

## Navneet Education

### A stable business model

Navneet Education's is primarily engaged in the business of publishing educational material, in both print and digital formats. The company also manufactures paper and non-paper stationary products.

#### Investment Arguments

**Business expansion to mitigate cyclical risk:** NEL's Publication business is seasonal in nature and any strong growth is dependent on major changes in the syllabus of Maharashtra (market share of 60%) and Gujarat boards (market share of 65%). Now, the company is attempting to increase its revenues through business expansion in different segments. It is taking initiatives like

**(a) Content publication for CBSE syllabus:** Apart from Maharashtra and Gujarat, NEL is targeting to grow its presence in other states through its CBSE content business. It is anticipated that the growth may continue to be strong in the segment on account of a syllabus change and also with more schools in different states adopting CBSE curriculum.

**(b) Selling supplementary books to government:** NEL takes orders to sell supplementary books to Maharashtra government, which get distributed to students in government schools. In FY2013, NEL generated ~₹27cr through this business. But in FY2014, there were no government orders after many controversies arose related to the issue of tenders. The tenders issue then got resolved and in FY2015 the company generated a revenue of around ₹25cr. Going forward, we expect the company to achieve strong revenue from this segment.

**Higher exports to drive stationary growth business:** In the Stationary segment, we expect the company to report healthy growth in coming financial years on back of higher growth in exports. The company mainly exports to USA and Africa. Also, the company is looking to tap newer geographies like the Middle East. In FY2015, exports in the segment reported a yoy growth of ~33% to ~₹170cr. In FY2016, the company expects around ₹200cr from export sales. On the margin front, the company is expecting a margin improvement by 30-40bp, benefitting from economies of scale.

**Outlook and Valuation:** Given the company's proven track record, its strong brand, consistent performance of Government projects and E-Learning (Digital) segments, and with it tapping new segments like CBSE across India, we expect it to report a healthy top-line and bottom-line CAGR of 4.1% and 5.5%, respectively, over FY2015-17E. Moreover, NEL has repaid the ₹90cr loan which will lead to significant saving in interest cost in the coming financial years. **At the current market price, the stock trades at a P/E of 14.4x its FY2017E EPS. We initiate coverage on the stock with an Accumulate recommendation and target price of ₹97 (16x FY2017E EPS), indicating an upside of ~11% in the stock price from the present levels.**

#### Key financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net sales	882	979	998	1,062
% chg	9.5	11.0	1.9	6.4
Net profit	115	130	137	145
% chg	8.0	13.1	5.1	5.9
EBITDA margin (%)	23.6	24.2	24.1	24.0
EPS (₹)	4.8	5.5	5.8	6.1
P/E (x)	18.2	16.1	15.3	14.4
P/BV (x)	4.4	3.9	3.4	3.0
RoE (%)	24.1	24.0	22.0	20.5
RoCE (%)	25.6	30.1	26.9	25.7
EV/Sales (x)	2.6	2.2	2.2	2.0
EV/EBITDA (x)	10.9	9.2	9.1	8.5

Source: Company, Angel Research, Note: CMP as of November 17, 2015

## ACCUMULATE

CMP	₹88
Target Price	₹97

Investment Period	12 Months
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#### Stock Info

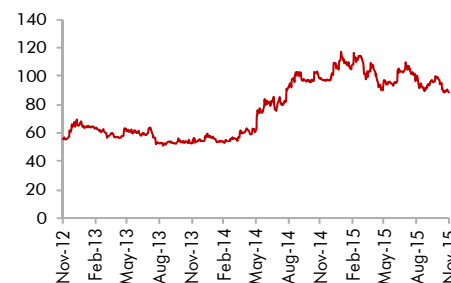
Sector	Education
Market Cap (₹ cr)	2,092
Net Debt (₹ cr)	138
Beta	0.5
52 Week High / Low	120 / 87
Avg. Daily Volume	20,049
Face Value (₹)	2
BSE Sensex	25,864
Nifty	7,838
Reuters Code	NAVN.BO
Bloomberg Code	NELI@IN

