

Navneet Education

BUY

INDUSTRY	EDUCATION
CMP (as on 6 Feb 2014)	Rs 54
Target Price	Rs 68
Nifty	6,036
Sensex	20,311

KEY STOCK DATA

Bloomberg	NELI IN
No. of Shares (mn)	238
MCap (Rs bn) / (\$ mn)	13/207
6m avg traded value (Rs mn)	7

STOCK PERFORMANCE (%)

52 Week high / low	Rs 66/50		
	3M	6M	12M
Absolute (%)	2.1	(0.7)	(16.1)
Relative (%)	4.9	(9.2)	(19.5)

SHAREHOLDING PATTERN (%)

Promoters	61.80
FIs & Local MFs	12.21
FIIIs	5.07
Public & Others	20.92

Source : BSE

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In-line quarter, growth revival key

Navneet Education (NEL) 3QFY14 results were in-line. Revenue grew by 7% YoY, EBITDA 14% and earnings 10%. Publication revenue declined 4% YoY owing to lack of government order. Stationery segment revenue grew by strong 32% led by exports.

In 9MFY14, NEL's revenue grew by 8% YoY, earnings declined 1% (+3% adjusted for notional forex loss of ~Rs 35mn). Absence of government order in Publication, paper cost inflation and notional forex loss impacted performance in 9MFY14.

Nevertheless, the triggers (viz. syllabus change led by common curriculum evolution, government orders for supplementary books, expansion in Andhra Pradesh and Delhi-NCR) should support growth in FY15-16. Maintain estimates. Retain BUY with TP of Rs 68 (unchanged) at 12x FY15E EPS.

- **Publication – revenue disappoints :** Segment revenue (60% of total) in 3Q declined 4% YoY (+5.5% in 9M) to Rs 796mn. Government order for supplementary books contributed ~Rs 270mn in FY13 vs. nil in 9MFY14 leading to moderation in growth. EBIT margin declined by 23bps in 3Q to 26.7%, flat in 9MFY14 at 34.7%.

CONSOLIDATED FINANCIAL SUMMARY*

YE March (Rs mn)	3QFY14	3QFY13	YoY (%)	2QFY14	QoQ (%)	FY12	FY13	FY14E	FY15E	FY16E
Net Sales	1,331	1,245	6.9	1,440	(7.6)	6,189	8,057	8,755	9,900	10,939
EBITDA	261	228	14.2	265	(1.7)	1,313	1,913	2,074	2,445	2,745
PAT	124	112	10.1	135	(8.4)	768	1,080	1,135	1,346	1,504
Diluted EPS (Rs)						3.3	4.5	4.8	5.6	6.3
P/E (x)						16.5	11.9	11.3	9.6	8.6
EV / EBITDA (x)						10.8	7.6	6.9	5.7	5.0
RoE (%)						22.5	27.7	25.2	26.1	25.4

Source: Company, HDFC sec Inst Research * Quarterly numbers are standalone

- However, with visibility on syllabus change in FY15 in Gujarat and FY16 in Maharashtra, we expect growth momentum to pick-up. Maharashtra contributes ~55% of segment revenue, rest from Gujarat. Further, NEL has completed the content creation for Standard I to VII CBSE textbooks. NEL looks to market them in states beyond Maharashtra and Gujarat with potential to make it a decent sized sub-segment. If successful, this would lead to additional growth.
- **Stationery – healthy performance led by exports :** Revenue grew by healthy 32% to Rs 525mn (+14% in 9MFY14). Rupee tailwind and robust export order led to growth. EBIT grew by 8x YoY in 3Q owing to part reversal of notional forex loss of ~Rs 33mn on export receivables. But, margins declined by 255bps YoY in 9MFY14 due to rise in paper cost, competition in domestic business and notional forex loss. However, led by strong export orders from large retail chains in developed markets, we expect the segment to register ~10-12% revenue growth with stable margins.
- **Valuation and view :** With robust earnings CAGR of 15%, dividend yield of 3.5% (~50% payout), NPL is trading at attractive P/E of 11.3x/9.6x FY14/15E EPS. **BUY with a TP of Rs 68 at 12x FY15E EPS.**

