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Rating	<b>BUY</b>
Price	Rs103
Target Price	Rs132
Implied Upside	28.2%
Sensex	26,819
Nifty	8,296

(Prices as on November 11, 2016)

#### Trading data

Market Cap. (Rs bn)	24.1
Shares o/s (m)	233.5
3M Avg. Daily value (Rs m)	12.2

#### Major shareholders

Promoters	61.80%
Foreign	6.79%
Domestic Inst.	15.17%
Public & Other	16.24%

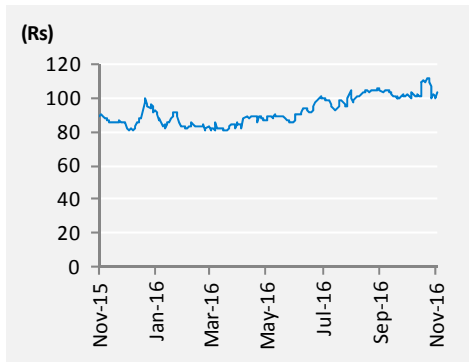
#### Stock Performance

(%)	1M	6M	12M
Absolute	1.8	15.7	13.9
Relative	6.3	10.9	10.2

#### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	6.5	6.1	6.2
2018	7.6	6.6	15.2

#### Price Performance (RIC: NAVN.BO, BB: NELI IN)



Source: Bloomberg

**Navneet's Q2FY17 results were a strong beat to our estimates with 46% revenue growth and 70% earnings growth. Margin improvement of 740bps was on account of lower RM cost and better efficiency. Publishing business is well on track for 17% growth in FY17 aided by Syllabus change in Gujarat and Maharashtra, introduction of new titles for Children's book in English and Govt sales of Rs120m. Stationery segment is growing albeit slowly @11% due to intense competition in the domestic space. Though the deal for Acquisition of Encyclopaedia Britannica India (EBI) business is yet to be completed, we anticipate it to be through by December and start contributing from Q4FY17 (refer page 4 for details). EBI India acquisition will give Navneet a straight 6% growth boost in revenues for FY18 (considering 3-4 months consolidation in FY17) which is significant contribution considering the 11% CAGR growth experienced by the company for FY11-FY16 period. We like the deal as Navneet is almost debt free currently and is expected to generate cash flows in excess of Rs1.5bn for FY17.**

**In our view, Navneet was hit hard to the tune of ~Rs 450-500m revenue loss in its publishing business for FY16 due to drought in most districts of Maharashtra. Stationery business too was adversely impacted due to intense domestic competition. However, FY17 have started on a strong footing and we expect 21% earnings growth over FY16-FY18E period. We also like Navneet for its consistent strong return ratios and ~50% payout. We revise our price target to Rs132 rolling it to Dec-17 implying 18x PER Dec-17 (earlier TP Rs124). Maintain BUY and the most preferred stock in Education Sector.**

**Management has also announced a buyback of Rs582m (4.65m shares) at a price of Rs125 which accounts for almost 1.95% of total paid up capital. The dividend distribution policy is maintained at 25% which would be reviewed at an appropriate time.**

Contd...2

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	9,795	9,498	11,158	13,305
Growth (%)	11.0	(3.0)	17.5	19.2
EBITDA (Rs m)	2,373	2,056	2,599	3,080
PAT (Rs m)	1,304	1,243	1,512	1,776
EPS (Rs)	5.5	5.2	6.5	7.6
Growth (%)	14.0	(4.7)	24.1	17.5
Net DPS (Rs)	2.2	2.2	1.6	3.0

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	24.2	21.6	23.3	23.1
RoE (%)	25.5	22.1	24.9	26.3
RoCE (%)	19.1	16.5	20.0	21.2
EV / sales (x)	2.6	2.7	2.3	1.9
EV / EBITDA (x)	10.9	12.4	9.8	8.3
PE (x)	18.8	19.7	15.9	13.5
P / BV (x)	4.5	4.2	3.8	3.3
Net dividend yield (%)	2.1	2.1	1.6	3.0