#### Shareholding Pattern (%)

Promoters	61.8
MF / Banks / Indian FIs	15.2
FII / NRIs / OCBs	2.5
Indian Public / Others	20.5

Abs. (%)	3m	1yr	3yr
Sensex	(7.8)	(1.7)	41.3
NEL	(12.2)	(10.8)	58.0

#### 3 years - share price chart



Source: Company, Angel Research

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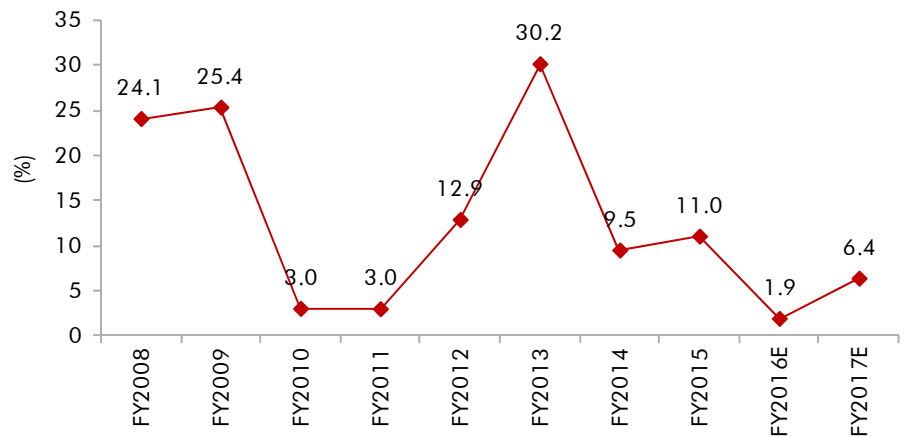
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## Investment Arguments

### Top-line to report 4.1% CAGR over FY2015-17E

The company's business mainly comprises of Publication, Stationary and e-Learning segments. In the past, whenever there has been a major change in the syllabuses of Maharashtra and Gujarat boards, NEL has reported a strong double digit revenue growth. Going forward, in FY2016 and FY2017, there would be no major change in syllabus.

#### Exhibit 1: Top-line performance tracking change in syllabus



Source: Company, Angel Research

Going forward, in FY2016 and FY2017, there would be no major change in syllabus

### Exhibit 2: Syllabus change expected for FY16 & FY17

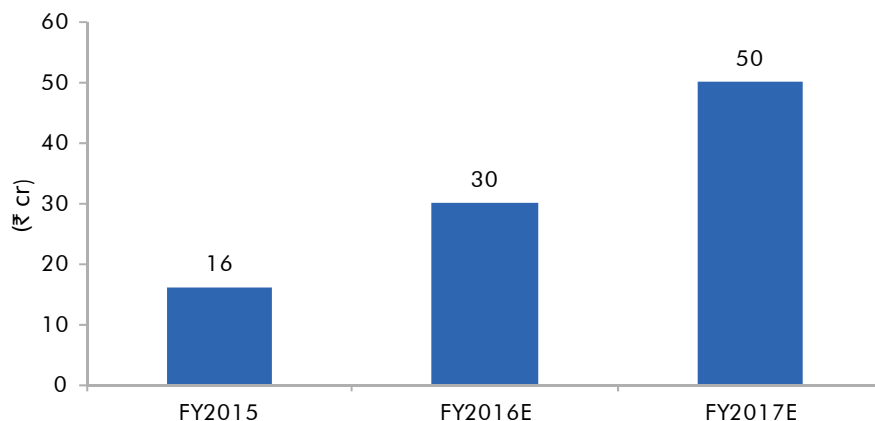
Academic Year	Maharashtra		Gujrat	
	Std.	Subject	Std.	Subject
FY2014	I	All Subjects (All Mediums)	VI	All Subjects (English & Hindi Mediums)
	II	All Subjects (All Mediums)	VII	All Subjects (English & Hindi Mediums)
		All Languages	VIII	All Subjects (English & Hindi Mediums)
	X	History & Political Science		
		Geography & Economics		
			Science - Environment	
FY2015	III	All Subjects (All Mediums)	I	All Subjects (Gujrati Medium)
	IV	All Subjects (All Mediums)	II	All Subjects (Gujrati Medium)
			III	All Subjects (Gujrati Medium)
			IV	All Subjects (Gujrati Medium)
			V	All Subjects (Gujrati Medium)
FY2016	V	All Subjects (All Mediums)	I	All Subjects (English & Hindi Mediums)
	VI	All Subjects (All Mediums)	II	All Subjects (English & Hindi Mediums)
			III	All Subjects (English & Hindi Mediums)
			IV	All Subjects (English & Hindi Mediums)
			V	All Subjects (English & Hindi Mediums)
FY2017	VII	All Subjects (All Mediums)	IX	All Subjects (All Mediums)
	VIII	All Subjects (All Mediums)	XI	All Commerce Subjects (All Mediums)

