

# Navneet Education

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
31,109	9,605
<b>Bloomberg</b>	<b>NELI IN</b>
Equity Shares (m)	233.6
M.Cap.(INRb)/(USDb)	41.1 / 0.6
52-Week Range (INR)	182 / 85
1, 6, 12 Rel. Per (%)	1/45/81
Avg Val, INRm	20
Free float (%)	38.2

**CMP: INR176**
**TP: INR226(+29%)**
**Buy**

## Results exceed estimates; Exports to drive growth

- EBITDA, PAT beat estimates:** NELI's overall revenue rose 12% to INR2,098m (est. of INR2,026m) in 4QFY17 from INR1,875m in the year-ago period, as Stationery business grew ~21%. EBITDA grew 12% YoY from INR249m to INR279m (est. INR243m), with the margin remaining flat at 13.3% (est. of 12%). Consequently, adj. PAT grew 80% YoY from INR94m to INR169m (est. of INR130m). Consolidated results include subsidiary Indiannica's (Britannica) revenue of INR633m and PBT of INR254m only of 4Q. For FY17, revenue grew by 24% to INR11.8b, EBITDA margin by 210bp to 23.8% and PAT by 51% to INR1,811m.
- Publication and Stationery deliver healthy growth:** In FY17, Publication revenue grew by 15% to INR5,959m and Stationery revenue by 20% to INR49,332m. Publication revenue includes export sales of INR226m (up 118%) and government sales of INR119m. Within Stationery, exports grew 34% to INR2,314m. EBITDA margin in Publication stood at 38% and in Stationery at 13%. EBITDA grew 18.6% in Publication and 47% in Stationery.
- Management expects strong growth, margin expansion:** With syllabus change in Maharashtra/Gujarat, growth should be strong in Publication in FY18 and FY19. On account of strong order book and visibility, Stationery is expected to deliver 20%+ growth, mainly driven by exports. Exports are expected to remain strong through the year and not just during the 'back to school' period. Since margin in exports (16%) is higher than that in domestic business (12%), overall margins are expected to expand. NELI also plans to hike prices by 5-5.5% to counter cost inflation.
- Valuation and view:** In Publication, we believe NELI is well placed to capture growth triggers like changing syllabus, common curriculum across India, and conversion of SEB schools to CBSE. We like export-led growth in Stationery and NELI's future-ready eSense platform. We expect 18% revenue CAGR and 21% PAT CAGR over FY17-19E. Maintain **Buy** with a TP of INR226 (20x FY19E EPS).

### Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	11.8	14.0	16.4
EBITDA	2.8	3.4	4.0
PAT	1.8	2.2	2.6
EPS (INR)	7.8	9.4	11.3
Gr. (%)	53.7	21.6	20.0
BV/Sh (INR)	31.1	36.8	43.6
RoE (%)	26.8	27.8	28.2
RoCE (%)	23.1	23.7	25.1
P/E (x)	22.7	18.7	15.5
P/BV (x)	5.7	4.8	4.0

**Estimate change**

**TP change**

**Rating change**


### Standalone - Quarterly Earning Model

Y/E March	FY16				FY17				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY16	FY17	FY17	Var
Net Sales	5,161	1,174	1,129	1,875	5,605	1,714	1,566	2,098	9,526	11,813	2,026	4
YoY Change (%)	4.5	-20.6	-16.0	2.2	8.6	46.0	38.6	11.9	-2.7	24.0	10.0	
Total Expenditure	3,581	1,057	1,008	1,626	3,803	1,416	1,363	1,819	7,462	9,001	1,783	
EBITDA	1,580	117	121	249	1,802	298	203	279	2,064	2,813	243	15
Margins (%)	30.6	10.0	10.7	13.3	32.1	17.4	13.0	13.3	21.7	23.8	12.0	
Depreciation	62	65	68	72	60	62	65	64	297	284	80	
Interest	30	0	0	4	23	0	1	11	36	43	6	
Other Income	17	100	51	26	23	45	55	40	167	152	40	
PBT before EO expense	1,505	152	104	198	1,743	281	193	244	1,899	2,638	197	24
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	1,505	152	104	198	1,743	281	193	244	1,899	2,638	197	24
Tax	521	43	28	105	607	95	66	75	697	827	67	
Rate (%)	34.7	28.1	27.4	52.8	34.8	33.9	34.3	30.8	36.7	31.3	34.0	
Minority Interest & Profit/Loss of Asso.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	983	109	75	94	1,136	186	126	169	1,202	1,811	130	30
Adj PAT	983	109	75	94	1,136	186	126	169	1,202	1,811	130	30
YoY Change (%)	9.4	-8.5	-36.6	-40.2	15.5	69.8	68.3	80.1	-7.8	50.7	7.3	
Margins (%)	19.1	9.3	6.7	5.0	20.3	10.8	8.1	8.0	12.6	15.3	6.4	

