Navneet Education Ltd (NEL)	
No. of shares (crore)	23.8
Mkt cap (Rs crs)	2383
Current price (24/03/2015)	100
Price target (Rs)	133
52 week H/L (Rs.)	120/54.50
Book Value (Rs.)	25.8
P/BV (FY15e/16e/17e)	4.3/3.8/3.3
P/E (FY15e/16e/17e)	17.8/15.7/13.6
BSE Code	508989
NSE Code	NAVNETEDUL
Bloomberg	NELI IN
Reuters	NAVN.BO
Daily volume (avg. weekly)	61466

Shareholding pattern	%
Promoters	61.8
MFs / Banks / FIs	14.1
Foreign	7.4
Govt. Holding	0.0
Non-Promoter Corp.	2.0
Total Public	14.7
Total	**100.0**

As on Dec 31, 2014

Recommendation

BUY

Analyst

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Company Brief

Navneet publishes education, children and general books and supplies paper and non-paper stationery products. Its portfolio of education books include supplementary books like digests (guide), workbooks, and most likely question sets., while the children and general books include coloring and activity books, story books and books on health & hygiene, art & artist, etc. It has a major presence in Indian states of Maharashtra and Gujarat.

Highlights

- India's XIIth five year plan strives to expand the coverage of education by improving learning outcomes, courting children not in school and converging educational programs with schemes like Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) to help bridge funding gaps in States with shoddy school infrastructure. Plans are onboard to increase gross enrolment ratio for both secondary and higher secondary education and reduce dropout rates to below 25% by 2017.
- The XIIth plan has stressed on devising a common curricula and syllabi of nationally acceptable standards for Science, Mathematics and English in all schools in the country. A start was made when the Ministry decided to launch a common curriculum for science and mathematics for higher secondary education from academic year 2011-12. Sensing this emerging opportunity, Navneet has boosted efforts to develop supplementary books for other State Boards.
- Resurrection in Navneet's publishing business is in order not least because of proposed syllabus changes for higher standards in Maharashtra and Gujarat in academic year 2016-17 and extensive unveiling of textbooks in CBSE pattern schools across the country.
- Revenues of stationery business would be spurred by record shipments of paper stationery to US, Central America and Africa, counterbalancing tepidness in the domestic market. We estimate overseas sale growth of at least 20% over the next two years.
- The stock currently trades at 15.7x FY16e earnings and 13.6xFY17e earnings. We recommend a buy on the stock with target of Rs 133 over next 9-12 months based on 18xFY17e EPS of Rs 7.38 (earnings growth of 15% and PEG ratio of 1.2; discount (for looming risks) to historical PEG ratio of 1.6 (weeding out outliers).

Figures (Rs crs)	FY13	FY14	FY15e	FY16e	FY17e
Net revenues	805.66	882.12	1006.88	1154.81	1321.76
Other Income	3.65	3.51	3.57	3.58	3.44
EBITDA (other income included)	194.55	211.50	245.88	277.14	315.36
Net Profit	107.29	114.95	133.75	152.24	175.69
EPS (Rs)	4.50	4.82	5.61	6.39	7.38
EPS growth (%)	39.3	7.1	16.4	13.8	15.4

Company Profile

Navneet Education Ltd (NEL) publishes education, children and general books and sells paper and non-paper stationery products under various brands - Navneet, Vikas, Gala, FfUuNn and Boss. Its e-learning business (brand: eSense) provides digital content for Maharashtra and Gujarat state curriculum in almost 2400 institutions covering more than 13500 classrooms, besides supplying B2C products (read tablets).

Back in 2009, the company entered into pre-primary education with the launch of a chain of pre-schools in Maharashtra under the brand name - Leapbridge. It also gained a foothold in school management business (direct education) by buying a minority stake in a school management company in Andhra Pradesh in 2011

In publishing business, Navneet boasts of having more than 5,000 titles in English, Gujarati, Hindi, Marathi, Tamil, Urdu and other Indian and foreign languages. Its portfolio of education books include supplementary books like digests (guide), workbooks, and 21 most likely question sets, most of which are published in five languages - English, Gujarati, Hindi, Marathi, and Urdu - mainly for Gujarat and Maharashtra state curriculum. But it is also gaining foothold in other states in India by developing supplementary books for CBSE and ICSE Boards. It also publishes various titles in the children and general books category such as coloring and activity books, story books and books on health & hygiene, art & artist, cooking, mehendi, embroidery etc.

Navneet's paper stationery product range, which includes tight bind note books, long books, hard case bound books and drawing books, has made inroads in well established markets in India, Middle East, Africa, US and Europe.

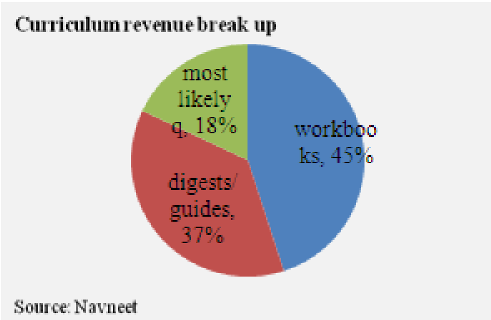
Business Segments

Content publication

Includes educational books (workbooks, smart workbooks, digests and 21 most likely question sets), children books and general books (health & hygiene, cookery, art, festivals, knowledge, quiz, English speaking, dictionary, computer learning.)