Source: Company, Angel Research

We expect healthy growth going forward, owing to the following reasons

- (a) **Adoption of CBSE syllabus on the rise across India:** Apart from Maharashtra and Gujarat, NEL is targeting to grow its presence in other states through its CBSE content business. It is anticipated that the growth may continue to be in double digits in the segment with more number of schools in different states adopting CBSE curriculum.

### Exhibit 3: CBSE segment's expected revenue trend

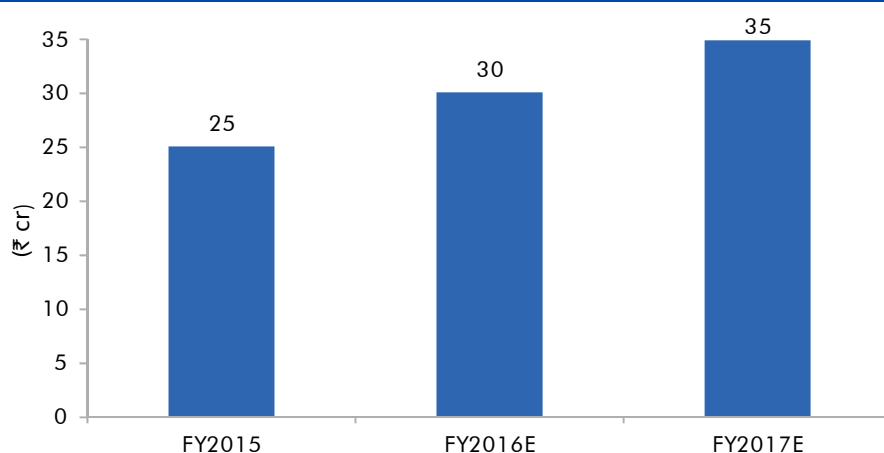


Source: Company, Angel Research

In the CBSE segments, NEL expect revenue of ₹30cr in FY16 & ₹50cr in FY17

**(b) Government Projects:** NEL takes orders to sell supplementary books to Maharashtra government, which get distributed to students in government schools. In FY2013, NEL generated ~₹27cr through the Government segment. But in FY2014, there were no government orders after many controversies arose related to the issue of tenders. The tenders issue then got resolved and in FY2015 the company generated revenue of around ₹25cr. Going forward, we expect the company to achieve strong revenue from this segment.

**Exhibit 4: Government orders' expected revenue trend**



Source: Company, Angel Research

**(c) E-Learning segment:** In this segment, NEL is targeting products such as e-learning tablets, cloud based interactive exams, application based audio visuals and also B2B products such as 'Top Class' provided to educational institutions. In FY2015, the company has generated a revenue of ₹20cr from this segment. Going ahead, we expect decent growth from this segment.

**Expect healthy growth in Stationary business**

In the Stationary segment, we expect the company to report healthy growth in coming financial years on back of higher growth in exports. The company mainly exports to USA and Africa. Also, the company is looking to tap newer geographies like the Middle East. In FY2015, the company has reported ~33% growth. In FY2016, the company expects around ₹200cr from export sales. On the margin front, the company is expecting an improvement by 30-40bp, benefitting from economies of scale.