Source: Company Data; PL Research

- Publishing segment continues to generate steady cash:** Navneet enjoys strong positioning in the Supplementary and Children and General books segment in western India and is expected to generate average EBIDTA of Rs 2.1bn/annum.. Traction in eSense due to introduction of cloud based products and segregation of online and offline teams to create focus and achieve momentum in sales.
- Stationery business buoyed by strong exports:** Stationery business which was struggling for entire FY16 due to intense domestic competition has been helped by strong exports to US in H1FY17. Efficiency benefits and lower RM cost aided margins. Stationery business reported 14% YoY growth in revenues for H1FY17 to Rs2.7bn but more importantly 36% growth in EBIDTA to Rs423m.

**Exhibit 1: Q2FY17 Result Overview - Consolidated (Rs m)**

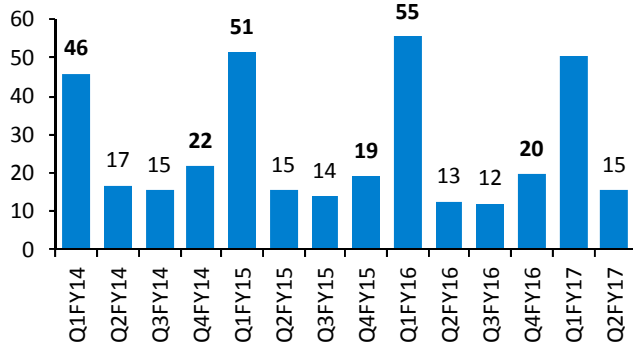
Y/e March	Q2FY17	Q2FY16	YoY gr (%)	Q1FY17	H1FY17	H1FY16	YoY gr (%)
<b>Net Sales</b>	<b>1,714</b>	<b>1,174</b>	<b>46.0</b>	<b>5,605</b>	<b>7,319</b>	<b>6,335</b>	<b>15.5</b>
<b>Expenditure</b>							
Raw Materials	<b>737</b>	<b>508</b>	45.2	<b>2,854</b>	3,591	3,278	9.6
<i>% of Net sales</i>	<i>43.0</i>	<i>43.3</i>		<i>50.9</i>	<i>49.1</i>	<i>51.7</i>	
Personnel	255	213	20.0	281	536	427	25.4
<i>% of Net sales</i>	<i>14.9</i>	<i>18.1</i>		<i>5.0</i>	<i>7.3</i>	<i>6.7</i>	
Selling , dist & Other Exp	423	336	26.0	669	1,092	933	17.1
<i>% of Net sales</i>	<i>24.7</i>	<i>28.6</i>		<i>11.9</i>	<i>14.9</i>	<i>14.7</i>	
Total Expenditure	1,416	1,057	34.0	3,803	5,219	4,638	12.5
<b>EBITDA</b>	<b>298</b>	<b>117</b>	<b>154.6</b>	<b>1,802</b>	<b>2,100</b>	<b>1,697</b>	<b>23.7</b>
<i>Margin (%)</i>	<i>17.4</i>	<i>10.0</i>		<i>32.1</i>	<i>28.7</i>	<i>26.8</i>	
Depreciation	62	65	(5.1)	60	122	127	(4.3)
<b>EBIT</b>	<b>236</b>	<b>52</b>	<b>352.9</b>	<b>1,742</b>	<b>1,978</b>	<b>1,570</b>	<b>26.0</b>
Interest	0	0	(25.0)	23	23	30	(24.5)
Other Income	45	100	(55.4)	23	68	117	(41.9)
<b>PBT</b>	<b>281</b>	<b>152</b>	<b>84.6</b>	<b>1,743</b>	<b>2,024</b>	<b>1,657</b>	<b>22.1</b>
Tax	95	43	122.2	607	702	564	24.5
<i>Tax Rate (%)</i>	<i>33.9</i>	<i>28.1</i>		<i>34.8</i>	<i>34.7</i>	<i>34.1</i>	
<b>Adjusted PAT</b>	<b>186</b>	<b>109</b>	<b>69.8</b>	<b>1,136</b>	<b>1,321</b>	<b>1,093</b>	<b>20.9</b>
<b>Reported PAT</b>	<b>186</b>	<b>109</b>	<b>69.8</b>	<b>1,136</b>	<b>1,321</b>	<b>1,093</b>	<b>20.9</b>

