PRIME BROKING

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July 2, 2008

NAVNEET PUBLICATION LIMITED (NPL) CMP: Rs65

Good guide in turbulent times

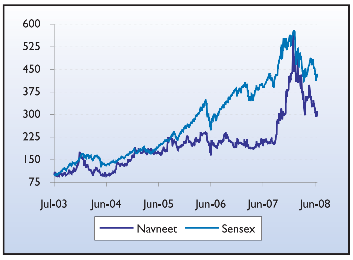
Management Contact Note
Not Rated

Reuters code	NA
Bloomberg Code	NA
BSE	508989
NSE	NAVNETPUBL
52weekH/L (Rs)	165/55
MonthlyH/L(Rs)	97/69
MktCap(RsMM)	6,203
MktCap(US$ MM)	145
EV (Rs MM)	7,039

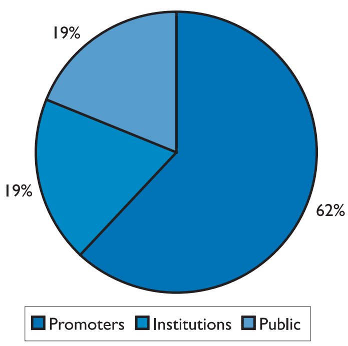
Valuation Parameters (FY10)

EV/EBITDA (x)	6.2
MktCap/EBITDA (x)	5.5
EV/Sales (x)	1.3
Mkt Cap/Sales (x)	1.1

Price Chart



Shareholding Pattern



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HIGHLIGHTS

The past: Navneet is in the business of publishing supplementary books and guides focused on the states of Maharashtra and Gujarat. The company's publication division contributes 2/3rd's to total revenues (PBIT margins >25%), while the balance 1/3rd is contributed by the stationary division. Over the last nine years (FY98 to FY07) the company has grown its revenues and PAT at 12% and 10% CAGR respectively. The stationary business has lower PBIT margins (8-10%) and ROCE.

The present: Navneet reported 24% revenue and 27% YoY PAT growth in FY08. Both publications and stationary grew by 24% YoY. Overall margins were lower 1.6% YoY owing to faster growth in the low margin stationary business, as well as higher spends on promoting the same.

The future: Navneet expects Publication division to sustain 10-12% CAGR revenue growth over the next two years, which will be led by syllabus changes in Maharashtra and Gujarat state boards. It expects the stationary division to clock 25% CAGR till FY11E. Within this, the *FfUuNn* brand is set to clock revenues of Rs100 MM in FY09 (Rs35 MM in FY08).

Low capex, debt = high dividend payout

The company has minimal capex plans and carries only working capital debt. The only capex forseen is on improving and promoting its ***e-learning*** product. Consequently, Navneet has over the last 10 years, paid an average 52% of its EPS as dividend, which seems sustainable in future.

OUTLOOK AND VALUATIONS

We foresee Navneet recording 15% and 14% CAGR in revenues and EPS over FY08-FY10. At the CMP of Rs65, the stock is trading at a P/E of 10.7x and 8.8x on our indicative EPS of Rs6.1 and Rs7.4 for FY09 and FY10 respectively. It has traded at an average P/E of 15x in last 3 years. Even at a P/E of 13x, this translates to **Rs95 per share** based on FY10 estimates. Moreover, assuming a lower 42% dividend payout, dividend yield translates to 4% in FY09. **We believe that, in these turbulent times, Navneet could turn out to be a solid defensive bet. Low liquidity is however, the only constraint.**

Year End	Net Sales	PBIT	PBIT %	PAT	Net Profit %	No. of shares (MM)	FDEPS (Rs)	P/E (x)
FY07(A)	3,323	652	19.6	426	12.8	95.3	4.5	14.5
FY08(A)	4,111	774	18.8	542	13.2	95.3	5.7	11.4
FY09(E)	4,713	912	19.4	585	12.4	95.3	6.1	10.7
FY10(E)	5,408	1,073	19.8	702	13.0	95.3	7.4	8.8

Rs MM; (A) Audited; (E) Estimated,FV -Rs 2

COMPANY BACKGROUND

Navneet Publications India Limited was founded by the Gala family in 1959. The company is into business of publishing supplementary books and paper and non-paper stationery for schools and offices.