Indirect education - curriculum

It develops supplementary educational publications such as workbooks, digests and 21 most likely questions for SCERT curriculum in Maharashtra and Gujarat through its army of almost 200 authors who are on its royalty program. It boasts of publishing over 3000 titles in five major languages and commands 65% share in Maharashtra's supplementary book market and 70% in Gujarat's.

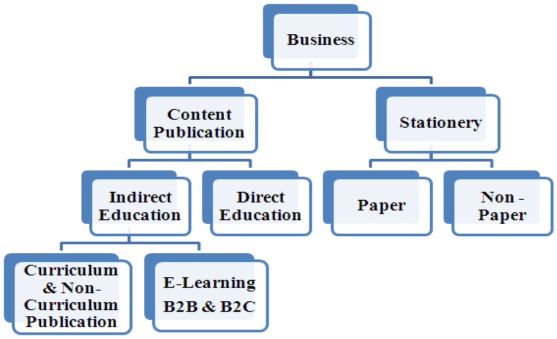


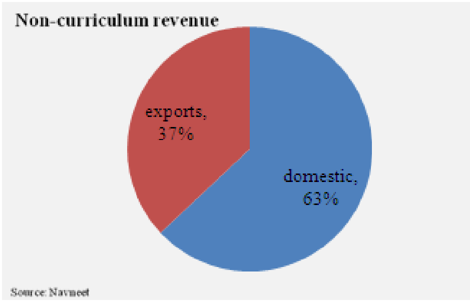
Product	Standards	Sales model	Point of sale
Workbooks	I-X	School recommends	Retail or school
Digests/Guides	I-XII	Samples used by teachers	Retail
Most like q sets	X&XII	Samples used by teachers	Retail

Source:Navneet

Indirect education - non-curriculum

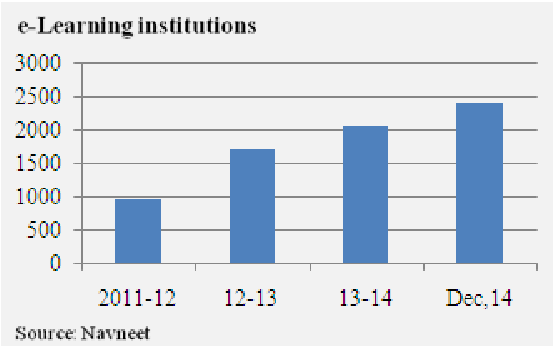
It includes children and general books like story books, health books, general knowledge books, cookery books, books on art and culture, computer learning books, activity books, epic books, coloring books, craft books etc. This business, which accounts for 7% of publication revenues, publishes over 2000 titles in 11 different languages.





Indirect education - e-Learning

It provides digital content for Maharashtra and Gujarat state curriculum for English, Marathi and Gujarati mediums under the brand eSense. Currently, its e-learning products (B2B) have been installed in approximately 2,400 Institutions across Gujarat and Maharashtra, while it also sold around 3500 tablets under its B2C business last fiscal. In September 2014, eSense launched its first CBSE retail product for Mathematics and Science for Grades I to X.

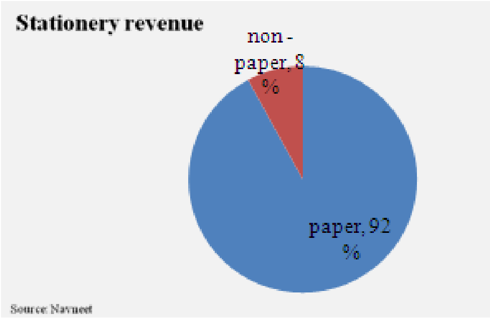


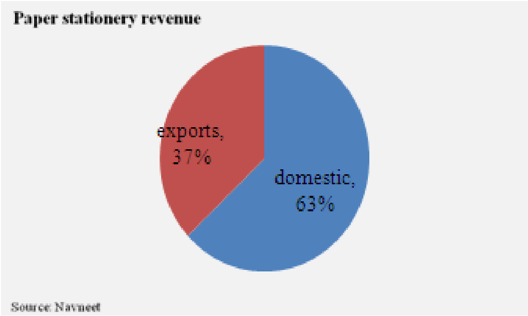
Direct education- K12 Techno Services

In 2011 Navneet logged into the direct education business by taking 25% stake in K12 Techno Services Pvt Ltd, a school management company in AP managing 58 Schools with around 50,000 Students. K12 Techno operates SSC Schools under Gowtham Model School brand and CBSE schools under Orchids International brand.

Stationery - paper

Product range includes educational stationery such as note books, long books, drawing books, writing pads, index cards, conference pads, pocket diary, notebook, maps, practical books, scrap book etc. Three-fourths of the total production is manufactured in-house and rest is outsourced for sale in India and overseas. Its products are marketed under the brand names 'Navneet', 'Grafalco' and 'American Scholar' in United States, Europe, Africa, Central and Latin America.





Stationery – non-paper

Products include pencils, erasers, sharpeners, crayons, geometry sets, rulers, dough, color pastels, etc, that are outsourced under its brands like FfUuNn.

Investment Thesis

Education industry – taking off

India's XIIth five year plan lays unprecedented focus on the expansion of education by increasing access and enrolment to teaching -learning process and on significantly improving the quality of education. India has seen vast improvement in enrolment of children at the primary education stage: growth of enrolment in secondary education accelerated from 4.3% per year during the 1990s to 6.27% per year in the decade ending 2009–10. Youth literacy increased from 60% in 1983 to 91% in 2009–10 and adult literacy improved from 64.8% in 2001 to 74% in 2011.

