

## Focus on enhancing digital content augurs well...

**About the stock:** Navneet Education (NEL) is an educational syllabus based content provider in print and digital medium and a manufacturer of scholastic paper stationery for domestic and international markets.

- Over the years, the company has built a strong brand in the educational content & scholastic stationery
- In the state boards of Maharashtra and Gujarat, the company has a market share of 65%. It has also entered into CBSE syllabus books in other states

**Q2FY22 Results:** NEL reported an improved performance for Q2FY22 with revenues reaching 93% of pre-Covid level.

- Revenues grew 43% YoY to ₹ 229 crore (Q1FY22 ₹ 318 crore, Q2FY21: ₹ 160 crore, Q2FY20: ₹ 247 crore)
- Though gross margin was lower by 21 bps YoY to 52.4%, EBITDA margin improved 815 bps YoY to 13.9% due to operating leverage
- EBITDA was higher by 3.5x YoY to ₹ 31.8 crore. Consequently, PAT increased by 8.9x YoY to ₹ 22.6 crore

**What should investors do?** Over the last three years, the stock has underperformed with three-year price CAGR at -10%.

- NEL has a strong business model with dominant share in state board supplementary books in Maharashtra and Gujarat. The company has strong return ratios and is reasonably valued
- We maintain **BUY** recommendation on the stock

**Target Price and Valuation:** We value NEL at ₹ 125 i.e. 12x FY23E EPS

### Key triggers for future price performance:

- NEL is gradually expanding its footprint in states other than Maharashtra, Gujarat and is looking to make inroads into CBSE/ICSE boards
- The company is also expanding its presence in the digital content segment, which has gained significantly owing to the pandemic
- Growth in the formal education segment is expected to rebound by 10-12% over the medium term on the back of urbanisation, increased enrolment in tertiary segment and overall economic rebound
- The stationery export business is experiencing strong demand from global clients and the company expects double digit growth in the segment

**Alternate Stock Idea:** Apart from NEL, we also like Trent

- Inherent strength of brands (Westside, Zudio, Star, Zara) and proven business model position Trent as a preferred pick
- We have a BUY with a target price of ₹ 1300/share



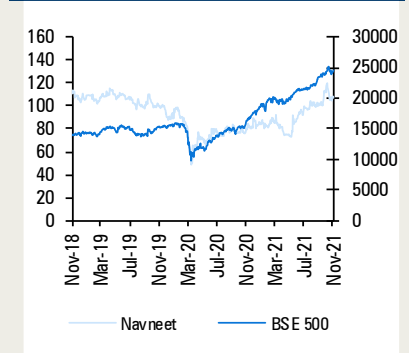
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	2,418.1
Debt (FY21) (₹ Crore)	43.6
Cash (FY21) (₹ Crore)	24.4
EV (₹ Crore)	2,437.3
52 week H/L	121/ 73
Equity Capital (₹ Crore)	44.8
Face Value (₹)	2

### Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	62.2	62.3	62.3	62.3	62.8
FII	4.0	4.0	4.2	4.3	3.8
DII	16.5	16.0	15.8	14.7	14.9
Others	17.4	17.6	17.7	18.7	18.5

### Price Chart



### Recent event & key risks

- Launch of digital smart books
- Key Risk:**(i) Extended delay in opening of schools (ii) High RM cost can subdue margin.

### Research Analyst

Bharat Chhoda  
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa  
cheragh.sidhwa@icicisecurities.com

### Key Financial Summary

Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	1,445.0	1,512.1	834.6	-2.6%	1,049.0	1,645.6	40.4%
EBITDA	270.8	313.5	87.0	-15.9%	146.9	340.6	97.9%
Adjusted PAT	152.8	197.3	55.9	-12.3%	79.6	228.2	102.1%
P/E (x)	16.0	12.4	43.8		30.1	10.5	
EV/EBITDA (x)	10.2	8.5	28.4		16.7	7.4	
RoCE (%)	22.8	26.6	5.5		10.5	23.1	
RoE (%)	19.4	22.9	6.0		8.5	19.5	

