

STOCK WATCH

NAVNEET PUBLICATION

An **INDEPENDENT** Research Initiative
We are **NOT** a Broking House

Date Of Report: 29th December, 2009

CMP: Rs. 40**Recommendation: Buy**

Background

Navneet Publication Ltd (NPL) is engaged in the business of Educational and Children Books publishing and stationery products.

The company enjoys more than four fifth market share (near monopoly) in the states of Gujarat and Maharashtra and thus virtually dominates the publication business in the abovementioned states. The latter contributed close to 60 per cent of the total publication revenues of the company and the balance was contributed by the former.

In its initiative to integrate and strengthen its presence in E-learning space among several schools, the company has outlined major plans and is also in the process of ramping up its paper and nonpaper stationery business. Presently, the company has three major brands, Navneet, Vikas, and Gala.

Analyst's Note

The company's publication business that contributes more than half of the total revenues can be broadly categorized into syllabus-based supplementary books and Children's & General Book. The syllabus-based supplementary books generate close to 90 per cent of the publication revenues with the balance contributed by the latter.

Segment wise, NPL publishes three types of syllabus-based books viz. Workbooks Digests and 21 Question sets each contributing close to 45 per cent and 40 per cent and 15 per cent of the total segment's revenues respectively. However one would do well to note that the publication business which has been the key revenue

generator for the company is likely to post moderate gains as against the growth expected in the low margin stationery business. Thus even though the revenues may rise, the impact on the overall margins and profitability may remain satisfactory.

The government's scheme of supplying free books to school children under the 'Education for All' programme is also reduces the growth prospects. Nevertheless these facts seem to be already discounted in the share price performance of the company.

To its merit, the four decade old has registered steady growth with positive cash flows from operations. Low debt on its books, regular dividend payments and promoter holding above 60 per cent and considerable institutional interest offer more than compelling reasons for long term investment into the stock.

With its strong author network of 135 authors for providing content along with strong visibility and brand equity augurs well with the continued government thrust offer significant growth opportunities for the company.

E-learning which is still at the nascent stage in the country coupled with e-learning initiatives undertaken by the company could be the key growth driver going forward. NPL is also focusing to provide hardware to the schools and has already entered into a contract with the supplier of the hardware. This coupled with expected change in the syllabi changes in Gujarat (in FY11) and Maharashtra (in FY12) and new focus avenues places the company in a sweet spot in the education space.

However, the margins are vulnerable to the price of its key raw material, paper.

For FY2009, the company reported a tepid growth of less than 5 per cent in its adjusted earnings despite revenue growth of close to 26 per cent to Rs 5169 million attributed to strong growth in the stationery business. The publication business remained registered a

flat growth of less than 3 per cent on a Y-o-Y basis as there was no major change in school syllabus during the year.

Net sales for the quarter ended September 2009 stood at Rs. 924 million, almost similar to the corresponding quarter last year. PAT for the quarter however increased by close to 15 per cent to Rs. 72 million for the period under review.

Investment Argument

With revival in the macro economic scenario and above satisfactory sector outlook potential, the company trades at a trailing twelve month PE of less than 14 times due to sharp run up in its share price post bonus issue, the company is may is not inexpensive.

However considering the overall potential in the education sector, e-learning initiatives taken by the company and governments thrust on the sector (especially during the budget season), one may do well to use the broad market selling to gradually accumulate the stock for long term gains.

About Us

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