In the publishing segment, the company's products are sold under the *Navneet, Vikas* and *Gala* brand names. It's portfolio of syllabus based books include supplementary books like Digests, Workbooks and 21 Question Sets, most of which are published in four languages - English, Hindi, Marathi and Gujarati. The company has a dominant market share in Gujarat and Maharashtra.

In 1993, Navneet launched paper stationery products for the domestic market and also started to export it. The products are manufactured at its plants in Vasai, Daman and Silvassa. Products range includes tight bind note books, long books, hard case bound books and drawing books.

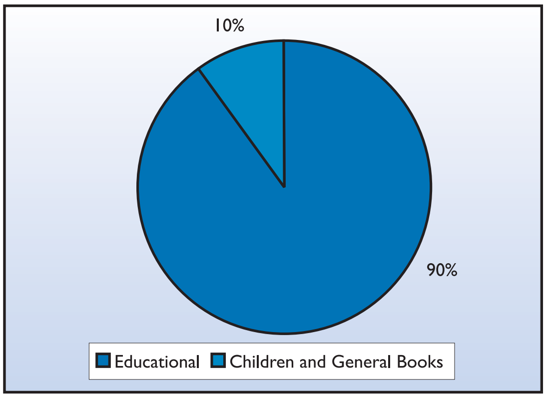
In 2006, taking the success of the Paper Stationery products further, Navneet launched it first range of non-paper stationery - *FfUuNn* (Pencils, erasers, sharpners, geometry box etc). The company has aggressive plans to grow this segment.

WHAT WE LIKE ABOUT THE COMPANY...

Publication not a high capex business - Set to clock 10-12% CAGR over FY10: This business is now fully capexed and significant capex is not envisaged in the future. Navneet with its strong brands has captured a market share of 58-60% in the states of Maharashtra and Gujarat. The company has two segments in the publishing division namely - Educational Books (comprises 90% of publication business), and Children and General Books. The company expects this division to grow at 10% to 12% over the next three years. The revenues get a fillip when the syllabus of the state board changes.

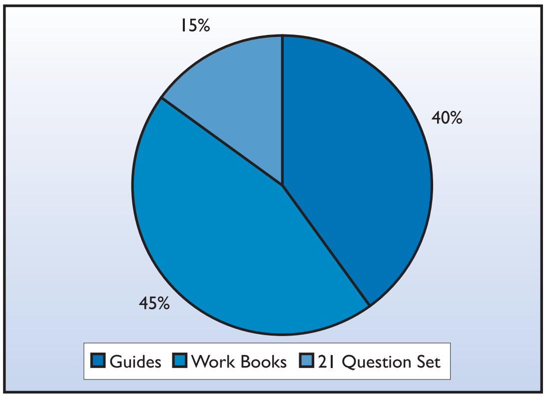
Navneet's only CAPEX in FY09 will be on its **e-learning** project. In FY08, the company invested Rs25 MM on the **e-learning** software and in FY09, it plans to invest further Rs30 MM. The company has done pilot projects for 115 schools in Gujarat and 1,000 schools in Maharashtra. Since FY08 was the first year of the e-learning product, the company paid importance to reach rather than price. In FY09, it expects that of the 1,000 schools contacted in Maharashtra, 100-200 schools will opt for e-learning software. Though current pricing is only Rs7,000-8,000 per school, this will be ramped up to over Rs50,000 as the reach expands.