QoQ numbers not comparable due to seasonal nature of the business

Modest revenue growth YoY due to 4% decline in Publication business revenue owing to lack of government order

Modest rise in SG&A cost due to reversal of forex loss of Rs 33mn

STANDALONE QUARTERLY FINANCIALS SNAPSHOT

(Rs mn)	3QFY14	3QFY13	YoY (%)	2QFY14	QoQ (%)
Net Sales	1,331	1,245	6.9	1,440	(7.6)
COGS	579	568	1.9	694	(16.5)
Employee expenses	174	151	15.2	160	8.6
SG&A exps	317	297	6.5	321	(1.4)
Total cost	1,070	1,017	5.2	1,175	(9.0)
EBITDA	261	228	14.2	265	(1.7)
Depreciation	57	49	15.0	54	4.0
EBIT	204	179	14.0	211	(3.1)
Interest Cost	11	9	29.9	16	(29.8)
Other income	10	10	(2.0)	7	38.0
EO (gain)/loss	-	-	-	-	-
PBT	203	180	12.4	202	0.4
Tax	79	68	16.0	67	18.5
RPAT	124	112	10.1	135	(8.4)
E/o (adj for tax)	-	-	-	-	-
APAT	124	112	10.1	135	(8.4)

Source: Company, HDFC sec Inst Research

MARGIN ANALYSIS

As % of Net Sales	3QFY14	3QFY13	YoY (bps)	2QFY14	QoQ (bps)
COGS (%)	43.5	45.7	(213)	48.2	(463)
Employee expenses (%)	13.1	12.1	95	11.1	195
SG&A cost (%)	23.8	23.9	(8)	22.3	149
Total cost (%)	80.4	81.7	(126)	81.6	(119)
EBITDA Margin (%)	19.6	18.3	126	18.4	119
EBIT Margin (%)	15.3	14.4	96	14.6	71
Net Profit Margin (%)	9.3	9.0	28	9.4	(8)
Tax Rate (%)	38.9	37.7	123	33.0	592

Source: Company, HDFC sec Inst Research

SEGMENTAL QUARTERLY PERFORMANCE

(Rs mn)	3QFY14	3QFY13	YoY (%)	2QFY14	QoQ (%)	9MFY13	9MFY14	% chg YoY
Segmental Revenues								
- Publication	796	831	(4.2)	984	(19.1)	4,071	4,294	5.5
- Stationery	525	398	31.8	439	19.5	2,100	2,393	14.0
- Others	9	16	(40.5)	17	(43.0)	64	42	(35.4)
Total	1,331	1,245	6.9	1,440	(7.6)	6,236	6,728	7.9
Segmental EBIT								
- Publication	213	224	(5.0)	274	(22.2)	1,408	1,491	5.9
- Stationery	45	5	772.5	(16)	(371.3)	244	217	(11.0)
- Others	1	(1)	(200.0)	3	(80.8)	5	7	43.1
Total	258	229	12.8	260	(0.7)	1,657	1,715	3.6
EBIT Margin %								
- Publication	26.7	27.0	(23)	27.8	(105)	34.6	34.7	16
- Stationery	8.5	1.3	720	(3.7)	1,221	11.6	9.1	(255)
- Others	5.3	(3.2)	848	15.8	(1,044)	7.9	17.5	963
Total	19.4	18.4	101	18.0	135	26.6	25.5	(107)

Source: Company, HDFC sec Inst Research

REVISION IN ESTIMATES

	FY14E			FY15E		
	Revised	Earlier	% Chg	Revised	Earlier	% Chg
Revenue (Rs mn)	8,755	8,755	(0.0)	9,900	9,900	0.0
EBITDA (Rs mn)	2,074	2,116	(2.0)	2,445	2,445	0.0
EBITDA margin %	23.7	24.2	-52 bps	24.7	24.7	0 bps
Adj PAT (Rs mn)	1,135	1,163	(2.4)	1,346	1,346	(0.0)
Adj PAT margin	13.0	13.3	-34 bps	13.6	13.6	-1 bps
O/s shares (mn)	238	238	0.1	238	238	0.1
FDEPS (Rs)	4.8	4.9	(2.8)	5.6	5.6	0.9

