

Stationery exports drive revenue growth...

Navneet reported healthy revenue growth of 18.7% YoY to ₹ 795.0 crore (I-direct estimate: ₹ 771.7 crore). On the segmental front, revenues from publishing segment grew 18.1% YoY to ₹ 432.2 crore while revenue from the stationery segment increased 19.5% YoY to ₹ 362.5 crore. Growth in the stationery segment was mainly driven by exports, which grew 27% YoY to ₹ 253 crore. EBITDA margins remained flattish YoY at 29.1% (I-direct estimate: 30.0%) mainly on account of higher other expenses (up 23% YoY to ₹ 107.6 crore). Other expenses includes ₹ 13.2 crore incurred towards the dispute resolution of MVAT liability. Excluding the same, EBITDA margins were at 30.7%. Increase in finance cost (up 67% YoY to ₹ 7.0 crore) and depreciation expense (up 40% YoY to 8.0 crore) impacted PAT growth to a certain extent. The resultant PAT grew 16.7% YoY to ₹ 147.4 crore.

Strong quarter for publication segment albeit on low base

Navneet reported steady revenue growth in the publication segment in its critical quarter (~55% of revenues derived in Q1). Revenue grew 18% YoY to ₹ 432.2 crore, albeit on low base of Q1FY19 (previous quarter disrupted owing to licencing issues). We believe syllabus change in Gujarat (across all standards) and Maharashtra (II, III, XI standards) were key drivers for revenue growth. We expect revenue growth for the publication segment to taper down in Q2FY20, on the back of very strong base (52% growth in Q2FY19 owing to spillover of revenues from Q1). We expect Navneet to exit FY20 with revenue growth of 13% in the publication segment.

Exports drive stationery segment revenue growth

Stationery segment has become an integral part of Navneet, with the division now contributing ~45% to overall sales. Revenue from the stationery segment grew 20% YoY to ₹ 362.5 crore on a high base of Q1FY19 (60% revenue growth). Growth in the stationery segment was mainly driven by exports, which grew 27% YoY to ₹ 253 crore while domestic stationery grew 6% YoY to ₹ 109.5 crore. Rising share of exports augurs well, since the margin profile is much superior compared to domestic markets.

Valuation & Outlook

We build in revenue CAGR of 12.5% in FY19-21E, driven by 11% and 14% CAGR in the publication segment and stationery segment, respectively. Growth in stationery exports and narrowing of losses in Indiannica segment remain critical triggers for margin expansion. In Q1FY20, working capital days witnessed certain deterioration with NWC days getting bloated by ~36 days YoY. Leverage position remains at comfortable levels, with D/E ratio of 0.4x and generating 20%+ RoCE. The stock is available at reasonable valuations of 11.5x FY21/PE. We maintain our **BUY** rating on the stock with a target price of ₹ 130, valuing at a multiple of 14.0x FY21E EPS.



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	2,426.3
Debt (FY19) (₹ Crore)	334.1
Cash (FY19) (₹ Crore)	20.8
EV (₹ Crore)	2,739.6
52 week H/L	139.4 / 96
Equity Capital (₹ Crore)	45.8
Face Value (₹)	2

Key Highlights

- Publication segment revenues grew 18% YoY to ₹ 432 crore in Q1FY20
- Stationery segment reported robust revenue growth of 19.5% YoY to ₹ 363 crore in Q1FY20. Growth driven by 27% growth in exports to ₹ 253 crore
- Syllabus change in Gujarat for publication and higher export of stationery are key growth drivers
- Maintain BUY with target price of ₹ 130

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Key Financial Summary

₹ crore	FY18	FY19E	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	1,204.0	1,445.0	1,654.8	1,829.5	12.5%
EBITDA	222.5	270.8	314.4	356.8	14.8%
PAT	127.4	152.8	182.6	210.4	17.3%
P/E (x)	19.4	16.2	13.3	11.5	
EV/Sales (x)	2.2	1.9	1.7	1.5	
EV/EBITDA (x)	12.1	10.1	8.8	7.6	
RoCE (%)	19.6	21.2	22.3	26.0	
RoE (%)	16.9	19.3	20.3	20.4	

