



“Navneet Education Limited
Q4 FY23 & FY23 Earnings Conference Call”

May 17, 2023

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Moderator:

Ladies and gentlemen, good day, and welcome to Navneet Education Limited **Q4 FY '23 Earnings Conference Call** hosted by **Prabhudas Lilladher Private Limited**. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” than “0” on your touchtone phone. Please note that this conference is being.

I now hand the conference over to **Ms. Stuti Beria from Prabhudas Lilladher**. Thank you, and over to you, ma'am.

Stuti Beria - Prabhudas Lilladher Private Limited:

Thank you. On behalf of Prabhudas Lilladher Private Limited, I welcome you all to the 4Q FY '23 Earnings Call of Navneet Education Limited. We have with us from the management represented by Mr. Sunil Gala, MD; Mr. Kalpesh Dedhia, CFO; Mr. Roomy Mistry, Head IR; and Mr. Sanjeev Shah, Joint MD, Navneet FutureTech.

I would now like to hand over the call to the management for the opening remarks, after which we can open the floor for the Q&A. Thank you, and over to you, sir.

Sunil Gala - MD, Navneet Education Limited:

So today, along with me, I have Mr. Kalpesh Dedhia, our CFO; Mr. Roomy Mistry, our Head IR; Mr. Sanjeev Shah, our Joint Managing Director of Navneet FutureTech; and SGA, our Investor Relations advisers. I hope you all have received our investor presentation by now. For those who have not, you can view them on the stock exchanges and the company's website. I hope you and your loved ones are safe and doing well. So let me start by discussing the annual progress of our company, it means FY '23. Just to reiterate, our industry's performance should be evaluated on an annual basis rather than quarterly, taking into its seasonal nature. Typically, the first quarter proves to be the most advantageous for state-level publishing business as state-board schools reopen in June. Similarly, Q4 is optimal for the CBSE textbook business.

In the case of domestic stationery both Q1 and Q4 exhibit strong performance, while normally Q1 stands out as a prime period for export stationery business for back-to-school business world over. Though at times owing to the advanced orders from exports stationery business, the performance for Q4 of the earlier year improved. Hence, I kindly request once again to consider Navneet Education Limited's performance on a yearly basis. In the previous 2 years, our company did face challenges due to the impact of the pandemic. Nevertheless, in FY '23, our current fiscal year, we have successfully surpassed our pre-COVID performance. As the impact of the pandemic subsides, admission in private schools is gradually returning to normalcy, contributing to our improved performance hereinafter.

Now coming to segment-wise performance, let me start with stand-alone publication business. So, our publication business grew by 14.4% to Rs. 102 Crores in Q4 '23. For the full year, the business grew by 83% to Rs. 678 Crores in FY '23. Publication business is the most important business segment. Most of our standalone publication business revenue comes from workbooks, guides and question banks for the students in SSC schools located in Maharashtra and Gujarat, where we nearly hold over 2/3 of the market share. To emphasize, once again, Q1 proves to be the most favorable quarter for the stand-alone publication business as SSC school reopens in June.

The particular segment was adversely affected by the COVID pandemic, causing significant disruptions in the entire admission cycle. However, despite these challenges, we achieved substantial annual growth in our business. Our EBITDA margin demonstrated year-on-year improvement compared to pandemic period and likely to become stable as pre-pandemic levels.

As far as our CBSE business is concerned, opted through our wholly owned subsidiary, Indiannica, has demonstrated very impressive growth, where a significant portion of the sales occurs in Q4, we have achieved a growth of 18% for FY '23. This segment represents our next strategic focus area as we supply and published textbooks for CBSE schools. With the observed transition from SSC board to CBSE board, we foresee a

promising opportunity in this segment. The shifting educational landscape presents favorable circumstances for us to capitalize on the demand for CBSE textbooks, further driving growth and market presence. In the year, Indiannica first time, I should mention here, that first time it has turned PAT positive and going forward, we foresee strong business momentum.

Now coming to the stationery business. First, I'll talk about domestic. So in domestic stationery business, where we are the second largest player among the organized players, revenue for Q4 '23 grew by 55% to Rs. 148 Crores. And for the full year FY '23, we grew by 98% to Rs. 380 Crores year-on-year. Margins could have improved, but due to unprecedented raw material price increase during the year, we achieved similar margins versus what we were hoping to improve the margins with the substantial growth. And I'll talk about the export stationery business. That business for Q4 grew by 18% to Rs. 109 Crores. And for FY '23, it grew by 15% to Rs. 567 Crores. As you may know or recall, we are the dominant Indian players serving clients like Walmart, Target, Staples in the U.S. market.

By catering to the U.S. market, we have established a strong presence and gained recognition for products. Our commitment to delivering high-quality offering has enabled us to forge successful partnerships with various esteemed retail customers contributing to our continued growth and success. So in a nutshell, I should say that with the paper, our biggest raw material stabilizes, which it is stabilizing now, we are likely to see better margins in domestic and exports of stationery business. The ongoing trend of students transitioning from government schools to private schools and from private schools to CBSE schools has a significant positive impact on our addressable market, fueling an increased demand of our products. Education plays a vital role, as you all know in child's upbringing, and the desire to provide a better education for the children motivates more parents to choose private schools.

This shift, coupled with factors such as rise in employment opportunities, improvement in standard of living and other relevant consideration, has led us to anticipate substantial growth in the publication business. Looking ahead, the implementation of National Education Policy 2020 will further contribute to the demand for updated education materials. As NEP takes off majorly from next year, the need for newer revised books will arise presenting us with significant opportunities for growth. To meet the evolving requirements of the curriculum under NEP, we will focus on developing supplementary books and textbooks, expanding our existing offerings. These endeavors will ensure that our publications aligned with the more comprehensive curriculum outlined in NEP, ultimately driving increased revenue generation. So this is regarding our core businesses. Now regarding our investments. Over the past 7, 8 years through our subsidiary, Navneet Learning LLP, we invested approximately Rs. 118 Crores towards K12 Techno Services. Post dilution various times, Navneet now holds 23.81%. Of course, Navneet, our parent company, holds 93% in Navneet Learning LLP.

