

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).

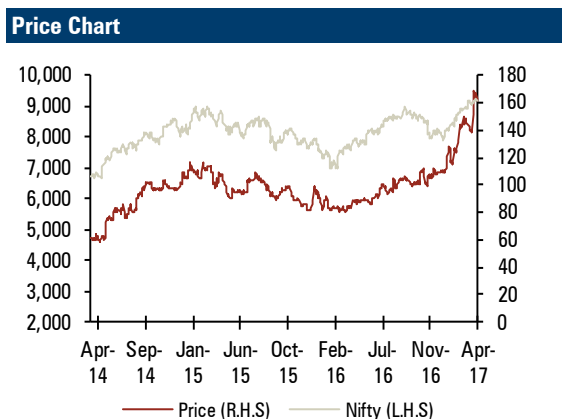
Rating matrix		
Rating	:	Buy
Target	:	₹ 204
Target Period	:	12 months
Potential Upside	:	25%

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



Research Analyst
 Bharat Chhoda
 bharat.chhoda@icicisecurities.com
 Cheragh Sidhwa
 Cheragh.sidhwa@icicisecurities.com

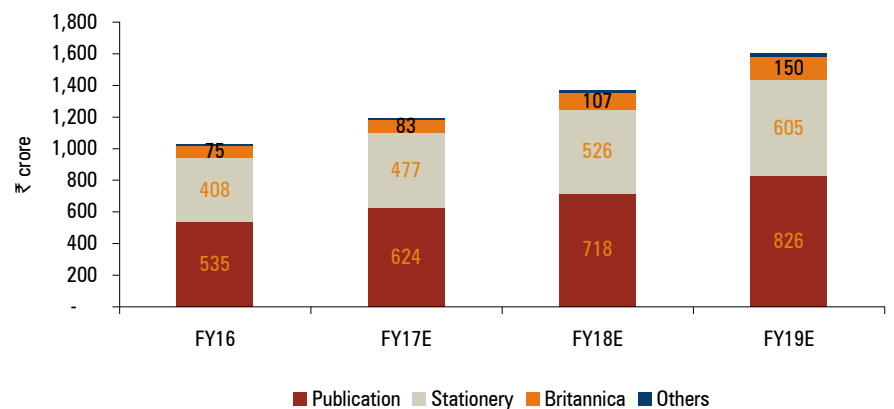
Exhibit 1: Syllabus change to drive revenue growth

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

RATING RATIONALE

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

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: > 10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

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

Disclaimer

ANALYST CERTIFICATION

We /I, Bharat Chhoda, and 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.

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 Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned 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.

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 generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

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 or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

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.

It is confirmed that Bharat Chhoda, MBA and Cheragh Sidhwa, MBA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

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 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. It is confirmed that Bharat Chhoda, MBA and Cheragh Sidhwa, MBA Research Analysts do not serve as an officer, director or employee of the companies mentioned in the 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.