

Navneet Education

Going Strong



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Navneet Education

Rating	BUY
Price	Rs89
Target Price	Rs111
Implied Upside	24.7%
Sensex	25,844
Nifty	7,915

(Prices as on April 20, 2016)

Trading data

Market Cap. (Rs m)	21,199.8
Shares o/s (m)	238.2
3M Avg. Daily value (Rs m)	4.6

Major shareholders

Promoters	61.80%
Foreign	6.48%
Domestic Inst.	15.24%
Public & Other	16.48%

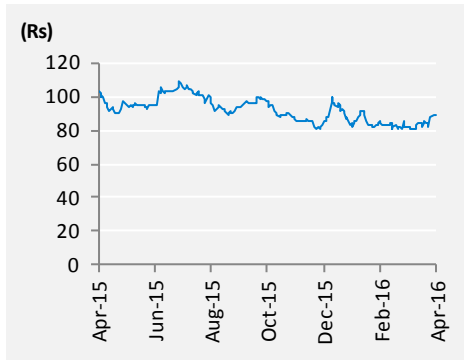
Stock Performance

(%)	1M	6M	12M
Absolute	9.0	(8.5)	(14.1)
Relative	5.4	(3.0)	(4.9)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	6.2	6.3	-1.4
2018	7.0	7.6	-8.4

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



Source: Bloomberg

Navneet Education enjoys a strong foothold in the publication industry with a market share of ~65-70% in both Gujarat and Maharashtra. Navneet's stint of more than five decades in the publication segment has not only enabled strong relationships with educational institutions, but has also created a strong brand recall and trust factor with teachers, parents and retailers. Traditional publishing business is growing @10-12% CAGR with margins north of 33%. Buoyed by its success, Navneet ventured into Stationery business which, though is not as profitable as Publishing (10-12% margins), but helps leverage distribution reach and branding of the entire portfolio. Off-late, Navneet is targeting the digital opportunity by offering B2B animated versions of syllabus to schools and other B2C off line products like pen drives and tablets. Navneet has been a value stock over the years with a payout ratio of 48%. However, considering RoE of 23% and consistent earnings over FY16-FY18E period, Navneet is well-positioned to deliver superior returns. Strong management bandwidth with proven track record, high visibility on operating cash-flows, superior return ratios and strong balance sheet, makes Navneet a preferred 'BUY' in the Education space. Initiate with a 'BUY' and TP of Rs 111 implying 16x FY18E earnings.

- Strong content portfolio help steady cash generation in publishing:** Navneet enjoys near monopoly position in the supplementary books segment in Western India and generates ~Rs1.8bn EBITDA/annum in the publishing segment. Regular capex of Rs250-300m and strong cash generation makes publishing segment a cash cow for funding future growth avenues.
- Digital content can see explosive growth over next 3-5 years:** Digital content has vast potential, both in B2B and B2C segments, as more schools turn digital over the years. However, not many players in this segment have grown profitably over the years. We are hopeful about Navneet's strategy of subscription-based model and expect it to deliver exponential growth in revenues over the next 3-5 years.

Key financials (Y/e March)	2015	2016E	2017E	2018E
Revenues (Rs m)	9,795	9,811	11,058	12,345
Growth (%)	11.0	0.2	12.7	11.6
EBITDA (Rs m)	2,372	2,208	2,654	2,963
PAT (Rs m)	1,303	1,326	1,479	1,658
EPS (Rs)	5.5	5.6	6.2	7.0
Growth (%)	14.0	1.7	11.6	12.1
Net DPS (Rs)	2.2	2.2	2.5	2.8

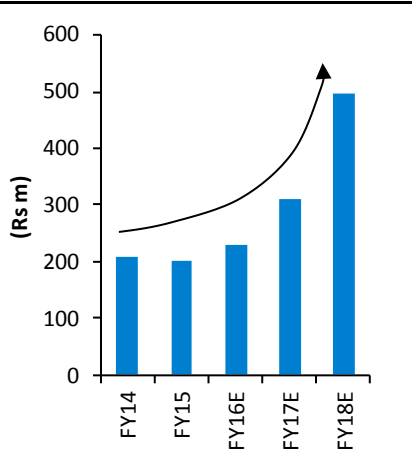
Profitability & Valuation	2015	2016E	2017E	2018E
EBITDA margin (%)	24.2	22.5	24.0	24.0
RoE (%)	25.5	22.9	22.7	22.6
RoCE (%)	19.1	16.8	18.9	19.7
EV / sales (x)	2.3	2.3	2.0	1.8
EV / EBITDA (x)	9.5	10.1	8.4	7.5
PE (x)	16.2	16.0	14.3	12.8
P / BV (x)	3.9	3.5	3.1	2.7
Net dividend yield (%)	2.5	2.5	2.8	3.1

Source: Company Data; PL Research

What can change the growth trajectory?

eSense grows exponentially with new product launches

Exhibit 1: eSense has the potential to contribute meaningfully over the next 3-5 years



Source: Company Data, PL Research

e-learning has vast potential both in B2B and B2C segments as the students and teachers accept the benefit of digital learning and more schools turn digital over the years. Adaptability and willingness to pay for services have acted as a key challenge.

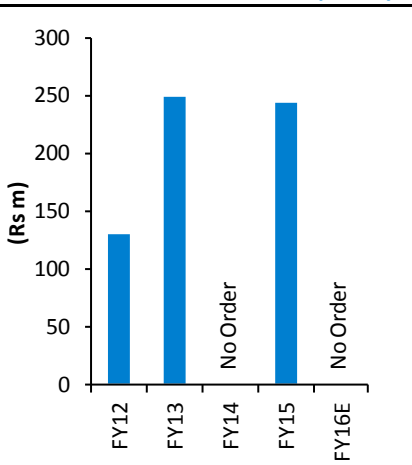
Out of the total 24,000 private schools in Maharashtra and Gujarat (B2B), Navneet has tapped 2,800 odd schools (less than 15%) leaving ample scope for growth. Its B2B product TOPCLASS (Digital solution for classroom teaching) is installed in more than 20,000 classrooms in Maharashtra and Gujarat and has seen good response over the years.

Also, Navneet is ready with product offerings in retail like CD roms and pen drives for state board curriculum of Maharashtra and Gujarat which will be made available at the retail level. It is also ready with pen drives for CBSE grades 1 to 10 with the product price varying between Rs3,000-4,000/user.

Navneet has invested ~Rs 300m in eSense over the past 5 yrs and is already cash breakeven in the business.

Pick-up in Government orders or fresh tendering of digital classroom order

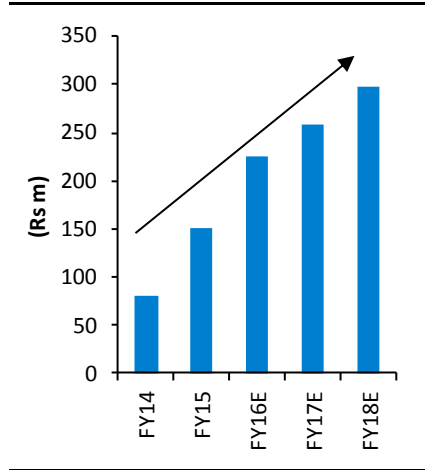
Exhibit 2: Govt orders recd for past 5 yrs



Source: Company data, PL Research

Navneet receives bulk orders from State government departments like Tribal dept, women and Child welfare dept, Social welfare dept etc for supplementary books, which then gets distributed to students in the public schools. Though Navneet has secured orders in three out of past five years, this business is very lumpy.

Considering government impetus on improved education and digital India, this segment remains a dark horse with significant upside potential. Digital classroom tender in Maharashtra alone has a potential of Rs7.5bn.

Exhibit 3: CBSE textbook can reach a turnover of Rs500m over next 3-4 years


Source: Company Data, PL Research

Growth pick up in CBSE textbooks

Many private sector English medium schools (around 70,000 in the country) have started positioning themselves as CBSE pattern schools where they use private publisher's textbooks up to Grade 8.

Navneet offers a range of textbooks marketed under brand name "Grafalco" up to Grade 8 and is looking to build the entire library for CBSE grade in FY17.

Syllabus change in the next three years

Syllabus change is a major growth driver as it clears off the old and second hand books from the channel and students buy new books as per the new revised syllabus as proposed by the respective state education boards. The syllabus across grade 1-10 is evaluated regularly and changes effected once in every six years.