As of the most of the recent investments round in Q3 of FY '22, led by the investors, Sequoia and Sofina, the current valuation of these investment stands at around Rs. 644 Crores for us. These investments in line with Navneet's overarching vision and unwavering commitment to providing education that leverages technology. By investing in K-12 techno services, Navneet aims to strengthen its position in the education sector by incorporating cutting-edge technology advancements. Navneet's investment in K-12 techno services serves as a deliberate strategy to complement its existing publishing business with a foray into rapidly evolving at edtech space. Recognizing the transformative potential of educational technology, Navneet seeks to leverage its expertise and resources to introduce innovative solutions that empower learners and educators alike.

Moving on to the other investments made by Navneet. The other investment, which is the investment in Sports for All, SFA, amounts to Rs. 75 Crores, representing 14.29% stake. That company is relatively doing very, very well. Our investment in Be-Galileo amounts to around Rs. 18.67 Crores, representing 47.0% stake. Our investment in Tinkerly amounts to around just Rs. 5.25 crore, representing around 14.7% stake. So last, but not least, our FutureTech business whichever -- which is under Navneet FutureTech. To accelerate Navneet's core business, the company has strategically entered the ed tech segment. Now I'm talking about our Navneet FutureTech. The company has taken various measures, including investments and acquisitions to establish a cohesive learning ecosystem for its target audience. One of the key commitments of the company is to leverage technology and drive notable advancements in education. By doing so, Navneet aims to enhance the effectiveness, efficiency and enjoyment of learning for its target audience.

The ed tech strategy pursued by Navneet serves as a dual purpose. Firstly, it allows the company to expand its presence beyond its core markets. By entering new geographies, Navneet can tap into untapped markets and reach a wider audience. This expansion not only presents growth opportunities for Navneet, but also helps in diversifying its revenue streams and reducing dependence on specific regions. By offering education technology solutions and services, Navneet can establish itself as a prominent player in the field of education. This enhances the company's reputation and brand recognition, positioning it as a trusted provider of educational resources and tools. With the same strategic approach in mind, we have initiated 2 significant verticals for our B2B business. These verticals include the school business and tutoring platform, both catering at a pan-India level. Our initial product launches, which will target the states of Maharashtra and Gujarat, where we already possess a strong presence.

The school business, which primarily focuses on CBSE schools due to its higher average revenue per user, the word which is used in common these days is ARPU, was successfully launched in Q3 of FY '23. Its performance during the fourth quarter met our expectations. In addition, we introduced our support to tutoring business in the upcoming quarter and we are very excited about it. The new venture will expand our

offerings and cater to the needs of students, schools and coaching institutes seeking supplementary education support. Very important thing. As you may recall, we had started Leapbridge, which was designed as a subscription-based business model that focused on STEM segment. In order to expand this business, substantial investments would have been required to develop the physical, digital and distribution infrastructure. Additionally, low subscription ticket size in an unpredictable payback period made this business model unviable. As a result, the Board of Directors have, therefore, decided to discontinue operations under Leapbridge.

So overall, this is from my side. I will now hand over phone to Mr. Kalpesh Dedhia, our CFO, to give you an update on the financial performance of the company. Over to you, Kalpesh.

Kalpesh Dedhia - CFO, Navneet Education Limited:

Thank you, Mr. Gala, and good morning, everyone. Now let me take you through the financial highlights in brief. Now first, for performance on stand-alone basis. Our revenue for Q4 '23 grew by 29% to Rs. 360 Crores and for financial year '23 grew by 53% to Rs. 1,628 Crores. EBITDA for Q4 '23 grew by 15% to Rs. 47 Crores and for financial year '23 grew by 98% to Rs. 337 Crores. EBITDA margin for Q4 was 13.0%, and for financial year '23 the margins were 20.7%. At PAT level, PAT for Q4 financial year '23 grew by 114% to Rs. 53 Crores. And for full financial '23 grew by 77% to Rs. 259 Crores. PAT margin for Q4 were at 14.7%, and for financial year '23 the margins were at 15.9%.

Now performance at consolidation -- consolidated basis. Our revenue for Q4 of '23 grew by 27% to Rs. 409 Crores. And for financial year '23, it grew by 52% to Rs. 1,697 Crores. EBITDA at consolidated level for Q4, it de-grew by 5% to Rs. 60 Crores. And for financial year '23 it grew by 80% to Rs. 298 Crores. EBITDA margin for Q4 were at 14.6%. And for financial year '23, the margins were at 17.6%. at a consolidated level for Q4, de-grew by 24% to Rs. 23 Crores. And for financial year '23, it grew by 174% to Rs. 204 Crores. PAT margin for Q4 were at 5.6% and for full financial year '23 the margins were at 12%. That's it from my side at present. Thank you. And now I open the floor for Q&A session.

Moderator:

First question is from the line of Himanshu Upadhyay from O3 PMS.

Himanshu Upadhyay – Analyst:

Congratulations on a good set up numbers. My focus is more on understanding our printing strategy or the books strategy. One of the initiatives, which I liked about the company or which has become more visible, I don't know how long or old is that, was you have been selling coloring books, okay, which have come out on the distribution

side at DMart and various forms, they are visible and they are doing very well. So it seems on that side, it's a good innovation. But beyond those coloring books, are we focusing also on cursive writing and all those things, which historically were not seen from Navneet? What is your thought process on that aspect? And how are we aiming to -- that's a very unorganized segment, not many publishers are there. So can we build a good positioning in that side of the market? Any thoughts on that, coloring books, cursive writing, and all those things for toddlers, I would say.

Sunil Gala - MD, Navneet Education Limited:

Thanks, Himanshu. I think cursive writing, coloring books or pattern writing, these products are available from Navneet for last maybe 30, 40 years, which we have been marketing in the schools directly. So, we do receive continuous orders from the schools on a regular basis. Probably in organized retail segment, these products are not yet present. Of course, we have been showing various products to the organized retailers but depending on their requirement and their confidence on upliftment, they order us the required products, be it stationery or be it books. So, taking your cue, I'll tell my team to showcase these products also to the organized retail market.