Trends in India's social services expenditure

	2010-11	11-12	12-13	13-14 re	14-15 be
% of GDP					
Exp. on social services	6.8	6.6	6.6	7.2	6.7
i) Education	3.1	3.1	3.1	3.2	3.1
ii) Health	1.3	1.2	1.2	1.3	1.2
iii) Others	2.4	2.2	2.2	2.6	2.5
% of total exp.					
Exp. on social services	24.7	24.0	22.9	24.1	22.3
i) Education	11.4	11.4	10.9	11.0	10.2
ii) Health	4.7	4.6	4.3	4.3	4.0
iii) Others	8.6	8.0	7.7	8.8	8.2
% of social services					
i) Education	46.1	47.7	47.6	45.4	45.6
ii) Health	19.0	19.0	18.8	18.0	17.8
iii) Others	34.9	33.3	33.6	36.6	36.6

Source: Economic Survey 2014-15

Revenue exp on education - budget estimate 2012-13

	expenditure on education			expenditure as % of		
Sector	States/UT	Centre	Total	States/UT	Centre	Total
Elementary	44%	38%	42%	1.4	0.4	1.8
Secondary	30%	10%	25%	0.9	0.1	1.1
University & higher edu	17%	30%	21%	0.5	0.4	0.9
Adult education	0%	1%	0%	0.0	0.0	0.0
Technical education	9%	22%	12%	0.3	0.3	0.5
Total	**100%**	**100%**	**100%**	**3.1**	**1.2**	**4.3**

Source: mhrd.gov.in

Despite mammoth gains in last few years, education in India still faces huge challenges. Its mean years of schooling still trails that of other emerging markets let alone that of developed markets - India (5.12 yrs); China (8.17 yrs); Brazil (7.09 yrs). Steep dropout rate after the elementary level explains much of that gap; the dropout rates are worse for the disadvantaged groups (SCs/STs).

Through its flagship program Sarva Shiksha Abhiyan (SSA), the XIIth plan would work towards four strategic areas: focus on learning outcomes; addressing residual access & equity gaps; teacher and education leadership; linkages with other sectors and programmes. The plan would focus on holistic development of children by improving learning outcomes and other non-scholastic areas. To achieve desirable outcomes, States need to articulate the learning goals that are being targeted and the strategies (methods, materials, models and measurement) that will be used to reach those goals.

Civil works under SSA in XIIth plan

Items	no	Cost (Rscrs)
New school buildings	67010	7685
Residential schools	10500	10500
Additional classrooms	498560	19942
DWS	62366	468
Toilets	343013	2884
KGBVs etc	3598	3692
Total		**45171**

Source: Ministry of HRD

RSMA*: XIth plan

Items	Target	Achievement
New school sanctions	11188	9636
Existing schools strengthening	44000	34311
Additional classrooms	88500	49356
Additional teachers	179000	59000
In-service training for teachers	100%	100%
Annual grants to schools	full coverage	75394
Minor repair to schools	full coverage	62221

* Rashtriya Madhyamik Shiksha Abhiyan

Source: Dept of School Education and Literacy, GOI

The government recognizes the need to put special efforts for courting children who are not in school or who need sustained attention for remaining linked to school. The current plan would focus on out of school children (OoSC), girls and socially excluded groups in specific locations. It also emphasizes the need to converge educational programs with schemes like Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) to help bridge funding gaps in States with awful school infrastructure.

India education sector though faces a distressing trend: fall in gross enrolment ratio from secondary to higher secondary school. It's explained by general lack of access, paucity of public schools, high cost of private senior secondary education and poor quality of education, along with the high opportunity cost of deferred entry into the workforce.

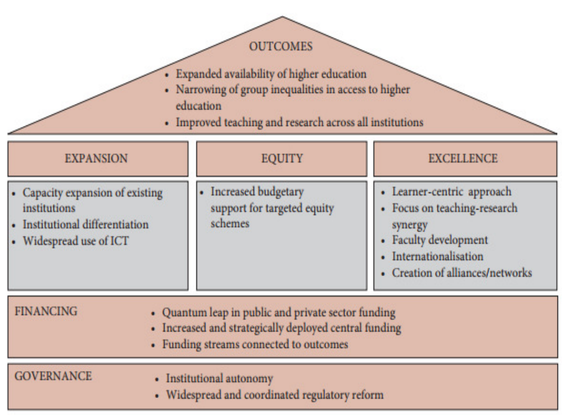
The plan also stresses on overhauling the outdated curriculum. It strives to achieve gross enrolment ratio in excess of 90% (63% in 2009-10) for secondary education by 2017 and that of higher secondary to 65% (35.9% in 2009-10). Implementing common curricula and syllabi of nationally acceptable standards for Science, Mathematics and English in all schools in the country has become a priority. No less ambitious are plans to reduce dropout rate to below 25% by 2017 and impart quality secondary education in mathematics, science, languages and communication.