Exhibit 4: Syllabus change in the next two years

Academic Year	Maharashtra		Gujarat	
	Class	Subject	Class	Subject
2014-15	3	All Subjects (All Mediums)	1	All Subjects (Gujarati Mediums)
	4	All Subjects (All Mediums)	2	All Subjects (Gujarati Mediums)
			3	All Subjects (Gujarati Mediums)
			4	All Subjects (Gujarati Mediums)
			5	All Subjects (Gujarati Mediums)
2015-16	5	All Subjects (All Mediums)	1	All Subjects (Eng & Hindi Mediums)
			3	All Subjects (Eng & Hindi Mediums)
			4	All Subjects (Eng & Hindi Mediums)
			5	All Subjects (Eng & Hindi Mediums)
2016-17	6	All Subjects (All Mediums)	9	Maths, Science, Computer, Sanskrit (All Medium)
2017-18		Not Yet Announced	10	All Subjects (All Mediums)
			12	All commerce & Art Subjects (All Mediums)

Source: Company, PL Research

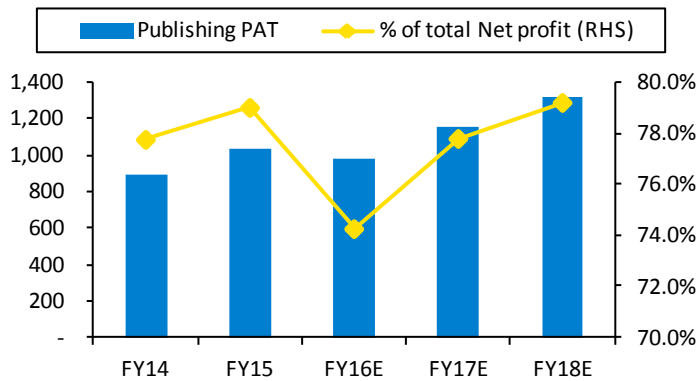
Exhibit 5: Current Revenue Contribution Class –wise

Class	1 to 4	5 to 7	8 to 9	10 th	11 th	12 th
% Contribution	6% each	8% each	10% each	17%	3%	6%
Total	24	24	20	17	3	6

Source: Company Data, PL Research

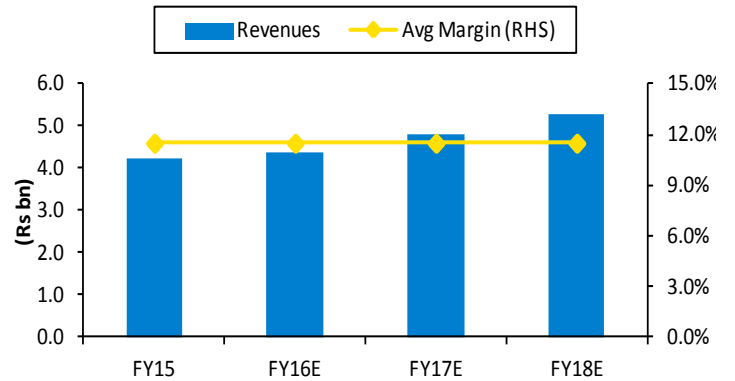
Investment Rationale

Exhibit 6: Focused player in high margin supplementary book segment



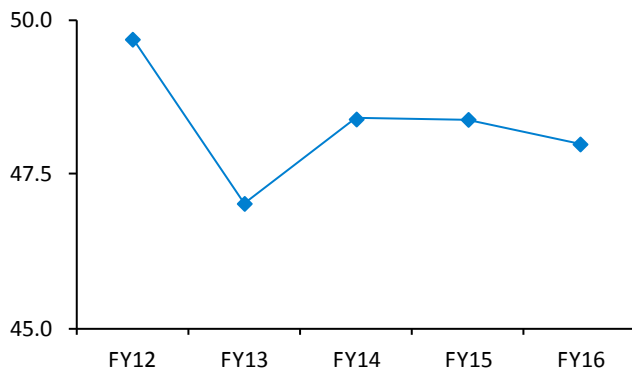
Source: Company Data, PL Research

Exhibit 7: Stationery business leverages Navneet brand and helps deeper penetration



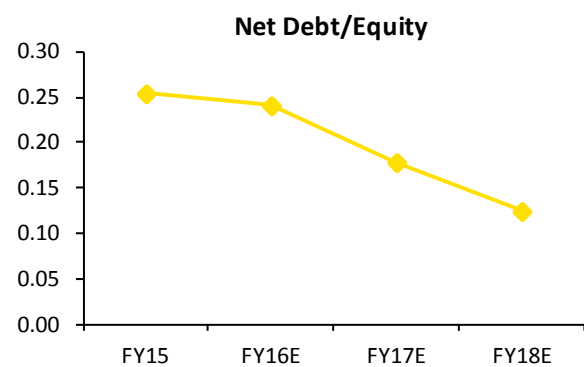
Source: Company Data, PL Research

Exhibit 8: Consistent Dividend payout of ~48% creates comfort



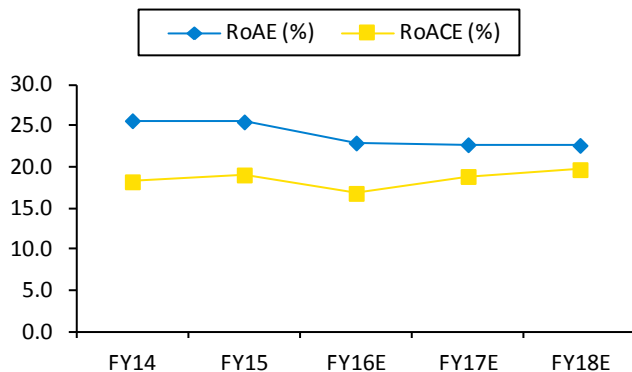
Source: Company Data, PL Research

Exhibit 9: Strong balance sheet shows prudence

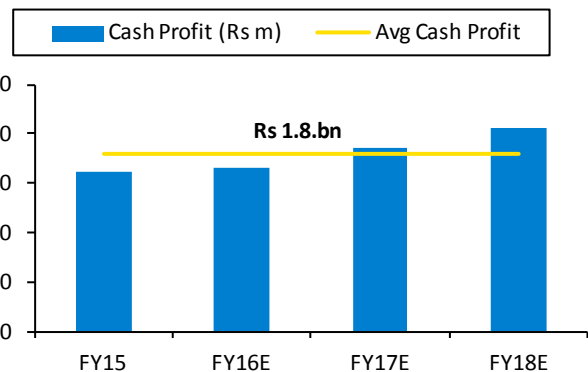


Source: Company Data, PL Research

Exhibit 10: High return ratios & strong cash generation merits investment



Source: Company Data, PL Research



Financial Snapshot

Exhibit 11: Financial Snapshot

(Rs M)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Revenues	2,963	3,323	4,111	5,153	5,316	5,483	6,189	8,057	8,821	9,795	9,811	11,058	12,345
EBIDTA	590	724	829	1,025	1,069	1,154	1,313	1,922	2,080	2,372	2,208	2,654	2,963
PAT	331	426	542	558	628	668	780	1,067	1,152	1,303	1,326	1,479	1,658
EPS	3.5	4.5	5.7	5.9	2.7	2.8	3.3	4.5	4.8	5.5	5.6	6.2	7.0
Div (per Share)	1.7	2.0	2.4	2.6	1.0	1.4	1.4	1.8	2.0	2.2	2.2	2.5	2.8
Div Payout (%)	55.8	51.0	49.4	51.3	43.6	58.1	49.7	47.0	48.4	48.4	48.0	48.0	48.0
BV (Rs)	19.3	21.4	24.2	27.1	12.3	13.5	15.2	17.6	20.1	22.8	25.7	28.9	32.5
Cash Profit	423	511	647	684	756	804	951	1,301	1,410	1,611	1,664	1,851	2,068
Mcap	5,736	5,141	9,201	4,741	12,172	13,137	13,804	13,839	13,542	23,641	21,200	-	-
Segment Revenue													
Publishing Content	1,822	2,187	2,728	2,799	2,860	3,111	3,633	4,720	4,959	5,520	5,410	6,221	7,030
Stationery Products	1,116	1,092	1,360	2,298	2,401	2,321	2,493	3,260	3,812	4,224	4,351	4,786	5,264
Others	25	44	24	56	55	51	64	77	50	51	51	51	51
Total Revenues	2,963	3,323	4,111	5,153	5,316	5,483	6,189	8,057	8,821	9,795	9,811	11,058	12,345
Segment EBIDTA													
Publishing Content	488	605	807	810	830	864	1,105	1,485	1,615	1,835	1,731	2,053	2,320
Stationery Products	104	103	55	239	291	331	258	441	446	488	472	536	590
Others	3	5	(5)	(48)	12	(8)	3	7	11	4	5	5	5
Reported EBIDTA	595	713	858	1,001	1,132	1,187	1,365	1,932	2,072	2,327	2,208	2,594	2,915
Segment margins													
Publishing Content	26.8%	27.6%	29.6%	28.9%	29.0%	27.8%	30.4%	31.4%	32.6%	33.2%	32.0%	33.0%	33.0%
Stationery Products	9.3%	9.4%	4.0%	10.4%	12.1%	14.3%	10.3%	13.5%	11.7%	11.6%	10.8%	11.2%	11.2%
Others	13.7%	12.2%	-19.7%	-84.7%	21.7%	-16.5%	4.1%	9.3%	22.6%	7.7%	10.0%	10.0%	10.0%
Consol Margins	20.1%	21.4%	20.9%	19.4%	21.3%	21.6%	22.1%	24.0%	23.5%	23.8%	22.5%	23.5%	23.6%
RoE	18.8%	22.0%	24.9%	22.8%	22.7%	21.7%	22.8%	27.3%	25.7%	25.5%	22.9%	22.7%	22.6%
RoCE	15.6%	17.2%	18.1%	18.0%	17.1%	16.8%	16.5%	20.3%	18.2%	19.1%	16.8%	18.9%	19.7%

Source: Company Data, PL Research

Company Profile

Navneet Education – a root, 5 decades deep

Exhibit 12: About the Company

Publication

Since	1959
Reach	7 states 18,000+ schools
Strong hold	Gujarat Maharashtra
Content Depth	5,000+ titles 11 languages 1,000+ hrs of e-content

Stationery

Since	1995
Reach	85,000 PoS
Exports	~40% of Segment Revenue
Facilities	Silvassa & Khaniwade
Capacity	150 tons/day

Source: Company Data, PL Research

Since 1959, Navneet has published more than 5,000 titles in English, Gujarati, Hindi, Marathi, Tamil, Urdu and other Indian and Foreign Languages, making it one of the most dominant players in the field of publishing. Over the decades, Navneet has emerged as the preferred brand for Educational Products among teachers and students in India. Its products are sold under the brands ‘Navneet’, ‘Vikas’, ‘Gala’, ‘Grafalco’, ‘FfUuNn’ and ‘Boss’.