Himanshu Upadhyay – Analyst:

Okay. And secondly was, it is more on CBSE curriculum. See, what we are seeing is as people are becoming richer, they are spending more and more for allied exams also. So something like let's say a science Olympiad or vocabulary and all those things as such. And we see that some of the competitors of ours are trying to get incremental ancillary sales through, let's say, math Olympiad preparation books and all those. And again, the number of kids who are going for these types of exams is increasing exponentially. What is our scope? And in that type of business -- because in case of Navneet, we always had supplementary books and guides and everything. But what we see in CBSE and ICSE, the supplementary books are not there. But supplementary study material for that English Olympiad or a science or social studies and all those things, we are in a lot of -- our peers or competitors are present in that. And we don't see anything of that sort from Indiannica. So, what is your process of focusing and growing that part of business?

Sunil Gala - MD, Navneet Education Limited:

So let me primarily tell you that Navneet has always focused on curriculums. Now because it has a much, much wider market, and therefore, in Maharashtra and Gujarat, all our products are based on curriculums prescribed by the respective state government. Similarly, in CBSE, based on the expectation or the curriculum framed by NCF, we have created textbooks, which any school can use.

Now we wanted to understand for over a couple of years this market, and therefore, we have spread across geography, across India, marketing our publication business. Now having established and stabilized in textbook business, which any school can use, now

definitely, the next endeavor would be to bring out more and more ancillary products that the same student and the schools can consume. So going forward, that is already on our plan. So, you will very soon see such products from the house of Navneet.

Himanshu Upadhyay – Analyst:

And are we thinking of -- see, some of the things which I find was some of the publishers also organize those competitions and try to use it and then say buy our books and our study material is there. So, is there a scope to do such an activity with some of the associations and all those things? Just a thought, which I found because my kid is in 7th class, so I find all these things which keep on happening. But I never see Indiannica or something from Indiannica.

Sunil Gala - MD, Navneet Education Limited:

I understand. Up to school level, we still have not entered that business segment. That is, frankly, too much unorganized and different pockets of the country consume such products. So respective publishers in a particular state would have benefited out of that. So what our focus is now, going forward, through of course, our subsidiary Navneet FutureTech, we are delivering content to the tutoring institutes on various competitive exams, that we have already started in the current year. So, depending on the success on its consumption on an online basis, we will definitely see whether the physical products as well are required, and that plan is also there. We are just waiting to see the actual consumption of such products. So, you are right, various other products for K-12 segment and for competitive exams, you will see coming out from the house of Navneet.

Moderator:

The next question is from the line of Riya Mehta from Aequitas Investment.

Riya Mehta - Aequitas Investment

My first question would be in regards to the raw material prices. What are they currently, and how do we see the trend going forward? And earlier availability was also an issue mainly for the publication business point of view.

Sunil Gala - MD, Navneet Education Limited:

So raw material prices in Q1, it rose by very insignificant percentage. As we speak, in these months, the raw material prices are stabilized. And going forward, as per our estimation and as we talk in the market, we believe Q2 and Q3 also prices are likely to stabilize. Having said this, this is Indian scenario. Internationally, in reality, the raw material prices have reduced, and we have always seen that Indian paper market also

follows international market after a quarter or so. So overall, I believe for FY '23-'24, we are likely to see stabilized paper prices. As far as availability is concerned, thankfully, with our relation for over the last 6 decades with various paper mills, Navneet never faced availability challenge that has been faced with many unorganized sectors. But at Navneet, we never faced it, availability challenge and we'll never face that.

Riya Mehta - Aequitas Investment

And what is the percentage of import and domestic?

Sunil Gala - MD, Navneet Education Limited:

So, we hardly import any paper as of now. There are a couple of challenges. The reduction in paper prices in international market has happened just recently. So, we have always tried using Indian paper. Now if they gap really increases between international and domestic, then we will decide. But over a period and last couple of years, we are consuming around between 5% to 10% of our requirement international paper. But we may increase if the gap widens.

Riya Mehta - Aequitas Investment

And in terms of domestic, where do we procure our raw material from, is it across all the players? Or is it concentrated to any particular paper mill?

Sunil Gala - MD, Navneet Education Limited:

Across all A-grade paper mills and B-grade paper mills, we procure paper. So, I think whichever company produces an upwards of 1 lakh ton every year, we consume from all those paper mills.

Riya Mehta - Aequitas Investment

And in terms of the CBSE new business, which you were talking about, so I think the NEP until 2nd standard has been implemented in that. So how are you seeing things panning out over there? And in regards to the full framework of the NEP until the 12th grade, when do we see it coming because there is election next year?

Sunil Gala - MD, Navneet Education Limited:

You are right, up to 2nd grade in CBSE, the new curriculum has come in. And accordingly, Navneet and Indiannica has come out with the newer version of the product. But these are textbooks. As far as the supplementary books are concerned, which is the most attractive thing when curriculum changes for us, which is likely to happen from next year. So overall, the change curriculum cycle will happen for all the

grades in between 3 to 4 years. So next year, there will be more standards changing in CBSE and the start of new curriculum in the state of Maharashtra and Gujarat where we are likely to see much benefit to us.

Moderator:

We take next question from the line of Bhargav Buddhadev from Kotak Mutual Fund.

Bhargav Buddhadev - Kotak Mutual Fund:

Sir, my question is on your ed tech business. Just wanted to have your thoughts in terms of what is the incremental investment that we will be doing in this business over the course of next 2 years? And is there any glide path in terms of breaking even?

Sunil Gala - MD, Navneet Education Limited:

Can I request Sanjeev to reply to these, please?