**Q2FY22 Earnings conference call highlights:**

- On the segmental front, revenue from the publication business grew 62% YoY to ₹ 89 crore whereas the stationery business grew 32% YoY to ₹ 138 crore
- Schools have gradually started re-opening in Gujarat and Maharashtra for higher standards. The management indicated that if most schools reopen in the next academic year then FY23 revenues could be higher than pre-Covid levels
- For Indianica, Q4 is the best quarter in terms of revenue. The management said that if schools reopen from Q3 onwards, it would be beneficial for Indianica and it could register better revenues in FY22 compared to FY21
- The management has enhanced its focus on digitisation of content and introduced several new digital products. The company has launched digi-books (in December 2020) and smart books, which provide digital content to students with additional features. Also, the company is launching a digital platform for kids aged between two and eight years. NEL is also offering the tutoring platform 'Gennext' to schools. Among other products are 'Tinkerly', which is a STEM learning and coding program and 'Be-Galileo' which is a math learning platform. The aim is to provide the entire digital learning ecosystem to the school and teachers
- NEL also has a presence in K-12 education with 42 schools at seven locations and ~ 29000 students
- The company's stationery products are sold at more than 48000 retail outlets in India. Over the years, NEL has built 600+ SKUs in the stationery business
- On the stationery business, the management indicated that the opportunity size was quite large. Though the demand for the core products was subdued this year, the company expects the demand to revive. The company has added new related products that should aid the growth of the stationery segment going ahead. NEL has a strong global presence for its paper stationery business and is present in more than 25 countries