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Revenue	795.0	788.6	670.0	18.7	245.5	223.8	Stationery segment grew 19.5% YoY to ₹ 362.5 crore while publication revenues grew 18.1% YoY to ₹ 432.2 crore
Other Income	9.8	5.7	7.1	38.8	2.2	351.4	
Employee Expense	38.3	39.4	33.0	16.3	34.2	11.9	
Raw Material Expense	417.7	410.1	352.5	18.5	117.5	255.4	
Other Expenses	107.6	102.5	87.1	23.5	65.5	64.1	Other expenses includes ₹ 13.2 crore incurred towards dispute resolution of MVAT liability
EBITDA	231.4	236.6	197.4	17.2	28.2	720.4	
EBITDA Margin (%)	29.1	30.0	29.5	-35 bps	11.5	1762 bps	Excluding exceptional expense, EBITDA margins came in at 30.7%
Depreciation	8.0	6.7	5.7	40.3	6.5	23.5	
Interest	7.0	4.4	4.2	66.9	4.2	65.7	
PBT	226.2	231.2	194.6	16.3	19.7	1,051.2	
Tax Outgo	78.8	80.9	68.3	15.4	4.9	1,494.9	
PAT	147.4	150.3	126.3	16.7	14.7	902.2	Higher finance cost and depreciation expense impacted PAT growth

Key Metrics

Revenues

Publication Segment	432.2	433.7	366.0	18.1	62.2	595.2
Stationery Segment	362.5	353.4	303.4	19.5	182.9	98.2

EBIT Margin

Publication Segment	37.9	NA	42.3	-440 bps	16.2	2174 bps
Stationery Segment	21.8	NA	18.2	358 bps	11.3	1051 bps

Source: Company, ICICI Direct Research

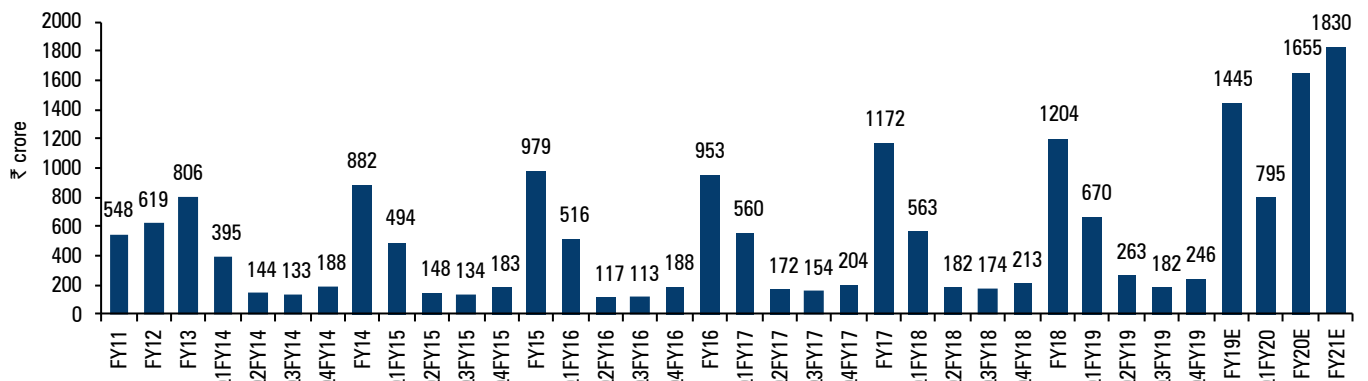
Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E		
	Old	New	% Change	Old	New	% Change
Revenue	1,623.9	1,654.8	1.9	1,788.0	1,829.5	2.3
EBITDA	316.7	314.4	-0.7	361.2	356.8	-1.2
EBITDA Margin (%)	19.5	19.0	-50 bps	20.2	19.5	-70 bps
PAT	184.9	179.6	-2.8	216.2	207.4	-4.1
EPS (₹)	8.2	8.0	-2.7	9.6	9.2	-4.3