NEL is looking to tap newer geographies like the Middle East & expects around ₹200cr from export sales in FY16

### Financial outlook

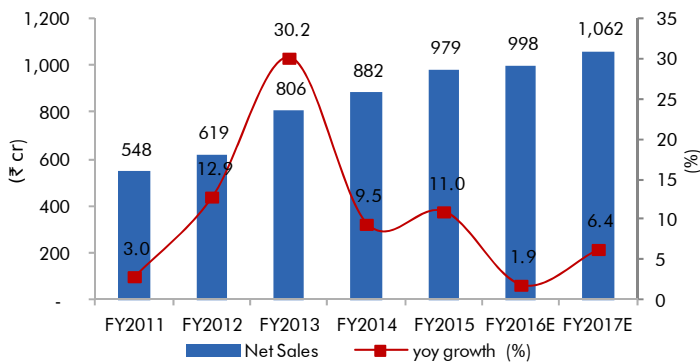
Going ahead, we expect NEL to report a top-line CAGR of ~4.1% over FY2015-17E to ~₹1,062cr

Going ahead, we expect NEL to report a top-line CAGR of 4.1% over FY2015-17E to ~₹1,062cr owing to healthy growth in Publication as well as Stationery businesses. In the Publication business, we expect double-digit growth, driven by growth in CBSE school, Government projects and E-Learning (Digital) segments.

On the bottom-line front, we expect the company to report a 5.5% CAGR over FY2015-17E

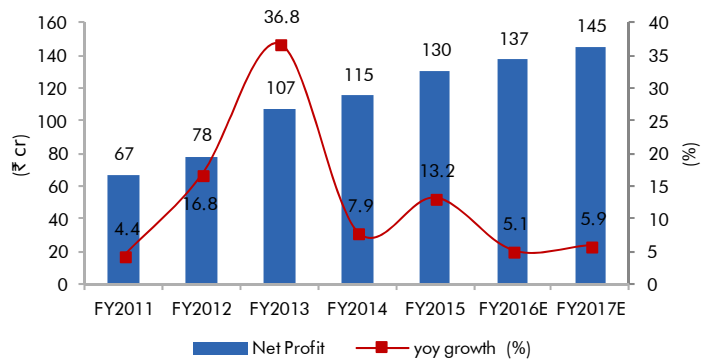
On the bottom-line front, we expect the company to report a 5.5% CAGR over FY2015-17E on account of healthy top-line growth and operating margin. Moreover, NEL has repaid the ₹90cr loan which will lead to significant saving in interest costs in the coming financial years.