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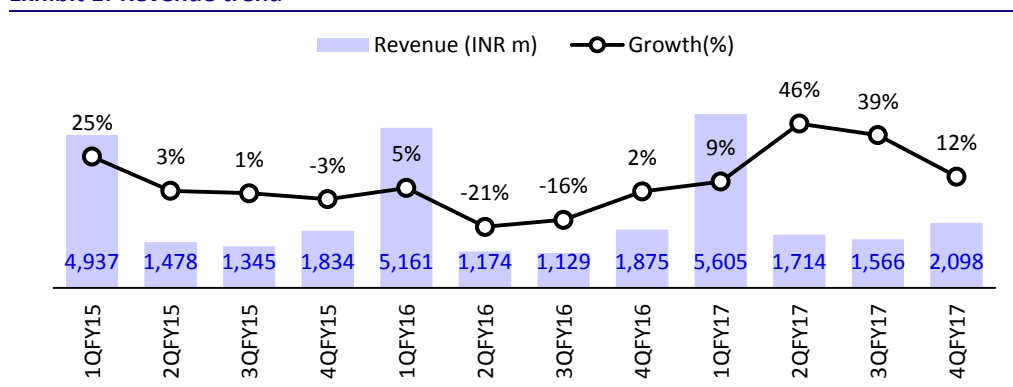
**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

 Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Results beat estimates**

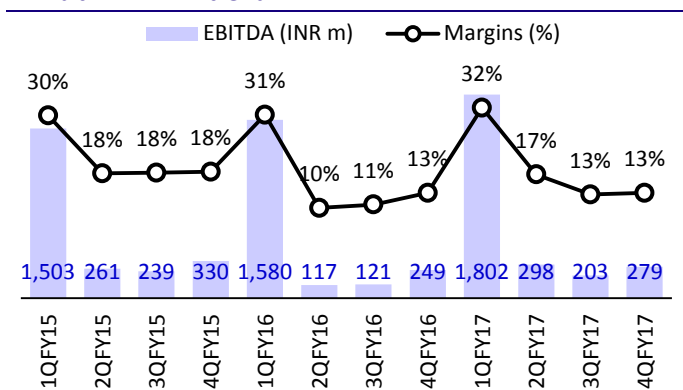
- NELI reported overall revenue of INR2,098m (est. INR2,026m) in 4QFY17 marking a YoY growth of 12%.
- The growth of ~21% in stationery products business coupled with lower other expenses (a drop of 140bp to 26.9% of sales) led to an expansion of 12% YoY in EBITDA to INR279m (est. INR243m) in 4QFY17.
- EBITDA margins remained flat at 13.3% (est. 12%) in 4QFY17 and adj. PAT grew by 80% YoY from INR94m in 4QFY16 to INR169m (est. INR130m) in 4QFY17.
- For FY17, revenue grew by 24% to INR11.8b, EBITDA margins grew by 210bp to 23.8% and PAT growing by 51% to INR1,811m. Going forward, a growth of 20%+ is expected in FY18 majorly due to steady growth in publications and stationery business.
- The consolidated results include revenue of INR633m and PBT of INR254m only of 4Q of the subsidiary Indiannica Learning Private Limited (formerly Encyclopaedia Britannica (India) Private Limited) since it was acquired on 30th Dec, 2016. Hence the consolidated results for the whole year of the company do not reflect the full year results of the subsidiary. In view of seasonal nature of business of the subsidiary, financial results of this quarter of the year are not representative of the operations of the whole year. The subsidiary, for the year ended March 31, 2017 has total revenue of INR715m and the Loss before tax is INR146m.