Sanjeev Shah - Joint MD, Navneet FutureTech:

Sanjeev here. As far as the ed tech business is concerned, I think we've gone through a pretty important phase of reassessing our portfolio, which resulted in the shutting down of Leapbridge, which is a project which we had funded for about 2 years, and which was about to be launched. Because of that one business being shut down, we are actually now faced with the opportunity of focusing on businesses that are only relevant for Navneet and core to Navneet's main business of book publishing and addressing the tutor segment. With that focus, we are reassessing our business plans after Leapbridge has been shut. And I think in the next 1 to 2 quarters, we will relook the business plan for both these businesses. I am quite certain that we will not break even in the next 2 years, but our intent is to use this opportunity to reflect in a very hard way on all our costs and not waste the time building this infrastructure outside Navneet.

But we will be using the Navneet's infrastructure, especially from a sales and content perspective, to reduce the costs that we will incur in the ed tech division. So, I don't have a specific answer for you on how much money will be needed in the next 2 years. But I think the Leapbridge situation has definitely made us look at the 2 businesses more closely with a focus on improving our operating leverage there.

Bhargav Buddhadev - Kotak Mutual Fund:

And how much money was invested in developing this product, Leapbridge?

Sanjeev Shah - Joint MD, Navneet FutureTech:

So, the total expenses incurred in Leapbridge are approximately Rs. 15.5 Crores, which are expensed to the P&L, for which now there is no incremental value on those investments. There is an app which we do own, which is being considered in some parts of the group, but that app was not launched. Most of these expenses on the Rs. 15 Crores were actually cost of employees. And that amount of money that was spent lifetime to date on Leapbridge.

Bhargav Buddhadev - Kotak Mutual Fund:

And those employees are still there, I mean diverted to some other business or what's the status?

Sanjeev Shah - Joint MD, Navneet FutureTech:

So, we had a total of 57 employees in Leapbridge in March when we announced the shutdown. We offered jobs across the group to the employees and 7 employees were actually retained within the group. The other 50 were relieved from their services, and thankfully we've managed to create a certain, I can't say goodwill because we'll have to let go people, but we did pay them extra for the termination of services beyond their contract. So, we extended their notice periods. We ensured that they were not surprised on their bonuses for last year. So, we made sure that there was a slight humanitarian angle in getting that done, so that we still remain an attractive digital employer. And the fact is that all these employees have now moved on. We've in fact helped some of them even get jobs outside Navneet. So, 7 employees were retained and 50 employees left us.

Bhargav Buddhadev - Kotak Mutual Fund:

Okay. Understood. And lastly, is there any sort of external money infusion possibility in the ed tech business or we are still too early to come to that decision?

Sanjeev Shah - Joint MD, Navneet FutureTech:

So I think it's a combination of 2, 3 things here. One is the BeMasterly business has just been launched. Like Sunil mentioned, we need to develop some traction in that from a market perspective. The early signs of adoption are encouraging, but we definitely are focused on building scale in BeMasterly. We also need to go beyond the footprint of Gujarat and Maharashtra for both these businesses, that is TOPTECH and BeMasterly. And these are things that investors will look for. So currently, like I mentioned, we are leveraging Navneet footprint to a large extent, and we are working closely with them. But from an investor perspective, we will need to show some scale, which may take anywhere between 2 to 4 quarters before we take a decision of going out to raise money. The good news is that we have made -- the Leapbridge investment is now saved in a way because we shut the business down. So that funding, what we had originally

considered as important for that vertical, is now completely saved from any future investments.

Bhargav Buddhadev - Kotak Mutual Fund:

So, what I recall is the some Rs. 25 Crores per quarter was the budget for funding. So that budget is no longer required, right?

Sanjeev Shah - Joint MD, Navneet FutureTech:

I think this year, for FY '24, the number will not be at a run rate of Rs. 25 Crores per quarter. The run rate will be less than that. I cannot speculate on the number, but I'm quite certain the number will be close to -- I'd be surprised if the number is more than Rs. 50 Crores to Rs. 60 Crores figure. But this is not a number that I can comment. As I said, we are relooking our business plan, but it is definitely not going to be Rs. 25 Crores per quarter.

Bhargav Buddhadev - Kotak Mutual Fund:

And the Y-o-Y loss run rate should reduce, right, with the shutting down of Leapbridge?

Sanjeev Shah - Joint MD, Navneet FutureTech:

Yes. Leapbridge actually -- the Y-o-Y loss of Leapbridge was not that big because we hadn't launched the business. So we didn't spend anything on marketing and doing all the international retail tie-ups that we had to because that business was significantly focused on the U.S. market. So that contribution to reducing losses was not significant this year because we've not launched the business. But both TOPTECH and BeMasterly will incur some expenses for getting their presence in their target community. So we are currently focused on a new segment in BeMasterly, which is the tutor segment. And while we are working with Navneet, we will need to spend some money on building the visibility of the brand. But we've been extremely cautious about taking all these decisions, given that overall, obviously, we need to be careful about how we consume all the capital that we have taken from Navneet. We are focused a lot more on ROI now, including even on marketing activity.

Bhargav Buddhadev - Kotak Mutual Fund:

And this BeMasterly was supposed to be launched in the first quarter. Any update on that?

Sanjeev Shah - Joint MD, Navneet FutureTech:

That's been launched in the month of April. We have 2 products there. One is an ERP solution, which we are calling Simplify and the other is a competitive exam content bank, which we are calling Test-Pro. These are the 2 services that have been offered. We are already in business; we have signed contracts with tutors. These are tutors mostly between 50 to 100 student numbers. And these are tutors who definitely see a huge opportunity in leveraging their scale using technology. So this is a segment we are after BeMasterly.

Moderator:

We take our next question from the line of Gaurav Lohiya from Bowhead India.

Gaurav Lohiya:

So, sir, you said that you are expecting substantial growth in publication. Can you please elaborate more? Can we expect 20% kind of growth in FY '24?

Sunil Gala - MD, Navneet Education Limited:

Yes. So overall, as I just mentioned in my speech, the regional medium students, which had moved to government school will come back -- had already come back to private schools, their original schools. And therefore, the volume growth that we are seeing over last year is definitely there. And therefore, we are confident internally that we will be able to grow by around 20%.

Gaurav Lohiya:

And sir, as answered to your previous participant's questions, you said that your estimate is about Rs. 50 Crores to Rs. 60 Crores of losses at tech subsidiary, right? So are these expenses or these are losses because they'll be revenue also?