**Exhibit 5: Projected Net Sales growth trend**



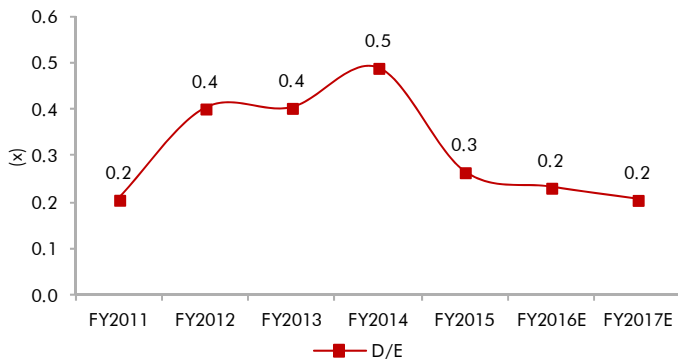
Source: Company, Angel Research

**Exhibit 6: Projected Net Profit growth trend**



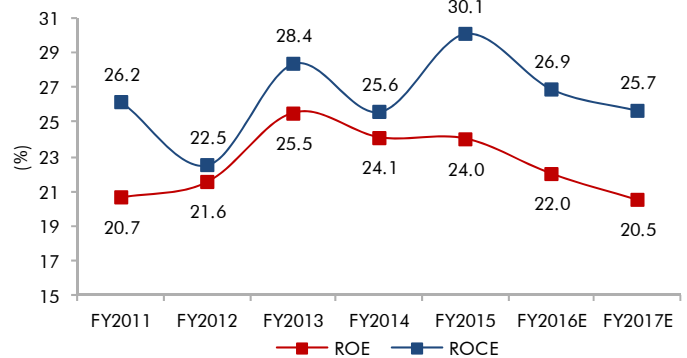
Source: Company, Angel Research

**Exhibit 7: Debt/Equity trend**



Source: Company, Angel Research

**Exhibit 8: ROE and ROCE trend**

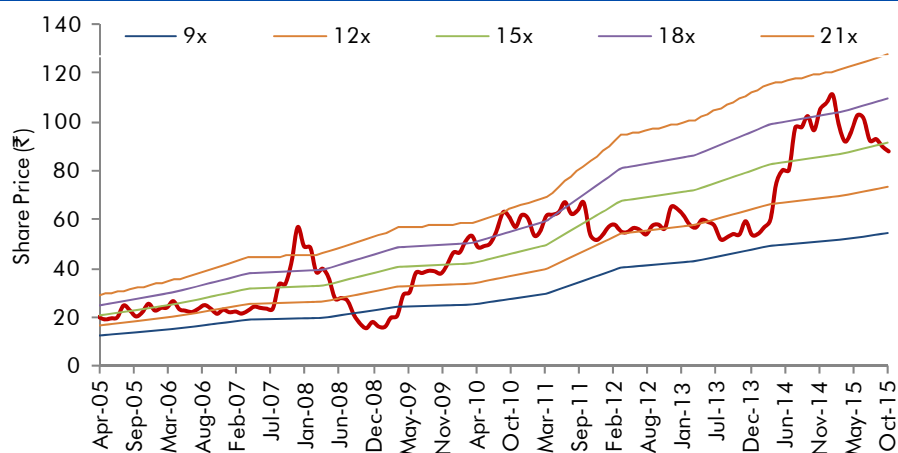


Source: Company, Angel Research

## Outlook and Valuation

Given the company's proven track record, its strong brand, consistent performance of Government projects and E-Learning (Digital) segments, and with it tapping new segments like CBSE across India, we expect it to report a healthy top-line and bottom-line CAGR of 4.1% and 5.5%, respectively, over FY2015-17E. Moreover, NEL has repaid the ₹90cr loan which will lead to significant saving in interest cost in the coming financial years. **At the current market price, the stock trades at a P/E of 14.4x its FY2017E EPS. We initiate coverage on the stock with an Accumulate recommendation and target price of ₹97 (16x FY2017E EPS), indicating an upside of ~11% in the stock price from the present levels.**

### Exhibit 9: One year PE forward chart



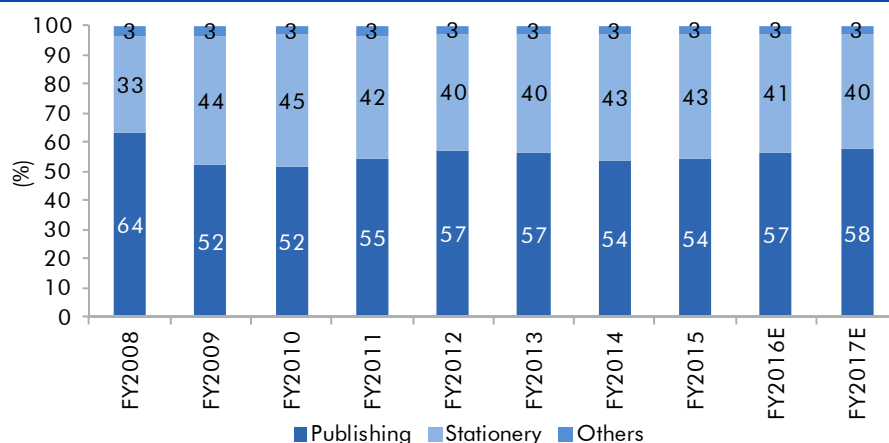
Source: Company, Angel Research

**Downside risks to our estimates** include 1) adverse volatility in currency exchange rates could impact company's profitability as 17% of the company's total consolidated revenue comes from exports sales (2) the company's Publication business is largely present in Maharashtra and Gujarat, which exposes the company to concentration risk.