**Exhibit 1: Revenue trend**



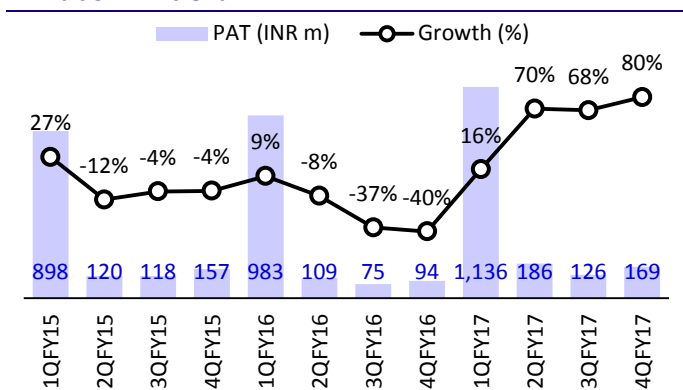
Source: MOSL, Company

**Exhibit 2: EBITDA trend**



Source: MOSL, Company

**Exhibit 3: PAT trend**



Source: MOSL, Company

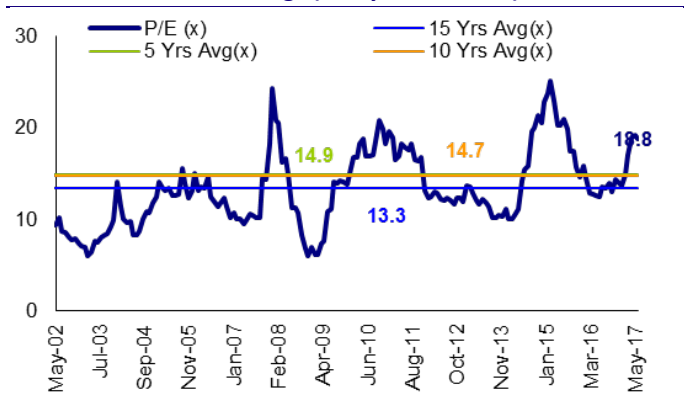
### Exports, strong visibility of order book to lead growth

- Stationery business is expected to grow at current pace as exports sales continues to grow at healthy pace (34% in FY17 to INR2,315m).
- Export sales of publications business too grew by 118% to INR226m in FY17. The trend is expected to continue as the exports business begins to spread evenly across all quarters.
- As syllabus in Maharashtra and Gujarat continues to change, the revenue of 1QFY18 from publications business is expected to be deferred till 2QFY18. Although, acquisition of Indiannica is set to boost this segment with increased visibility in newer states and overseas.

### Valuation and view

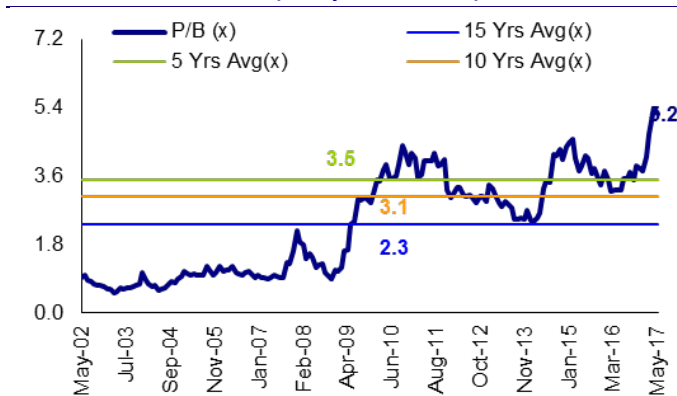
In view of steady growth in both stationery and publications segments led by robust growth in exports business, along with the strong visibility of order book, we maintain our earnings estimates. We expect NELI to post 18% revenue CAGR and 21% PAT CAGR over FY17-19E. Maintain **Buy** with a TP of INR226 (20x FY19E EPS).