Source: Company Data, PL Research

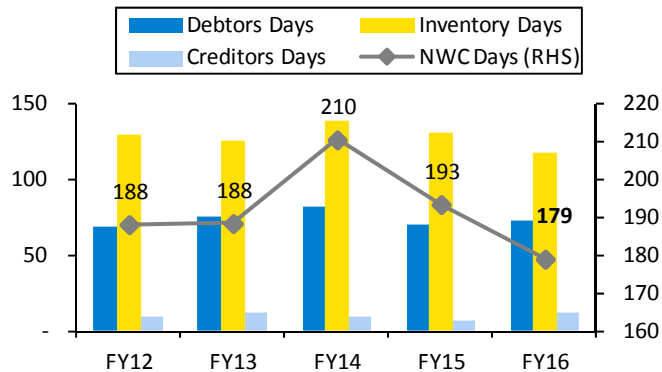
**Exhibit 2: Segmental Snapshot**

Y/e March	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
<b>Segment Revenue</b>							
Publishing Content	1,086	689	57.7	3,393	4,479	3,861	16.0
Stationery Products	587	467	25.7	2,176	2,763	2,424	14.0
<b>Segment EBITDA</b>							
Publishing Content	335	141	138.5	1,408	1,743	1,421	22.7
Stationery Products	(14)	(24)	(43.2)	437	423	311	35.9
<b>EBITDA Margin</b>							
Publishing Content	30.9%	20.4%	1046bps	41.5%	38.9%	36.8%	212bps
Stationery Products	-2.3%	-5.2%	NA	20.1%	15.3%	12.8%	247bps

