

Navneet Education

BSE SENSEX	S&P CNX
36,395	10,889
Bloomberg	NELI IN
Equity Shares (m)	234
M.Cap.(INRb)/(USD\$b)	24.1 / 0.3
52-Week Range (INR)	161 / 99
1, 6, 12 Rel. Per (%)	-4/-10/-32
12M Avg Val (INR M)	17
Free float (%)	38.1

CMP: INR105
TP: INR159 (+51%)
Buy

K-12 turns profitable; Stationary disappoints

- Revenue up 4% YoY; higher other expenses hurt EBITDA:** Revenue increased ~4% YoY to INR1,816m (our estimate: INR1,898m), driven by 22% growth in Publication segment. EBITDA declined 23% YoY to INR157m (our estimate: INR218m), with the margin contracting ~310bp YoY to 8.6% (our estimate: 11.5%) on account of higher other expenses. Adj. PAT declined 37% YoY to INR75m (our estimate: INR138m). PAT margin shrank 260bp YoY to 4.2% (our estimate: 7.3%).
- 9MFY19 performance:** Net sales grew 21% YoY to INR11,150m, EBITDA increased 23% YoY to INR2,594m and PAT grew 18% YoY to INR1,628m. EBITDA margin of 23% and PAT margin of 15% were stable versus the year-ago period.
- Publishing up 22% YoY; de-growth in Stationery:** Publishing revenue grew 22% YoY, driven by supplementary books such as '21 sets', which are in high demand prior to the board exams and particularly as standard X syllabus changed in FY19. Publishing margin expanded 270bp YoY to 23%. Stationery revenue declined 12% to INR783m; paper price increase partly impacted the offtake.
- Valuation view:** We raise our FY20/21 PAT estimate by 13%/12% with the K-12 business (Orchids The International School) turning profitable – it is expected to be PAT-accretive FY19 onward. We expect NELI to deliver sales/PAT CAGR of 14%/17% over FY19-21 and value the stock at 14x FY21E EPS with a target price at INR159. Maintain **Buy**.

Financials & Valuations (INR b)

Y/E March	2019E	2020E	2021E
Net Sales	14.4	16.4	18.6
EBITDA	3.0	3.5	4.0
NP	1.9	2.2	2.6
EPS (INR)	8.3	9.8	11.4
EPS Gr. (%)	53.0	17.7	15.6
BV/Sh. (INR)	34.3	39.3	44.7
RoE (%)	24.8	26.7	27.0
RoCE (%)	19.1	21.6	23.2
P/E (x)	12.6	10.7	9.2
P/BV (x)	3.1	2.7	2.4

Estimate change

TP change

Rating change


Standalone - Quarterly Earning Model

(INR Million)

Y/E March	FY18				FY19E				FY18	FY19E	FY19	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	5,652	1,834	1,744	2,126	6,700	2,635	1,816	2,193	11,356	13,343	1,898	-4
YoY Change (%)	0.9	6.3	11.4	1.3	18.5	43.7	4.1	3.1	-3.9	17.5	8.8	
Total Expenditure	4,028	1,553	1,540	1,888	4,726	2,171	1,659	1,908	9,008	10,464	1,680	
EBITDA	1,624	281	205	238	1,974	463	157	285	2,348	2,879	218	-28
Margins (%)	28.7	15.3	11.7	11.2	29.5	17.6	8.6	13.0	20.7	21.6	11.5	
Depreciation	53	56	62	64	57	60	62	70	235	250	69	
Interest	26	16	1	17	42	23	11	28	60	104	10	
Other Income	123	47	44	79	71	72	30	45	292	217	45	
PBT before EO expense	1,668	256	186	236	1,946	451	113	232	2,345	2,743	184	-38
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	1,668	256	186	236	1,946	451	113	232	2,345	2,743	184	-38
Tax	572	89	67	84	683	162	38	58	812	941	46	
Rate (%)	34.3	34.9	36.1	35.8	35.1	35.9	33.5	25.0	34.6	34.3	25.0	
Minority Interest & Profit/Loss of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	1,097	166	119	151	1,263	289	75	174	1,533	1,802	138	-45
Adj PAT	1,097	166	119	151	1,263	289	75	174	1,533	1,802	138	-45
YoY Change (%)	-3.4	-10.5	-6.1	-10.3	15.2	73.9	-36.5	15.0	-15.4	17.5	16.4	
Margins (%)	19.4	9.1	6.8	7.1	18.9	11.0	4.2	7.9	13.5	13.5	7.3	