## Company Background

Navneet Education Ltd, formerly Navneet Publication (India) Ltd, is in the business of publication of knowledge based information in educational and general books form as well as in electronic media, and manufacturing of paper and other stationery products. The company's segments include Publication and Stationery. The company's products are sold under the brand names - Navneet, Vikas, Gala, FfUuNn and Boss. The company's portfolio of education based books includes supplementary books like digests (guide) and workbooks, which are published in five languages: English, Gujarati, Hindi, Marathi, and Urdu. The company also publishes various titles in the children and general books category, which are not based on syllabus, such as coloring and activity books, board books, story books and books on health and hygiene, art and artist, cooking, mehendi, and embroidery.

**Exhibit 10: Segment wise revenue break-up of NEL**



Source: Company, Angel Research

**Consolidated Profit & Loss Statement**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Total operating income</b>	<b>806</b>	<b>882</b>	<b>979</b>	<b>998</b>	<b>1,062</b>
% chg	30.2	9.5	11.0	1.9	6.4
<b>Total Expenditure</b>	<b>616</b>	<b>674</b>	<b>742</b>	<b>758</b>	<b>807</b>
Raw Materials	387	434	464	474	505
Personnel Expenses	69	74	87	92	100
Others Expenses	160	167	191	192	202
<b>EBITDA</b>	<b>190</b>	<b>208</b>	<b>237</b>	<b>241</b>	<b>255</b>
% chg	44.7	9.5	14.0	1.4	5.9
(% of Net Sales)	23.6	23.6	24.2	24.1	24.0
Depreciation & Amortisation	23	26	31	35	36
<b>EBIT</b>	<b>167</b>	<b>182</b>	<b>206</b>	<b>206</b>	<b>218</b>
% chg	45.8	9.4	13.3	(0.2)	6.0
(% of Net Sales)	20.7	20.7	21.1	20.6	20.6
Interest & other Charges	8	10	9	7	7
Other Income	4	4	2	12	12
(% of PBT)	2.2	2.0	1.1	5.7	5.4
Share in profit of Associates	-	-	-	-	-
<b>Recurring PBT</b>	<b>162</b>	<b>176</b>	<b>200</b>	<b>211</b>	<b>223</b>
% chg	35.6	8.2	13.6	5.6	5.9
Prior Period & Extraord. Exp./ (Inc.)	-	-	-	-	-
<b>PBT (reported)</b>	<b>162</b>	<b>176</b>	<b>200</b>	<b>211</b>	<b>223</b>
Tax	55	60	69	74	78
(% of PBT)	33.9	34.4	34.7	35.0	35.0
<b>PAT (reported)</b>	<b>107</b>	<b>115</b>	<b>130</b>	<b>137</b>	<b>145</b>
Less: Minority interest (MI)	1	(0)	0	0	0
<b>PAT after MI (reported)</b>	<b>107</b>	<b>115</b>	<b>130</b>	<b>137</b>	<b>145</b>
<b>ADJ. PAT</b>	<b>107</b>	<b>115</b>	<b>130</b>	<b>137</b>	<b>145</b>
% chg	36.8	8.0	13.1	5.1	5.9
(% of Net Sales)	13.2	13.1	13.3	13.7	13.7
<b>Basic EPS (₹)</b>	<b>4.5</b>	<b>4.8</b>	<b>5.5</b>	<b>5.8</b>	<b>6.1</b>
<b>Fully Diluted EPS (₹)</b>	<b>4.5</b>	<b>4.8</b>	<b>5.5</b>	<b>5.8</b>	<b>6.1</b>
% chg	36.8	7.9	13.2	5.1	5.9