Sanjeev Shah - Joint MD, Navneet FutureTech:

So, the current business plan for this year, like I said, we haven't yet finalized it, but we are expecting a funding requirement of between Rs. 50 Crores to Rs. 60 Crores, which is not yet finalized.

Gaurav Lohiya:

So the funding requirement is Rs. 50 Crores to Rs. 60 Crores, the losses could actually be lower than that, right?

Sanjeev Shah - Joint MD, Navneet FutureTech:

Perfect, Our TOPTECH is a business which is already doing well with schools, where the ARPUs are even larger. So, we are definitely focused a lot on building the TOPTECH footprint for the school business. Whereas the ARPU in BeMasterly is smaller. The relative costs are also smaller compared to TOPTECH.

Gaurav Lohiya:

Okay. And sir, last thing, you mentioned that paper prices are stabilizing and you are likely to see better margins in domestic and export especially. Do we mean that we can do better than what we have done in Q4, it's where we did 13.2% EBIT margin in the stationery because that itself is a very good number. If you see Q2 and Q3, it seems like very good recovery.

Sunil Gala - MD, Navneet Education Limited:

So Gaurav, as I mentioned in my speech earlier, please do not go back quarterly numbers. It will be always better to see yearly numbers. So, what I can say that if paper prices are stabilizing, which are today, we are likely to have improved margin on a yearly basis. Why I'm saying this that because of the seasonality, it's not necessary that every quarter performs the same way. If there is a shift in a month in a particular quarter, the other quarter shows improvement. So, on a yearly basis, yes, since paper prices look to be stabilizing, we'll see better margins going ahead.

Gaurav Lohiya:

So we should look at 12.5% as a base for FY '23 and you look to improve upon that, right?

Sunil Gala - MD, Navneet Education Limited:

That's right, yes.

Moderator:

We'll take the next question from the line of Amit Khetan from Laburnum Capital.

Amit Khetan - Laburnum:

So, I had a couple of questions on the stationery side. So, we did about 12.5% margins for the full year. Would it be possible to break down that into domestic versus export? And how should we think about that number for both segments on a normalized basis?

Sunil Gala - MD, Navneet Education Limited:

So, in exports, we did around 14%, and in domestic, we did around 11%, so blended was 12.5%. And as I just mentioned, with stabilized input costs, in both these segments, we are likely to see better margin. Therefore, we have been clearly seeing growth in domestic in particular this year, which is likely to be around 20-odd percent minimum over FY '23 and exports, we may grow by around 15-odd percent. So overall, I'm seeing at least between 100 to 150 basis points better margin.

Amit Khetan - Laburnum:

Got it. And Galaji, in one of your interviews, you mentioned that the production of low grammage paper that we use has kind of stopped outside India. So is there a difference in sourcing cost from India versus abroad and would a backward integrated player like ITC has some kind of an advantage? So basically, what I'm trying to understand is could we see structurally higher RM costs now that some production facilities might have shut down abroad? And what does that imply for our stationery margins?

Sunil Gala - MD, Navneet Education Limited:

As I had mentioned earlier, low grammage paper is otherwise not available in international market or is not really comparative compared to the Indian market. So, we have to consume Indian paper only. But to specific mention, you mentioned the name of a company. They have a paper plant, but they do not make low grammage paper. So to our knowledge, they also consume most of the required paper for the stationery business, and they source it from outside. They do not use their own paper. So I don't think they will be at an advantage. So overall, since you have asked this question, I should also mention in both businesses, domestic and exports, that as a percentage, you're seeing lower grammage paper. We are trying to reduce that percentage in our total business and trying to bring in more and more value-added items. And we are foreseeing better and better value-added products introduced in both the businesses every year. So we are also trying to reduce exposure to low grammage paper, which is majorly produced in India only, and there is always a pressure on pricing.

Amit Khetan - Laburnum:

Understood. And earlier also, we were sourcing this low grammage paper from India itself, right, not from abroad?

Sunil Gala - MD, Navneet Education Limited:

Yes, always.

Amit Khetan - Laburnum:

Got it. Lastly, just a follow-up, what's driving the very strong growth in domestic stationery? Are we gaining market share from unorganized players? Or is this just price growth and volumes are not so high?

Sunil Gala - MD, Navneet Education Limited:

No, volumes also have grown significantly, but there were a couple of reasons during pandemic. And this price fluctuation that had happened in last one year. So too many organized players, it was becoming difficult, one, to manage their cash flows to procure paper, and secondly, the availability itself that was a very, very big challenge to all of them. Because of that, the organized players like us benefited. We captured more market share. And as we speak, even during the stable period also, I think whatever new markets that we have captured, it continues to source from us only. So overall, last year, we grew in volume also significantly. And therefore, we are not aiming at a similar type of growth going forward. And therefore, I mentioned 20% growth.

Moderator:

We'll take the next question from the line of Prolin Nandu from GMO.

Prolin Nandu - GMO:

My question is on ed tech and we closing Leapbridge, right? Why is that closure leading to us reassess our entire strategy in the rest of the 2 segments that are? Is it that are we facing some execution challenge or market is not matured enough? What is it? Because I would have thought that maybe now, we have already decided that we don't want to get into one of these segments and close that, we would probably double down on the segments where we are very sure that there are synergy benefits with our already existing Navneet content and distribution strength. So why is it leading to the whole reassessment of our ed tech strategy?

Sunil Gala - MD, Navneet Education Limited:

So before Sanjeev answers, I should mention here, you touched upon right thing, the maturity of the users or adoption by the user, that we will have to keep that in mind before really going very aggressive on that. And yes, with this remark, I request Sanjeev to answer.