E: MOSL Estimates; Note: the company reports quarterly numbers on standalone

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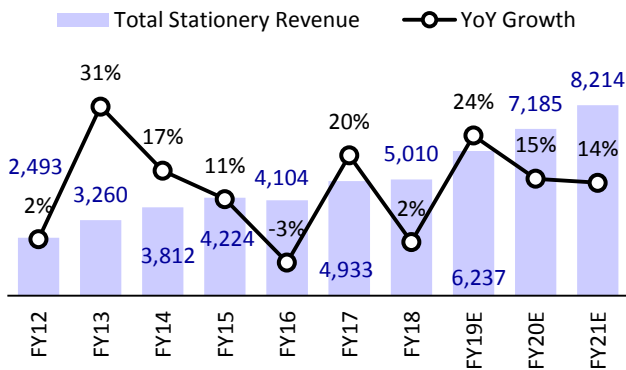
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School management venture to be PAT accretive in FY19

NELI has invested in a school management company, which manages 19 CBSE schools under the brand 'Orchids The International School'. Orchids The International School is now an established player in the direct education business. NELI owns a 35% stake in this company through its associate company 'K12 Techno Services Pvt. Ltd'. The managed schools had an occupancy rate of 52% as of Mar'18. Its occupancy is expected to inch up to 75-80% by Mar'19, resulting in PAT accretion of ~INR100m for NELI (35% NELI's share). The company further plans to expand schools under its management.