Exhibit 4: Price to earnings (one year forward)



Source: MOSL, Company

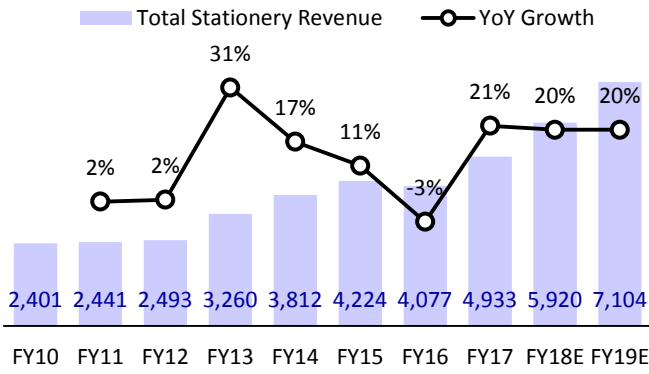
Exhibit 5: Price to book (one year forward)



Source: MOSL, Company

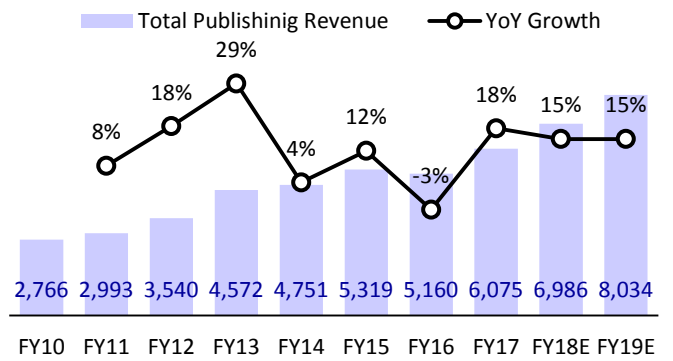
Story in charts

Exhibit 6: Growth in stationery segment to remain steady



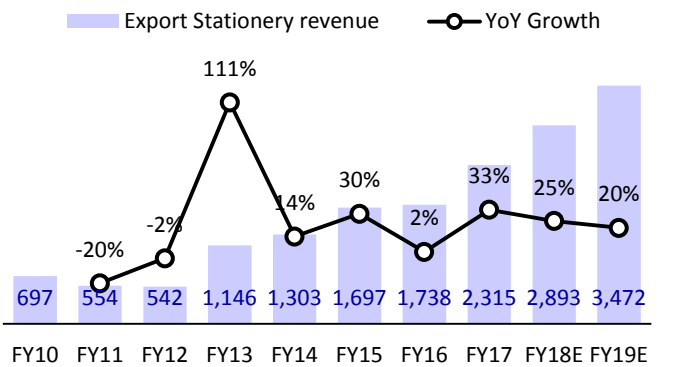
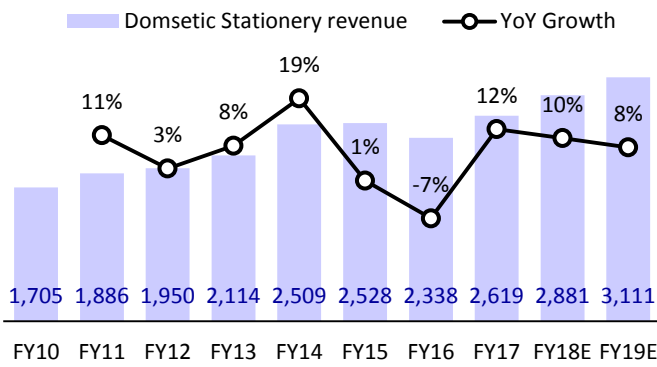
Source: MOSL, Company