Navneet’s educational syllabus-based supplementary books are Digests (Guide), Workbooks, and 21 Most Likely Question Sets, most of which are published in five languages – English, Gujarati, Hindi, Marathi, and Urdu. The company has a dominant market share of about 65% in Western India. And, with a new range of supplementary books for students of CBSE and ICSE Boards, its educational products are now available across India.

It also publishes various titles in the Children and General books category, which are not based on syllabus, such as colouring and activity books, board books, story books and books on health & hygiene, art & artist, cooking, mehendi, embroidery etc.

“Next gen” to target the digital opportunity

eSense: Foreseeing the need and demand in digital space, Navneet ventured into Digital Learning with eSense in 2009. **This segment is looked after by Mr. Amit Gala, CEO** (a professional) and Mr. Harshil Gala, the third generation of Gala Family. **eSense being** the first in its type was set up to provide an enhanced experience for the teachers and students in the space of Digital Learning. By Dec 2015, more than 2,800 institutions installed eSense enabling more than 20,000 classrooms to experience digital learning in Maharashtra & Gujarat.

TopScorer is an online knowledge platform that provides smart learning packs for grade 1 to 10 students across CBSE, Gujarat (GSEB) and Maharashtra boards (MSEB). The platform looks at simplifying learning, making it easy and effective. It is focused on bringing access to the best instruction prep for K-12 and test-prep to students nationwide.

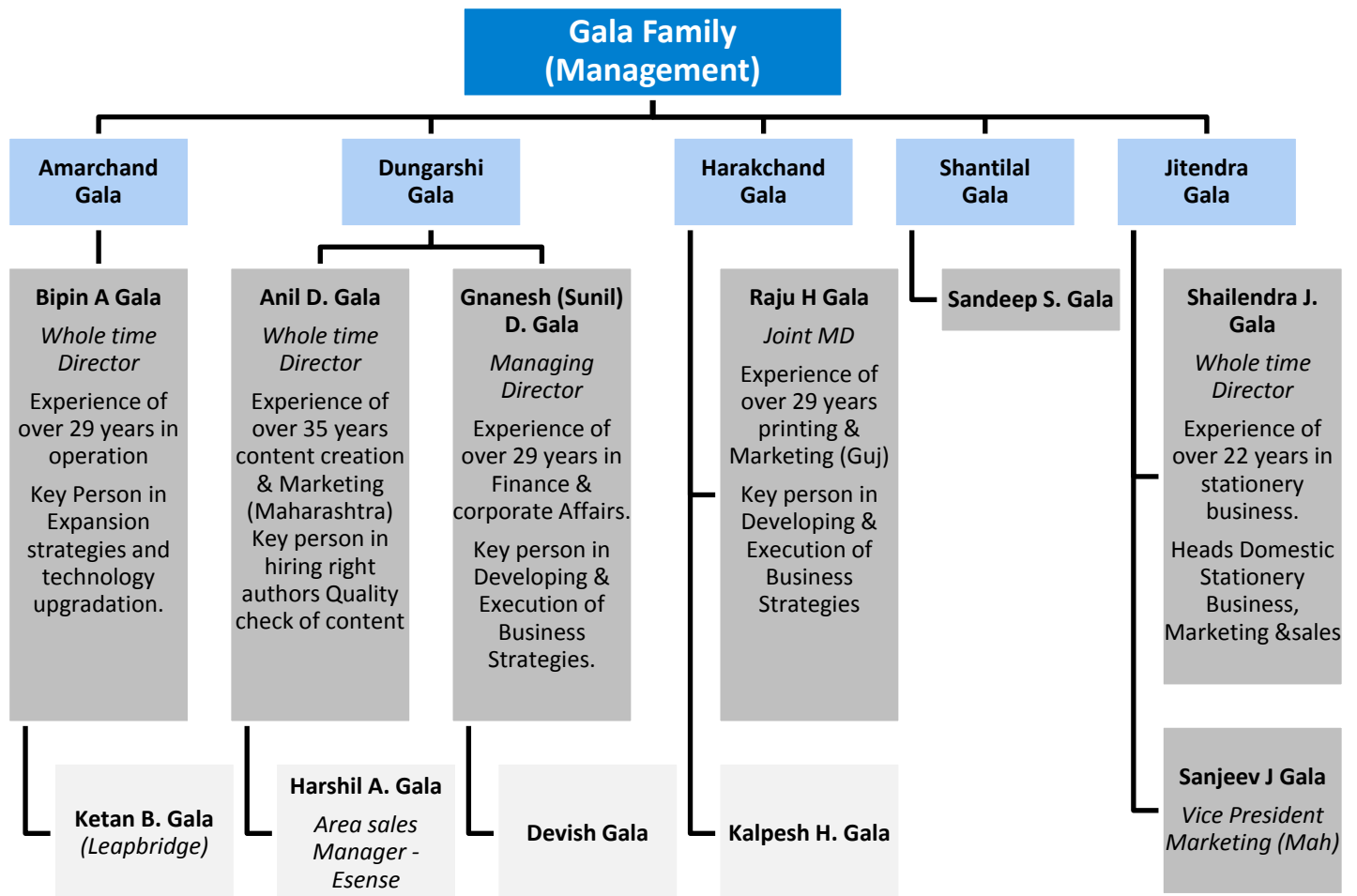
Navneet has grown @13.6% CAGR in revenues and 15.5% in earnings for the past 10 years. More importantly, it has delivered a 15.4% CAGR equity returns in the same period

Management Profile

Mr Gnanesh Gala, Managing Director, belongs to the promoter family and has over 29 years of experience in Finance and Corporate affairs.

Mr. Anil Gala, Whole-Time Director, belongs to the promoter family with an experience of over 35 years in Content management and Marketing.

Exhibit 13: Family Tree of promoter group



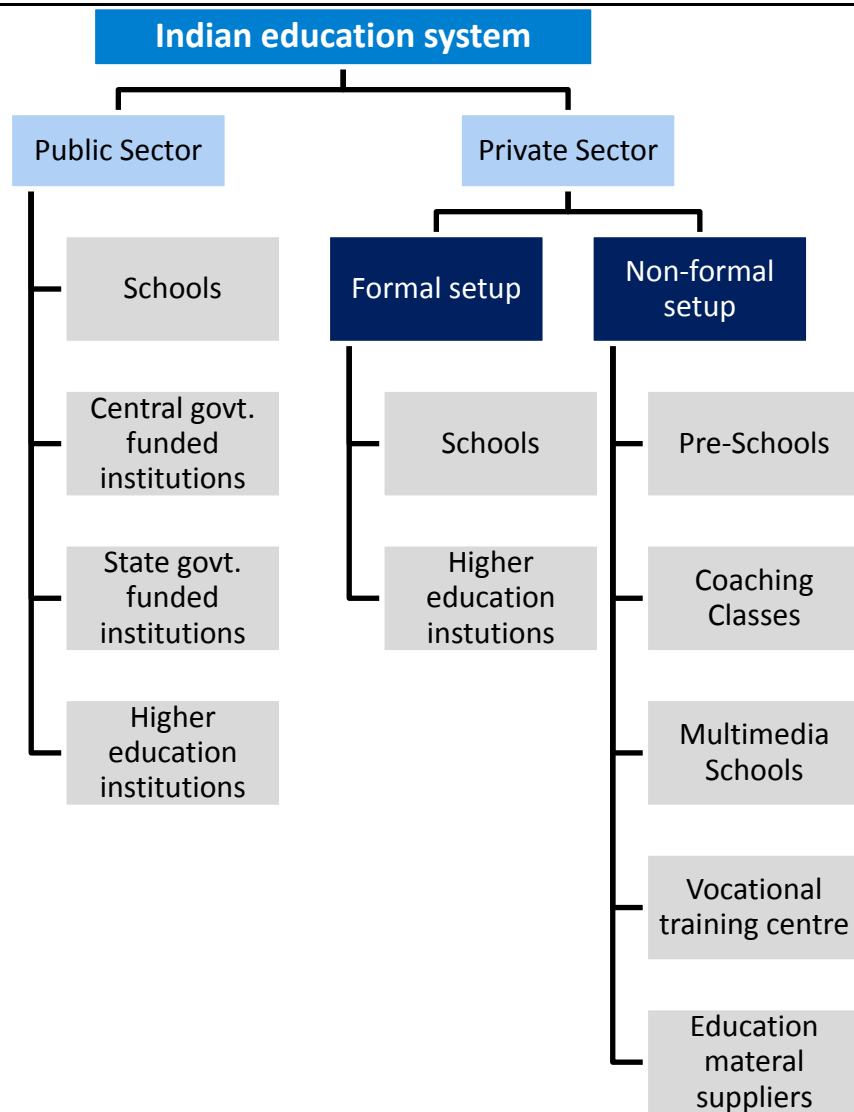
Source: Company Data, PL Research

Education Industry in India

Indian education system in the private sector can be divided into: Formal and Informal segments.