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 3: Revenue trend



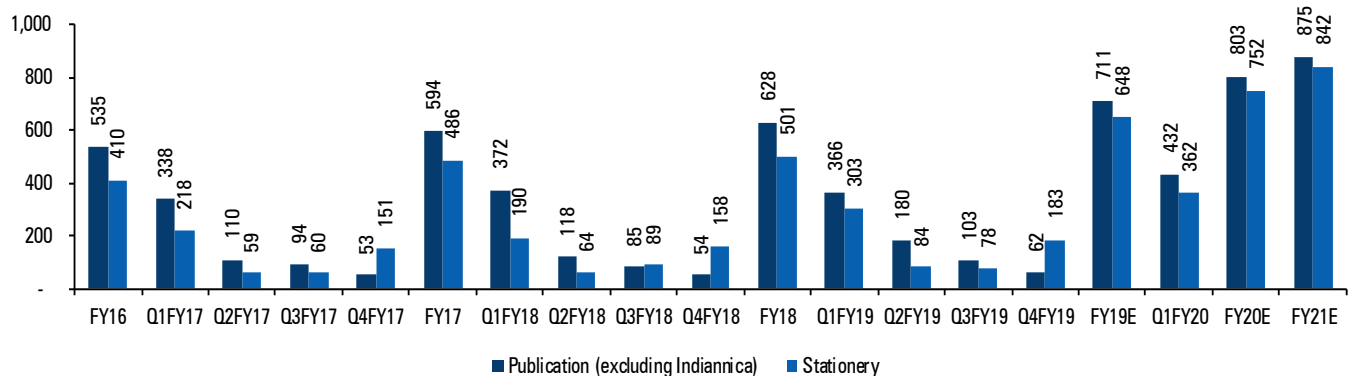
Source: Company, ICICI Direct Research

Exhibit 4: Syllabus change to drive revenue growth

Academic Year	Maharashtra Standard	Subjects	Gujarat Standard	Subjects
2018-19	I	All subjects(All medium)	IX	Maths, Science, English as per NCERT
	VIII	All subjects(All medium)	XI	Maths, Physics, Chemistry, Biology, English as per NCERT
	X	All subjects(All medium)		
2019-2020	II	All subjects(All medium)	I - VIII	Maths
	III	All subjects(All medium)	VI - VIII	Science
	XI	All subjects(All medium)	X	Maths & Science
			XII	Maths, Physics, Chemistry & Biology