Exhibit 7: Publishing Content to maintain a growth of ~15%



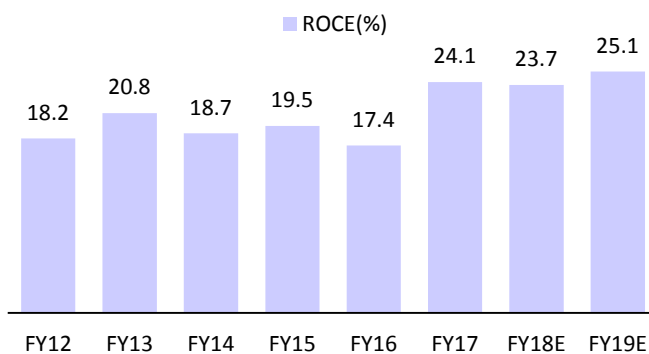
Source: MOSL, Company

Exhibit 8: Stationery exports sales to grow faster than domestic sales



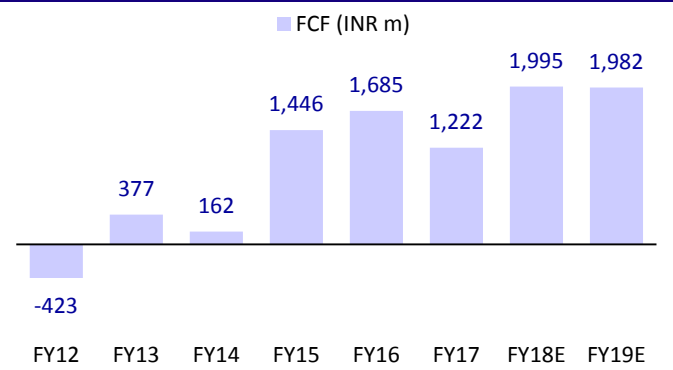
Source: MOSL, Company

Exhibit 9: Robust RoCEs



Source: MOSL, Company

Exhibit 10: Free Cash Flows to remain strong



Source: MOSL, Company

**Exhibit 11: Key Assumptions**

<b>Non Paper Stationery (Domestic)</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Revenues(INR m)</b>							
Publishing revenues	4,572	4,751	5,319	5,160	6,075	6,986	8,034
Stationery	3,260	3,812	4,224	4,077	4,933	5,920	7,104
E-Sense	149	208	201	198	180	184	187
Britannica	-	458	600	749	715	822	1,028
Others	77	50	51	75	70	70	70
<b>Total Revenues (INR m)</b>	<b>8,057</b>	<b>8,821</b>	<b>9,795</b>	<b>9,509</b>	<b>11,258</b>	<b>13,981</b>	<b>16,422</b>

<b>Growth %</b>							
Publishing revenues	29%	4%	12%	-3%	18%	15%	15%
Stationery	31%	17%	11%	-3%	21%	20%	20%
E-Sense	61%	40%	-3%	-2%	-9%	2%	2%
Britannica		-	31%	25%	-5%	15%	25%
Others	21%	-34%	1%	48%	-7%	0%	0%
<b>Total Growth %</b>	<b>30%</b>	<b>9%</b>	<b>11%</b>	<b>-3%</b>	<b>18%</b>	<b>24%</b>	<b>17%</b>

Source: MOSL, Company

## Financials and Valuations

Income Statement – Consolidated					(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E
<b>Total Income from Operations</b>	<b>8,821</b>	<b>9,795</b>	<b>9,526</b>	<b>11,813</b>	<b>13,981</b>	<b>16,422</b>
Change (%)	9.5	11.0	-2.7	24.0	18.4	17.5
<b>EBITDA</b>	<b>2,080</b>	<b>2,367</b>	<b>2,064</b>	<b>2,813</b>	<b>3,383</b>	<b>4,007</b>
Margin (%)	23.6	24.2	21.7	23.8	24.2	24.4
Depreciation	258	308	297	284	293	303
<b>EBIT</b>	<b>1,822</b>	<b>2,060</b>	<b>1,768</b>	<b>2,529</b>	<b>3,090</b>	<b>3,704</b>
Int. and Finance Charges	100	91	36	43	36	30
Other Income	35	28	167	152	154	178
<b>PBT bef. EO Exp.</b>	<b>1,757</b>	<b>1,996</b>	<b>1,899</b>	<b>2,638</b>	<b>3,208</b>	<b>3,851</b>
EO Items	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>1,757</b>	<b>1,996</b>	<b>1,899</b>	<b>2,638</b>	<b>3,208</b>	<b>3,851</b>
Current Tax	605	693	697	827	1,006	1,207
Tax Rate (%)	34.4	34.7	36.7	31.3	31.3	31.3
<b>Reported PAT</b>	<b>1,152</b>	<b>1,303</b>	<b>1,202</b>	<b>1,811</b>	<b>2,203</b>	<b>2,644</b>
<b>Adjusted PAT</b>	<b>1,152</b>	<b>1,303</b>	<b>1,202</b>	<b>1,811</b>	<b>2,203</b>	<b>2,644</b>
Change (%)	7.1	13.2	-7.8	50.7	21.6	20.0
Margin (%)	13.1	13.3	12.6	15.3	15.8	16.1