Sanjeev Shah - Joint MD, Navneet FutureTech:

So, the 2 points that you touched. One is the shutting down of Leapbridge has resulted in us focusing a lot more on the Navneet connected businesses, which is what I mentioned earlier also. We have always worked on the premise that Navneet segments are very important for our ed tech focus. Leapbridge was the only outlier there, which

actually was entering a space, which Navneet had no connection as such, but we did believe, thanks to the pandemic about 2 years ago, that at the STEM, Phygital toys are an important segment to go after. Now that business being shut down is not resulting in any reassessment the way -- I think it has come out is, it is not -- we are not looking at this from a cautious point of view. We actually believe that the TOPTECH opportunity is significantly important for Navneet to capitalize on because going forward, the integration of technology in schools is only going to increase. And we definitely need to judge the product development cycle, keeping in mind the commercial value of all the product development that is being done.

BeMasterly has entered a segment, which, again, has a huge potential simply because the tutor segment is a very unorganized market. And for us, it's very important to focus very sharply on both of these. Leapbridge not being around has resulted in obviously a larger pressure on us to develop and deliver results in these 2 segments. So that is the way I request you to look at those remarks because our objective is to even now make sure that we win with the Navneet footprint on sales and content. That's the way to look at that position.

Prolin Nandu - GMO:

Sure. Fair point. So, I mean, you also made a comment, Sanjeevji, that probably breakeven is still 2 to 3 years away. That also in your assessment, maybe how we looked at this whole ed tech business without Leapbridge, that assessment of when we reach breakeven, that has also not changed, right, from maybe our assessment of the whole business 6 to 9 months back. Am I correct in that?

Sanjeev Shah - Joint MD, Navneet FutureTech:

Yes, you're right in that. The question of breakeven is what scale you want to chase. So, I think we can definitely look at a theoretical position of achieving a very small scale compared to the opportunity, which will result in a faster breakeven. The challenge we have today is that the market is across India. And at this point of time, we are trying to play to our strengths of Maharashtra, Gujarat and a few other CBSE states that Navneet has a strong presence. But as we focus on building scale, we will have to invest more in sales and marketing, and that is what will result in a slight pushback on the breakeven. But the opportunity is extremely large for both TOPTECH and BeMasterly. We just don't want to get carried away and do 15 states and a 50-city launch today, which is what Sunil is referring to. So we are going about it slightly cautiously only to judge the product acceptance in the market and not spend a lot of money on sales and marketing, so that we don't land up spending money and then correcting the product later, so which is why we are just doing this a bit more cautiously. But scale and breakeven is the contradiction actually.

Prolin Nandu - GMO:

Sure. So, what you are trying to say and to summarize is that we are probably trying to get the product market fit right, and then probably we will spend more on sales and marketing. So, we are slightly taking a pause on those spends. And I, correct?

Sanjeev Shah - Joint MD, Navneet FutureTech:

Yes. I wouldn't call it a pause. I think we are not going aggressively into non-Navneet sales area. So, if you see the market potential, it is definitely bigger than where Navneet is today. But we are not doing that. In fact, we've decided some of the markets where we were not even achieving our ARPUs, we've decided that it doesn't make sense to continue to focus on smaller ARPU cities. And we are withdrawing our sales team and we work only with the Navneet sales team in those cities. So I think we have to be very alert about the business from a -- we just don't want to get excited for the sake of it, which is why Leapbridge shut down. While it was not an easy decision, it was a very important decision. So we are not sticking to the traditional model of saying just because we've announced that we launched a business, we will focus on it. We have to do what is right from a long-term perspective. And that's why we've decided to go slightly slower on the sales footprint. That's all.

Prolin Nandu - GMO:

And just one last thing would be, initially, we had probably guided that we will be probably having Rs. 100 Crores kind of a funding requirement, right, which will come from our other businesses. Now you are saying that Rs. 60 Crores to Rs. 70 Crores would be that requirement. So does it then give us a 3-way -- 3-year kind of a runway to probably achieve those breakeven numbers and keeping the overall spend pretty much constant now that Leapbridge is out of the picture?

Sanjeev Shah - Joint MD, Navneet FutureTech:

Yes. I can't give you specific guidance on breakeven with the Rs. 50 crores to Rs. 60 crore funding requirement. It unfortunately comes back to how big we want this business to become. So, over a period of time, we will have to look at the business plan beyond the Navneet footprint and then decide how much we want to invest in sales and marketing. But it would be safe to say that at least for the next 2 to 3 years, we will focus on building this business with a slightly cautious approach on marketing, and we will not probably chase a breakeven, at least for 2 years, I don't see that happening. So that's clearly the way the current line of sight is. But the business plans are, in that sense, under construction and we will have more clarity on this once BM stabilizes in the market because it's a very recent launch, I mean as recent as last month.

Moderator:

Next question from the line of Amit Doshi from Care PMS.

Amit Doshi - Care PMS:

Sir, the earlier participant asked about the stationery business. So, the only contributing factor to the significant growth is unorganized to organized or maybe small players who couldn't manage. Was import a factor? I just wanted to understand because you did mention about you might shift to more of imports if the prices are more conducive.

Sunil Gala - MD, Navneet Education Limited:

So, what I mentioned was on raw material, just paper, not on the finished products. So in any case, none of the products that we are selling in India are being imported in a large way because of the high import duty and the importers do not have a distribution network. So, in any case, that was never a competition as far as finished product was concerned. But yes, if price gap in raw material really increases between international and national, then we may decide to switch more towards importing paper.

Amit Doshi - Care PMS:

Got it. And for this current year, top line has been one of the highest. I think the last peak was Rs. 740 Crores. So, do we have enough capacity of like 20% growth that you are targeting for next year and probably coming years? So, anything on that, if you can -- or what's your capacity utilization for stationery business?

Sunil Gala - MD, Navneet Education Limited:

So capacity utilization, again, being a seasonal business, it's very difficult to arrive at. Nine months or 8 months of the year, we utilize 100% and the balance 3, 4 months, we utilize hardly 50%. So that way capacity we do have. So it all depends which product category that we want to get in more aggressively and if we have -- in a lean period if we can manufacture internally, we will. But there are enough outsourcing facilities available in the country. Therefore, what is most important for stationery business is land and building to manage the inventory because of its sensitive nature. So that way for next 2 to 3 years, there will be investment in land and building for our growth. And particularly in exports, though we may see little lower growth in FY '24, but the way new orders or new type of customers or new type of categories being demanded from Navneet, which we are seriously considering getting into. And for that, there will be continuous growth and requirement of land and building on a continuous basis.