Source: HDFC sec Inst Research

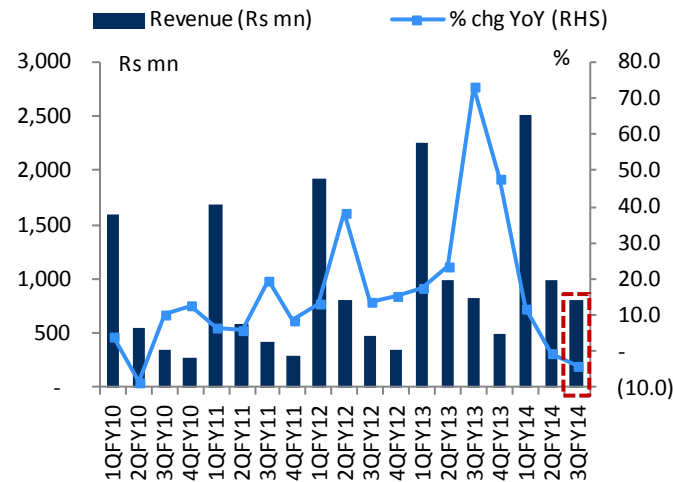
Decline in Publication revenue owing to absence of government order

Strong exports revenue and rupee tailwind drives growth in stationery business

Improvement in stationery margin led by reversal of forex loss of Rs 33mn

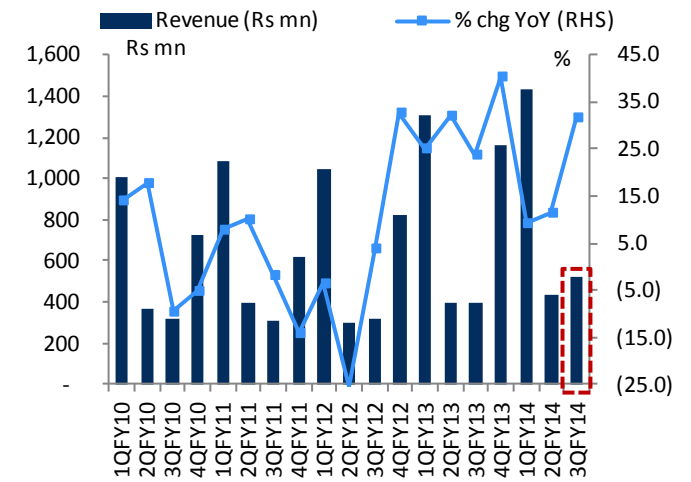
Marginal revision in FY14 estimate owing to moderation in Publication business

Publication segment : Revenue trend



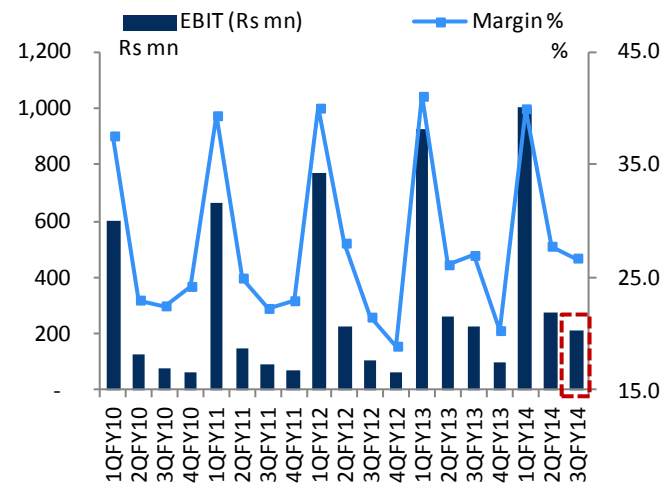
Source : Company, HDFC sec Inst Research