Balance Sheet					(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	476	476	476	467	467	467
Preference Capital	3	0	0	0	0	0
Total Reserves	4,307	4,956	5,763	6,789	8,120	9,724
<b>Net Worth</b>	<b>4,787</b>	<b>5,433</b>	<b>6,240</b>	<b>7,256</b>	<b>8,587</b>	<b>10,191</b>
Minority Interest	1	1	0	0	0	0
Deferred Liabilities	73	41	41	24	24	24
Total Loans	2,337	1,436	995	1,459	1,459	959
<b>Capital Employed</b>	<b>7,197</b>	<b>6,909</b>	<b>7,276</b>	<b>8,739</b>	<b>10,070</b>	<b>11,174</b>
Gross Block	3,673	3,741	4,108	4,302	4,452	4,602
Less: Accum. Deprn.	1,798	2,042	2,338	2,622	2,915	3,218
<b>Net Fixed Assets</b>	<b>1,874</b>	<b>1,699</b>	<b>1,769</b>	<b>1,680</b>	<b>1,536</b>	<b>1,383</b>
Capital WIP	45	40	8	28	0	0
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>6,042</b>	<b>5,995</b>	<b>5,506</b>	<b>6,605</b>	<b>8,922</b>	<b>10,546</b>
Inventory	3,337	3,484	3,057	3,715	4,405	5,152
Account Receivables	1,961	1,886	2,144	2,415	2,911	3,329
Cash and Bank Balance	69	55	53	37	1,124	1,536
Loans and Advances	675	571	251	438	482	530
<b>Curr. Liability &amp; Prov.</b>	<b>1,253</b>	<b>1,317</b>	<b>745</b>	<b>1,158</b>	<b>1,973</b>	<b>2,340</b>
Account Payables	643	586	653	1,023	951	1,120
Provisions	610	731	92	135	1,021	1,220
<b>Net Current Assets</b>	<b>4,789</b>	<b>4,678</b>	<b>4,761</b>	<b>5,447</b>	<b>6,949</b>	<b>8,206</b>
<b>Appl. of Funds</b>	<b>7,197</b>	<b>6,909</b>	<b>7,276</b>	<b>8,739</b>	<b>10,070</b>	<b>11,174</b>
<b>Appl. of Funds</b>	<b>7,680</b>	<b>8,587</b>	<b>11,169</b>	<b>12,754</b>	<b>14,318</b>	<b>16,520</b>

## Financials and Valuations

<b>Ratios</b>						
<b>Y/E March</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Basic (INR)</b>						
<b>EPS</b>	<b>4.8</b>	<b>5.5</b>	<b>5.0</b>	<b>7.8</b>	<b>9.4</b>	<b>11.3</b>
Cash EPS	5.9	6.8	6.3	9.0	10.7	12.6
BV/Share	20.1	22.8	26.2	31.1	36.8	43.6
DPS	2.0	2.2	2.2	2.4	3.1	3.7
Payout (%)	48.4	48.4	52.5	37.3	39.6	39.3
<b>Valuation (x)</b>						
P/E	36.4	32.2	34.9	22.7	18.7	15.5
Cash P/E	29.7	26.0	28.0	19.6	16.5	13.9
P/BV	8.8	7.7	6.7	5.7	4.8	4.0
EV/Sales	4.9	4.3	4.4	3.6	3.0	2.5
EV/EBITDA	20.9	17.9	20.4	15.1	12.2	10.1
Dividend Yield (%)	1.1	1.3	1.3	1.4	1.8	2.1
<b>Return Ratios (%)</b>						
RoE	25.7	25.5	20.6	26.8	27.8	28.2
RoCE	18.7	19.5	17.4	23.1	23.7	25.1
RoIC	19.7	20.8	17.5	25.6	29.4	33.0
<b>Working Capital Ratios</b>						
Inventory (Days)	135	127	117	115	113	112
Debtor (Days)	80	69	82	75	74	72
Creditor (Days)	26	21	25	32	24	24
Working Cap. Turnover (Days)	191	169	180	167	149	145
<b>Leverage Ratio (x)</b>						
Debt/Equity	0.5	0.3	0.2	0.2	0.2	0.1