Formal education segment broadly comprises schools and higher education institutes. Schools often classified as K-12 (Kindergarten to 12th) caters to '3-17 years' age group. While higher education includes graduate, diploma, professional and post-graduation courses caters to '18-22 years' and above age group. ***On the other hand, informal education segment comprises pre-schools, multimedia, vocational training, books and coaching classes. This segment is free from price regulation as opposed to highly regulated formal education segment.***

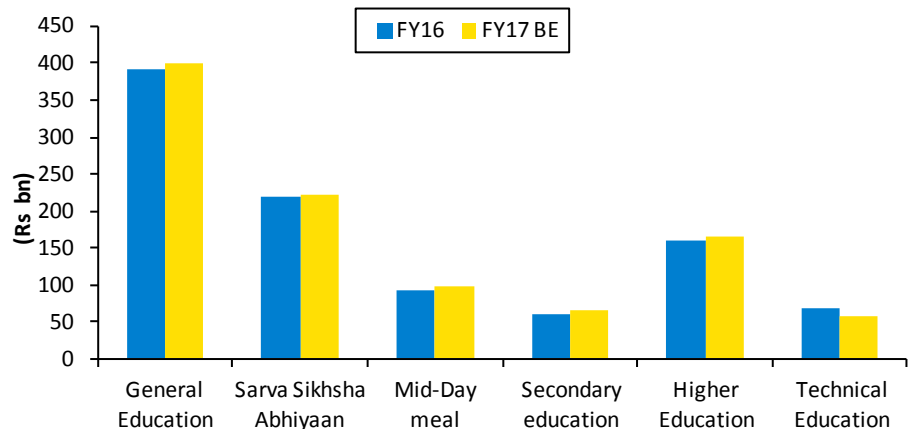
Exhibit 14: Education Landscape in India



Source: PL Research

Government of India has allocated Rs1.01Tr in FY17BE for the education sector compared to Rs988.6bn in the previous budget. Of this, Rs400bn has been earmarked for general education, while Rs222bn has been allocated for Sarva Shiksha Abhiyan & Rs97bn allocated to mid-day meal scheme. Education historically has been a State subject, however with the introduction of SSA and MDM schemes, State's contribution have reduced to 75% in 2011 from 87% in 2001.

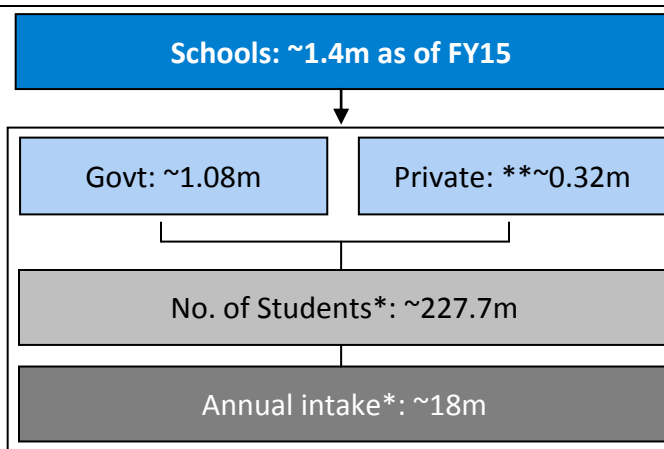
Exhibit 15: GOI spending by education segment – More than Rs 1tr committed per year



Source: Centre for Policy Research, PL Research

Educational book market in India is growing rapidly over the past 6-8 years. According to media reports, the K-12 market (school books) has grown from Rs63bn in FY08 to Rs186bn in FY14, implying a CAGR of 19.7%. Higher education book sales have grown in this period from Rs16bn to Rs56bn.

Exhibit 16: Indian School Network consists of ~1.4m schools



Source: National University of Educational Planning and Administration, PL Research * FY12 ** Recognized

Exhibit 17: Navneet's target market – WEST INDIA

	Maharashtra	Gujarat
No of Govt Schools	69,541	33,768
No of Private Schools	25,002	8,972
Total Schools	94,543	42,740
School In Regional Mediums	76,738	34,882
School In English Mediums	18,699	8,293
% of regional medium schools	81.2%	81.6%
Number of Students		
Class 1-5	10,188,809	5,936,567
Class 6-8	5,969,982	3,232,904
Class 9-10	1,952,064	1,586,292
Class 11-12	3,132,957	928,544
Total Students	21,243,812	11,684,307

Source: PL Research

Highly fragmented industry with dominant regional players

While the market is highly fragmented, it is also experiencing consolidation, in part as a result of involvement of foreign multinationals. Government allows 100% foreign direct investment. This is not only in trade publishing, with the merger of *Penguin* and *Random House* and *HarperCollins'* acquisition of *Harlequin* (all companies with substantial presences in India), but also in educational, with *S Chand's* acquisition of *Madhuban*, *Vikas Publishing House* and *Saraswati Book House* and with *Laxmi Publications'* acquisition of *Macmillan Higher Education*.

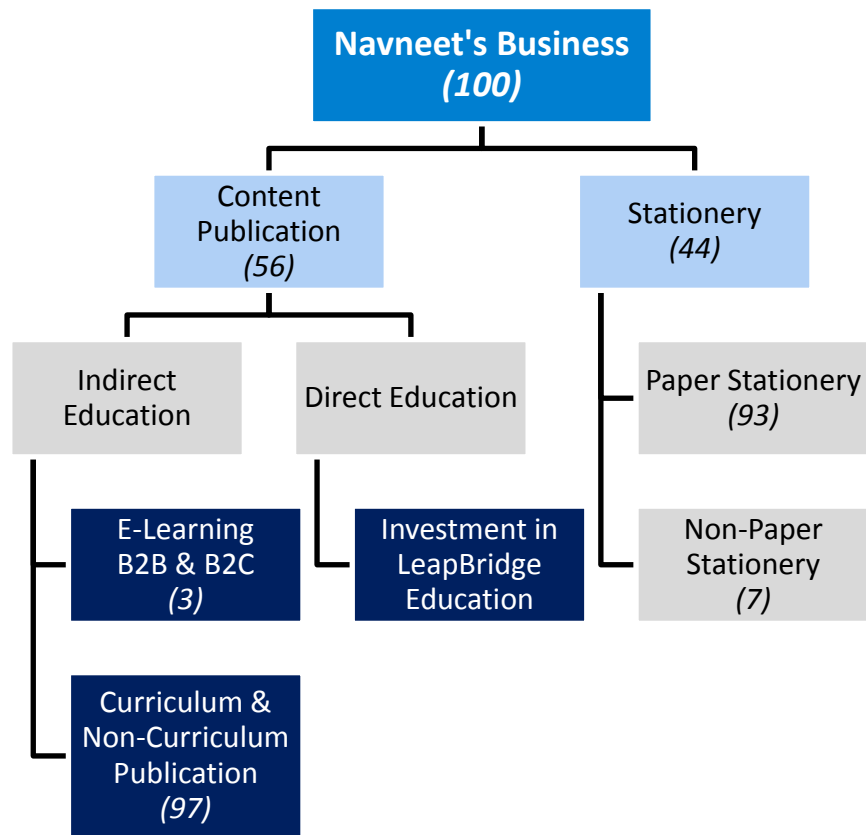
Stationery business is currently facing stiff competition from ITC and regional players

The organized market for notebooks is around Rs40bn, where ITC's *Classmate* is the market leader with ~20% share. Navneet is a distant second with ~7% share. The rest of the market is controlled by a host of regional brands. Over the past five years, ITC has almost doubled its stationery sales by aggressive marketing and relaxing credit norms amidst retail channels. This has affected most sector participants in terms of pricing and profitability and also resulted in subdued single-digit growth rates.

Business Segment

Navneet operates across mainly two business segments: Publishing and Stationery

Exhibit 18: Navneet Business Snapshot and Revenue Split in %



Source: Company data, PL Research

Exhibit 19: Navneet's Industry Snapshot – in a Nutshell

	Publication	Stationery
Current market Size	120bn	50bn
Market growth rate	10%	10%
Fragmentation	High	High
Pricing	Value Pricing, Cost plus markup	Cost plus markup
Competition intensity	Low	High
Annual Revenues (FY16)	5bn	4.2bn
5 yr CAGR	10%	12%
EBITDA Margins	33%	11%
RoCE	~46%	~12%

Source: PL Research

Surprisingly, 80% of the students in India study in regional languages contrary to the belief of higher share of English/Hindi medium

Publishing Segment

Navneet is a dominant player in Western India for Supplementary books. Workbooks, Guides and last Minute Revision forms the portfolio for Navneet's syllabus-based publication

Navneet is in the business of publication of syllabus-based supplementary books for State board school students across Western India and other non-syllabus based books across India. It enjoys leadership position in supplementary books backed by a strong content team of 195 authors receiving remuneration in the form of Royalty and not salary. It has created almost 5,000+ titles in seven different languages over the years. Navneet has also ventured in publishing CBSE textbooks from Standards 1 to 8 for CBSE Board. Common curriculum and higher margins as compared to supplementary publishing prompted Navneet to leverage CBSE textbooks in seven states and is in the process of expanding operations pan-India.

Navneet, over the years, has developed good relationships with most schools in Western India and ensures its sales team (~450 field staff) keep teachers abreast about the latest product offerings which can be recommended to students. ***Excellent quality of content written by highly competent educationalists and experienced authors and trust factor developed over the last five decades continue to work for Navneet's products across Maharashtra and Gujarat.***

Exhibit 20: Education products offerings

	Work books	Digests/Guides	21 Most Likely Questions
For Standards	1-10	1-12	10th & 12th (Public Exams)
Sales Model	Recommended by schools	Sample given to teachers	Sample given to teachers
Points of Sale	Retail or Schools	Retail	Retail

Source: PL Research

Exhibit 21: Current Revenue Contribution Class –wise

Class	% Contribution	Total
1 to 4	6% each	24
5 to 7	8% each	24
8 to 9	10% each	20
10 th	17%	17
11 th	3%	3
12 th	6%	6

Source: Company Data, PL Research

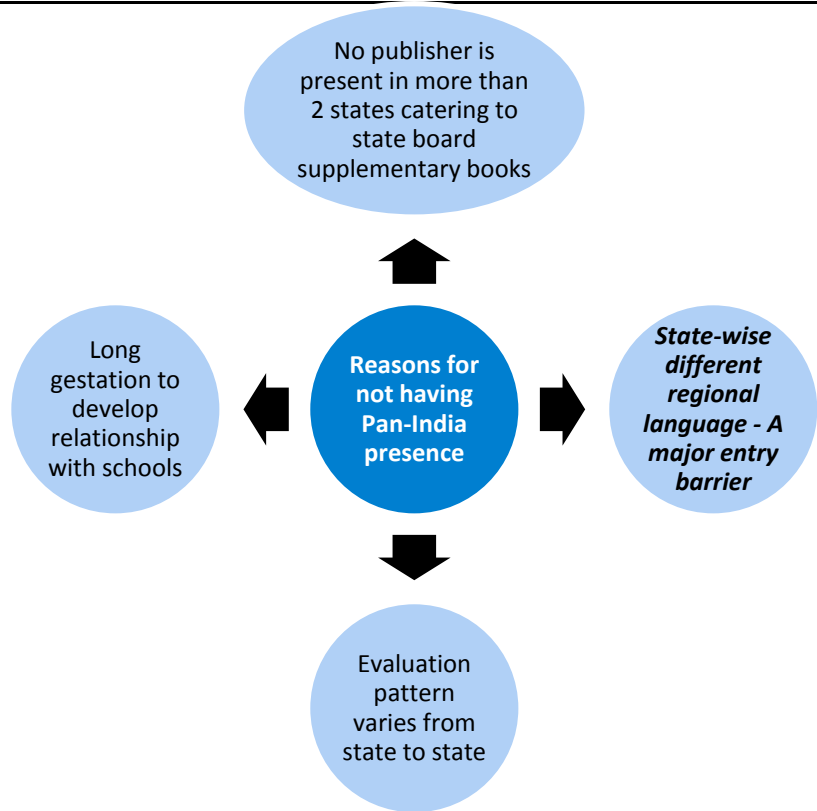
Publishing business is seasonal in nature with Apr-Jun (Q1) amounting for almost 50-55% of sales. However, for sales to happen in Q1, Navneet starts its printing activity between Nov-Apr period. Paper procurement happens during Nov-Dec period and manufacturing commences for the next season. Marketing activity starts in Jan –Mar period. Working capital requirement is at its peak on B/S date in March and its leanest at end Sept.

Exhibit 22: Publishing business is cyclical in nature with Q1 contributing > 50% sales

	Activity	Effect on Financial Statements
Oct-Dec Q3	-Paper purchase contract -Start of printing activity -Sales ~14%	-Huge manufacturing expenditure -Inventory rises
Jan-Mar Q4	-Printing activity continues -Marketing activity starts for next academic year -Sales ~15%	-Huge marketing expense -Inventory at its peak -Working capital borrowing from banks
Apr-Jun Q1	-Printing activity continues -Major sales made (~50-55%)	-Highest revenue among all quarters -Major profit realised
Jul-Sep Q2	-Major debtors realised -Sales ~16-18%	-Thin balance-sheet

Source: Company Data, PL Research

Exhibit 23: Navneet is a focused player in West India due to hurdles in other states



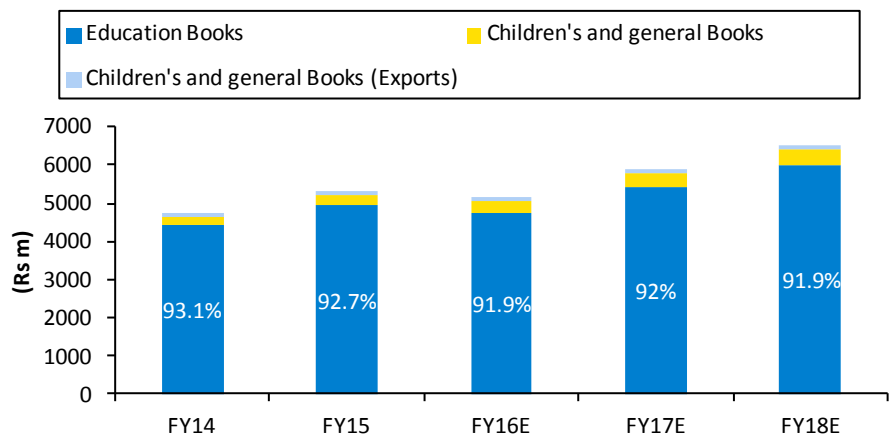
Source: PL Research

Exhibit 24: Future growth drivers for Publishing business in place

Syllabus change	<ul style="list-style-type: none"> •It does away with old and second hand books from the channel and creates additional demand for new books of revised syllabus
New products	<ul style="list-style-type: none"> •Started publishing & marketing books for pre-primary and primary grades •Text books for private schools which have started using private publishers' text books up to Class 8
CBSE pattern schools	<ul style="list-style-type: none"> •Many schools have started positioning themselves as 'CBSE pattern' schools where they use private publishers' text books up to Class 8; Navneet has ventured into that segment
Govt initiatives	<ul style="list-style-type: none"> •Govt initiatives to provide supplementary books in Public schools (e.g. in tribal schools)

Source: Company Data, PL Research

Exhibit 25: Split of Publishing Segment FY14-FY18E



Source: Company Data, PL Research

Some of the key challenges in running the publishing business are saturation, creating awareness amongst students and staying ahead of curve in terms of market offerings, both price-wise and geography-wise.

Digital Segment - eSense

Students are much more comfortable and quick at learning something which is taught to them providing a visual version of the topic

e-learning is an arena of online education which is very widely and popularly used by developed nations. This method of learning is slowly gaining popularity in developing nations as well. India, Pakistan and Nepal have already adapted themselves to the use of technology albeit at a slow pace.

Government plays a vital role in encouraging the use of technology for education. With the existing government committed to digital India and state government's emphasizing on reducing the weight of school bags, there is robust opportunity to grow in the e-learning business.

Online business model looks attractive on the face of it. However, the fact is that most online education companies in India are not profitable. This is because the number of paid users v/s total users is low. Most online education companies find it difficult to convert users into paid subscribers. Students sign up but drop out when they have to pay.

Exhibit 26: Some prominent online vendors

	Promoted by	Based out of	Target Segment	Year
Topper learning	Educomp and Network 18	Mumbai	K-12, ICSE/CBSE, State boards	NA
Meritnation	Pavan Chauhan	Delhi	K-12, ICSE/CBSE, State boards	2009
Extramarks	Atul Kulshrestha	Noida	K-12, ICSE /CBSE	2007
Learn Next	IIT Alumni	Hyderabad	K-12, ICSE/CBSE, State boards	2013
Byju's	Byju Ravindran funded by Sequoia Capital	Bangalore	K/12, Test Preparation	2008
Edurite	Pearson Group	Bangalore	CBSE/ICSE/General worksheets	NA
Toppr	Zishaan Hayath and Hemanth Goteti	Mumbai	IIT JEE, Pre medical and Foundation	2013
Esense	Navneet	Mumbai	K-12, ICSE/CBSE, State boards	2009
Khan Academy	Salman Khan, MIT and Harvard Graduate	US	Free content /Non-Profit organization	2005
100 Percentile	NA	Gurgaon	Preparation for Engg, MediacI, MBA Entrance etc	2012

Source: PL Research (NA = Not available)

Ready with retail offering and ramp-up in TopScorer online portal

Digital content has the potential to empower teachers and significantly increase attention and understanding of abstract concepts for students

Navneet has created TopScorer, an online knowledge platform that provides smart learning packs for Grade 1 to 10 students across CBSE, Gujarat (GSEB) and Maharashtra boards (MSEB). It is looking to target the retail segment through pen-drives/CD ROMS (with class-wise content) across its distribution network in Maharashtra and Gujarat in the next 3-6 months. This product will be sold at ~Rs3000-4000 at retail level (off-line), while the online subscription is expected to be offered cheaper. We understand Navneet is looking to increase its investments in marketing and distribution of its digital segment by ~Rs 150m for FY17 from an average of Rs 60-80m/yr for past 5 yrs.

Exhibit 27: E-learning target segments constitute both B2B and B2C with huge potential

Offerings	Digital content for Maharashtra & Gujarat state curriculum
	English, Marathi and Gujrati medium-- Class 1-10
	Pen drives for CBSE grades 1-10
Numbers	B2B products installed in 2,800 institutions, covering 20,000 classrooms
	Over 1,000 hrs of content created for State boards of Maharashtra and Gujarat and CBSE curriculum
	Strong brand names helps in penetration
Acceptability	Acceptability by teacher and students due to ease of use
Huge untapped market	Out of 24,000 pvt schools, less than 15% have been tapped till Q3FY16-huge B2B opportunity in Maha & Guj
B2C	Recently entered into online portal, CD rooms, pen-drives for state board in two states and CBSE curriculum
	Navneet is planning to target pan-India sales of CBSE content through its online portal

Source: Company Data, PL Research

Stationery Segment

Navneet started its stationery business in 1995, which is broadly divided into Domestic and Exports. The domestic segment accounts for two-thirds of the stationery segment sales and includes both paper and non-paper stationery. The domestic stationery market is growing @ 10% CAGR, with large number of regional players.