Gross enrolment ratio

Country	Primary (I-V)	Lower secondary (VI-VIII)	Upper secondary (IX-XII)	Tertiary
India	107	82	57	21
Nepal	139	89	48	na
Sri Lanka	98	99	100	17
China	128	104	77	27
Germany	101	100	104	62
Russia	101	94	98	76
South Africa	102	111	96	na
UK	109	106	88	62
USA	98	98	90	94

Source: mhrd.gov.in

XIIth five year plan – existing structure



Source: Planning Commission

Syllabus changes

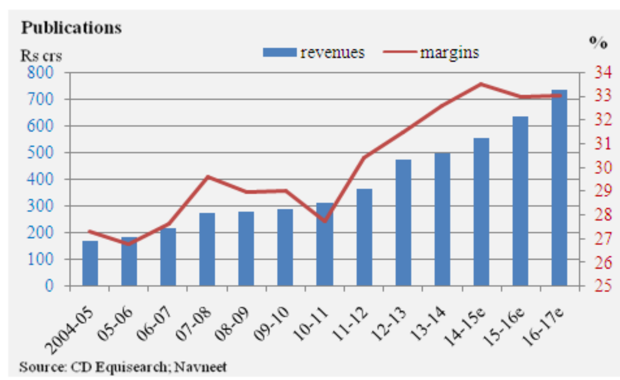
Effecting syllabus changes remain one of the cornerstones of Navneet's publishing business as it weeds out old and second hand books from the trade by prompting students to opt for new books as per revised syllabus as proposed by State Education Boards. Navneet's education books sale would grown by a measly 8.9% (annual) in two years ending current fiscal not least due to syllabus changes for few standards (I,-IV & X; see chart below) in Maharashtra and selective changes in Gujarat that too for lower standards.

Yet its sale would catch up with expected changes in syllabus for higher standards in Maharashtra and Gujarat in academic year 2016-17 (though not yet confirmed for Gujarat), ramp up in supply of supplementary books to government departments for their public school students and breakthrough in selling textbooks to CBSE pattern schools. More states are in pipeline for marketing CBSE titles after Navneet made successful entry in six Indian states, where ever-increasing CBSE pattern schools are embracing private publisher textbooks; Navneet has already developed textbooks up to standard VII.

Syllabus Changes

Year	Maharashtra		Gujarat	
	standard	subjects	standard	subjects
2013-14	I&II X	all subjects(all medium) all languages, history, political science, geo, eco, science (environment)	VI-VIII -	all sub (eng &hindi) -
14-15	III&IV	all sub(all medium)	I-V	all sub (guj)
15-16	V&VI	all sub(all medium)	I-V	all sub (eng &hindi)
16-17	VII&VIII	all sub(all medium)	IX	all sub(all medium)*
			X	all commerce sub (all medium)*
17-18	-	not announced	X	all sub(all medium)*
			XII	all commerce sub (all medium)*

* not confirmed; Source: Navneet



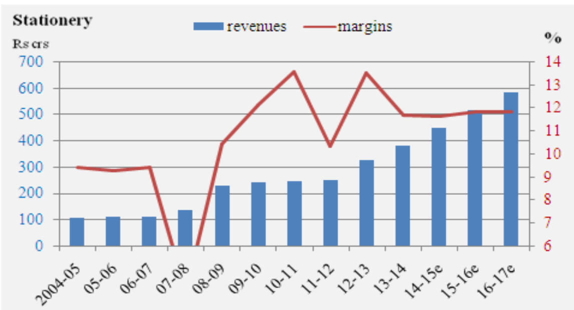
Common curriculum

If the Indian HRD Ministry gets its acts right, the country will soon have common curriculum for higher secondary education. A start was made when the Ministry decided to launch a common curriculum for science and mathematics for higher secondary education from academic year 2011-12. 29 boards representing over one lakh higher secondary schools joined hands to adopt the common syllabus developed by NCERT (National Council of Educational Research and Training) and COBSE (Council of Boards of School Education in India). The COBSE has constituted a sub-committee comprising State board members from Assam, Maharashtra, Bihar, Kerala and Rajasthan to work on the common question format for science and mathematics subjects for higher secondary exams to bring parity among the various boards in the country. No less important is its efforts to develop a common curriculum for commerce and commerce-related subjects.

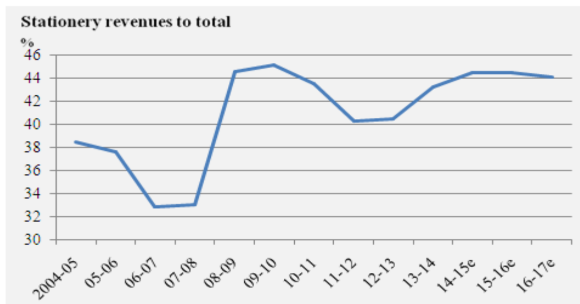
With increasing efforts to bring parity in Indian education sector, Navneet has firmed up plans to launch / develop supplementary books for other State Boards which would help it leverage its existing content publication set up. It's about to complete pan-India launch of supplementary books for mathematics and science for higher secondary exams for all State Boards.

Stationery business- reliant on exports

Navneet's stationery business is on tear propelled by record shipments of paper stationery to US, Central America and Africa. Customized product range developed and designed by Navneet's in-house team would help it post atleast 20% annual growth in overseas shipments over the next two years. Growth though would be stymied by lackluster domestic paper stationery market where growing competition would fail to resurrect its tiny organized market (only 15% organized). Despite near term headwinds, it would still manage to grow at some 10%. Navneet's non-paper stationery business has failed to take off despite its strong army of sales team, 1200 distributors and handful of carrying & forward agencies and mother depots.; needless to mention the presence of its stationery products across 85000 retail stores pan India. Yet stationery business EBIT margins would somewhat stabilize after yo-yoing in the last few years (11.6% -11.8%).