Revenue mix - Publication Segment

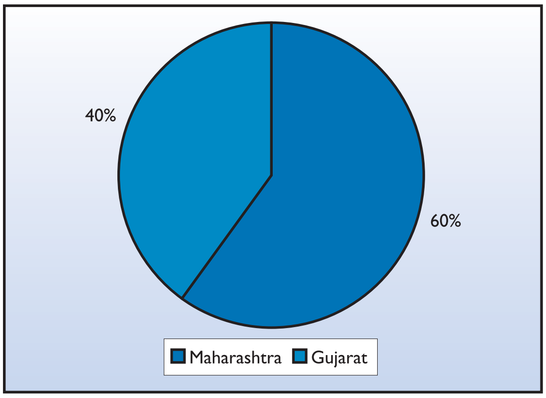


Source: Company, Prime Broking

Revenue mix - Education Segment



Source: Company, Prime Broking



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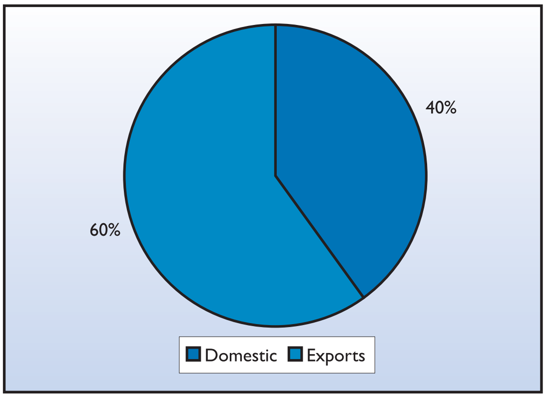


Source: Company, Prime Broking

(Rs MM)	FY03	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E
Publications								
Revenues	**1,834**	**1,450**	**1,678**	**1,822**	**2,187**	**2,728**	**3,055**	**3,422**
PBIT	**538**	**396**	**458**	**488**	**605**	**807**	**897**	**996**
Margin (%)	*29.3*	*27.3*	*27.3*	*26.8*	*27.6*	*29.6*	*29.3*	*29.1*
Segment Assets	969	1,150	1,341	1,497	1,616	1,866	2,116	2,366
Segment Liabilities	-	39	65	105	120	120	120	120
Capital Employed	**969**	**1,111**	**1,276**	**1,392**	**1,495**	**1,745**	**1,995**	**2,245**
ROCE (%)	*55.5*	*35.7*	*35.9*	*35.0*	*40.4*	*46.3*	*44.9*	*44.3*

Source: Company, Prime Broking

Stationary segment to grow faster at 25% CAGR - Having FfUuNn: Navneet expects that its stationary division will grow at 25% over the next three years. The company expects its Fun brand to clock revenues of Rs100 MM in FY09 (up from Rs35 MM in FY08). Currently, only 6% of the stationary market is organized and the balance 94% in un-organized. The company manufactures the stationary in its unit in Silvassa and Vasai. It has a network of 600 distributors catering to 80,000 retailers. The company expects to maintain PBIT margins of 9% for this segment over the next three years.

Management expectation of revenues from FfUuNn Brand

(Rs MM)	FY08	FY09E	FY10E	FY11E
Revenues from FfUuNn	35	100	200	300

Source: Company

(Rs MM)	FY03	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E
Stationary								
Revenues	**1,388**	**1,071**	**1,056**	**1,116**	**1,092**	**1,360**	**1,631**	**1,958**
PBIT	**137**	**144**	**99**	**104**	**103**	**55**	**66**	**79**
Margin (%)	*9.9*	*13.4*	*9.4*	*9.3*	*9.4*	*4.0*	*4.0*	*4.0*
Segment Assets	951	1,049	886	949	843	843	943	1,043
Segment Liabilities	-	74	85	82	59	59	59	59
Capital Employed	**951**	**975**	**802**	**867**	**783**	**783**	**883**	**983**
ROCE (%)	*14.4*	*14.8*	*12.4*	*12.0*	*13.1*	*7.0*	*7.4*	*8.0*

Source: Company, Prime Broking

Low-leverage: Apart from low capex requirement, Navneet also is almost a zero debt company. The company's major sales takes place in the first quarter (Apr-June) of the financial year, when academic year starts in schools. For this, the production of educational books starts in September of the previous financial year, by taking working capital demand loans in September of each year and repays it by March or April of the next year. Thus, Navneet's balance sheet only has working capital loan at the end of the year.

Low capex, debt = High dividend payout: The company has minimal capex plans and carries only working capital debt. The only capex forseen is on improving and promoting its ***e-learning*** product. Consequently, Navneet has over the last 10 years, paid an average 52% of its EPS as dividends, which is sustainable in future. Navneet has a liberal dividend policy and over the last 6 years have paid over 50% of its earnings as dividend. The company has maintained that it will be paying about 50% to 60% of its earnings as dividend over the next two years. We believe that, in these turbulent times, when earnings growth visiblity has become a matter of concern for the investors, Navneet with a high dividend yield and a stable business, could prove to be a good defensive bet.

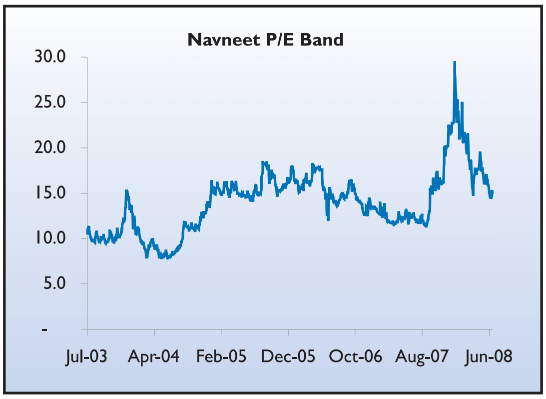
RISKS AND CONCERNS

Low liquidity: The stock is highly ill-liquid. The average trading volume in a day is in the range of 7,000 to 9,000 shares. Inspite of some key advantages in the business, Navneet is not among the preferred stock in the investment community mainly due to its low liquidity.

SSA money used to distribute textbooks in schools: We believe that this is the key risks in the publication division. Last year the government schools started using the SSA (Sarva Shiksha Abhiyan) money to distribute textbooks in schools. If this continues in government schools, then there will be a delay in the sales cycle of the publishing division mainly because the students will not go to bookshops to purchase guides, workbooks or question sets at the beginning of the year. It should be noted that the delay will be in sales cycle and overall sales will not be affected as reference to guides, work books and questions sets are integral part of student's preparations for exams.

Growing competition in the stationary segment: Though stationary segment is largely un-organised, the last couple of years has seen many organised players like Camlin, Pidilite, ITC and Apsara etc. entering the segment. While revenue growth is not an issue, the low profitability of the business comes under further pressure if competition intensifies. Large competitors like ITC can easily absorb lower price points for a couple of years with an aim to garner market share. This is a risk for players like Navneet.

OUTLOOK AND VALUATIONS



Source: Prime Broking

We foresee Navneet recording 15% and 14% CAGR in revenues and EPS over FY08-FY10. At the CMP of Rs65, the stock is trading at a P/E of 10.7x and 8.8x on our indicative EPS of Rs6.1 and Rs7.4 for FY09 and FY10 respectively. The *e-learning* product, if successful, could provide considerable upside to revenues and net profits.

The adjacent graph indicates that over the last 3 years, Navaneet has traded at a P/E range of 10-30x, with a median P/E of 15x. Based on the company's fundamentals, we believe that a P/E of 13x is sustainable over the next 2 years translating to **Rs95 per share** based on FY10 estimates. **Moreover, even at a 42% dividend payout assumption, dividend yield translates to 4% in FY09. We believe that, in these turbulent times, Navneet could turn out to be a solid defensive bet. Low liquidity is however, the only constraint.**

QoQ and YoY consolidated performance in FY08

(Rs MM)	Q4FY07	Q4FY08	% Growth	FY07	FY08	% Growth
Sales	**469**	**607**	**29.5**	**3,323**	**4,111**	**23.7**
Expenditure	422	552	31.0	2,599	3,282	26.3
Operating profit (EBITDA)	**47**	**55**	**16.1**	**724**	**829**	**14.5**
Operating profit margin (%)	*10.0*	*9.0*		*21.8*	*20.2*	
Other income	5	10	117.0	14	50	268.9
Interest	4	9	97.7	17	31	84.3
Depreciation	25	31	21.8	85	105	22.5
Profit before tax	**22**	**26**	**15.2**	**636**	**744**	**17.0**
Tax	9	5	(45.6)	210	202	(3.9)
Profit after tax/(loss)	13	21	56.4	426	542	27.2
Net profit margin (%)	*2.8*	*3.4*		*12.8*	*13.2*	

Source: Company

Annexure I: Profit & Loss A/c.

Particulars	FY05	FY06	FY07	FY08	FY09E	FY10E
Income from operations	**2,748**	**2,963**	**3,323**	**4,111**	**4,713**	**5,408**
Total operating expenditure	**2,187**	**2,373**	**2,599**	**3,282**	**3,746**	**4,278**
EBITDA	**562**	**590**	**724**	**829**	**966**	**1,131**
Depreciation	90	92	85	105	111	124
Interest Charges	25	23	17	31	31	32
Other Income	15	23	14	50	57	66
Pre-Tax	462	497	636	744	881	1,040
Tax	157	143	210	202	296	338
Net Profit	**305**	**354**	**426**	**542**	**585**	**702**
Minority Interest	6	(2)	-	-	-	-
Net Profit	**299**	**356**	**426**	**542**	**585**	**702**
EPS(diluted)	**3.1**	**3.7**	**4.5**	**5.7**	**6.1**	**7.4**
EPS(adjusted)	3.1	3.7	4.5	5.7	6.1	7.4
Extraordinary	-	21	-	-	-	-
Dividend- Ordinary	143	162	191	229	248	300
Addition to Reserves	149	146	209	274	295	351
sh's (m)	**95.3**	**95.3**	**95.3**	**95.3**	**95.3**	**95.3**
Avg Sh's	95.3	95.3	95.3	95.3	95.3	95.3
Div. Per share	**1.5**	**1.7**	**2.0**	**2.4**	**2.6**	**3.2**

Source: Company, Prime Broking

Annexure II: Balance Sheet

Particulars	FY05	FY06	FY07	FY08	FY09E	FY10E
Assets						
Gross Fixed Assets	1,299	1,383	1,444	1,519	1,619	1,794
Less: Acc. Depreciation	605	685	766	870	982	1,105
Net Block	**694**	**698**	**678**	**649**	**637**	**689**
Goodwill	21	-	-	-	-	-
CWIP	15	0	4	4	4	3
Investments	-	12	75	90	108	97
Cash & cash in kind	19	19	48	165	258	267
Current Assets (Exc. Cash)	1,617	1,868	1,966	2,493	2,744	3,107
Miscellaneous expenses	-	0	5	5	5	5
Total Assets	**2,366**	**2,598**	**2,777**	**3,406**	**3,755**	**4,167**
Liabilities						
Share Capital	191	191	191	191	191	191
Reserves and surplus	1,499	1,646	1,856	2,130	2,425	2,776
Total Networth	**1,690**	**1,836**	**2,046**	**2,321**	**2,616**	**2,967**
Deferred Tax Liability	51	44	39	39	39	39
Minority Interest	-	-	-	-	-	-
Debt	397	504	525	836	859	883
Current Liabilities	229	214	166	211	242	278
Total Liabilities	**2,366**	**2,598**	**2,777**	**3,406**	**3,755**	**4,167**