As far as machineries are concerned, frankly, it will not require huge machineries to produce that. And as I said, outsourcing also is one of the options available to us.

Amit Doshi - Care PMS:

So for Indiannica, of course, now we broke even this year. What is the target? I mean, it's a very low base that we are in, right? So now with things in place for whatever after acquisition, we had faced challenges. So, what is the target that you set for yourself as far as this Indiannica business is concerned?

Sunil Gala - MD, Navneet Education Limited:

So I will take this on a larger point, which is the way the imparting of education is shifting in India from SSE to CBSE, CBSE also with technology. So as Navneet, what we are looking at it is focus on CBSE more today. So as far as publication business is concerned, hereinafter we are likely to see continuous growth of double digit going forward. But together with that, the need of technology in the classroom also is increasing. So as a group, we want to focus more and more on CBSE range together with technology. So whichever school is ready to adopt technology and use technology on a continuous basis, we will offer them. So we will now have both options available with us. Whichever school wants to buy only publications can buy, and whichever schools want to buy a combo product with technology, that also we will have. So keeping these 2 focuses in mind, we believe overall CBSE segment is likely to grow rapidly at Navneet.

Amit Doshi - Care PMS:

And sir in the past, you've given margin guidance of around 20%, 21% at a blended rate on consolidated level. So you believe with this, now prices stabilizing, and I think the price hike that you last quarter mentioned that you've taken in a new academic year is likely to result in that margin for FY '24.

Sunil Gala - MD, Navneet Education Limited:

It also always depends on the blend between stationery and publication business. There is a huge gap between the margins between these 2 businesses. So depending on which segment grows much faster, if stationery grows faster, the margins are likely to come down vis-a-vis publication grows faster, the blended margins will improve. But the point that I can make is that this 21% more or less for next couple of years, where we are seeing both segments growing almost at the same pace, the margins are likely to remain the same, maybe a little improvement, I feel around 100 basis points.

Amit Doshi - Care PMS:

And there is one note regarding reversal of provision of impairment. Can you slightly elaborate, what is that Rs. 24 Crores? I am not able to clearly understand what subsidiary for this reversal has been made.

Sunil Gala - MD, Navneet Education Limited:

So during pandemic period, to be very frank, we were a bit nervous. So last year, we did impair our investment at Indiannica. But after pandemic, actually business really transformed, and it changed quite to our satisfaction, and we made profit this year. So based on the accounting policy, we have to revalue all our investments every year. And based on the valuation report that we received, we had to reverse the impairment that we had done last year, and that is the reason of this number, Rs. 24 Crores Indiannica.

Amit Doshi - Care PMS:

It is for Indiannica, okay. And the last one is, margin for the publication segment in CBSE, which is Indiannica, is similar to our SSC business now that we have broken even, of course, going forward.

Sunil Gala - MD, Navneet Education Limited:

No, no. So as on date, it is just having 15% margin. As we grow, margins will continue to improve, but the maximum margin in textbook business nationally with all the publishers that we have been seeing, can reach up to 25%. It will not be the same as the supplemental book business.

Moderator:

We take the next question from the line of Deepan Sankara Narayanan from Trustline PMS.

Deepan Narayanan - Trustline PMS:

So firstly, what was the revenue contribution of Indiannica business in this publication business? And how do we foresee scaling up this business and what kind of growth rate we are expecting?

Sunil Gala - MD, Navneet Education Limited:

So if you see consolidated results, there is an addition by Rs. 64 Crores from Indiannica business. So the revenue for Indiannica was Rs. 64 Crores this year. And that business, we are likely to see at least between 15% to 20% growth year-on-year.

Deepan Narayanan - Trustline PMS:

And in stationery business, have we successfully fully passed on the prices to our customers or it will still take 1 or 2 quarters because earlier export margins used to be in the 15%, 17% level. So still it is at 14%. So have we passed on the prices fully?

Sunil Gala - MD, Navneet Education Limited:

No, you are right, we have not been able to pass on the incremental input cost in FY '23. It is a seasonal business. So we don't revise our pricing every quarter. It is a yearly decision that we take. So with paper prices that we are paying today, we have considered that in our costing for FY '24. And therefore, we are likely to come back to the margins that we were seeing in pre-pandemic levels.

Deepan Narayanan - Trustline PMS:

And also in the growth rate of export business, so are we foreseeing -- so excluding now FY '24 medium term to long term, we are expecting the growth rate improving to 20%. And what kind of strategies we are adapting to improve growth rate profile in the export segment.

Sunil Gala - MD, Navneet Education Limited:

So if we talk about just FY '24, then it will be around 15%. But if we talk a little long term, then on an average, I believe, we'll grow by around 20%. And the strategy is that we are entering into various categories as demanded by our customers. So keeping newer and newer categories, which takes 1 or 2 years to stabilize with the customer also. So that way, by entering into new categories, over a period of 3, 4 years, on an average, as I said, we'll grow by around 20%.

Moderator:

We'll take the next question from the line of Niraj Mansingka from White Pine Investment Management Private Limited.

Niraj Mansingka - White Pine Investment Management Private Limited:

Just a question on the competition on the TOPTECH business, can you give us some color on how that competition is? Is it increased or decreased, and some more color on the wins that you're having?

Sanjeev Shah - Joint MD, Navneet FutureTech:

So the TOPTECH business is currently like in most businesses, it is in a cluttered space. LEAD School is probably the #1 competitor in that segment. And from a comparative

business model, their acquisition of the Pearson Publishing division, which was reported publicly about 3 months ago, obviously, makes them a pretty similar business model compared to what we have in Navneet. So that's the #1 competitor for TOPTECH.

I mean, honestly, they are way bigger than us. So it would be unfair to say that they are a competitor of TOPTECH. They are way bigger enough. And they have been in the market for longer, they've been funded from external investors. And I think they've done a very good job in building their scale, which obviously comes with the challenges of losses like we've discussed earlier. But LEAD is the #1 player in that segment today.