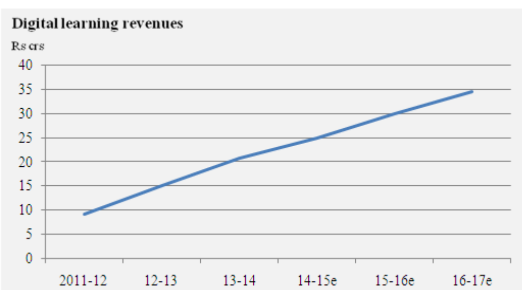
Source: CD Equisearch; Navneet



Sources: CD Equisearch; Navneet

e-learning

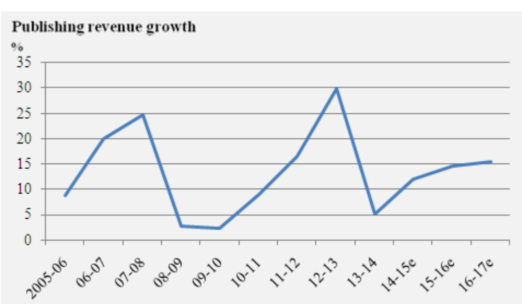
Navneet's e-learning business - eSense- is on rampage as it has grown its empanelment five fold in last four years driven by remarkable success of its top selling B2B product 'TOPCLASS' (digital education solution for classroom teaching). More is yet to come as the company has been able to tap only a tenth of the total private schools in Gujarat and Maharasthra as yet. Besides providing digital content for Maharashtra & Gujarat state curriculum for English, Marathi and Gujarati mediums, it has also completed its library for CBSE curriculum which would aid growth. Also the Indian HRD Ministry's plan for common curriculum would open Navneet's digital learning market to more than 3 lakh schools from just 24000 now. Still, its oceans way before its starts to make a contribution in Navneet's overall business - representing less than 3% of revenues (Rs 25 crs revenue for FY15) and some 1% of profits.



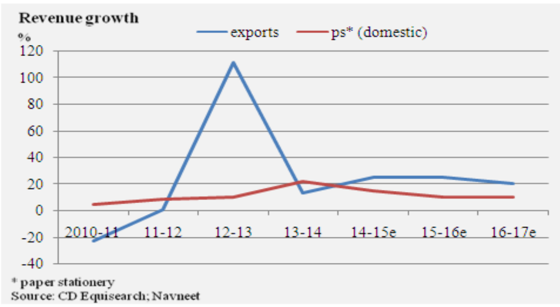
Source: CD Equisearch; Navneet

Financials & valuation

Navneet's publishing business is set to revive after paltry syllabus changes last fiscal pulled down its growth to the weakest level in four years. Apart from syllabus changes for a handful of standards in both Gujarat and Maharashtra, extensive roll out of CBSE textbooks in other States and rapid advances in supply of supplementary books to government departments would be defining progress over next few years. Yet all is not fine. Its children & general books business has struggled to gain ground despite its non-curriculum segment boast of publishing over 2000 titles in eleven different languages. Also few of the syllabus changes in Gujarat for academic years 2016-17 and 17-18 are still unconfirmed.

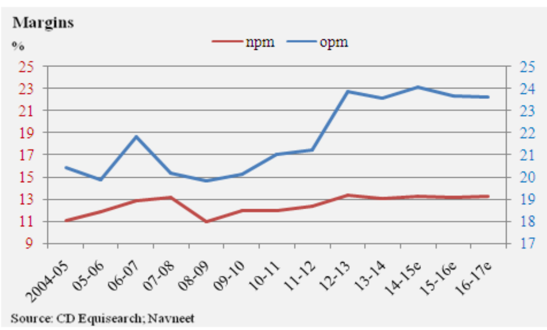


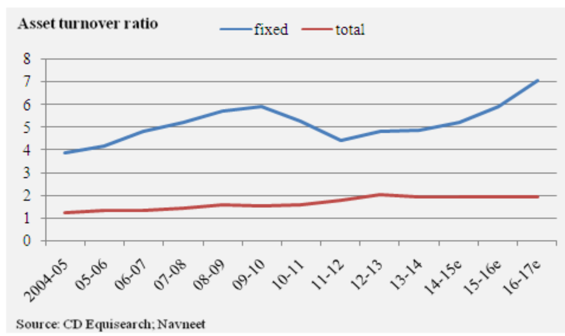
Sources: CD Equisearch; Navneet



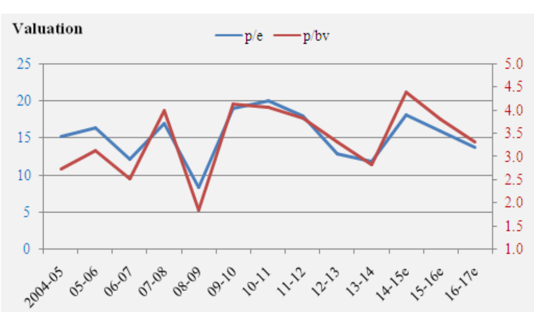
Surge in exports of paper stationery of late has rescued Navneet's fledgling stationery business for the domestic paper stationery segment (the largest segment of stationery business) has failed to stave off growing competition. Notwithstanding the nerve-wracking volatility of exports business, its revenues would still rise by 20-25% over the next two years not least because of growing penetration in US, Central America and Africa. Non - paper stationery business though would continue to post lackluster growth.