Stationery segment : Revenue trend



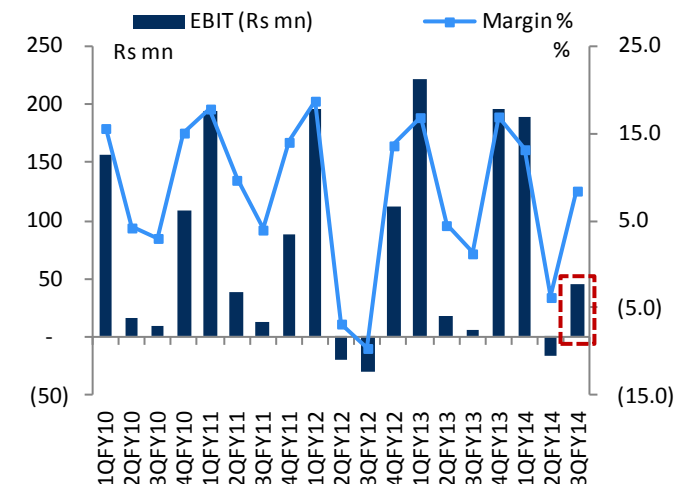
Source : Company, HDFC sec Inst Research

Publication segment : EBIT trend



Source : Company, HDFC sec Inst Research

Stationery segment : EBIT trend



Source : Company, HDFC sec Inst Research

Stationery business witnessed high competitive pressure in the domestic market leading to lower margins in FY12

CONSOLIDATED INCOME STATEMENT

(Rs mn)	FY12	FY13	FY14E	FY15E	FY16E
Net Sales	6,189	8,057	8,755	9,900	10,939
Growth (%)	12.9	30.2	8.7	13.1	10.5
COGS	3,003	3,870	4,090	4,537	4,952
Employee Expenses	611	687	731	813	894
Mfg Exps	351	586	671	769	880
SG&A Exps	911	1,001	1,189	1,336	1,468
Total Cost	4,876	6,144	6,681	7,455	8,194
EBIDTA	1,313	1,913	2,074	2,445	2,745
EBIDTA (%)	21.2	23.7	23.7	24.7	25.1
EBIDTA Growth (%)	13.8	45.7	8	18	12
Depreciation	171	235	312	366	428
EBIT	1,142	1,679	1,761	2,079	2,317
Interest	58	79	94	106	116
Other Income	112	37	43	48	53
PBT	1,197	1,636	1,710	2,022	2,253
Tax	420	550	576	676	749
Minority Share	(3)	6	-	-	-
EO Items (gain)/loss	33	13	-	-	-
RPAT	747	1,067	1,135	1,346	1,504
EO Items (net of tax)	21	13			
APAT	768	1,080	1,135	1,346	1,504
APAT Growth (%)	16.8	38.5	5.0	18.6	11.8
EPS	3.3	4.5	4.8	5.6	6.3
EPS Growth (%)	16.8	38.5	5.0	18.6	11.8

Source: Company, HDFC sec Inst Research

CONSOLIDATED BALANCE SHEET

(Rs mn)	FY12	FY13	FY14E	FY15E	FY16E
SOURCES OF FUNDS					
Share Capital	476	476	476	476	476
Reserves	3,138	3,715	4,322	5,043	5,848
Total Shareholders' Funds	3,615	4,192	4,799	5,519	6,324
Minority Interest	(6)	1	-	-	-
Long Term Debt	79	24	12	6	3
Short Term Debt	1,320	1,614	1,776	1,953	2,149
Total Debt	1,399	1,639	1,788	1,959	2,152
Deferred Taxes	45	48	56	64	74
Long Term Provisions	38	39	47	55	63
TOTAL SOURCES OF FUNDS	5,091	5,918	6,689	7,597	8,612
APPLICATION OF FUNDS					
Net Block	1,647	1,799	1,731	1,610	1,579
Non-current Assets	652	500	497	497	497
Inventories	2,176	2,752	2,965	3,405	3,735
Trade Receivables	1,164	1,659	1,612	1,908	2,125
Cash & Equivalents	51	35	421	806	1,372
ST Loans & Advances	76	290	319	351	386
Other current assets	29	71	73	75	77
Current Assets	3,497	4,806	5,390	6,544	7,695
Trade Payables	152	255	202	256	268
Other Current Liabilities	329	393	294	309	350
Provisions	223	539	432	488	539
Current Liabilities	704	1,187	928	1,054	1,157
Net current Assets	2,793	3,620	4,462	5,491	6,537
TOTAL APPLICATION OF FUNDS	5,091	5,918	6,689	7,597	8,612

