT after Share of Associates	107.5	170.6	203.5	239.3	
Growth (%)	-17.6	58.7	19.3	17.6	
EPS (₹)	4.5	7.3	8.7	10.2	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Profit before Tax	189.9	263.8	304.6	363.6	
Add: Depreciation	29.7	28.4	36.8	40.7	
(Inc)/dec in Current Assets	42.4	-147.1	-109.5	-138.3	
Inc/(dec) in CL and Provisions	-57.7	93.6	-3.2	24.9	
Taxes Paid	-69.7	-82.7	-98.1	-122.3	
Others	-1.1	-102.1	57.2	-11.5	
CF from operating activities	133.5	53.8	187.8	157.1	
(Inc)/dec in Investments	16.7	8.1	0.0	0.0	
(Inc)/dec in Fixed Assets	-41.7	-51.9	-69.7	-39.8	
Others	0.0	0.0	0.0	0.0	
CF from investing activities	-25.0	-43.9	-69.7	-39.8	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-44.1	59.9	-3.3	-22.7	
Dividend paid & dividend tax	-63.1	-65.6	-88.2	-93.7	
Others	-3.4	-5.1	-4.7	-4.8	
CF from financing activities	-110.6	-10.8	-96.2	-121.2	
Net Cash flow	-2.1	-0.9	21.8	-3.8	
Opening Cash	12.7	10.6	9.8	31.6	
Closing Cash	10.6	9.8	31.6	27.7	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Liabilities					
Equity Capital	47.8	46.7	46.7	46.7	
Reserve and Surplus	539.5	647.1	759.5	905.1	
Total Shareholders funds	587.7	693.8	806.2	951.8	
Total Debt	99.5	159.4	156.1	133.4	
Deferred Tax Liability	1.3	2.4	3.0	3.7	
Minority Interest / Others	-	-	-	-	
Total Liabilities	688.5	855.9	965.6	1,089.2	
Assets					
Net Block	175.5	206.6	230.4	229.7	
Capital WIP	0.8	2.8	2.5	2.2	
Total Fixed Assets	176.3	209.4	232.9	231.9	
Investments	32.6	24.5	24.5	24.5	
Other Non-Current Assets	0.1	11.5	11.5	11.5	
Inventory	306.4	384.3	423.3	502.5	
Debtors	188.9	278.1	268.7	307.6	
Loans and Advances	47.5	27.6	107.5	127.6	
Other Current Assets	0.1	32.4	30.0	45.0	
Cash	10.6	9.8	31.6	27.7	
Total Current Assets	553.5	732.1	861.1	1,010.5	
Creditors	29.7	76.0	35.3	44.0	
Provisions	5.7	27.7	61.8	65.4	
Other Current Liabilities	38.6	17.9	67.2	79.8	
Total Current Liabilities	74.0	121.6	164.3	189.2	
Application of Funds	688.5	855.9	965.6	1,089.2	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Per share data (₹)					
EPS	4.5	7.3	8.7	10.2	
Cash EPS	6.3	9.0	9.0	10.4	
BV	24.6	29.7	29.7	34.5	
DPS	2.2	2.4	2.4	3.2	
Cash Per Share	0.4	0.4	1.4	1.2	
Operating Ratios					
EBITDA Margin (%)	21.7	23.8	24.2	24.3	
PBT Margin (%)	19.9	22.3	22.7	22.8	
PAT Margin (%)	12.6	15.3	15.4	15.1	
Inventory days	117.4	124.0	115.0	115.0	
Debtor days	75.0	71.8	73.0	70.4	
Creditor days	24.0	20.0	20.0	21.0	
Return Ratios (%)					
RoE	19.0	26.6	27.1	27.2	
RoCE	26.6	33.9	34.1	36.0	
RoIC	31.5	33.9	33.9	35.5	
Valuation Ratios (x)					
P/E	38.9	24.0	20.1	17.1	
EV / EBITDA	20.9	15.1	13.0	10.8	
EV / Net Sales	4.5	3.6	3.1	2.6	
Market Cap / Sales	4.4	3.5	3.0	2.6	
Price to Book Value	7.1	5.9	5.9	5.1	
Solvency Ratios					
Debt/EBITDA	0.5	0.6	0.5	0.3	
Debt / Equity	0.2	0.2	0.2	0.1	
Current Ratio	7.5	4.4	5.2	5.3	
Quick Ratio	6.4	4.9	6.1	5.8	

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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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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