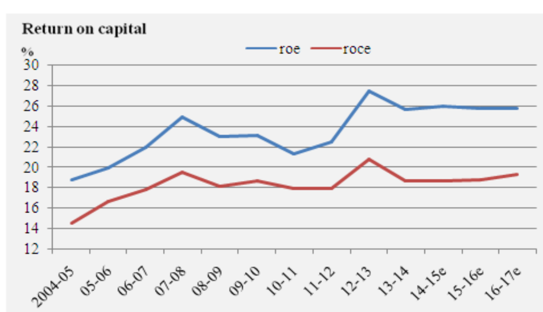
Operating margins though would stabilize and so would return on capital ratios largely to high volumes in paper stationery exports and stabilization of margins in stationery business. Asset utilization would improve thanks to ramp up in capacity utilization in most businesses - fixed asset turnover would increase to 7.1 in FY17 from 4.9 last fiscal; no major capex plan planned for next few years. Working capital would rise in line with revenue growth - debtors' turnover 4.4-4.7; inventory turnover ratio: 2-2.1.





The stock has been rerated thanks to pick up in earnings momentum this fiscal, thus bridging gap with average P/E valuation (trailing) of 18-19x; currently trades at 15.7x FY16e earnings and 13.6x FY17e earnings. Stability in earnings and reducing equity risk premiums would support valuation. Yet spectre of earning downgrades arising out of margin erosion in domestic paper stationery business and marginal changes in syllabus looms; not counting rising pressure of input costs. But Navneet draws prolific economic moat from its envious market shares in the education space in Gujarat and Maharashtra (70% and 65% market share respectively) and vast geographical reach. We recommend a buy on the stock with target of Rs 133 based on 18xFY17e EPS of Rs 7.38 over next 9-12 months (earnings growth of 15% and PEG ratio of 1.2; discount (for looming risks) to historical PEG ratio of 1.6 (weeding out outliers).





Risks & Concerns

Syllabus changes

Much of the growth of Navneet's publishing business rests on the rapid churn of the syllabus, more so for higher standards (higher class students need more supplementary books). As our earnings estimates takes into account unconfirmed syllabus changes in Gujarat for academic year 2016-17, vulnerability in publishing revenues is not ruled out.

Input costs

Raw material costs, particularly paper, account for almost half of total sales. Volatility in paper prices could dent the profitability, more so for the domestic paper stationery, which is mired in stiff competition.

Foreign exchange risk

Paper exports of Navneet are mainly reliant on favorable foreign exchange rates - net exposure 10% of revenues. Volatility in rates could impact shipments.

Cross Sectional Analysis

Company	Equity*	CMP	Mcap*	Sales*	PAT*	OPM[a]	NPM[a]	Int Cov.	ROE[a]	Mcap/ sales	P/BV	P/E	EV/EBITDA
Kokuyo	10	69	694	520	1	1.5	0.2	0.6	0.5	1.3	3.3	619.3	41.6
MPS	18.6	888	1653	221	62	38.5	28.0	1545.3	62.9	7.5	5.7	26.7**	16.5
Navneet	47.6	100	2383	964	130	24.3	13.5	18.9	23.1	2.5	3.9	18.3	9.9
Repro	11	326	356	391	22	12.0	5.7	3.0	10.6	0.9	1.6	15.9	8.4

TTM P/E; * Figures in Rs crs; ** post QIP issue; P/E pre-issue: 24.2

Financials

Quarterly Results

Figures in Rs crs

	Q3FY15	Q3FY14	% chg.	9MFY15	9MFY14	% chg.
Income from operations	**134.46**	**133.05**	**1.1**	**775.94**	**672.80**	**15.3**
Other Income	0.62	0.98	-36.7	2.36	2.34	0.9
Total Income	**135.08**	**134.03**	**0.8**	**778.30**	**675.14**	**15.3**
Total Expenditure	110.54	106.97	3.3	575.68	504.64	14.1
PBIDT (other income included)	**24.54**	**27.06**	**-9.3**	**202.62**	**170.50**	**18.8**
Interest	0.34	1.13	-69.9	7.47	6.28	18.9
Depreciation	7.25	5.66	28.1	20.59	16.25	26.7
PBT	**16.95**	**20.27**	**-16.4**	**174.56**	**147.97**	**18.0**
Tax	5.11	7.89	-35.2	60.92	51.06	19.3
PAT	**11.84**	**12.38**	**-4.4**	**113.64**	**96.91**	**17.3**
Extraordinary Item	0.00	0.00	-	0.00	0.00	-
Adjusted Net Profit	**11.84**	**12.38**	**-4.4**	**113.64**	**96.91**	**17.3**
EPS (F.V. 2)	0.50	0.52	-4.4	4.77	4.07	17.3

Segment Results

Figures in Rs crs

	Q3FY15	Q3FY14	% chg.	9MFY15	9MFY14	% chg.
Segment Revenue						
Publishing content	81.44	79.62	2.3	481.72	429.36	12.2
Stationery products	51.94	52.49	-1.0	290.41	239.28	21.4
Others	1.08	0.94	14.9	3.81	4.16	-8.4
Total	**134.46**	**133.05**	**1.1**	**775.94**	**672.80**	**15.3**
Segment EBIT						
Publishing content	24.18	21.29	13.6	172.66	149.11	15.8
Stationery products	-1.88	4.45	-142.2	26.49	21.70	22.1
Others	-0.11	0.05	-320.0	0.63	0.73	-13.7
Total	**22.19**	**25.79**	**-14.0**	**199.78**	**171.54**	**16.5**
Interest	0.34	1.13	-69.9	7.47	6.28	18.9
Other Unallocable Exp. (net of income)	4.90	4.39	11.6	17.75	17.29	2.7
PBT	**16.95**	**20.27**	**-16.4**	**174.56**	**147.97**	**18.0**

