

Navneet Education (NAVEDU)

₹ 164

Geared up to capture pan-India opportunity...

- Navneet Education is an established player in the supplementary book publishing and stationery segment. It has a market share in excess of 60% in educational publishing in Maharashtra & Gujarat
- Navneet has a stable business model with steady revenue growth in the publication segment. After a tepid FY16, 9MFY17 has been robust with both publishing and stationery segments reporting a high double digit revenue growth of 18% and 20%, respectively
- With healthy topline growth, EBITDA margins also expanded quite significantly, owing to better operating leverage and higher share of exports in the stationery segment aiding margins
- The recent acquisition of Encyclopaedia Britannica India (EBI) will enable Navneet to diversify its geographical reach and make it a pan-India player. The acquisition will also expand Navneet's curriculum based offering as Britannica has a strong foothold in CBSE curriculum. We expect Britannica's revenues to scale up from ₹ 75 crore in FY16 to ₹ 150 crore by FY19E (9% of overall sales)
- Navneet has also constantly maintained healthy return ratios in the 25-30% range. Considering that most of Navneet's debt is working capital related and gets retired by September each year, we expect it to maintain a healthy return ratio profile. Going forward, we expect revenue and earnings to grow at a CAGR of 19% and 25%, respectively, for, for FY16-19E. Also with likelihood of listing of new players in the educational publishing industry, we expect re-rating of sector multiple and Navneet to command higher valuation

Acquisition of Britannica to enhance curricular offerings

Navneet Education has entered into an agreement to acquire Britannica's Indian curriculum business. The company will market Britannica's existing India specific curriculum titles such as 'Know for Sure' and 'The English Channel' and also publish text books for the CBSE board. January to March is the strongest quarter for Britannica, since 40% of revenues are generated in that quarter. Total 97% of revenues under Britannica are derived from outside Maharashtra & Gujarat, which will enable Navneet to diversify its geographical reach as currently majority of Navneet's publication revenues are derived from these two states. Britannica is present in 25 states with a strong presence in Delhi, Punjab, Rajasthan, Haryana and Uttar Pradesh. The acquisition will also expand Navneet's curriculum based offering as Britannica has a strong foothold in CBSE curriculum. We expect Britannica's revenues to scale up from ₹ 75 crore in FY16 to ₹ 150 crore by FY19E (9% of overall sales).

Shifting from regional presence to pan-India player; maintain BUY!

We expect revenues and earnings to grow at a CAGR of 19% and 25%, respectively, in FY16-19E driven by geographical expansion, entry into CBSE curriculum and syllabus changes in Maharashtra and Gujarat state board. With the addition of Britannica, Navneet would have higher offerings in the Indian curriculum segment and be able to tap newer markets in India. The expected listing of new players in the educational publishing industry is likely to lead to a re-rating of sector multiple. Navneet, with a market share in excess of 60% in two major state boards (Maharashtra & Gujarat), planned expansion into newer states and CBSE curriculum books leads us to re-rate the stock with a **BUY** rating and a target price of ₹ 204 (based on 20.0x FY19E EPS of ₹ 10.2).

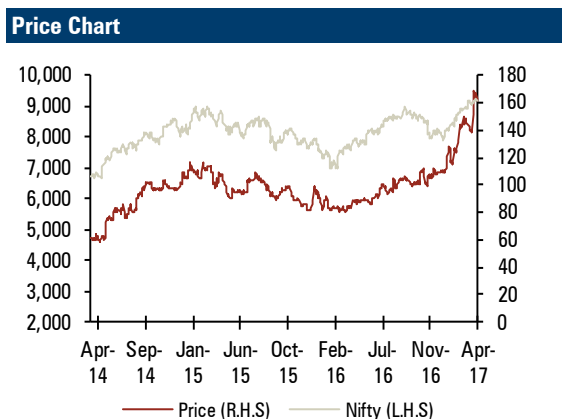
Rating matrix	
Rating	Buy
Target	₹ 204
Target Period	12 months
Potential Upside	25%

What's changed?	
Target	Changed from ₹ 150 to ₹ 204
EPS FY17E	Unchanged
EPS FY18E	Changed from ₹ 8.6 to ₹ 8.7
EPS FY19E	Changed from ₹ 10.0 to ₹ 10.2
Rating	Unchanged

Key financials				
(₹ crore)	FY16	FY17E	FY18E	FY19E
Net Sales	950	1,112	1,369	1,607
EBITDA	206	257	331	390
Net Profit	103	157	203	238
EPS (₹)	4.3	6.7	8.7	10.2