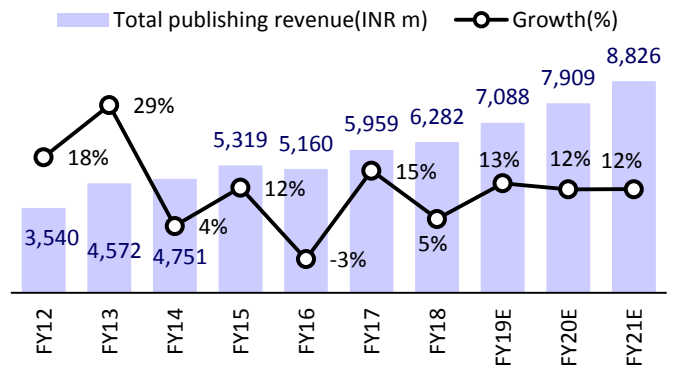
Story in charts

Exhibit 1: Stationary to grow at 15% CAGR over FY19-21



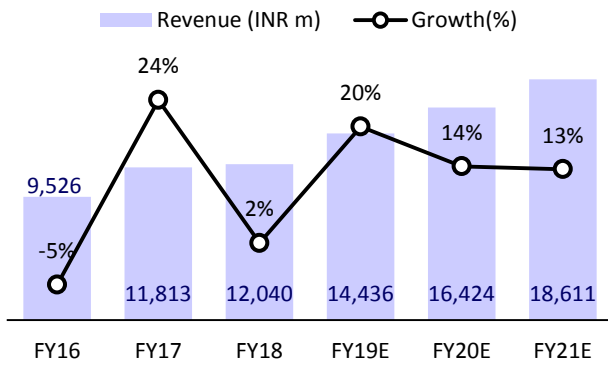
Source: MOSL, Company

Exhibit 2: Publishing revenues to grow at 12% CAGR over FY19-21



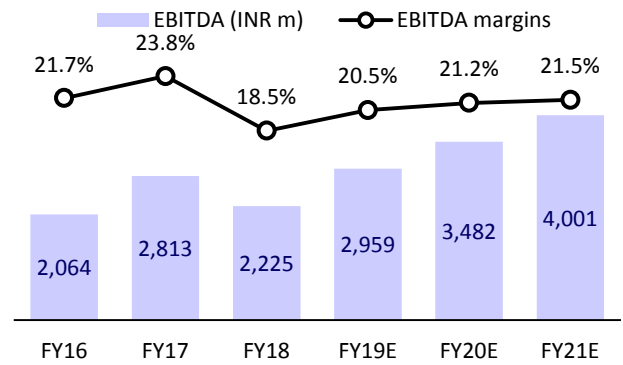
Source: MOSL, Company

Exhibit 3: Expect revenue CAGR of 14% over FY19-21



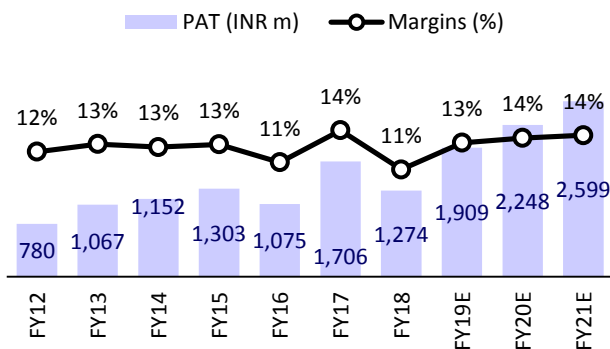
Source: MOSL, Company

Exhibit 4: EBIDTA margins trend



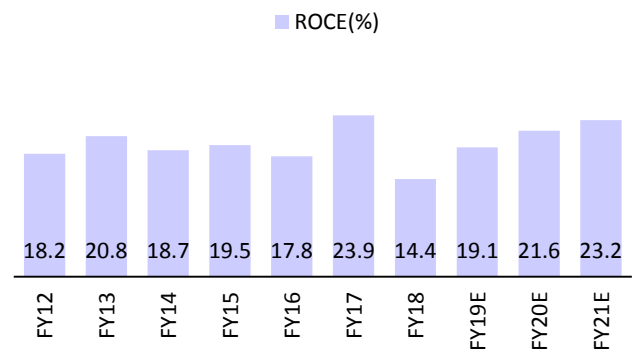
Source: MOSL, Company

Exhibit 5: PAT margins to improve



Source: MOSL, Company

Exhibit 6: RoCE trend



Source: MOSL, Company

Exhibit 7: Tentative Syllabus change expected in 2019-2020

Academic year	Maharashtra		Gujarat	
	Standards	Subjects	Standards	Subjects
2019-2020	II	All subjects all mediums	I-VIII	Maths (English & Hindi medium)
	XI	All subjects all mediums	VI-VIII	Science (English & Hindi medium)
			X	Maths and Science (All mediums)
			XII	Maths, Physics, Chemistry, Biology (All Medium)

Source: MOSL, Company

Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Income from Operations	5,599	6,328	8,221	9,002	9,977	9,526	11,813	12,040	14,436	16,424	18,611
Total Income from Operations	5,599	6,328	8,221	9,002	9,977	9,526	11,813	12,040	14,436	16,424	18,611
Change (%)	5.3	13.0	29.9	9.5	10.8	-4.5	24.0	1.9	19.9	13.8	13.3
Total Expenditure	4,445	5,014	6,298	6,922	7,610	7,462	9,001	9,816	11,477	12,942	14,610
% of Sales	79.4	79.2	76.6	76.9	76.3	78.3	76.2	81.5	79.5	78.8	78.5
EBITDA	1,154	1,313	1,922	2,080	2,367	2,064	2,813	2,225	2,959	3,482	4,001
Margin (%)	20.6	20.8	23.4	23.1	23.7	21.7	23.8	18.5	20.5	21.2	21.5
Depreciation	136	171	235	258	308	297	284	307	346	380	407
EBIT	1,018	1,142	1,688	1,822	2,060	1,768	2,529	1,918	2,614	3,102	3,594
Int. and Finance Charges	32	58	88	100	91	36	43	77	106	108	95
Other Income	82	112	37	35	28	167	152	260	233	245	257
PBT bef. EO Exp.	1,068	1,197	1,637	1,757	1,996	1,899	2,638	2,100	2,741	3,239	3,757
EO Items	0	0	-13	0	0	0	0	0	0	0	0
PBT after EO Exp.	1,068	1,197	1,623	1,757	1,996	1,899	2,638	2,100	2,741	3,239	3,757
Current Tax	394	408	547	594	699	694	865	825	932	1,101	1,277
Deferred Tax	10	12	3	11	-7	4	-39	0	0	0	0
Tax Rate (%)	37.8	35.1	33.9	34.4	34.7	36.7	31.3	39.3	34.0	34.0	34.0
Less: Minority Interest	-3	-3	6	1	1	127	104.7	1.4	-100	-110	-120
Reported PAT	668	780	1,067	1,152	1,303	1,075	1,706	1,274	1,909	2,248	2,599
Adjusted PAT	668	780	1,076	1,152	1,303	1,075	1,706	1,274	1,909	2,248	2,599
Change (%)	4.4	16.8	37.9	7.1	13.2	-17.5	58.7	-25.4	49.9	17.7	15.6
Margin (%)	11.9	12.3	13.1	12.8	13.1	11.3	14.4	10.6	13.2	13.7	14.0