**Balance Sheet**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	48	48	48	48	48
Reserves & Surplus	370	430	495	574	658
<b>Shareholders Funds</b>	<b>418</b>	<b>478</b>	<b>542</b>	<b>622</b>	<b>706</b>
Minority Interest	0	0	0	0	0
Total Loans	169	234	144	144	145
Deferred Tax Liability	6	7	5	5	5
<b>Total Liabilities</b>	<b>594</b>	<b>719</b>	<b>691</b>	<b>771</b>	<b>856</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	332	365	374	394	414
Less: Acc. Depreciation	157	178	204	239	275
<b>Net Block</b>	<b>174</b>	<b>187</b>	<b>170</b>	<b>155</b>	<b>139</b>
Capital Work-in-Progress	6	5	4	4	4
<b>Investments</b>	<b>31</b>	<b>47</b>	<b>49</b>	<b>49</b>	<b>49</b>
Current Assets	498	604	599	681	779
Inventories	275	334	348	383	413
Sundry Debtors	166	196	189	205	233
Cash	4	7	6	13	17
Loans & Advances	35	47	38	50	69
Other Assets	19	20	19	30	48
Current liabilities	117	126	132	120	116
<b>Net Current Assets</b>	<b>381</b>	<b>478</b>	<b>467</b>	<b>561</b>	<b>663</b>
<b>Deferred Tax Asset</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
Mis. Exp. not written off	-	-	-	-	-
<b>Total Assets</b>	<b>594</b>	<b>719</b>	<b>691</b>	<b>771</b>	<b>856</b>

**Cashflow Statement**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	164	176	200	211	223
Depreciation	23	26	31	35	36
Change in Working Capital	(118)	(89)	(10)	(87)	(98)
Interest / Dividend (Net)	5	8	7	7	7
Direct taxes paid	-	(61)	(65)	(74)	(78)
Others	(0)	(0)	(0)	-	-
<b>Cash Flow from Operations</b>	<b>74</b>	<b>59</b>	<b>162</b>	<b>92</b>	<b>91</b>
(Inc.)/ Dec. in Fixed Assets	(39)	(45)	(6)	(20)	(20)
(Inc.)/ Dec. in Investments	(30)	(16)	(2)	-	-
<b>Cash Flow from Investing</b>	<b>(70)</b>	<b>(62)</b>	<b>(8)</b>	<b>(20)</b>	<b>(20)</b>
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	(22)	(50)	(56)	0	1
Dividend Paid (Incl. Tax)	(43)	(48)	(53)	(58)	(61)
Interest / Dividend (Net)	59	104	(46)	(7)	(7)
<b>Cash Flow from Financing</b>	<b>(6)</b>	<b>6</b>	<b>(156)</b>	<b>(64)</b>	<b>(67)</b>
Inc./(Dec.) in Cash	(2)	3	(1)	8	3
<b>Opening Cash balances</b>	<b>5</b>	<b>4</b>	<b>7</b>	<b>6</b>	<b>13</b>
<b>Closing Cash balances</b>	<b>4</b>	<b>7</b>	<b>6</b>	<b>13</b>	<b>17</b>

### Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	19.6	18.2	16.1	15.3	14.4
P/CEPS	16.0	14.9	13.0	12.2	11.6
P/BV	5.0	4.4	3.9	3.4	3.0
Dividend yield (%)	2.0	2.3	2.5	2.7	2.9
EV/Sales	2.8	2.6	2.2	2.2	2.0
EV/EBITDA	11.7	10.9	9.2	9.1	8.5
EV / Total Assets	3.1	2.7	2.7	2.4	2.2
<b>Per Share Data (₹)</b>					
EPS (Basic)	4.5	4.8	5.5	5.8	6.1
EPS (fully diluted)	4.5	4.8	5.5	5.8	6.1
Cash EPS	5.5	5.9	6.8	7.2	7.6
DPS	1.8	2.0	2.2	2.4	2.6
Book Value	17.6	20.1	22.8	26.1	29.6
<b>Returns (%)</b>					
ROCE	28.4	25.6	30.1	26.9	25.7
Angel ROIC (Pre-tax)	30.1	27.7	32.7	29.3	27.8
ROE	25.5	24.1	24.0	22.0	20.5
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	2.4	2.4	2.6	2.5	2.6
Inventory / Sales (days)	125	138	130	140	142
Receivables (days)	75	81	70	75	80
Payables (days)	13	9	7	5	4
WC cycle (ex-cash) (days)	187	210	193	210	218

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Disclosure of Interest Statement	Navneet Education
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors*

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)