Valuation summary				
	FY16	FY17E	FY18E	FY19E
P/E	38.0	24.3	18.8	16.1
Target P/E	47.3	30.3	23.5	20.0
EV to EBITDA	19.7	15.4	12.0	10.1
Price to book	6.7	5.7	5.7	4.9
RONW (%)	18.4	25.1	27.8	27.7
ROCE (%)	26.8	32.3	36.0	36.3

Stock data	
Particular	Amount
Market Capitalisation (₹ Crore)	3,737.6
Debt (FY16) (₹ Crore)	99.5
Cash (FY16) (₹ Crore)	6.5
EV (₹ Crore)	3,830.6
52 week H/L	174 / 82
Equity Capital (₹ Crore)	46.7
Face Value (₹)	2



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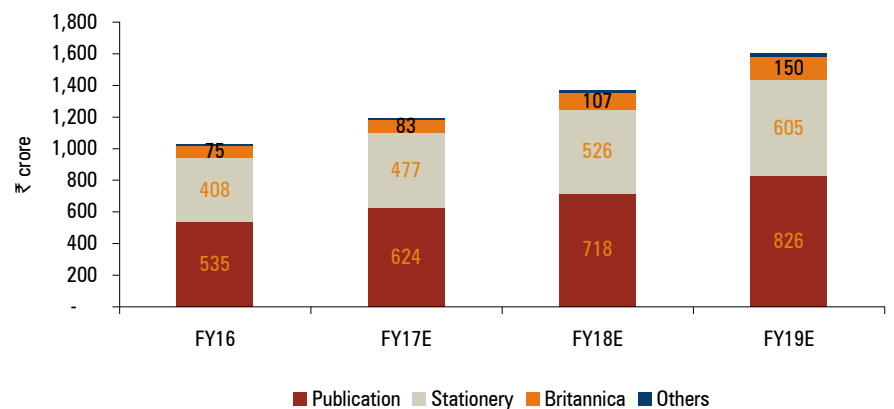
Exhibit 1: Syllabus change to drive revenue growth

Academic Year	Maharashtra Standard	Subjects	Gujarat Standard	Subjects
2016-17	VI	All subjects(All medium)	IX	All subjects (Gujarati medium)
	IX	Marathi & Hindi	XI	All subjects (Gujarati medium)
	X	Marathi & Hindi		
2017-18	VII	All subjects(All medium)	X	All subjects except Maths & Science (All medium)
	IX	All subjects(All medium)	XII	All commerce & Arts subject (All medium)
2018-19	VIII	All subjects(All medium)		Not yet announced
	X	All subjects(All medium)		

Source: Company, ICICIdirect.com Research

We expect overall revenues to grow at 19.1% CAGR during FY16-19E to ₹ 1606.6 crore, driven by 15.6% growth in publication segment and 14.1% in the stationery segment. Revenues from Britannica are expected to scale up from ₹ 75 crore in FY16 to ₹ 150 crore by FY19.

Exhibit 2: Revenue break-up



Source: Company, ICICIdirect.com Research

Financial summary (Consolidated)