Source: Company, HDFC sec Inst Research

CONSOLIDATED CASH FLOW

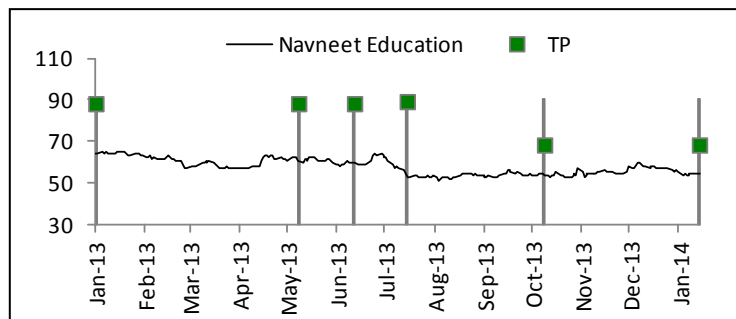
(Rs mn)	FY12	FY13	FY14E	FY15E	FY16E
PAT from Operations	782	1,067	1,135	1,346	1,504
Depreciation	171	235	312	366	428
Interest cost	58	79	94	106	116
Interest income	(112)	(37)	(43)	(48)	(53)
Working Capital Change	(533)	(842)	(456)	(644)	(480)
OPERATING CASH FLOW (a)	366	501	1,041	1,125	1,516
Capex	(531)	(387)	(244)	(246)	(397)
Free Cash Flow	(165)	115	797	879	1,119
Investments & Others	(212)	192	61	64	70
INVESTING CASH FLOW (b)	(742)	(195)	(183)	(181)	(326)
Interest	(58)	(79)	(94)	(106)	(116)
Debt Issuance	762	255	149	172	192
Dividend	(388)	(498)	(527)	(625)	(699)
FINANCING CASH FLOW (c)	317	(322)	(472)	(560)	(623)
NET CASH FLOW (a+b+c)	(60)	(16)	386	384	567
Closing Cash	51	35	422	806	1,372

Source: Company, HDFC sec Inst Research

KEY RATIOS

	FY12	FY13	FY14E	FY15E	FY16E
PROFITABILITY (%)					
EBITDA Margin	21.2	23.7	23.7	24.7	25.1
EBIT Margin	18.5	20.8	20.1	21.0	21.2
APAT Margin	12.4	13.4	13.0	13.6	13.7
RoE	22.5	27.7	25.2	26.1	25.4
RoCE	16.3	18.7	17.0	18.1	17.7
Core ROCE	16.3	18.7	17.0	18.1	17.7
EFFICIENCY					
Tax Rate (%)	36.1	33.9	33.7	33.4	33.3
Asset Turnover (x)	3.8	4.5	5.1	6.1	6.9
Inventory (days)	128	125	124	126	125
Debtors (days)	69	75	67	70	71
Payables (days)	9	12	8	9	9
Cash Conversion Cycle (days)	188	188	182	186	187
Debt/EBITDA (x)	1.1	0.9	0.9	0.8	0.8
Net D/E	0.4	0.4	0.3	0.2	0.1
Interest Coverage	19.8	21.3	18.7	19.7	19.9
PER SHARE DATA					
EPS (Rs/sh)	3.3	4.5	4.8	5.6	6.3
CEPS (Rs/sh)	3.9	5.5	6.1	7.2	8.1
BV (Rs/sh)	15.2	17.6	20.1	23.2	26.5
DPS (Rs/sh)	1.4	1.8	1.9	2.3	2.5
VALUATION					
P/E	16.5	11.9	11.3	9.6	8.6
P/BV	3.6	3.1	2.7	2.3	2.0
EV/EBITDA	10.8	7.6	6.9	5.7	5.0
OCF/EV (%)	2.6	3.5	7.3	8.0	11.1
FCF/EV (%)	(1.2)	0.8	5.6	6.3	8.2
FCFE/Mcap (%)	(0.8)	1.5	6.9	7.7	9.6
Dividend Yield (%)	2.6	3.3	3.5	4.2	4.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
24-Jan-13	64	BUY	88
31-May-13	60	BUY	88
5-Jul-13	59	BUY	88
7-Aug-13	52	BUY	89
1-Nov-13	53	BUY	68
6-Feb-14	54	BUY	68

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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