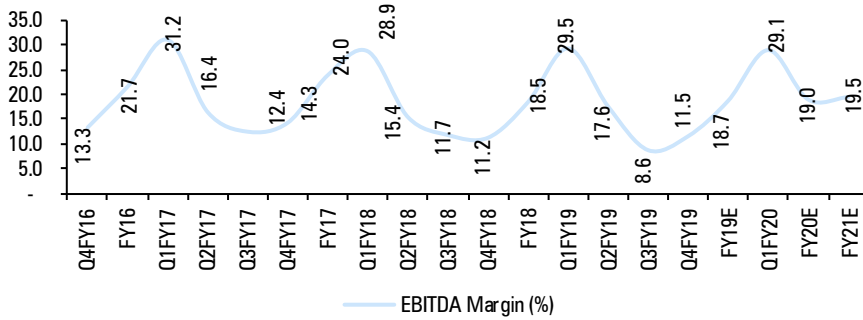
Source: Company, ICICI Direct Research

Exhibit 5: Segmental revenue trend



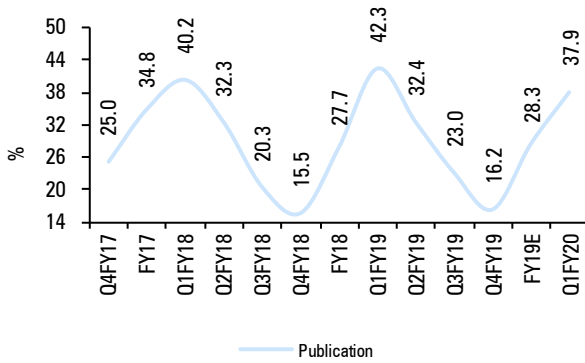
Source: Company, ICICI Direct Research

Exhibit 6: Operating margin trend



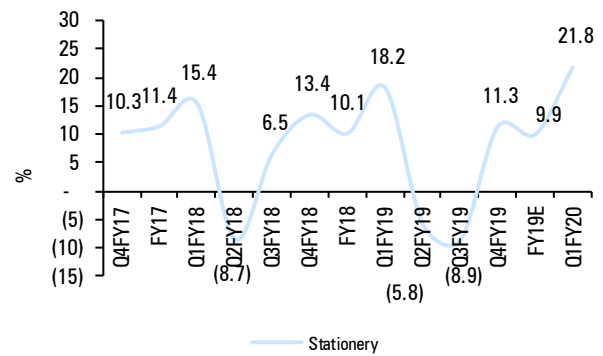
Source: Company, ICICI Direct Research

Exhibit 7: Publication segment EBIT margin



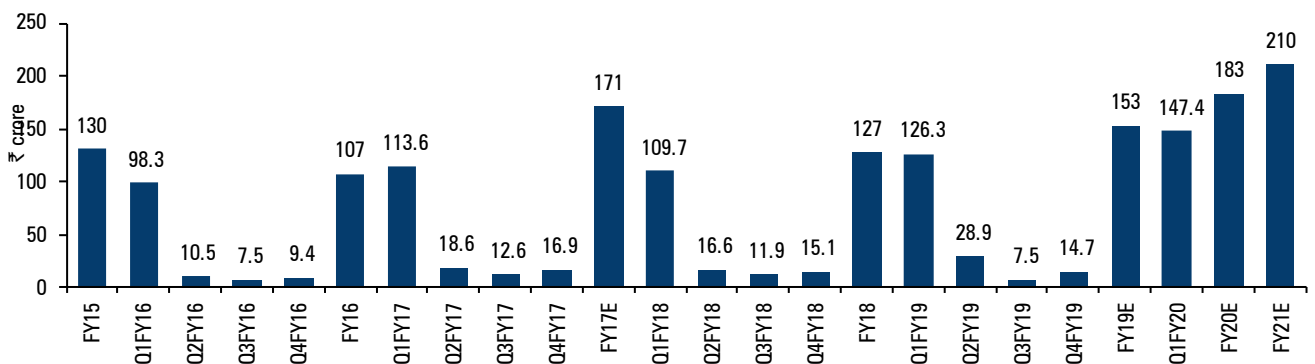
Source: Company, ICICI Direct Research

Exhibit 8: Stationery segment EBIT margin



Source: Company, ICICI Direct Research

Exhibit 9: Net profit trend



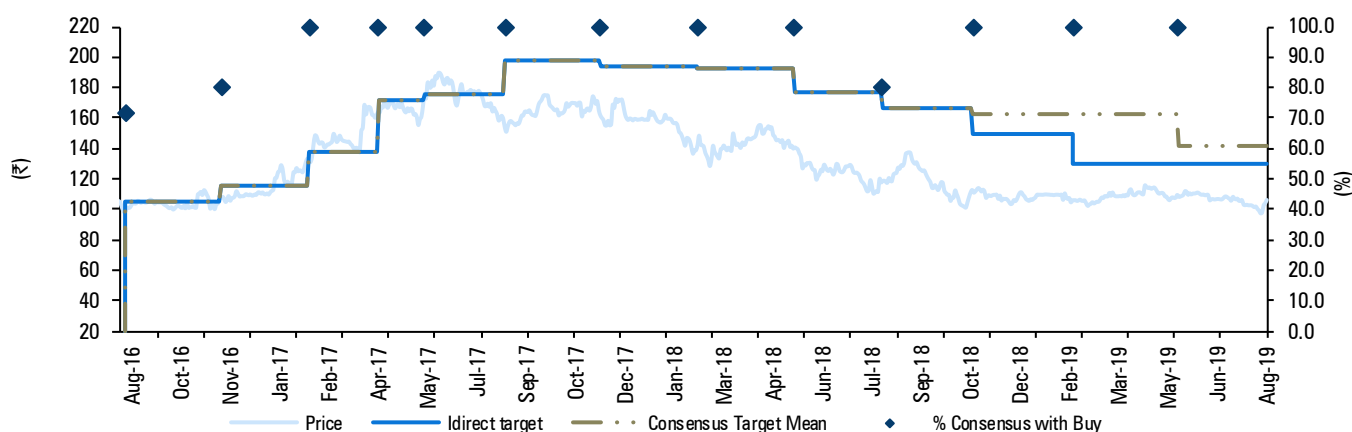
Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	1204.0	2.7	5.5	-25.4	19.4	12.1	16.9	19.6
FY19E	1445.0	20.0	6.7	22.4	16.2	10.1	19.3	21.2
FY20E	1654.8	14.5	8.0	19.5	13.3	8.8	20.3	22.3
FY21E	1829.5	10.6	9.2	15.2	11.5	7.6	20.4	26.0

Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S Position (m)	Change (m)
1	Navneet Trust	30-Jun-19	39.73%	90.92
2	HDFC Asset Management Co., Ltd.	30-Jun-19	8.74%	20.00
3	Franklin Templeton Asset Management (India) Pvt. Ltd	31-Mar-19	4.18%	9.56
4	UTI Asset Management Co. Ltd.	30-Jun-19	1.94%	4.44
5	Gala (Kalpesh H)	30-Jun-19	1.89%	4.33
6	Gala (Gnanesh D)	30-Jun-19	1.84%	4.20
7	Kotak Mahindra Asset Management Company Ltd.	30-Jun-19	1.57%	3.59
8	Gala (Ranjanaben B)	30-Jun-19	1.54%	3.53
9	Gala (Anil Dungarshi)	30-Jun-19	1.45%	3.31
10	Somerset Capital Management, L.L.P.	30-Jun-19	1.39%	3.18

Source: Reuters, ICICI Direct Research

Exhibit 13: Recent Activity

BUY			SELL		
Investor name	Value (Mn)	Shares (Mn)	Investor name	Value (Mn)	Shares (Mn)
Somerset Capital Management, L.L.P.	3.86	2.51	Gala (Shantilal R) HUF	-2.54	-1.65
Franklin Templeton Asset Management (India) Pvt. Ltd.	2.02	1.29	Gala (Raju H)	-1.49	-0.97
Gala (Sandeep S)	1.48	0.96	Gala (Vimlaben S)	-1.09	-0.71
Gala (Kalpesh H)	0.21	0.14	Gala (Shantilal R)	-0.89	-0.58

Source: Reuters, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	61.8	61.8	61.9	61.9	61.8
FII	6.8	5.3	5.0	4.9	4.3
DII	16.6	16.7	17.0	17.3	17.7
Others	14.8	16.3	16.2	15.9	16.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total operating Income	1,204.0	1,445.0	1,654.8	1,829.5
Growth (%)	2.7	20.0	14.5	10.6
Raw Material Expenses	584.9	702.1	797.6	878.2
Employee Expenses	146.8	171.3	193.6	212.2
Manufacturing Expenses & Other	249.9	300.9	349.2	382.4
Total Operating Expenditure	981.6	1,174.2	1,340.4	1,472.8
EBITDA	222.5	270.8	314.4	356.8
Growth (%)	-20.9	21.7	16.1	13.5
Depreciation	30.7	32.7	36.2	38.2
EBIT	191.8	238.1	278.3	318.6
Interest	7.7	15.3	18.1	16.8
Other Income	26.0	16.9	17.0	18.3
PBT	210.0	239.7	277.2	320.1
Total Tax	82.5	92.5	97.6	112.7
PAT	127.5	147.2	179.6	207.4
Share of associates	-0.1	5.6	3.0	3.0
PAT after Share of Associates	127.4	152.8	182.6	210.4
Growth (%)	-29.6	20.0	19.5	15.2
EPS (₹)	5.5	6.7	8.0	9.2