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Total operating Income	949.8	1,112.3	1,368.6	1,606.6	
Growth (%)	-3.0	17.1	23.0	17.4	
Raw Material Expenses	460.4	539.5	656.9	771.2	
Employee Expenses	100.6	106.8	123.2	141.4	
Manufacturing Expenses	58.0	66.7	82.1	96.4	
Selling & Distribution Expenses	38.7	48.9	60.2	72.3	
Admin & Other Expenses	86.6	93.4	115.0	135.0	
Total Operating Expenditure	744.3	855.3	1,037.4	1,216.2	
EBITDA	205.5	256.9	331.2	390.4	
Growth (%)	-13.2	25.0	28.9	17.9	
Depreciation	28.8	27.3	36.8	40.7	
EBIT	176.8	229.6	294.4	349.7	
Interest	3.6	2.7	4.0	4.0	
Other Income	17.6	17.8	20.5	16.1	
PBT	190.8	244.8	311.0	361.8	
Total Tax	66.6	82.3	104.6	121.7	
PAT	124.2	162.4	206.4	240.1	
Share of associates	-20.9	-5.0	-3.0	-2.0	
PAT after Share of Associates	103.3	157.4	203.4	238.1	
Growth (%)	-20.8	52.3	29.2	17.1	
EPS (₹)	4.3	6.7	8.7	10.2	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Liabilities					
Equity Capital	47.8	46.7	46.7	46.7	
Reserve and Surplus	535.3	626.8	741.9	886.3	
Total Shareholders funds	583.5	673.5	788.6	933.0	
Total Debt	99.5	132.9	158.6	134.2	
Deferred Tax Liability	1.3	1.8	2.4	3.1	
Minority Interest / Others	-	-	-	-	
Total Liabilities	684.3	808.5	950.0	1,070.7	
Assets					
Gross Block	405.3	455.3	525.3	565.3	
Less: Acc Depreciation	229.8	257.1	293.9	334.6	
Net Block	175.5	198.2	231.4	230.7	
Capital WIP	0.8	0.7	0.7	0.6	
Total Fixed Assets	176.3	198.9	232.1	231.3	
Investments	32.6	32.6	32.6	32.6	
Other Non-Current Assets	0.1	0.1	0.1	0.1	
Inventory	306.4	377.9	431.2	506.2	
Debtors	188.9	218.8	273.7	309.9	
Loans and Advances	47.5	77.9	109.5	128.5	
Other Current Assets	0.1	30.0	30.0	45.0	
Cash	6.5	4.8	7.1	7.3	
Total Current Assets	549.4	709.3	851.6	996.9	
Creditors	29.7	29.6	36.0	44.4	
Provisions	5.7	47.1	61.8	65.4	
Other Current Liabilities	38.6	55.6	68.4	80.3	
Total Current Liabilities	74.0	132.3	166.3	190.1	
Application of Funds	684.3	808.5	950.0	1,070.7	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Profit before Tax	190.8	244.8	311.0	361.8	
Add: Depreciation	28.8	27.3	36.8	40.7	
(Inc)/dec in Current Assets	42.4	-131.7	-139.9	-130.2	
Inc/(dec) in CL and Provisions	-57.7	58.3	33.9	23.9	
Taxes Paid	-66.6	-82.3	-104.6	-121.7	
Others	-8.4	-32.5	2.4	-11.4	
CF from operating activities	129.3	83.8	139.6	163.0	
(Inc)/dec in Investments	16.7	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-41.7	-49.9	-69.9	-39.9	
Others	0.0	0.0	0.0	0.0	
CF from investing activities	-25.0	-49.9	-69.9	-39.9	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-44.1	33.4	25.6	-24.4	
Dividend paid & dividend tax	-63.1	-65.6	-88.2	-93.7	
Others	-3.4	-3.5	-4.8	-4.8	
CF from financing activities	-110.6	-35.6	-67.3	-122.9	
Net Cash flow	-6.3	-1.7	2.3	0.1	
Opening Cash	12.7	6.5	4.8	7.1	
Closing Cash	6.5	4.8	7.1	7.3	

Source: Company, ICICIdirect.com Research

Key ratios		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Per share data (₹)					
EPS	4.3	6.7	8.7	10.2	
Cash EPS	6.4	8.1	8.1	10.4	
BV	24.4	28.8	28.8	33.8	
DPS	2.2	2.4	2.4	3.2	
Cash Per Share	0.3	0.2	0.3	0.3	
Operating Ratios					
EBITDA Margin (%)	21.6	23.1	24.2	24.3	
PBT Margin (%)	20.1	22.0	22.7	22.5	
PAT Margin (%)	13.1	14.6	15.1	14.9	
Inventory days	117.8	124.0	115.0	115.0	
Debtor days	75.0	71.8	73.0	70.4	
Creditor days	24.0	20.0	20.0	21.0	
Return Ratios (%)					
RoE	18.4	25.1	27.8	27.7	
RoCE	26.8	32.3	36.0	36.3	
RoIC	31.4	33.1	33.1	36.1	
Valuation Ratios (x)					
P/E	38.0	24.3	18.8	16.1	
EV / EBITDA	19.7	15.4	12.0	10.1	
EV / Net Sales	4.3	3.6	2.9	2.5	
Market Cap / Sales	4.1	3.4	2.8	2.4	
Price to Book Value	6.7	5.7	5.7	4.9	
Solvency Ratios					
Debt/EBITDA	0.5	0.5	0.5	0.3	
Debt / Equity	0.2	0.2	0.2	0.1	
Current Ratio	7.4	5.4	5.1	5.2	
Quick Ratio	6.3	5.4	5.7	5.5	

Source: Company, ICICIdirect.com Research

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