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	476	476	476	476	476	476	467	467	458	458	458
Preference Capital	0	0	3	3	0	0	0	0	0	0	0
Total Reserves	2,750	3,138	3,712	4,307	4,956	5,354	6,471	7,053	7,395	8,541	9,763
Net Worth	3,226	3,615	4,192	4,787	5,433	5,831	6,938	7,520	7,853	8,998	10,221
Minority Interest	-3	-6	1	1	1	1	1	2	2	2	2
Deferred Liabilities	44	57	64	73	41	41	-1	0	0	0	0
Total Loans	663	1,452	1,687	2,337	1,436	1,035	1,594	2,253	2,003	1,603	1,103
Capital Employed	3,930	5,118	5,943	7,197	6,909	6,907	8,532	9,775	9,857	10,603	11,326
Gross Block	2,411	2,973	3,316	3,673	3,741	4,147	5,145	5,018	5,618	6,068	6,468
Less: Accum. Deprn.	1,222	1,362	1,574	1,798	2,042	2,338	2,622	2,929	3,274	3,654	4,061
Net Fixed Assets	1,189	1,611	1,742	1,874	1,699	1,809	2,523	2,089	2,344	2,414	2,406
Goodwill on Consolidation	0	0	0	0	0	0	0	457	457	457	457
Capital WIP	98	36	57	45	40	8	28	41	0	0	0
Total Investments	1	6	310	475	492	451	360	458	458	458	458
Curr. Assets, Loans&Adv.	3,156	4,128	4,982	6,042	5,995	5,426	7,297	8,490	8,589	9,491	10,473
Inventory	1,771	2,176	2,752	3,337	3,484	3,074	3,843	4,282	4,351	4,860	5,456
Account Receivables	868	1,164	1,659	1,961	1,886	1,868	2,781	3,181	2,887	3,195	3,569
Cash and Bank Balance	113	51	35	69	55	59	97	68	296	276	171
Loans and Advances	404	737	536	675	571	425	576	959	1,055	1,161	1,277
Curr. Liability & Prov.	525	675	1,163	1,253	1,317	788	1,676	1,761	1,990	2,216	2,468
Account Payables	271	406	585	643	586	683	760	753	881	996	1,126
Provisions	254	268	577	610	731	105	916	1,008	1,109	1,220	1,342
Net Current Assets	2,631	3,454	3,819	4,789	4,678	4,639	5,621	6,729	6,599	7,274	8,005
Appl. of Funds	3,930	5,118	5,943	7,197	6,909	6,907	8,532	9,775	9,857	10,603	11,326