The other players are, there is a company called Extramarks, which is also a relevant player in that space. We have seen them in a lot of the segments that we operate. And obviously, the CBSE segment is where most people are focusing, given that the ARPUs in the CBSE segment are higher than the state board for digital solutions.

The other players -- and there are many -- I don't want to go to all of them, but Tata ClassEdge is also in the same space. We have found that they have been focused not probably as consistently as the other players, but it's a very respectful name. And obviously, they can always talk to a school and get a lot of attention immediately in spite of them not having any educational history.

So these are the 3 key players that we are aware of from a competitive design point of view. But the list is fairly long about the other players who are in the TOPTECH segment.

Niraj Mansingka - White Pine Investment Management Private Limited:

And can you give some color on the recent wins that you have had? How were you able to beat or compete out a bit compared to other players like LEAD and Extramarks, et cetera?

Sanjeev Shah - Joint MD, Navneet FutureTech:

I don't think there is a specific input I can give here to differentiate how we are winning. But it's a very classic business model, right? There is a product with the customer. I think you have to see the difference between players. There is a brand comfort which the customer has, which is extremely high with a player like Navneet, because in most of these cases, Navneet has been an education partner of the school for more than 2 to 3 decades in some cases and at least 4 to 5 years in some of the newer cases. So we do have a brand comfort with the customers. We have, therefore, been very careful of not rebranding TOPTECH as anything else, but Navneet TOPTECH, which is a very clear synergy on the brand. We are using the Navneet sales team to open doors for us with the customer. And finally, and sadly the last thing that comes down to is price. So product, brand and price are the same levers that everybody is using. There is no additional differentiator beyond the Navneet brand, which is really making a big

difference to the way customers are looking at us. We are able to navigate the school ecosystem faster. The decision-makers are known, the teachers are known, the principle is known. In some cases, the trustees are extremely well known. So that's the way we are positioning ourselves, but this cannot come ignoring the product and the pricing filters that the school will use. So there is no exceptional model that we have, which will make us better customers, better partner than a LEAD school.

LEAD is a very good company. I mean they've done extremely well in the market. We cannot ignore the fact that we are new in this space and much smaller than LEAD, so which is why we are using the Navneet pedigree and being very respectful about not spoiling the Navneet name also with the way we are selling this product to the same customer.

Sunil Gala - MD, Navneet Education Limited:

And just to add what Sanjeev said, Niraj, as far as CBSE schools are concerned, there are around 25,000 as of now. Added to that, there are so many SSC schools trying to convert themselves to CBSE, and they are called CBSE pattern schools. So both put together, we have around 50,000 number of schools in the country. So I believe maybe LEAD type of a couple of players, even if they come, all of us will have enough market opportunity available. So it's not winning over other, but most of the schools which have started adopting or wants to adopt technology, maybe for the first year, they are giving opportunity to all of us.

Moderator:

We'll take the next question from the line of Anshul Mittal from Care Portfolio Managers.

Anshul Mittal - Care Portfolio Managers:

Can you quantify the average price hikes for FY '23 for publication stating the exports and domestic?

Sunil Gala - MD, Navneet Education Limited:

For publication business, it was around 17%. For domestic stationery, it was hardly 8%. And in exports, we did not have any price hike.

Anshul Mittal - Care Portfolio Managers:

Okay. Sir, the domestic stationery business has recovered pretty well. So how are you looking at this business for the next 1 or 2 years?

Sunil Gala - MD, Navneet Education Limited:

With the opportunity that we saw in FY '23, organized players are gaining more and more momentum. So with that momentum, we really are focusing more and more how to go deeper into each market across India. So as I mentioned earlier, at least 20% growth we are foreseeing in FY '24 and similar growth maybe for the next couple of years.

Anshul Mittal - Care Portfolio Managers:

How are you thinking of scaling of the ed tech revenues in the next 1 or 2 years?

Sanjeev Shah - Joint MD, Navneet FutureTech:

So on the end tech, we have 2 businesses; one is TOPTECH, which is clearly and very closely aligned to Navneet Book Publishing division. We have to make sure that like, I was explaining earlier, this year, we will be careful about going and building more offices outside the Navneet ecosystem. We will work closely with the Navneet sales team. And to that extent, the number that we will chase this year will be probably smaller than the opportunity that is there in India. But we think it is the right way of building it and deploying capital efficiently. We have a strong focus on the state board and CBSE, both for TOPTECH. And the CBSE business is obviously at a lower ARPU, but it has a huge volume. And therefore, it's important for us to win in both CBSE and state board. We have BeMasterly, which is a new business. It has been launched just a month ago where ARPUs are even smaller. And we are focused on building that again using the Navneet footprint for this year. There is a very important part in the evolution of all these businesses about making sure the product is not overengineered or overdesigned because very often, we find that a lot of the feedback that comes from sales people is the customer wants this feature.

But the minute you want the customer to pay for it, the customer is not interested. So we've been extremely careful about not building the product from a fantasy point of view, so that the tutor is happy or the student is happy without some commercial balance in that relationship. So we are being careful about extending ourselves without any limits in both these businesses. And like we mentioned earlier, breakeven will still be 2 to 3 years away from a revenue perspective. But we are not investing crazily in product development, which is something that will make a big difference to the cost in the P&L because most of the expenses, as you will know, in digital businesses, at least in B2B businesses, go into product development and employee costs. Both of these, we have a very sharp eye on this, and we are not getting carried away with the ability to build an overengineered platform. We don't want to do that. So yes, that's the way we would look at the scale opportunity for both these businesses.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we have reached the end of the question-and-answer session. I would now like to hand the conference back over to the management for closing comments. Over to you, gentlemen.

Sunil Gala - MD, Navneet Education Limited:

Thank you very much. So I take this opportunity to thank everyone for joining the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with me or Strategic Growth Advisors, our Investor Relation advisers. I request all of you to be safe under the given circumstances. Thank you once again.

Moderator:

Thank you, sir. Ladies and gentlemen, on behalf of Prabhudas Lilladher Private Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT