

## ONE YEAR OUTLOOK

### BUSINESS & EARNINGS ◀▶

- We reiterate our positive outlook and BUY rating for Navneet Education post 1QFY19 results, as the stationery segment rebounded strongly with ~60% yoy revenue growth, while the operating margins have expanded across both publication (212bps yoy) and stationery (284bps yoy) segments.
- While the revenues for publication segment declined 1.5% yoy during the quarter, we expect the volume growth to rebound over the next three quarters led by change in syllabus for Class I/VII/X standards in Maharashtra (60% market share). However, given the regulatory headwind got settled towards the end of 1QFY19, we expect pickup in growth from 2QFY19 onwards and thus continue to expect revenue growth of ~12% yoy for the publication segment in FY19E and FY20E.
- The operating margins for publication segment expanded 212bps yoy implying that the company has been able to pass on the increase in paper prices (40% of the cost for publication segment) with the start of new academic year. Considering this price hike, we expect operating margins for publication segment to improve to 36% in FY20E from ~34% in FY18
- The exceptional revenue growth in the stationery segment (~60% yoy) is driven by Walmart alone, and we expect this segment to clock ~20% yoy revenue growth in FY19E. With strong orders, the revenue growth momentum is likely to continue and we expect revenues to grow by 10% yoy in FY20E.
- We reduce our EBITDA margin expectations by ~136bps for FY19E led by increased revenue contribution from stationery segment whose margins are ~11%. Expect overall margins to improve 450bps yoy to 23.0% in FY19E.

### VALUATION MULTIPLES ◀▶

- We arrive at one year forward target price of Rs. 200 by assigning 20x P/E multiple to our Jun-20 EPS.

### FINANCIAL SUMMARY

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	EPS (Rs.)	P/E (x)	EV/EBITDA (x)	ROE (x)
FY18	12,040	2,225	5.5	22.2	13.7	17.6%
FY19E	13,975	3,208	8.5	14.2	9.2	24.7%
FY20E	15,550	3,677	9.7	12.4	7.8	24.9%
FY21E	17,203	4,176	11.2	10.8	6.7	25.0%

## THREE YEAR OUTLOOK

### BUSINESS & EARNINGS ◀▶

- Over the next three years, our positive stance on Navneet Education is driven by 1) high teens revenue growth in the content publishing segment (57% of total revenues), as, Navneet would benefit from any changes made to the syllabus in SSC school curriculum in the states of Maharashtra and Gujarat, wherein, it commands a market share of c.65-70% and 2) uptick in the revenues and margins of paper stationery segment (41% of total revenues) driven by vendor consolidation and higher contribution of export led revenues.
- We believe, the acquisition of Encyclopaedia Britannica India (EBI), would perfectly complement the text books business of Navneet, while also providing an opportunity for Navneet to enter the core textbooks space for CBSE curriculum. Also, with in-house manufacturing facilities, the margins for EBI should witness tailwinds and we expect the margins to improve to c.14% in FY21 vs. Rs.100m loss in FY17.
- After experiencing a series of crests and troughs with erratic revenue and margin profile, the stationery segment gradually stabilized, as the share of export revenues increased from 22% in FY12 to 47% in FY17. This segment is highly fragmented with cut-throat competition from unorganized players. However, Navneet scores over these unorganized players, as it caters to large capacity owing to in-house manufacturing capabilities, thereby providing visibility to the revenues over the next three years.
- We expect the revenues to grow at a CAGR of ~13% during FY18-21E, while improving the EBITDA margins to 24.3% in FY21E from 18.5% in FY18E.

### VALUATION MULTIPLES ◀▶

- Our exit multiple for Navneet is unchanged and we assign 20x P/E multiple to our FY22E EPS to arrive at our three year target price.

### KEY ESTIMATES REVISION

Rs.mn	FY19E			FY20E		
	Old	New	Chg (%)	Old	New	Chg (%)
Revenues	13,690	13,975	2.1%	15,315	15,550	1.5%
EBITDA	3,328	3,208	-3.6%	3,812	3,677	-3.6%
EBITDA margins	24.3%	23.0%	-136bps	24.9%	23.6%	-125bps
PAT	2,065	1,985	-3.9%	2,396	2,272	-5.2%
EPS	8.8	8.5	-3.9%	10.3	9.7	-5.2%

## OUTLOOK REVIEW 1QFY19 02 AUG 2018

Industry	EDUCATION
CMP	Rs. 121
Target Price	Rs. 200
Key Stock Data	
Bloomberg	NELI IN
Shares o/s	234mn
Market Cap	Rs. 28bn
52-wk High-Low	Rs. 180-109
3m ADV	Rs. 7mn
Index	BSE 500

	Dec'17	Mar'18	Jun'18
Promoters	61.78	61.78	61.78
Institutions	22.48	22.97	22.93
Public	15.74	15.25	15.29

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## Quarterly Financial Statement

Quarterly financial results								
Rs. mn\Period	Jun-18	Jun-17	yoy growth	Mar-18	qoq growth	FY17	FY18	yoy Growth
Total Revenues	6,700	5,652	18.5%	2,126	215%	10,963	11,356	3.6%
Direct costs	3,855	3,259	18.3%	1,321	192%	6,304	6,820	8.2%
Gross profit	2,845	2,393	18.9%	805	253%	4,659	4,536	-2.6%
Other expenses	871	769	13.3%	568	53%	2,147	2,189	2.0%
EBITDA	1,974	1,624	21.6%	238	731%	2,512	2,347	-6.6%
Depreciation & Amortization	57	53	8.1%	64	-11%	250	235	-6.0%
EBIT	1,917	1,571	22.0%	173	1005%	2,262	2,112	-6.6%
Finance costs	42	26	63.4%	17	144%	35	60	72.3%
Other Income	71	123	-42.3%	79	-10%	232	292	25.8%
PBT	1,946	1,668	16.6%	235	728%	2,460	2,345	-4.7%
Tax expense	683	572	19.5%	84	709%	844	812	-3.7%
PAT before minority and associates	1,263	1,097	15.2%	151	739%	1,616	1,532	-5.2%
PAT	1,263	1,097	15.2%	151	739%	1,616	1,532	-5.2%
EPS (basic)	5.4	4.7	15.1%	0.6	745%	6.8	6.6	-3.4%
EPS (diluted)	5.4	4.7	15.1%	0.6	745%	6.8	6.6	-3.4%
<b>Margins</b>								
Gross margin	42.5%	42.3%	13bps	37.9%	459bps	42.5%	39.9%	-255bps
EBITDA margin	29.5%	28.7%	73bps	11.2%	1,829bps	22.9%	20.7%	-225bps
PAT margin	18.9%	19.4%	-55bps	7.1%	1,177bps	14.7%	13.5%	-125bps

## Financial Summary

Abridged Financial Statements								
Rs. mn	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Profit &amp; Loss</b>								
Revenue	8,821	9,795	9,498	11,813	12,040	13,975	15,550	17,203
Gross Profit	3,144	3,711	3,337	4,495	4,025	5,269	5,940	6,645
EBITDA	2,082	2,372	2,056	2,813	2,225	3,208	3,677	4,176
Depreciation	258	308	288	284	307	331	357	383
EBIT	1,824	2,065	1,768	2,529	1,918	2,877	3,320	3,793
Other Income	35	23	176	152	260	180	172	206
Interest expense	100	91	36	43	77	81	85	90
Exceptional items	0	0	0	0	0	0	0	0
PBT	1,759	1,996	1,909	2,638	2,100	2,976	3,406	3,910
Reported PAT (after minority interest)	1,153	1,303	1,034	1,706	1,274	1,985	2,272	2,608
Adj PAT	1153	1303	1034	1706	1274	1985	2272	2608
<b>EPS (Rs.)</b>	<b>4.8</b>	<b>5.5</b>	<b>4.3</b>	<b>7.2</b>	<b>5.5</b>	<b>8.5</b>	<b>9.7</b>	<b>11.2</b>
<b>Balance Sheet</b>								
Net Worth	4,783	5,433	5,833	6,938	7,520	8,552	9,734	11,090
Deferred Tax liabilities	59	41	13	24	0	0	0	0
Total debt	2,316	1,436	1,035	1,594	2,253	2,366	2,484	2,608
Other liabilities and provisions	1,064	1,136	490	916	1,010	1,236	1,305	1,386
<b>Total Networth and liabilities</b>	<b>8221</b>	<b>8045</b>	<b>7371</b>	<b>9472</b>	<b>10783</b>	<b>12154</b>	<b>13523</b>	<b>15084</b>
Gross Fixed assets	3,667	3,799	4,143	4,535	4,879	5,279	5,679	6,079
Net fixed assets	1,874	1,699	1,755	1,864	1,901	1,970	2,013	2,030
Goodwill	0	0	0	457	457	457	457	457
Capital Work in Progress	45.1	40	8.3	27.6	25.6	25.6	25.6	25.6
Investments	475	492	326	447	647	647	647	647
Cash and bank balances	69	55	59	97	68	1,145	2,063	3,089
Loans & advances and other assets	675	570	567	715	975	984	993	1,003
Net working capital	5,083	5,188	4,656	5,864	6,710	6,927	7,325	7,832
<b>Total assets</b>	<b>8221</b>	<b>8045</b>	<b>7371</b>	<b>9472</b>	<b>10783</b>	<b>12154</b>	<b>13523</b>	<b>15084</b>
Capital Employed	7,099	6,868	6,868	8,532	9,773	10,918	12,218	13,698
Invested Capital (CE- cash-CWIP)	6,984	6,773	6,800	8,407	9,679	9,747	10,129	10,583
Net Debt	2,246	1,381	976	1,497	2,185	1,221	421	-481
<b>Cash Flows</b>								
Cash flows from Operations (Pre-tax)	1,200	2,273	2,421	1,539	1,197	3,209	3,339	3,739
Cash flows from Operations (post-tax)	593	1,622	1,679	773	315	2,218	2,204	2,437
Capex	430	176	252	160	372	400	400	400
Free cashflows	163	1,446	1,427	613	(57)	1,818	1,804	2,037
Free cashflows (post interest costs)	63	1,355	1,391	571	(135)	1,737	1,719	1,947
Cash flows from Investing	(617)	(81)	(40)	(771)	(371)	(220)	(228)	(194)
Cash flows from Financing	60	(1,555)	(1,699)	(63)	(790)	(921)	(1,058)	(1,217)
Total cash & liquid investments	69	55	59	97	68	1,145	2,063	3,089

## Financial Summary

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Key variables</b>								
Publication segment revenues (standalone) (Rs.mn)	4,751	5,319	5,160	5,959	6,282	7,036	7,880	8,725
Stationery segment revenues (Rs.mn)	3,812	4,224	4,077	4,933	5,010	6,012	6,613	7,274
Revenues from Britannica (Rs.mn)	N.A	N.A	N.A	633	568	709	816	938
<b>Growth ratios</b>								
Revenue	9.5%	11.0%	-3.0%	24.4%	1.9%	16.1%	11.3%	10.6%
EBITDA	9.4%	14.0%	-13.3%	36.8%	-20.9%	44.2%	14.6%	13.6%
Adj PAT	8.1%	13.0%	-20.7%	65.0%	-25.4%	55.8%	14.5%	14.8%
<b>Margin ratios</b>								
Gross	35.6%	37.9%	35.1%	38.0%	33.4%	37.7%	38.2%	38.6%
EBITDA	23.6%	24.2%	21.6%	23.8%	18.5%	23.0%	23.6%	24.3%
Adj PAT	13.1%	13.3%	10.9%	14.4%	10.6%	14.2%	14.6%	15.2%
<b>Performance ratios</b>								
Pre-tax OCF/EBITDA	57.7%	95.8%	117.8%	54.7%	53.8%	100.0%	90.8%	89.5%
OCF/IC (%)	8.5%	23.9%	24.7%	9.2%	3.3%	22.8%	21.8%	23.0%
RoE (%)	25.7%	25.5%	18.4%	26.7%	17.6%	24.7%	24.9%	25.0%
ROCE (%)	18.9%	19.5%	18.5%	23.8%	14.5%	19.7%	20.1%	20.6%
RoCE (Pre-tax)	28.8%	29.9%	28.3%	34.8%	23.8%	29.5%	30.2%	30.9%
RoIC (Pre-tax)	26.1%	30.5%	26.0%	30.1%	19.8%	29.5%	32.8%	35.8%
Fixed asset turnover (x)	4.9	5.5	5.5	6.5	6.4	7.2	7.8	8.5
Total asset turnover (x)	1.2	1.2	1.2	1.4	1.2	1.2	1.2	1.2
<b>Financial stability ratios</b>								
Net Debt to Equity (x)	0.5	0.3	0.2	0.2	0.3	0.1	0.0	-0.0
Net Debt to EBITDA (x)	1.1	0.6	0.5	0.5	1.0	0.4	0.1	-0.1
Interest cover (x)	5.9	17.8	47.3	18.0	4.1	27.3	25.8	27.2
DSO days	81	70	73	86	96	90	85	83
Working capital days	322	320	277	265	294	277	267	260
<b>Valuation metrics</b>								
Fully Diluted Shares (mn)	238	238	238	234	234	234	234	234
Market cap (Rs.mn)						28,261	28,261	28,261
P/E (x)	25.0	22.1	27.9	16.7	22.2	14.2	12.4	10.8
P/OCF(x)	47.6	17.4	16.8	36.6	89.8	12.7	12.8	11.6
EV (Rs.mn)	30,507	29,641	29,236	29,757	30,446	29,481	28,681	27,780
EV/ EBITDA (x)	14.7	12.5	14.2	10.6	13.7	9.2	7.8	6.7
EV/ OCF(x)	51.4	18.3	17.4	38.5	96.7	13.3	13.0	11.4
FCF Yield					-0.2%	6.4%	6.4%	7.2%
Price to BV (x)	6	5	5	4.1	3.8	3.3	2.9	2.5
Dividend pay-out (%)	41.3%	40.2%	50.7%	34.6%	27.5%	40.0%	40.0%	40.0%
Dividend yield (%)	1.7%	1.8%	1.8%	2.1%	1.2%	2.8%	3.2%	3.7%

### Crystal Ball Gazing

Navneet Education is expected to grow its revenues and PAT by ~13% and 27% respectively during FY18-21E, while the EBITDA margins are likely to improve to 24.3% in FY21 vs. 18.5% in FY18. The revenue growth is driven by change in syllabus in SSC curriculum in Maharashtra and Gujarat in content publishing segment, and increase in export led revenues in stationery segment.

Continued revenue growth of c.13%

Improving EBITDA margins will result in

Consistent growth and improving margins will drive

Revenue growth driven by change in syllabus in the content publishing segment and higher export led revenues in stationery segment

Better cash flow from operations and higher RoEs

Higher multiple

	FY12-FY14	FY14-FY18	FY18-FY22E
Revenues CAGR	19.4%	8.1%	12.1%
Gross Margin	36.0%	36.1%	38.4%
EBITDA CAGR	24.6%	1.7%	20.7%
EBITDA margin	23.6%	22.0%	23.9%
EPS CAGR	21.6%	3.0%	23.7%
Total Asset Turnover (x)	1.2	1.3	1.2
Total WC days	305	289	264
Pre-tax OCF/EBITDA (%)	61.7%	80.5%	92.9%
Post Tax OCF as a % of IC	10.6%	15.3%	23.3%
Net Debt/EBITDA	1.0	0.6	0.0

	FY12-FY14	FY14-FY18	FY18-FY22E
RoE (%)	26.5%	22.1%	24.9%
RoCE (%)	19.9%	19.1%	20.3%
RoIC (%)	19.8%	18.1%	23.3%
<b>Average 1 yr fwd</b>			
PE (x)	12.0	14.5	18.5
EV/EBITDA (x)	7.7	9.0	12.1
<b>Peak 1 yr fwd</b>			
PE (x)	16.3	20.3	21.4
EV/EBITDA (x)	10.0	12.7	13.9

P/E multiple	FY22E EPS (Rs.)	Price target
20	12.8	255
21	12.8	268

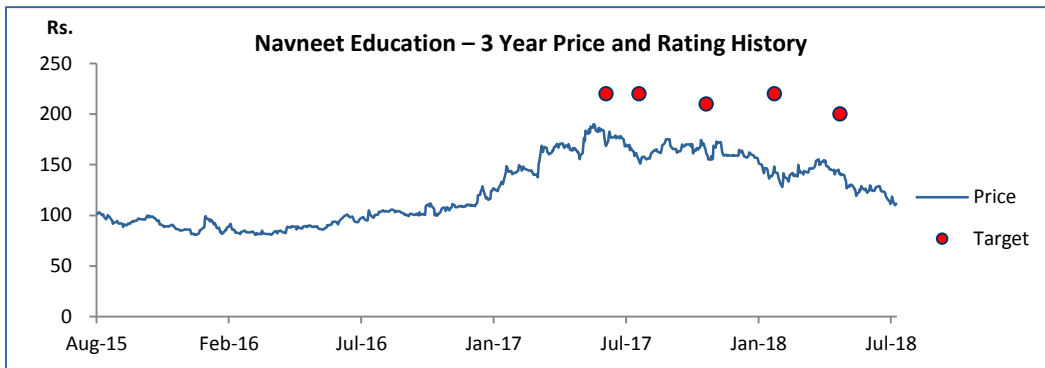
Entry = Rs. 121@ 12.4x FY20E EPS

Cumulative Dividends of Rs. 17

Exit multiple of 20x FY22EPS

TOTAL RETURN OF 125%

### Spark Recommendation History



Report Date	Price	Target	Reco.
14/May/18	141	200	Buy
12/Feb/18	143	220	Buy
10/Nov/17	165	210	Buy
10/Aug/17	160	220	Buy
28/Jun/17	170	220	Buy

#### Absolute Rating Interpretation

<b>BUY</b>	Stock expected to provide positive returns of >15% over a 1-year horizon
<b>ADD</b>	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
<b>REDUCE</b>	Stock expected to provide returns of <5% – -10% over a 1-year horizon
<b>SELL</b>	Stock expected to fall >10% over a 1-year horizon

#### Symbol Interpretation

◀▶ No Change | ▼ Downgrade | ▲ Upgrade

### Disclosure of Interest Statement

<b>Analyst financial interest in the company</b>	No
<b>Group/directors ownership of the subject company covered</b>	No
<b>Investment banking relationship with the company covered</b>	No
<b>Spark Capital's ownership/any other financial interest in the company covered</b>	No
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<b>Any other material conflict of interest at the time of publishing the research report</b>	No
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<b>Whether the Research Analyst or Research Entity has been engaged in market making activity of the Subject Company;</b>	No

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