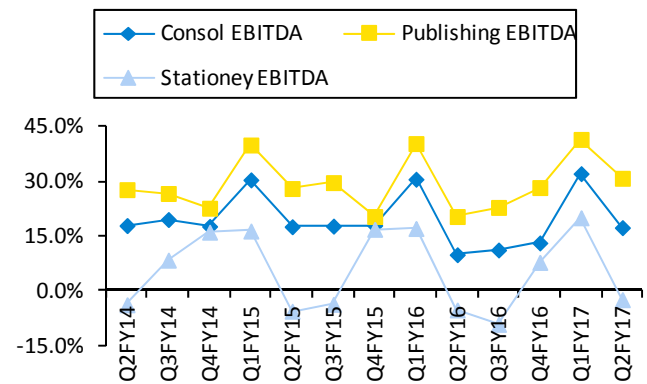
Source: Company Data, PL Research

**Exhibit 3: Seasonality in business with Q1 & Q4 contributing >70% of annual revenues**


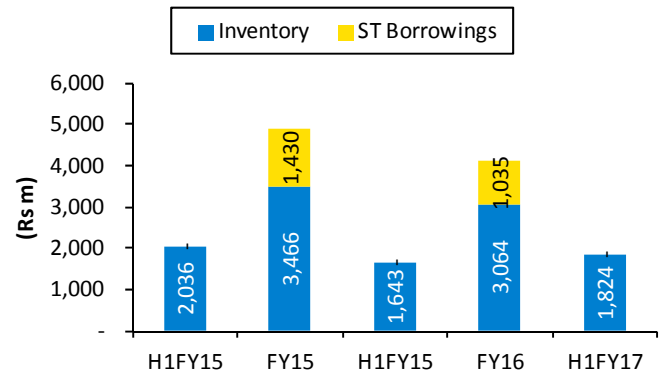
Source: Company Data, PL Research

**Exhibit 5: Working capital requirement has eased to 179 day, a 5 year low**


Source: Company Data, PL Research

**Exhibit 4: Publishing continues to impress with strong margin profile**


Source: Company Data, PL Research

**Exhibit 6: Business is cyclical with Peak capital requirement on B/S date**


Source: Company Data, PL Research

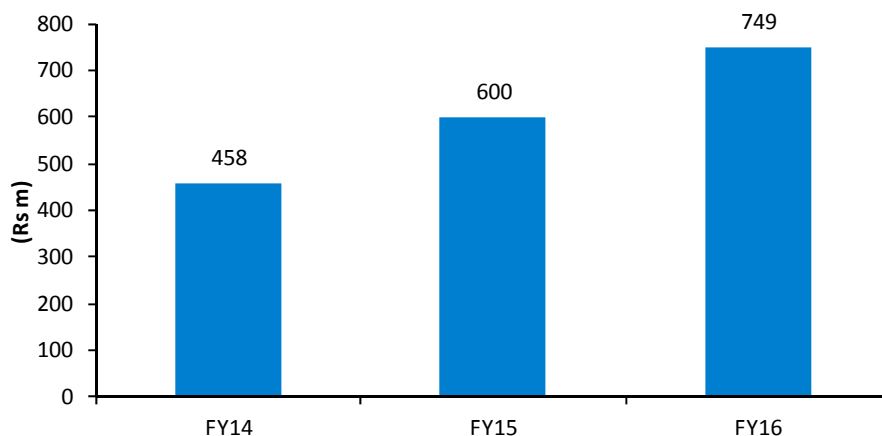
## Navneet announces to acquire EBI publishing business in India

Navneet is looking to seal deal to acquire the publishing business from the Encyclopaedia Britannica India Pvt Ltd (EBI) which owns the content library of curriculum books, reference books, dictionaries and Thesaurus in India. The term sheet is yet to be signed; however the deal size is expected between Rs850 to 900m.

**About EBI:** EBI is one of the India’s leading Pre-K12 curricular educational publishers that started publishing operations in India in 2009. It has an extensive product catalogue comprising educational, instructional and information products & technology solutions. These products are for CBSE, ICSE and other schools following CBSE curriculum. **Britannica India’s Curriculum Division designs and develops educational products for the Indian region used by nearly 5 million students across India and Indian schools abroad.**

Under the agreement, the current Britannica business unit will become an independent company with Navneet and will realize considerable synergies with Navneet’s larger Indian group. The company will market Britannica’s existing Indian-specific curriculum titles, such, **“Know for Sure”** and **“The English Channel”** as well as develop new titles under Britannica’s brand, **editorial supervision and guide for 7 years.**

**Exhibit 7: Turnover of Encyclopaedia Britannica India over last three years**



Source: Company Data, PL Research

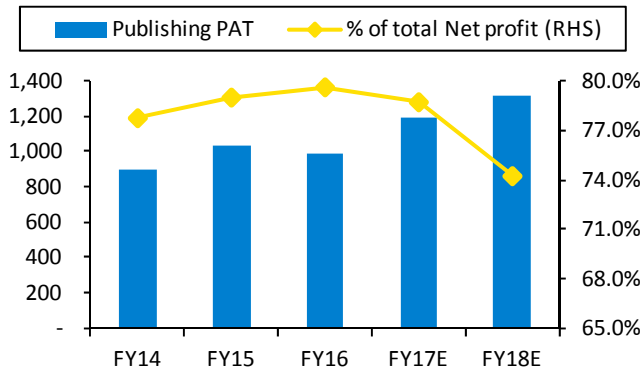
**Exhibit 8: Revising estimates to factor in EBI acquisition**