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Basic (INR)											
EPS	2.8	3.3	4.5	4.8	5.5	4.5	7.3	5.5	8.3	9.8	11.4
Cash EPS	3.4	4.0	5.5	5.9	6.8	5.8	8.5	6.8	9.9	11.5	13.1
BV/Share	13.5	15.2	17.6	20.1	22.8	24.5	29.7	32.2	34.3	39.3	44.7
DPS	1.4	1.4	1.8	2.0	2.2	2.2	2.5	1.4	3.0	4.0	5.0
Payout (%)	58.1	49.7	47.0	48.4	48.4	58.7	41.2	30.9	43.3	49.0	53.0
Valuation (x)											
P/E				21.7	19.2	23.3	14.4	19.3	12.6	10.7	9.2
Cash P/E				17.7	15.5	18.2	12.3	15.5	10.7	9.1	8.0
P/BV				5.2	4.6	4.3	3.5	3.3	3.1	2.7	2.4
EV/Sales				3.0	2.6	2.7	2.2	2.2	1.8	1.6	1.4
EV/EBITDA				12.9	10.9	12.4	9.3	12.0	8.9	7.4	6.4
Dividend Yield (%)	1.3	1.3	1.7	1.9	2.1	2.1	2.4	1.3	2.9	3.8	4.8
Return Ratios (%)											
RoE	21.7	22.8	27.6	25.7	25.5	19.1	26.7	17.6	24.8	26.7	27.0
RoCE	18.1	18.2	20.8	18.7	19.5	17.8	23.9	14.4	19.1	21.6	23.2
RoIC	17.5	17.0	21.1	19.7	20.8	17.6	24.1	13.5	18.8	21.6	23.1
Working Capital Ratios											
Inventory (Days)	115	126	122	135	127	118	119	130	110	108	107
Debtor (Days)	57	67	74	80	69	72	86	96	73	71	70
Creditor (Days)	18	23	26	26	21	26	23	23	22	47	47
Working Cap. Turnover (Days)	164	196	168	191	169	175	171	202	159	156	154
Leverage Ratio (x)											
Current Ratio	6.0	6.1	4.3	4.8	4.6	6.9	4.4	4.8	4.3	4.3	4.2
Debt/Equity	0.2	0.4	0.4	0.5	0.3	0.2	0.2	0.3	0.3	0.2	0.1

Cashflow

(INR Million)

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	1,068	1,197	1,636	1,757	1,996	1,899	2,638	2,100	2,741	3,239	3,757
Depreciation	136	171	235	258	308	297	284	307	346	380	407
Interest & Finance Charges	8	4	-1	0	0	-19	-12	0	0	0	0
Direct Taxes Paid	-396	-411	-520	-607	-651	-743	-766	-825	-932	-1,101	-1,277
(Inc)/Dec in WC	-193	-891	-658	-889	-100	511	-1,140	-1,137	358	-696	-835
CF from Operations	624	70	692	519	1,553	1,945	1,004	445	2,513	1,821	2,052
Others	-23	6	48	72	69	-140	-126	77	106	108	95
CF from Operating incl EO	601	76	740	591	1,622	1,806	878	522	2,619	1,930	2,147
(inc)/dec in FA	-406	-499	-363	-430	-176	-264	-553	113	-559	-450	-400
Free Cash Flow	195	-423	377	162	1,446	1,542	325	636	2,060	1,480	1,747
(Pur)/Sale of Investments	1	-2	-315	-163	-11	37	37	-99	0	0	0
Others	52	37	-21	-24	106	188	-256	-754	-13	0	1
CF from Investments	-353	-464	-699	-617	-81	-40	-771	-739	-572	-450	-399
Issue of Shares	0	0	12	-1	-3	0	-582	0	-750	0	0
(Inc)/Dec in Debt	-46	769	240	658	-901	-401	562	659	-250	-400	-500
Interest Paid	-32	-58	-86	-97	-93	-36	-43	-77	-106	-108	-95
Dividend Paid	-168	-386	-221	-501	-557	-1,262	0	-394	-826	-1,102	-1,377
Others	0	0	0	0	0	-63	-5	0	100	110	120
CF from Fin. Activity	-246	325	-56	59	-1,555	-1,762	-68	188	-1,833	-1,500	-1,852
Inc/Dec of Cash	2	-63	-15	34	-14	4	38	-29	215	-20	-104
Opening Balance	111	113	50	35	69	55	59	97	81	296	276
Closing Balance	113	50	35	69	55	59	97	68	296	276	171

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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