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	127.4	152.8	182.6	210.4
Add: Depreciation	30.7	32.7	36.2	38.2
(Inc)/dec in Current Assets	-108.3	-95.8	-135.7	-101.4
Inc/(dec) in CL and Provisions	8.5	13.2	12.1	13.7
Others	0.0	0.0	0.0	0.0
CF from operating activities	58.3	102.9	95.2	160.9
(Inc)/dec in Investments	-20.0	-2.5	7.1	0.0
(Inc)/dec in Fixed Assets	-34.4	-47.1	-45.0	-22.0
(Inc)/dec in CWIP	-1.4	-12.6	9.7	0.0
Others	0.7	-23.0	-10.0	-10.0
CF from investing activities	-55.0	-85.1	-38.2	-32.0
Issue/(Buy back) of Equity	0.0	-0.9	0.0	0.0
Inc/(dec) in loan funds	65.9	108.8	13.4	-18.2
Others	-72.2	-111.6	-75.0	-74.9
CF from financing activities	-6.2	-3.8	-61.6	-93.1
Net Cash flow	-2.9	14.1	-4.7	35.8
Opening Cash	9.7	6.8	20.8	16.2
Closing Cash	6.8	20.8	16.2	52.0

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	46.7	45.8	45.8	45.8
Reserve and Surplus	705.2	745.1	852.2	987.1
Total Shareholders funds	751.9	790.9	898.0	1,032.9
Total Debt	225.3	334.1	347.5	329.3
Deferred Tax Liability	-3.2	-2.2	-1.6	-1.0
Minority Interest / Others	0.2	0.4	0.4	0.4
Total Liabilities	974.2	1,123.3	1,244.3	1,361.6
Assets				
Gross Block	447.5	494.7	539.7	561.7
Less: Accu Depreciation	257.4	290.1	326.3	364.5
Net Block	190.1	204.5	213.4	197.2
Capital WIP	4.1	16.7	7.0	7.0
Total Fixed Assets	194.2	221.2	220.4	204.2
Goodwill on Consolidation	45.7	45.7	45.7	45.7
Investments	64.7	67.1	60.0	60.0
Other Non-Current Assets	10.8	33.7	43.7	53.7
Inventory	428.2	551.3	634.7	696.7
Debtors	318.1	292.4	340.0	375.9
Loans and Advances	28.4	28.5	33.1	36.6
Other Current Assets	53.6	51.9	51.9	51.9
Cash	6.8	20.8	16.2	52.0
Total Current Assets	835.0	944.8	1,075.9	1,213.1
Creditors	75.3	83.9	98.3	108.3
Provisions	42.9	54.1	50.0	50.0
Other Current Liabilities	58.0	51.3	53.0	56.7
Total Current Liabilities	176.1	189.2	201.3	215.0
Application of Funds	974.2	1,123.3	1,244.3	1,361.6

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
EPS	5.5	6.7	8.0	9.2
Cash EPS	6.8	7.7	9.4	10.7
BV	32.2	34.6	39.2	45.1
Cash Per Share	0.3	0.9	0.7	2.3
Operating Ratios				
EBITDA Margin (%)	18.5	18.7	19.0	19.5
PBT Margin (%)	17.4	16.6	16.8	17.5
PAT Margin (%)	10.6	10.2	10.9	11.3
Inventory days	129.8	139.2	140.0	139.0
Debtor days	96.4	73.8	75.0	75.0
Creditor days	47.0	43.6	45.0	45.0
Return Ratios (%)				
RoE	16.9	19.3	20.3	20.4
RoCE	19.6	21.2	22.3	26.0
Valuation Ratios (x)				
P/E	19.4	16.2	13.3	11.5
EV / EBITDA	12.1	10.1	8.8	7.6
EV / Net Sales	2.2	1.9	1.7	1.5
Market Cap / Sales	2.1	1.7	1.5	1.3
Price to Book Value	3.3	3.1	2.7	2.3
Solvency Ratios				
Debt/EBITDA	1.0	1.2	1.1	0.9
Debt / Equity	0.3	0.4	0.4	0.3
Current Ratio	4.7	5.0	5.3	5.6
Quick Ratio	6.1	6.7	7.4	8.2

Source: Company, ICICI Direct Research

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