Particulars	Earlier estimates		Revised estimates		% revision	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Net sales (Rs m)	11,058	12,345	11,158	13,305	0.90%	7.78%
Adj. PAT (Rs m)	1,415	1,658	1,512	1,776	6.84%	7.11%
EPS (Rs)	5.9	7.0	6.5	7.6	9.72%	8.63%

Source: Company Data, PL Research

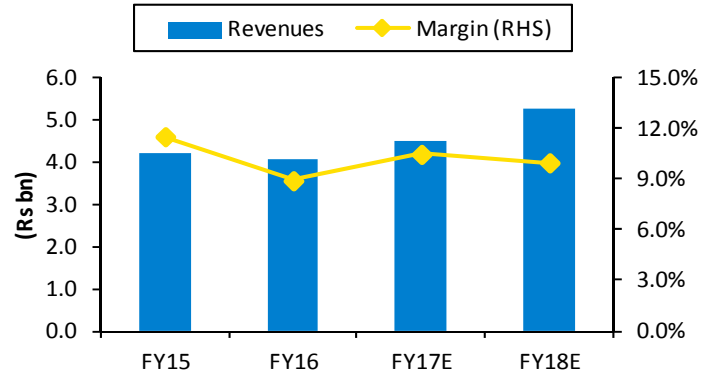
## Navneet continues to be our preferred pick in Education