Paper Stationery

Navneet manufactures and distributes premium quality notebooks, long books and other stationery products like drawing books, scrap books, hobby stationery, office stationery etc. It also exports its stationery products and children's books to Middle East, Europe, Africa, USA and South America.

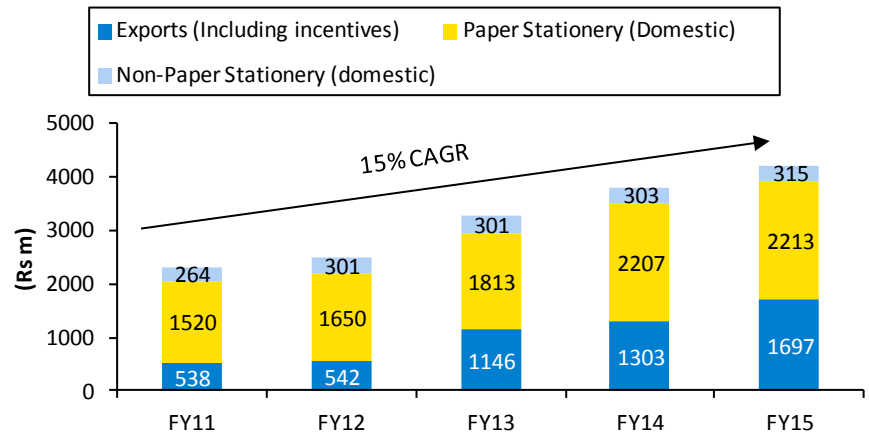
Non-Paper Stationery

Navneet entered the general stationery market (Non-Paper) with the brand name "FfUuNn" in August 2006 with products like pencils, erasers, sharpeners, rulers, water colours, colour pencils and so on. This segment is largely outsourced and helps Navneet to increase its product basket.

Exhibit 28: Stationery segment Snapshot

	Paper	Non-Paper
Production	~70% in house (all exports products in-house)	Outsourced
Market	Domestic as well as export	Sold pan-India
Products	Notebooks, Drawing Books, Writing Pads, Index Cards etc	Pencils, Erasers, Sharpeners, Crayons, Geometry Sets, Rulers, Dough, Colour Pastels etc.
Revenue Share (FY15)	93% of the segment	7% of segment revenue

Source: Company Data, PL Research

Exhibit 29: Stationery growing @15% CAGR for past four years, margins in double digits


Source: Company Data, PL Research

Why stationery business makes sense for Navneet product offerings?

- It helps in negotiations on buying paper (~80,000T of paper required by Navneet a year)
- Creates a national brand
- Target exports

Strong distribution in stationery touches 85,000 plus retail outlets

Navneet has two centralised offices in Mumbai and Ahmedabad and two manufacturing locations at Silvassa (Union Territory) and Khaniwade (Maharashtra). The 14 Branch Offices, 1,200+ Distributors, 16 C&F Agents and 455+ sales force ensure Navneet's presence across all major markets in India. Division's variety of stationery products today reaches 85000+ retail outlets in more than 600 towns across 23 states and three Union Territories in India.

Stiff competition from ITC in the stationery segment limits margin improvement

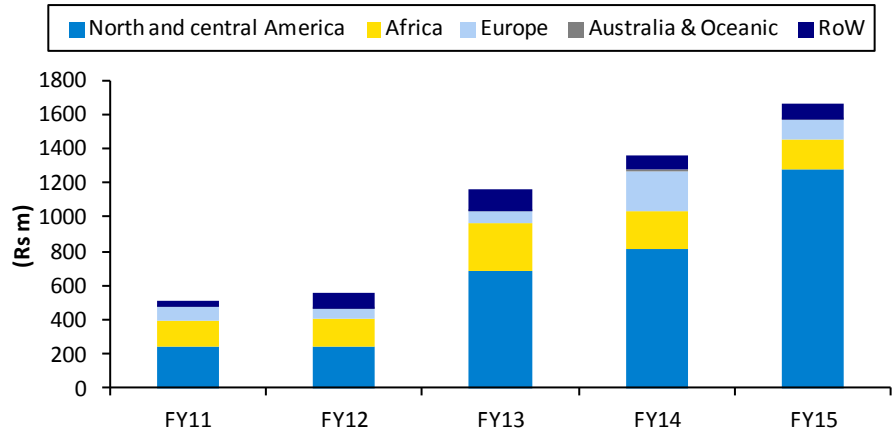
ITC's education and stationery products business, which sells notebooks and other stationery items under the 'Classmate' brand, has clocked revenues in excess of Rs10bn for FY15. The organized market for notebooks is around Rs40bn, where ITC's Classmate is the market leader with a 20% share. The other national brand, Navneet, is a distant second with 7% share. Rest of the market is controlled by a host of regional brands. Over the last few years, ITC is increasingly focusing on stationery segment due to reduction of import duties under free trade agreements, especially with ASEAN effective Jan 2014 impacting profitability of domestic paper and paper board industry. ITC has, thus, increased its thrust in value-added paper and expanded the availability of its products through a multi-pronged approach of channel proliferation, market penetration and outlet coverage increase.

Stationery exports have grown three-fold over past five years

NELI expects exports to grow meaningfully over the next 3-5 yrs

Navneet’s stationery exports have grown meaningfully to the US, Africa and Europe over the past five years registering revenues of Rs1.7bn for FY15. Navneet’s products are appreciated across retail chains in the US and the company is hopeful of geographic expansion in the coming years.

Exhibit 30: Region-wise growth in Exports



Source: Company Data, PL Research

K-12 School management business

In 2011, Navneet ventured into Direct Education/School Management Business by acquiring a 25% stake in a School Management company in Andhra Pradesh “K-12 Techno Services” (KTS) for Rs488m. KTS has 52 State Board Schools under the name of “Gowtham Model School” in AP and 12 CBSE Schools by the name of “Orchids – The International School”. Of these 12 schools, five are in Bengaluru, four in Mumbai and one each in Navi Mumbai, Pune & Hyderabad. **Because of the trust structure, out of the total fee/revenue collected, ~40% would accrue to KTS as the maximum allowed management fees and Navneet’s proportionate revenue share is 25%.**

Navneet has not increased any further investments in this segment and is evaluating the performance of KTS regularly to decide whether to stick with its investment or exit when KTS applies for an IPO. **We expect Sequoia Capital (one of PE investors) to take the IPO route in FY18.** It has invested ~Rs 900m in 2 rounds of funding for its 45% Stake.

Exhibit 31: Existing Shareholding of KTS

Share Holding		FY15 Snapshot	Revenues	PAT
Sequoia Capital	45%	K-12 Techno Services	~Rs 600m	~Rs 70m
Promoter	30%			
Navneet	25%			

Source: Company Data, PL Research

Assumptions

Exhibit 32: Assumptions (Rs m)

	FY14	FY15	FY16E	FY17E	FY18E
Segment Revenues					
Publishing Division	4,751	5,319	5,180	5,911	6,533
Education Books	4,425	4,932	4,761	5,439	6,002
Children's and general Books	205	267	294	338	389
Children's and general Books (Exports)	121	120	125	133	143
Stationery Division	3,812	4,224	4,351	4,786	5,264
Exports (Including incentives)	1,303	1,697	1,500	1,665	1,848
Paper Stationery (Domestic)	2,207	2,213	2,520	2,774	3,052
Non-Paper Stationery (domestic)	303	315	330	347	364
Esense (Online/Multimedia)	208	201	230	311	497
Others	50	51	51	51	51
Total Revenues	8,821	9,795	9,811	11,058	12,345
EBITDA Margins					
Publishing Content	32.6%	33.2%	32.0%	33.0%	33.0%
Stationery Products	11.7%	11.6%	10.8%	11.2%	11.2%
Working Capital cycle					
Debtors Days	81	70	70	69	68
Inventory Days	138	130	130	130	130
Creditors Days	9	7	7	8	9
NWC Days	210	193	193	191	189
Tax Rate	34.4%	34.7%	34.0%	34.0%	34.0%

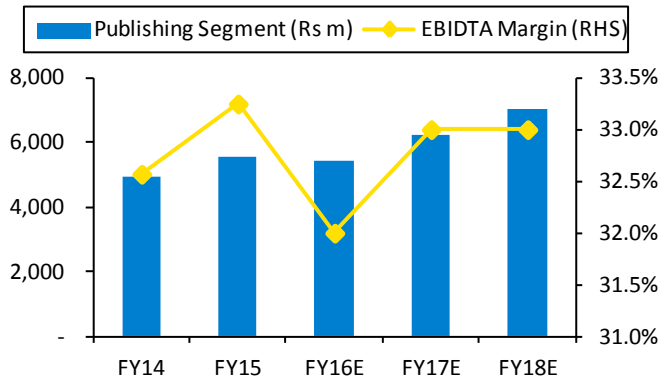
Source: Company Data, PL Research

Financials

Navneet's revenues are growing @12% CAGR over FY16-FY18E

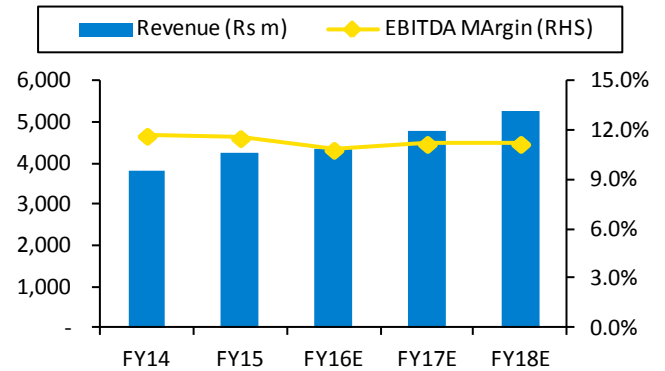
Navneet is expected to grow revenues @12% CAGR over FY16-FY18E, primarily on the back of 14% CAGR growth in publishing segment and 10% CAGR growth in Stationery segment. Publishing segment is expected to benefit from new products for CBSE pattern, syllabus change, government initiatives for providing supplementary books to public schools and traction in eSense. Stationery segment is expected to benefit from newer geographies in exports apart from US and steady domestic market growth of 10%.