Income Statement

Figures in Rs crs

	FY13	FY14	FY15e	FY16e	FY17e
Income from operations	**805.66**	**882.12**	**1006.88**	**1154.81**	**1321.76**
Growth (%)	30.2	9.5	14.1	14.7	14.5
Other Income	3.65	3.51	3.57	3.58	3.44
Total Income	**809.31**	**885.63**	**1010.45**	**1158.39**	**1325.20**
Total Expenditure	614.76	674.13	764.57	881.25	1009.84
EBITDA (other income included)	**194.55**	**211.50**	**245.88**	**277.14**	**315.36**
Interest	8.77	9.99	12.34	13.25	13.75
EBDT	**185.78**	**201.51**	**233.54**	**263.89**	**301.61**
Depreciation	23.45	25.80	29.33	31.45	33.38
Tax	55.02	60.49	70.45	80.19	92.54
Net profit	**107.31**	**115.22**	**133.76**	**152.25**	**175.70**
Minority interest & associate p/l	0.63	0.07	0.01	0.01	0.01
Net profit after MI	**106.68**	**115.15**	**133.75**	**152.24**	**175.69**
Extraordinary item	-0.61	0.20	-	-	-
Adjusted Net Profit	**107.29**	**114.95**	**133.75**	**152.24**	**175.69**
EPS (Rs.)	4.50	4.82	5.61	6.39	7.38

Segment Results

Figures in Rs crs

	FY13	FY14	FY15e	FY16e	FY17e
Segment Revenue					
Publishing content	472.03	495.93	554.80	635.95	733.56
Stationery products	325.96	381.15	447.42	514.11	583.35
Others	7.67	5.04	4.66	4.75	4.85
Net sales	**805.66**	**882.12**	**1006.88**	**1154.81**	**1321.76**
Segment EBIT					
Publishing content	148.45	161.51	185.71	209.76	242.16
Stationery products	44.06	44.57	51.92	60.66	68.84
Others	0.71	1.14	1.06	1.09	1.12
Sub Total	**193.22**	**207.22**	**238.69**	**271.52**	**312.11**
Interest	8.77	9.99	12.34	13.25	13.75
Other Unallocable Exp. (net of income)	22.12	21.52	22.13	25.83	30.12
PBT	**162.33**	**175.71**	**204.21**	**232.44**	**268.24**

Balance Sheet

Figures in Rs crs

	FY13	FY14	FY15e	FY16e	FY17e
SOURCES OF FUNDS					
Share Capital	47.98	47.98	47.64	47.64	47.64
Reserves	371.19	430.67	502.03	586.20	693.83
Total Shareholders Funds	**419.17**	**478.65**	**549.67**	**633.84**	**741.47**
Minority Interest	0.07	0.06	0.07	0.08	0.09
Long term debt	2.42	-	-	-	-
Total Liabilities	**421.66**	**478.71**	**549.74**	**633.92**	**741.56**
APPLICATION OF FUNDS					
Gross Block	331.58	367.25	407.25	432.25	457.25
Less: Accumulated Depreciation	157.42	179.81	209.14	240.59	273.97
Net Block	**174.16**	**187.44**	**198.11**	**191.66**	**183.28**
Capital Work in Progress	5.73	4.51	4.00	-	-
Investments	31.00	47.46	47.46	47.46	47.46
Current Assets, Loans & Advances					
Inventory	275.15	333.69	387.95	457.96	535.12
Sundry Debtors	165.93	196.11	233.54	277.92	328.00
Cash and Bank	3.52	6.92	8.88	5.98	5.04
Other Assets	34.57	47.35	48.72	52.39	56.21
Total CA & LA	**479.17**	**584.07**	**679.09**	**794.25**	**924.36**
Current liabilities	224.80	297.95	325.74	340.70	354.91
Provisions	53.86	57.43	64.05	69.72	69.72
Total Current Liabilities	**278.66**	**355.38**	**389.79**	**410.42**	**424.62**
Net Current Assets	200.51	228.69	289.29	383.83	499.74
Net Deferred Tax (net of liability)	-4.84	-5.89	-5.75	-5.75	-5.75
Other Assets (Net of liabilities)	15.10	16.50	16.62	16.72	16.83
Total Assets	**421.66**	**478.71**	**549.74**	**633.92**	**741.56**

Cash Flow Statement

Figures in Rs crs

	FY13	FY14	FY15e	FY16e	FY17e
Net Income **(a)**	107.31	115.22	133.76	152.25	175.70
Non cash exp. & others (b)	**19.74**	**24.08**	**26.20**	**28.47**	**30.53**
Depreciation	23.45	25.80	29.33	31.45	33.38
Profit / loss on sale of assets / inv	-0.38	-0.31	-	-	-
Deferred tax & others	-3.33	-1.41	-3.12	-2.99	-2.85
(Increase) / decrease in NWC (c)	**-63.27**	**-89.13**	**-91.69**	**-113.21**	**-126.95**
Inventory	-57.52	-58.54	-54.26	-70.01	-77.15
Debtors	-49.53	-30.18	-37.43	-44.38	-50.09
Other assets & liabilities	43.78	-0.41	-	1.18	0.29
Operating cash flow (a+b+c)	**63.78**	**50.17**	**68.27**	**67.51**	**79.27**
Purchase of fixed assets	-38.65	-44.88	-39.49	-21.00	-25.00
Investments	-31.50	-16.28	-	-	-
Investment income & others	1.82	-1.30	2.96	2.99	2.85
Investing cash flow (d)	**-68.33**	**-62.46**	**-36.53**	**-18.01**	**-22.15**
Net borrowings	23.97	65.80	26.32	10.00	10.00
Dividends paid	-22.14	-50.05	-55.75	-62.39	-68.06
Preference capital & others	1.16	-0.06	-0.34	-	-
Financing cash flow (e)	**2.99**	**15.69**	**-29.77**	**-52.39**	**-58.06**
Net change (a+b+c+d+e)	**-1.56**	**3.40**	**1.97**	**-2.90**	**-0.94**