**Exhibit 9: Focused player in high margin supplementary book segment**



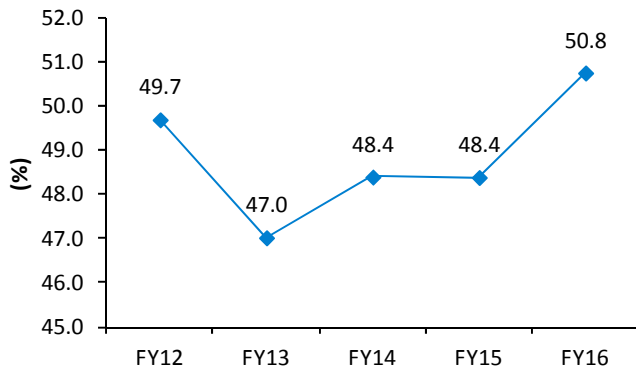
Source: Company Data, PL Research

**Exhibit 10: Stationery business leverages Navneet brand and helps deeper penetration**



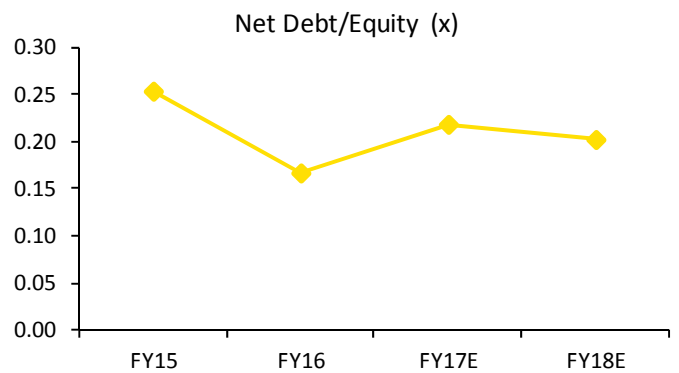
Source: Company Data, PL Research

**Exhibit 11: Consistent Dividend payout of ~48% creates comfort**



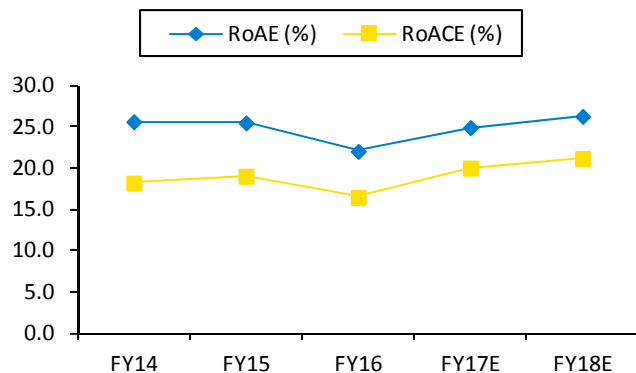
Source: Company Data, PL Research

**Exhibit 12: Strong balance sheet shows prudence**

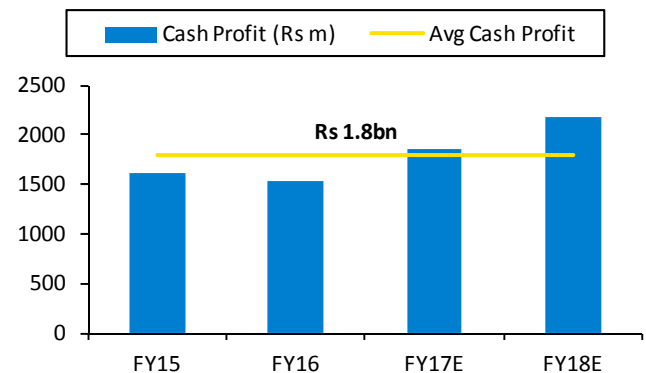


Source: Company Data, PL Research

**Exhibit 13: High return ratios & strong cash generation merits investment**



Source: Company Data, PL Research



**Income Statement (Rs m)**

Y/e March	2015	2016	2017E	2018E
<b>Net Revenue</b>	<b>9,795</b>	<b>9,498</b>	<b>11,158</b>	<b>13,305</b>
Raw Material Expenses	4,640	4,604	5,300	6,453
Gross Profit	5,154	4,894	5,858	6,852
Employee Cost	875	1,006	1,105	1,271
Other Expenses	1,907	1,832	2,153	2,501
<b>EBITDA</b>	<b>2,373</b>	<b>2,056</b>	<b>2,599</b>	<b>3,080</b>
Depr. & Amortization	308	288	350	403
Net Interest	91	36	40	110
Other Income	22	169	120	124
<b>Profit before Tax</b>	<b>1,996</b>	<b>1,902</b>	<b>2,329</b>	<b>2,691</b>
Total Tax	693	666	792	915
<b>Profit after Tax</b>	<b>1,303</b>	<b>1,034</b>	<b>1,512</b>	<b>1,776</b>
Ex-Od items / Min. Int.	—	(202)	(25)	—
<b>Adj. PAT</b>	<b>1,304</b>	<b>1,243</b>	<b>1,512</b>	<b>1,776</b>
<b>Avg. Shares O/S (m)</b>	<b>238.2</b>	<b>238.2</b>	<b>233.5</b>	<b>233.5</b>
<b>EPS (Rs.)</b>	<b>5.5</b>	<b>5.2</b>	<b>6.5</b>	<b>7.6</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2015	2016	2017E	2018E
C/F from Operations	1,622	1,942	1,227	1,297
C/F from Investing	(81)	(253)	(1,000)	(230)
C/F from Financing	(1,555)	(1,685)	375	(1,100)
Inc. / Dec. in Cash	(14)	4	602	(33)
Opening Cash	69	55	59	71
Closing Cash	55	59	71	38
FCFF	1,541	1,689	227	1,067
FCFE	709	1,950	1,200	1,011