Exhibit 33: Publishing Business looks strong over FY16-FY18E Period



Source: Company Data, PL Research

Exhibit 34: Stationery Business steady over FY16-FY18E Period



Source: Company Data, PL Research

Subdued FY16 due to draught in Maharashtra

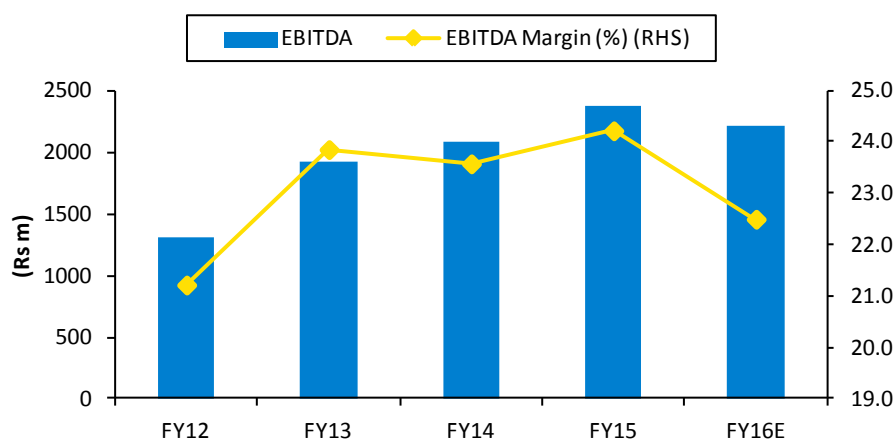
Navneet had a subdued FY16 with a revenue drop of 6% primarily on account of draught in major districts of Maharashtra. Further, there were no government tenders this year v/s Rs245m in FY15. Exports too struggled in FY16 due to lesser exports to Africa.

However, we remain optimistic on the growth returning back over FY16-FY18E period primarily factoring in **1)** Normal operating business environment in publishing with contribution from CBSE textbooks sales **2)** Growth from online portal eSense **3)** Scholarships exams back in FY17.

Average EBITDA generation of Rs2bn/yr for FY12-FY16E period

Navneet has consistently improved margins and generated average EBITDA of Rs2bn a year for FY12-FY16E period. Tight control over raw material cost, other operating expenses and stable employee cost over the years has resulted in 250bps improvement in margins for the period despite company undertaking new initiatives like online (eSense) and government tenders.

Exhibit 35: Navneet has consistently grown operating profits over the past decade



Source: Company Data, PL Research

Most cost overheads well in control, margins remain stable

Navneet has controlled most cost overheads in a tight range for the past decade. This has resulted in stable margin profile both at EBITDA and PAT levels.

Exhibit 36: Navneet has gradually improved margins in past 4 yrs

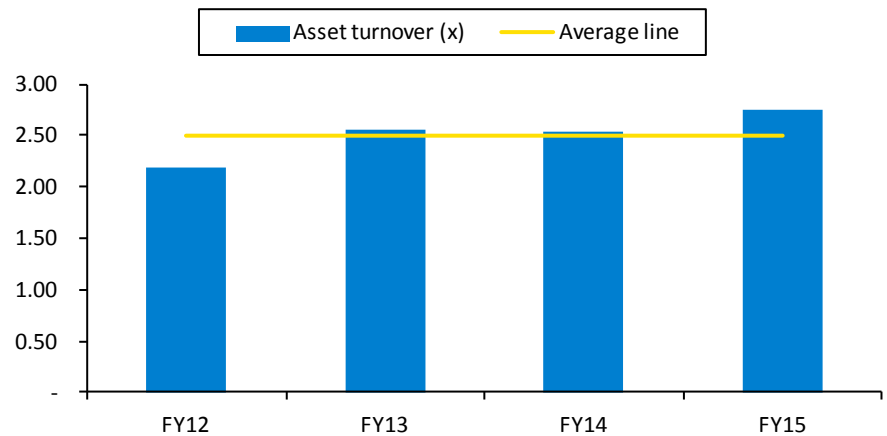
	FY12	FY13	FY14	FY15
Cost of RM (Paper)	48.5%	48.0%	49.2%	47.4%
Employee Cost	9.9%	8.5%	8.3%	8.9%
Royalty	2.0%	1.9%	1.8%	1.9%
Transportation Expenses	1.7%	1.8%	1.6%	1.8%
Binding Expenses	1.3%	1.5%	1.9%	1.5%
Sales Promotion Expenses	2.1%	1.6%	1.4%	1.5%
Printing Expenses	1.2%	1.5%	1.0%	1.1%
Freight & Octroi	1.0%	0.9%	1.0%	1.0%
Rent	0.7%	0.7%	0.8%	0.9%
Misc	8.7%	7.6%	7.6%	8.0%
Other Manufacturing Expenses	1.7%	2.0%	1.8%	1.9%
EBIDTA Margins (Consol)	21.2%	23.9%	23.6%	24.2%
PAT Margins (Consol)	12.6%	13.2%	13.1%	13.3%

Source: Company Data, PL Research

Asset turnover stable above 2.5x, routine capex of Rs300-350m

Navneet's business model is asset-light and requires routine capex in the range of Rs300-350m a year. Management has highlighted barring any strong opportunity for M&A, the payout ratio shall continue to be in the 48-50% range. Asset turnover above 2.5x suggests a strong groundwork and branding in the education value chain for Navneet.

Exhibit 37: Asset Turnover above 2.5x in Publishing and Stationery business

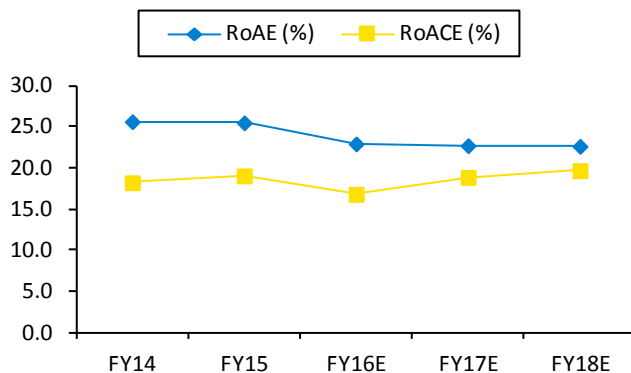


Source: Company Data, PL Research

High return ratios, strong free cash generation and high dividend payout merits investment

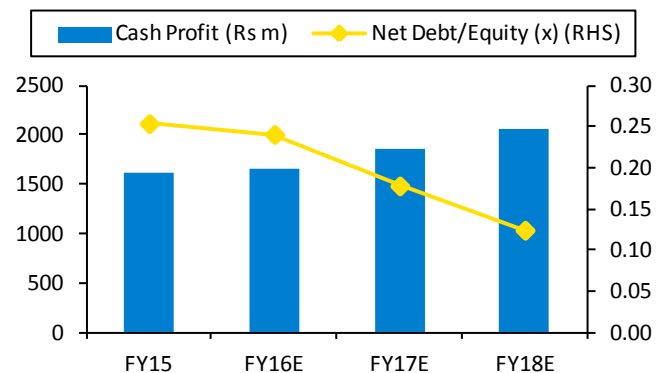
Navneet has demonstrated strong balance sheet (Net D/E of 0.24 for FY16E) over the past several years backed by continuous free cash generation. Strong publishing franchise and multiple levers of growth such as syllabus change, digital opportunity, new export markets and enhanced stationery exports is expected to keep Navneet on a sustainable growth trajectory over the next many years. Dividend payout of 50% and RoE of 25% offers comfort for long-term investing.