<b>Cash Flow Statement</b>						
<b>(INR Million)</b>						
<b>Y/E March</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
OP/(Loss) before Tax	1,757	1,996	1,909	2,638	3,208	3,851
Depreciation	258	308	288	284	293	303
Interest & Finance Charges	0	0	-3	0	0	0
Direct Taxes Paid	-607	-651	-743	-827	-1,006	-1,207
(Inc)/Dec in WC	-889	-100	542	-702	-415	-846
<b>CF from Operations</b>	<b>519</b>	<b>1,553</b>	<b>1,993</b>	<b>1,392</b>	<b>2,081</b>	<b>2,101</b>
Others	72	69	-50	43	36	30
<b>CF from Operating incl EO</b>	<b>591</b>	<b>1,622</b>	<b>1,942</b>	<b>1,435</b>	<b>2,117</b>	<b>2,132</b>
(inc)/dec in FA	-430	-176	-258	-213	-122	-150
<b>Free Cash Flow</b>	<b>162</b>	<b>1,446</b>	<b>1,685</b>	<b>1,222</b>	<b>1,995</b>	<b>1,982</b>
(Pur)/Sale of Investments	-163	-11	-6	-847	0	0
Others	-24	106	5	445	0	0
<b>CF from Investments</b>	<b>-617</b>	<b>-81</b>	<b>-258</b>	<b>-615</b>	<b>-122</b>	<b>-150</b>
Issue of Shares	-1	-3	0	-582	0	0
(Inc)/Dec in Debt	658	-901	-401	464	0	-500
Interest Paid	-97	-93	-37	-43	-36	-30
Dividend Paid	-501	-557	-1,247	-675	-871	-1,040
Others	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>59</b>	<b>-1,555</b>	<b>-1,685</b>	<b>-836</b>	<b>-908</b>	<b>-1,570</b>
<b>Inc/Dec of Cash</b>	<b>34</b>	<b>-14</b>	<b>-1</b>	<b>-16</b>	<b>1,087</b>	<b>411</b>
Opening Balance	35	69	55	53	37	1,124
<b>Closing Balance</b>	<b>69</b>	<b>55</b>	<b>53</b>	<b>37</b>	<b>1,124</b>	<b>1,536</b>

## Corporate profile

### Company description

Indo Count Industries Ltd (ICNT) is focused player on bedding—a niche segment of home textile market, which formed 81% of revenues in FY15. It's other two segments spinning and consumer goods contributed 16% and 3% respectively. In terms of EBITDA, home textiles contributed 95% of total EBITDA in FY15. With a unique asset-light business model, ICNT enjoys robust and best in class capital efficiency (40% RoCE). Entry in newer products expands opportunity by 3x to USD13b.

### Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

### Exhibit 2: Shareholding pattern (%)

	Mar-17	Dec-16	Mar-16
Promoter	58.9	58.9	59.0
DII	3.9	3.3	1.7
FII	17.2	14.0	13.3
Others	20.0	23.7	26.1

Note: FII Includes depository receipts

Source: Capitaline

### Exhibit 3: Top holders

Holder Name	% Holding
Elm Park Fund Limited	6.0
Lazard Emerging Markets Small Cap Equity Trust	2.8
Morgan Stanley Mauritius Company Limited	2.1
Uniworth Finance And Securities Pvt Ltd	1.5
Dsp Blackrock Small And Mid Cap Fund	1.3

Source: Capitaline

### Exhibit 4: Top management

Name	Designation
Anil Kumar Jain	Executive Chairman
Mohit Kumar Jain	Managing Director
K R Lalpuria	Executive Director
Amruta Avasare	Company Secretary

Source: Capitaline

### Exhibit 5: Directors

Name	Name
Dilip J Thakkar	P N Shah
Prem Malik	R Anand
Sushil Kumar Jiwarajka	Vaijayanti Pandit
Kamal Mitra	

\*Independent

### Exhibit 6: Auditors

Name	Type
B K Shroff & Co	Statutory
S Anantha & Co	Secretarial Audit
Suresh Kumar Mittal & Co	Internal

Source: Capitaline

### Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	9.4	16.7	-43.7
FY19	11.3	18.7	-39.7

Source: Bloomberg



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