**Key Financial Metrics**

Y/e March	2015	2016	2017E	2018E
<b>Growth</b>				
Revenue (%)	11.0	(3.0)	17.5	19.2
EBITDA (%)	14.1	(13.4)	26.4	18.5
PAT (%)	13.2	(4.7)	21.7	17.5
EPS (%)	14.0	(4.7)	24.1	17.5
<b>Profitability</b>				
EBITDA Margin (%)	24.2	21.6	23.3	23.1
PAT Margin (%)	13.3	13.1	13.6	13.4
RoCE (%)	19.1	16.5	20.0	21.2
RoE (%)	25.5	22.1	24.9	26.3
<b>Balance Sheet</b>				
Net Debt : Equity	0.3	0.2	0.2	0.2
Net Wrkng Cap. (days)	193	179	175	174
<b>Valuation</b>				
PER (x)	18.8	19.7	15.9	13.5
P / B (x)	4.5	4.2	3.8	3.3
EV / EBITDA (x)	10.9	12.4	9.8	8.3
EV / Sales (x)	2.6	2.7	2.3	1.9
<b>Earnings Quality</b>				
Eff. Tax Rate	34.7	35.0	34.0	34.0
Other Inc / PBT	1.1	9.2	5.2	4.6
Eff. Depr. Rate (%)	8.6	7.3	7.1	7.7
FCFE / PAT	54.4	156.9	79.3	56.9

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	5,433	5,833	6,291	7,214
Total Debt	1,436	1,035	1,450	1,500
Other Liabilities	41	14	41	40
<b>Total Liabilities</b>	<b>6,909</b>	<b>6,881</b>	<b>7,781</b>	<b>8,754</b>
Net Fixed Assets	1,739	1,763	2,465	2,306
Goodwill	—	—	—	—
Investments	680	652	758	959
Net Current Assets	4,491	4,466	4,558	5,490
Cash & Equivalents	55	59	73	37
Other Current Assets	5,752	5,194	6,256	7,327
Current Liabilities	1,317	787	1,771	1,875
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>6,909</b>	<b>6,881</b>	<b>7,781</b>	<b>8,754</b>

**Quarterly Financials (Rs m)**

Y/e March	Q3FY16	Q4FY16	Q1FY17	Q2FY17
<b>Net Revenue</b>	<b>1,132</b>	<b>1,842</b>	<b>5,605</b>	<b>1,714</b>
<b>EBITDA</b>	<b>128</b>	<b>243</b>	<b>1,802</b>	<b>298</b>
% of revenue	11.3	13.2	32.1	17.4
Depr. & Amortization	68	72	60	62
Net Interest	—	4	23	—
Other Income	49	27	23	45
<b>Profit before Tax</b>	<b>108</b>	<b>194</b>	<b>1,743</b>	<b>281</b>
Total Tax	40	66	607	95
<b>Profit after Tax</b>	<b>68</b>	<b>127</b>	<b>1,136</b>	<b>186</b>
<b>Adj. PAT</b>	<b>68</b>	<b>127</b>	<b>1,136</b>	<b>186</b>

**Key Operating Metrics**

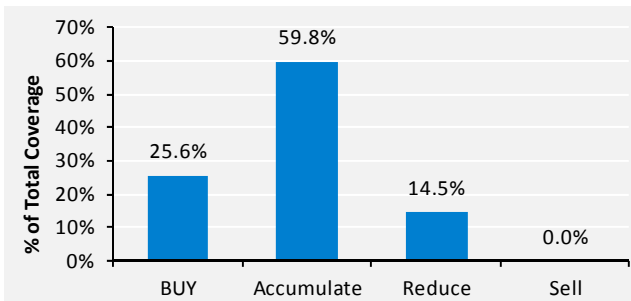
Y/e March	2015	2016	2017E	2018E
<b>Segment Revenues</b>				
Publishing	5,520	5,346	6,221	7,030
Stationery	4,224	4,077	4,528	5,264
<b>EBIDTA</b>				
Publishing	1,835	1,715	2,053	2,320
Stationery	488	364	475	526

Source: Company Data, PL Research.

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<b>Accumulate</b>	:	Outperformance to Sensex over 12-months
<b>Reduce</b>	:	Underperformance to Sensex over 12-months
<b>Sell</b>	:	Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	:	Over 10% absolute upside in 1-month
<b>Trading Sell</b>	:	Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	:	No specific call on the stock
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