Exhibit 38: Navneet has strong RoE and ~50% payout



Source: Company Data, PL Research

Exhibit 39: Strong balance sheet and significant cash generation



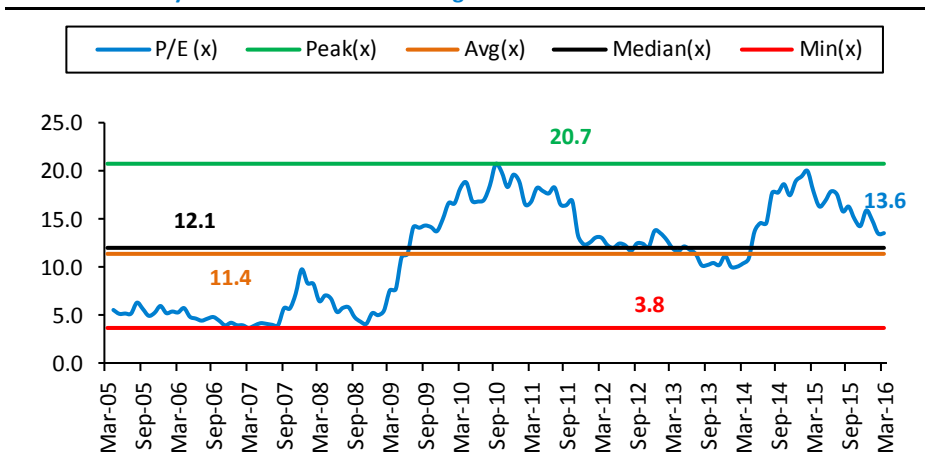
Source: Company Data, PL Research

Valuation and Outlook

Navneet continues to dominate publishing of supplementary books across Maharashtra and Gujarat. However, the current slow but gradual shift towards CBSE pattern has opened up text books market for Navneet (potential of around 70,000 schools in India and market of Rs10-12bn). Stationery segment is expected to remain steady and digital opportunity has the potential to gain significant traction over the next 4-5 years. Navneet has proactively ventured in to the digital business through its subsidiary eSense and is looking to not only grow in B2B segment (Navneet to schools) but is ready with B2C retail offerings like online portal (TopScorer), CD Roms and pen drives for curriculum of Maharashtra and Gujarat. It is also ready with pen drives for CBSE curriculum which is expected to be launched in the next 3-4 months.

We view Navneet as a value stock with steady growth over the years with a payout of 48%. However, considering RoE of 23% and consistent earnings growth over FY16-FY18E period, Navneet is well-positioned to deliver superior returns. Strong management bandwidth with proven track record, high visibility on operating cash-flows, superior return ratios and strong balance sheet, makes Navneet a preferred **'BUY'** in the Education space. Initiate with a **'BUY'** and TP of Rs111.

Exhibit 40: One-year forward Price to Earnings



Source: Company Data, Bloomberg, PL Research

Exhibit 41: Comparative Valuation

	Mcap (Rs bn)	Sales (Rs m)			PER (x)			RoE			EV/EBITDA		
		FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
Navneet	20	9,795	9,811	11,058	16.1	15.9	14.2	25.5	22.9	22.7	9.0	9.7	8.0
MPS	13	2,239	2,598	2,861	19.1	18.5	16.8	35.3	26.5	27.2	13.8	11.8	10.2
MT Educare	7	2,089	2,862	3,350	24.3	21.0	17.4	25.0	20.2	21.1	18.2	14.1	11.3

Source: Company Data, Bloomberg, PL Research

S. Chand listing in FY17, offers chances of re-rating for Navneet

Delhi-based publishing firm S Chand has raised US\$27m (Rs1.8bn) funding led by IFC, and existing investor Everstone Capital in Nov 2015. Proceeds from the latest capital-raising round will be used by the Delhi-based company to scale-up operations in education publishing, as well as in the digital education space, as it looks to reach out to more students.

S Chand was founded in 1939 by late Shyam Lal Gupta and is now managed by Mr. Himanshu Gupta, Joint MD and Mr Dinesh Kumar Jhunjhunwala. S Chand has 50 branches spread across the country and exports to about 40 countries globally. It publishes around 35m textbooks and delivers over 4000 hours of e-content to 20m students annually.

According to media reports, S Chand is exploring an IPO this fiscal and has already started planning for it. They require about US\$150m through external and internal accruals as they are looking to reach 1,00,000 institutions over the next five years. They have already deployed US\$15m for acquiring digital and services-related properties till date. S Chand is expected to have Rs 8bn in revenues and ~Rs 2bn in operating profit for FY16.

Risk and Concerns

Rise in paper costs

Paper, the key raw material, accounts for almost 45% of revenues. Sharp rise in paper prices can hit profitability of the publishing segment & domestic paper stationery, which is already facing stiff competition.

Competitive intensity

Publication industry is highly fragmented, regional and the competitive intensity remains stiff. However, Navneet's operations are concentrated across Maharashtra and Gujarat where it has carved a niche for its books over the past five decades. Due to focus on content quality and a strong marketing network, Navneet has a durable competitive advantage over other players.

Stationery segment can face intense pressure from ITC

ITC, over the past five years, has become aggressive in the value-added paper space where Navneet is also present. Any predatory pricing by ITC to expand its market share can dent profitability of the stationery segment for Navneet. However, Navneet over the last four years has increased its exports three-fold to diversify risk in the domestic stationery segment.

Income Statement (Rs m)

Y/e March	2015	2016E	2017E	2018E
Net Revenue	9,795	9,811	11,058	12,345
Raw Material Expenses	4,641	4,807	5,252	5,864
Gross Profit	5,154	5,004	5,805	6,481
Employee Cost	875	883	995	1,111
Other Expenses	1,907	1,913	2,156	2,407
EBITDA	2,372	2,208	2,654	2,963
Depr. & Amortization	308	338	372	409
Net Interest	91	40	90	90
Other Income	22	180	50	50
Profit before Tax	1,996	2,009	2,241	2,513
Total Tax	693	683	762	855
Profit after Tax	1,303	1,326	1,479	1,658
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	1,303	1,326	1,479	1,658
Avg. Shares O/S (m)	238.2	238.2	238.2	238.2
EPS (Rs.)	5.5	5.6	6.2	7.0

Cash Flow Abstract (Rs m)

Y/e March	2015	2016E	2017E	2018E
C/F from Operations	1,622	1,661	1,185	1,386
C/F from Investing	(81)	(478)	(780)	(480)
C/F from Financing	(1,555)	(612)	(1,000)	(886)
Inc. / Dec. in Cash	(14)	571	(595)	20
Opening Cash	69	55	626	31
Closing Cash	55	626	31	51
FCFF	1,541	1,183	405	906
FCFE	708	2,406	327	809

Key Financial Metrics

Y/e March	2015	2016E	2017E	2018E
Growth				
Revenue (%)	11.0	0.2	12.7	11.6
EBITDA (%)	14.1	(7.0)	20.2	11.6
PAT (%)	13.2	1.7	11.6	12.1
EPS (%)	14.0	1.7	11.6	12.1
Profitability				
EBITDA Margin (%)	24.2	22.5	24.0	24.0
PAT Margin (%)	13.3	13.5	13.4	13.4
RoCE (%)	19.1	16.8	18.9	19.7
RoE (%)	25.5	22.9	22.7	22.6

Balance Sheet

Y/e March	2015	2016E	2017E	2018E
Net Debt : Equity	0.3	0.2	0.2	0.1
Net Wrkng Cap. (days)	191	193	182	181

Valuation

Y/e March	2015	2016E	2017E	2018E
PER (x)	16.2	16.0	14.3	12.8
P / B (x)	3.9	3.5	3.1	2.7
EV / EBITDA (x)	9.5	10.1	8.4	7.5
EV / Sales (x)	2.3	2.3	2.0	1.8

Earnings Quality

Y/e March	2015	2016E	2017E	2018E
Eff. Tax Rate	34.7	34.0	34.0	34.0
Other Inc / PBT	1.1	9.0	2.2	2.0
Eff. Depr. Rate (%)	8.6	8.4	7.7	7.7
FCFE / PAT	54.3	181.5	22.1	48.8

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016E	2017E	2018E
Shareholder's Funds	5,432	6,122	6,891	7,753
Total Debt	1,436	1,500	1,250	1,000
Other Liabilities	41	40	40	40
Total Liabilities	6,909	7,662	8,181	8,793
Net Fixed Assets	1,739	1,844	2,265	2,348
Goodwill	—	—	—	—
Investments	680	937	943	949
Net Current Assets	4,491	4,881	4,973	5,495
<i>Cash & Equivalents</i>	55	403	21	36
<i>Other Current Assets</i>	5,752	5,971	6,629	7,317
<i>Current Liabilities</i>	1,317	1,493	1,677	1,857
Other Assets	—	—	—	—
Total Assets	6,909	7,662	8,180	8,793

Quarterly Financials (Rs m)

Y/e March	Q4FY15	Q1FY16	Q2FY16	Q3FY16
Net Revenue	1,834	5,163	1,175	1,132
EBITDA	330	1,573	117	128
<i>% of revenue</i>	<i>18.0</i>	<i>30.5</i>	<i>10.0</i>	<i>11.3</i>
Depr. & Amortization	76	62	65	68
Net Interest	16	30	—	—
Other Income	2	13	97	49
Profit before Tax	240	1,494	149	108
Total Tax	83	510	44	40
Profit after Tax	157	984	105	68
Adj. PAT	157	984	105	68

Key Operating Metrics

Y/e March	2015	2016E	2017E	2018E
Segment Revenues				
Publishing	5,520	5,410	6,221	7,030
Stationery	4,224	4,351	4,786	5,264
EBITDA				
Publishing	1,835	1,785	2,053	2,320
Stationery	488	496	536	590

Source: Company Data, PL Research.

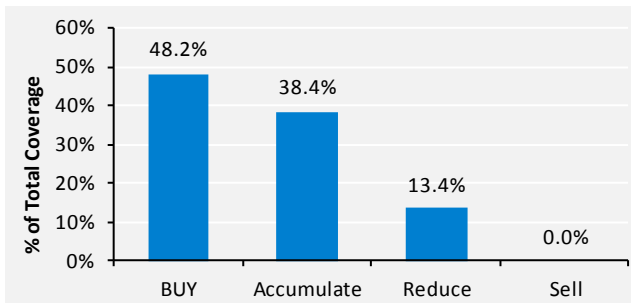


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BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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