## Financial Summary

Exhibit 1: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Total operating income</b>	<b>1,512.1</b>	<b>834.6</b>	<b>1,049.0</b>	<b>1,645.6</b>	
Growth (%)	4.6	-44.8	25.7	56.9	
Raw Material Expenses	728.9	397.1	524.5	789.9	
Employee Expenses	180.1	164.1	157.3	202.4	
Manufacturing Expenses & Other	289.5	186.4	220.3	312.7	
Total Operating Expenditure	1,198.5	747.6	902.1	1,305.0	
<b>EBITDA</b>	<b>313.5</b>	<b>87.0</b>	<b>146.9</b>	<b>340.6</b>	
Growth (%)	15.8	-72.2	68.8	132.0	
Depreciation	46.9	47.1	52.6	57.7	
EBIT	266.6	39.9	94.2	282.9	
Interest	17.1	10.1	6.5	7.7	
Other Income	22.4	13.7	14.7	23.0	
Exceptional Income		42.5			
PBT	271.9	85.9	102.4	298.3	
Total Tax	74.6	32.8	25.8	75.1	
PAT	197.3	53.1	76.6	223.2	
Share of associates	-0.1	2.8	3.0	5.0	
<b>PAT after Share of Associates</b>	<b>197.3</b>	<b>55.9</b>	<b>79.6</b>	<b>228.2</b>	
Growth (%)	54.9	-71.7	42.4	186.7	
<b>EPS (₹)</b>	<b>8.6</b>	<b>2.4</b>	<b>3.6</b>	<b>10.2</b>	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	197.3	55.9	79.6	228.2	
Add: Depreciation	46.9	47.1	52.6	57.7	
(Inc)/dec in Current Assets	54.9	149.3	-74.5	-323.8	
Inc/(dec) in CL and Provisions	-41.1	23.9	-53.6	32.3	
Others	0.0	0.0	0.0	0.0	
<b>CF from operating activities</b>	<b>257.9</b>	<b>276.3</b>	<b>4.1</b>	<b>-5.5</b>	
(Inc)/dec in Investments	-22.1	-53.5	82.6	-20.0	
(Inc)/dec in Fixed Assets	-52.7	-24.2	-45.0	-60.0	
(Inc)/dec in CWIP	11.0	-16.8	7.4	5.0	
Others	26.5	0.6	-10.0	-10.0	
<b>CF from investing activities</b>	<b>-37.2</b>	<b>-93.8</b>	<b>35.0</b>	<b>-85.0</b>	
Issue/(Buy back) of Equity	0.0	0.0	-1.0	0.0	
Inc/(dec) in loan funds	-98.6	-192.0	50.0	60.0	
Others	-129.4	23.8	-71.9	3.2	
<b>CF from financing activities</b>	<b>-228.0</b>	<b>-168.1</b>	<b>-22.9</b>	<b>63.2</b>	
Net Cash flow	-7.2	14.3	16.3	-27.3	
Opening Cash	17.3	10.1	24.4	40.7	
<b>Closing Cash</b>	<b>10.1</b>	<b>24.4</b>	<b>40.7</b>	<b>13.4</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Liabilities</b>					
Equity Capital	45.8	45.8	44.8	44.8	
Reserve and Surplus	817.0	884.7	892.4	1,123.9	
Total Shareholders funds	862.8	930.5	937.2	1,168.6	
Total Debt	235.5	43.6	93.6	153.6	
Deferred Tax Liability	-9.7	2.4	2.4	2.4	
Minority Interest / Others	0.4	0.4	0.4	0.4	
<b>Total Liabilities</b>	<b>1,089.1</b>	<b>976.8</b>	<b>1,033.5</b>	<b>1,325.0</b>	
<b>Assets</b>					
Gross Block	547.3	573.9	618.9	678.9	
Less: Accu Depreciation	337.0	384.1	436.7	494.4	
Net Block	210.3	189.8	182.2	184.5	
Capital WIP	5.7	22.4	15.0	10.0	
Total Fixed Assets	216.0	212.2	197.2	194.5	
Goodwill on Consolidation	45.7	43.3	43.3	43.3	
Investments	89.2	142.6	60.0	80.0	
Other Non-Current Assets	7.2	6.5	16.6	26.6	
Inventory	471.0	415.6	416.7	586.1	
Debtors	267.9	184.5	258.7	383.2	
Loans and Advances	63.7	28.9	52.4	82.3	
Other Current Assets	66.5	90.8	66.5	66.5	
Cash	10.1	24.4	40.7	13.4	
Total Current Assets	879.2	744.2	835.0	1,131.4	
Creditors	46.3	78.4	35.9	49.8	
Provisions	47.2	45.7	50.0	50.0	
Other Current Liabilities	54.7	48.0	32.5	51.0	
Total Current Liabilities	148.2	172.1	118.4	150.8	
<b>Application of Funds</b>	<b>1,089.1</b>	<b>976.8</b>	<b>1,033.5</b>	<b>1,325.0</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Per share data (₹)</b>					
EPS	8.6	2.4	3.6	10.2	
Cash EPS	10.7	0.7	5.6	12.6	
BV	37.7	40.7	41.9	52.2	
Cash Per Share	0.4	1.1	1.8	0.6	
<b>Operating Ratios</b>					
EBITDA Margin (%)	20.7	10.4	14.0	20.7	
PBT Margin (%)	18.0	5.2	9.8	18.1	
PAT Margin (%)	13.0	6.4	7.3	13.6	
Inventory days	113.7	181.8	145.0	130.0	
Debtor days	64.7	80.7	90.0	85.0	
Creditor days	23.2	28.0	25.0	23.0	
<b>Return Ratios (%)</b>					
RoE	22.9	6.0	8.5	19.5	
RoCE	24.3	4.1	11.1	26.3	
<b>Valuation Ratios (x)</b>					
P/E	12.5	83.5	31.1	10.6	
EV / EBITDA	8.6	28.6	16.8	7.5	
EV / Net Sales	1.8	3.0	2.4	1.6	
Market Cap / Sales	1.6	3.0	2.3	1.5	
Price to Book Value	2.9	2.7	2.6	2.1	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.8	0.5	0.6	0.5	
Debt / Equity	0.3	0.0	0.1	0.1	
Current Ratio	5.9	4.3	7.0	7.5	
Quick Ratio	6.2	5.0	10.8	9.4	

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

## ANALYST CERTIFICATION

I/We, Bharat Chhoda, MBA, Cheragh Sidhwa MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc. as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icidirect.com](http://icidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.