Source: Company, Prime Broking

Annexure III: Cash Flow Statement

Particulars	FY05	FY06	FY07	FY08	FY09E	FY10E
PBT	**462**	**497**	**636**	**744**	**881**	**1,040**
Add: Depreciation as per P&L	90	92	85	105	111	124
Add: Others	21	53	2	31	31	32
Opr. C/Fbefore working capital changes	**573**	**642**	**723**	**879**	**1,024**	**1,196**
Changes in current assets	(22)	252	98	527	251	364
Changes in current liabilities	26	(22)	(53)	45	31	36
Tax paid	157	143	210	202	296	338
Cash flow from operating act. (A)	**464**	**226**	**363**	**195**	**508**	**531**
Cash consumed for investing in fixed assets	110	69	65	75	100	174
Cash consumed for making invesment	(210)	12	63	15	18	(11)
Others	(10)	(10)	(9)	-	-	-
Cash flow from investing act. (B)	**(109)**	**71**	**120**	**90**	**118**	**163**
Cash flow from fresh equity issue	-	0	(0)	-	-	-
Cash flow from debt issue	(385)	107	22	310	23	25
Cash used for paying dividend	(162)	(185)	(217)	(268)	(290)	(351)
Interest	(40)	(78)	(18)	(31)	(31)	(32)
Cash flow from financing act. (C)	**(587)**	**(156)**	**(214)**	**12**	**(298)**	**(359)**
Net cash generated (A-B+C)	**(14)**	**(1)**	**29**	**117**	**93**	**9**
Opening cash balance	**33**	**19**	**18**	**48**	**165**	**258**
Closing cash balance	**19**	**18**	**48**	**165**	**258**	**267**

Source: Company, Prime Broking

Annexure IV: Ratios

Particulars	FY05	FY06	FY07	FY08	FY09E	FY10E
Valuation Ratios						
Adjusted P/E (x)	12.1	14.7	13.1	11.4	10.6	8.8
Dividend Yield (%)	4.0	3.1	3.4	3.7	4.0	4.8
Price/Book Value (x)	2.3	3.1	3.0	3.0	2.7	2.4
EV/EBITDA (x)	7.1	9.7	8.4	8.5	7.3	6.3
EV/Sales (x)	1.5	1.9	1.8	1.7	1.5	1.3
Market Cap/Sales (x)	1.3	1.8	1.7	1.5	1.3	1.1
Per Share Ratios (in Rupees)						
Earnings	3.1	3.7	4.5	5.7	6.1	7.4
Cash Earnings	4.2	4.4	5.4	6.8	7.3	8.7
Dividend	1.5	1.7	2.0	2.4	2.6	3.2
Book Value	16.2	17.7	19.3	21.5	24.4	27.4
Profitability Ratios (in %)						
Operating Margin	20.9	20.4	19.9	21.8	20.2	20.5
EBIT Margin	17.7	17.5	19.6	18.8	19.4	19.8
PBT Margin	16.8	16.8	19.1	18.1	18.7	19.2
PAT Margin	10.9	12.0	12.8	13.2	12.4	13.0
Growth Ratios (%)						
Sales	8.6	7.8	12.2	23.7	14.6	14.8
Operating Profit (EBITDA)	6.1	5.0	22.9	14.5	16.6	17.0
Profit After Tax	(10.2)	6.5	28.7	27.2	7.9	20.1
Turnover Ratios						
Inventory Turnover Ratio	2.8	2.4	2.6	2.4	2.5	2.5
Debtors Turnover Ratio	43.4	50.0	68.8	102.8	112.2	128.8
Fixed Asset Turnover Ratio	2.1	2.1	2.3	2.7	2.9	3.0
Creditors turnover ratio	16.3	14.4	21.4	20.9	20.9	21.0
Solvency Ratios						
Current Ratio	7.1	8.8	12.1	12.6	12.4	12.0
Debt Equity Ratio	0.2	0.3	0.3	0.4	0.3	0.3
Interest Coverage Ratio	19.7	22.7	39.3	25.3	29.0	33.2
Performance Ratios						
Return on Capital Employed	23%	22%	25%	25%	26%	28%
Return on Net Worth	18%	19%	21%	23%	22%	24%

Source: Company, Prime Broking

PRIME BROKING

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PRIME BROKING

STOCK OWNERSHIP / CONFLICT DISCLOSURE	
Prime / Prime Subsidiaries	**No**
Key Prime Management &/or Other Employees	**Yes**
Any Other Corporate Finance Conflict of Interest	**No**

ANALYSTS' RATINGS DEFINITIONS	
STRONG BUY	Expect $\geq$ 25% CAGR return
BUY	Expect a CAGR return $\geq$ 15% and $<$ 25%
HOLD	Expect $<$ 15% CAGR return
SELL	Expect $\leq$ 5% CAGR return

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