Key Financial Ratios

	FY13	FY14	FY15e	FY16e	FY17e
Growth Ratios					
Revenue (%)	30.2	9.5	14.1	14.7	14.5
EBIDTA (%)	38.6	8.0	16.4	12.7	13.8
Net Profit (%)	39.3	7.1	16.4	13.8	15.4
EPS (%)	39.3	7.1	16.4	13.8	15.4
Margins					
Operating Profit Margin (%)	23.9	23.6	24.1	23.7	23.6
Gross Profit Margin (%)	23.2	22.8	23.2	22.9	22.8
Net Profit Margin (%)	13.4	13.0	13.3	13.2	13.3
Return					
ROCE (%)	20.8	18.7	18.6	18.8	19.3
RONW (%)	27.5	25.6	26.0	25.7	25.8
Valuations					
Market Cap / Sales	1.7	1.5	2.4	2.1	1.8
EV/EBIDTA	7.9	7.5	10.7	9.5	8.4
P/E	12.9	11.8	17.8	15.7	13.6
P/BV	3.3	2.8	4.3	3.8	3.3
Other Ratios					
Interest Coverage	19.6	18.6	17.5	18.5	20.5
Debt-Equity Ratio	0.4	0.5	0.5	0.4	0.4
Current Ratio	1.7	1.6	1.7	1.9	2.1
Turnover Ratios					
Fixed Asset Turnover	4.8	4.9	5.2	5.9	7.1
Total Asset Turnover	2.0	2.0	2.0	2.0	1.9
Debtors Turnover	5.7	4.9	4.7	4.5	4.4
Inventory Turnover	2.5	2.2	2.1	2.1	2.0
Creditors Turnover	30.2	28.7	33.9	35.5	37.9
WC Ratios					
Debtor Days	64.0	74.9	77.9	80.8	83.7
Inventory Days	146.3	164.8	172.3	175.2	179.5
Creditor Days	12.1	12.7	10.8	10.3	9.6
Cash Conversion Cycle	198.2	227.0	239.4	245.7	253.5
Cash Flows (Rs crs)					
Operating Cash Flow	63.8	50.2	68.3	67.5	79.3
FCFF	1.6	-5.3	40.4	58.8	66.7
FCFE	19.4	53.5	58.1	59.5	67.1

Recommendation

Ambitious plans have been set for the Indian education industry under the current five year plan to close the education gap (measured by mean years of schooling) with other emerging economies such as China (8.17yrs vs 5.12 yrs for India) and Brazil (7.09 yrs). Increasing funding through convergence with frontline social schemes, attaining higher gross enrolment ratio for both secondary and higher secondary standards, courting children who are not in school and setting common curricula of nationally acceptable standards for key subjects in all schools across the country remain its overriding priorities.

With distinctive focus on publishing supplementary books for SCERTcurriculum in Maharashtra and Gujarat (95% schools in India are governed by SCERT), Navneet stands a momentous chance to roll out such publications in other Indian states as and when common curriculum as envisaged by Indian HRD Ministry kicks in. Also afoot are plans to unveil textbooks for CBSE pattern schools in other Indian states; it has already developed books from standards 1-7 for CBSE Board.

But challenges abound. Building monstrous market shares as in Gujarat (70%) and Maharashtra (65%) won't be easy. Forging relationships with schools and getting the wares recommended from them takes years of hard work and discipline; it boasts of its brand being recognized in over one lakh schools and books recommended by over 24000 private schools every year. Needless to mention the gargantuan efforts needed to court distinguished authors on royalty program in other states.

Its stationery business though flourishing now is imperiled too. Margins are wafer thin and paper stationery industry is highly fragmented with little pricing power for branded players. Although export of paper stationery has made up for lost domestic business, sharp fluctuations in foreign exchange rates could jeopardize this trend. However, overall stationery business margin is estimated to stabilize in the ensuing period.

Navneet's B2B business (read: e-learning) has made a decent headway (fivefold increase in empanelment in last four years) in last few years bolstered by astonishing success of its B2B product 'TOPCLASS'. Other path-breaking initiative include penetration in B2C market (read: sale of tablets) and foray in direction education space by picking a stake in K12 Techno Services - a school management company.

The stock trades at 15.7xFY16e EPS of Rs 6.39 and 13.6xFY17e EPS of Rs 7.38. Earnings would advance annually by some 15% over the next two years supported by syllabus changes and buoyant exports of paper stationery. Envious market shares in supplementary books in Gujarat and Maharashtra prods in its economic moat as manifested by 24-25% EBIT margins. Yet spectre of earning downgrades arising out of margin erosion in domestic paper stationery business and marginal changes in syllabus looms; not counting growing pressure of input costs. . We recommend a buy on the stock with target of Rs 133 based on 18xFY17e EPS of Rs 7.38 over next 9-12 months(earnings growth of 15% and PEG ratio of 1.2; discount (for looming business risks) to historical PEG ratio of 1.6 (weeding out outliers).

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