

February 9, 2024

Q3FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	182		206	
Sales (Rs. m)	19,134	21,631	20,177	22,651
% Chng.	(5.2)	(4.5)		
EBITDA (Rs. m)	3,614	4,203	4,042	4,655
% Chng.	(10.6)	(9.7)		
EPS (Rs.)	9.6	11.1	11.2	12.5
% Chng.	(14.4)	(11.9)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	16,968	17,510	19,134	21,631
EBITDA (Rs. m)	2,980	2,769	3,614	4,203
Margin (%)	17.6	15.8	18.9	19.4
PAT (Rs. m)	1,405	1,288	2,168	2,501
EPS (Rs.)	6.2	5.7	9.6	11.1
Gr. (%)	NA	(8.3)	68.3	15.3
DPS (Rs.)	2.6	2.1	2.3	2.7
Yield (%)	1.7	1.4	1.5	1.7
RoE (%)	13.0	10.5	15.7	16.0
RoCE (%)	19.8	15.2	18.6	19.7
EV/Sales (x)	2.2	2.1	1.9	1.6
EV/EBITDA (x)	12.4	13.1	9.9	8.4
PE (x)	24.6	26.8	15.9	13.8
P/BV (x)	3.0	2.7	2.4	2.1

Key Data

NAVN.BO | NELI IN

52-W High / Low	Rs.176 / Rs.88
Sensex / Nifty	71,595 / 21,783
Market Cap	Rs.34bn/ \$ 415m
Shares Outstanding	226m
3M Avg. Daily Value	Rs.57.01m

Shareholding Pattern (%)

Promoter's	63.31
Foreign	3.54
Domestic Institution	12.41
Public & Others	20.73
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.9)	4.4	41.5
Relative	(2.2)	(3.8)	20.2

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Higher sales return details publishing growth

Quick Pointers:

- Publishing top-line declined 7.2% YoY amid higher than expected sales return of Rs180mn.

We cut our FY25E/FY26E EPS estimates by 14%/12% as we re-align our assumptions for publishing business amid rising growth challenges in the near term. NELI reported weaker than expected performance with EBITDA margin of 1.6% (PLe 9.1%) as publishing top-line declined by 7.2% YoY led by higher sales return of Rs180mn amid rising prevalence of 2nd hand books. Higher than expected sales return for 2 quarters is likely to result in rising provision buffer going ahead. In addition, NELI is still awaiting curriculum change announcement schedule for FY25E indicating volumes would continue to remain under pressure. Consequently, we expect publishing business to grow at a CAGR 7% over FY23-FY26E as realization of NCF benefits will be back ended. We expect sales/PAT CAGR of 8%/21% over FY23-FY26E and retain 'BUY' rating with revised SOTP based TP of Rs182 (earlier Rs 206) as we cut our core business target multiple to 11x (earlier 12x) amid delay in realization of NCF benefits.

Consolidated sales decreased 2.1% YoY: Consolidated revenues declined 2.1% YoY to Rs2,588mn (PLe Rs2,967mn), primarily due to a 7.2% YoY decline in publishing sales to Rs844mn (PLe Rs1,114mn) while stationery sales increased 0.2% YoY to Rs1,733mn (PLe Rs1,850mn).

Consolidated gross margin at 49.9%: Gross profit decreased 3.7% YoY to Rs1,291mn with GM of 49.9% (PLe of 52.0%) due to lower than expected revenues. Consolidated EBITDA decreased by 60.9% YoY to Rs40mn (PLe of Rs270mn) with a margin of 1.6% (PLe 9.1%). Consolidated stationery EBIT margin stood at 4.9%, while publishing business reported an EBIT loss of Rs106mn. Consolidated net loss stood at Rs225mn (PLe PAT of Rs114mn).

Con-call highlights: **1)** The syllabus change schedule for FY25E is still awaited. **2)** Domestic stationery business is expected to grow by ~12-15% in FY24E. **3)** Stationery EBIT margins to be at 11-13% in FY24E. **4)** There is a revenue spill-over of Rs150-170mn in 3QFY24 due to change in paper pattern of Gujarat Board. **5)** ~10-12% volume de-growth was observed in 9MFY24. **6)** Red Sea crisis has significantly raised freight costs, resulting in a current slowdown in demand for export stationery. **7)** In FY23, NELI reached 8,500 schools, with 5,300 schools prescribing their titles. Current reach is 11,000 schools and management anticipates 6,000 schools to prescribe their titles this year. **8)** 70% of the paper has been procured, and balance will be procured by April end, while paper prices are down 20% from peak level. **9)** Ed Tech loss stood at ~Rs600mn in FY23 and is expected to contract to Rs450mn/Rs300mn in FY24E/FY25E. **10)** Losses in ILL increased due to higher returns in 3QFY24. **11)** Domestic stationery segment is expected to grow by 20% in FY25E.

Exhibit 1: Q3FY24 Consolidated Result Overview (Rs mn)

Y/e March	Q3FY24	Q3FY23	YoY gr (%)	Q2FY24	QoQ gr (%)	9MFY24	9MFY23	YoY gr (%)
Net Sales	2,588	2,643	(2.1)	2,658	(2.6)	13,160	12,878	2.2
Expenditure								
Raw Materials	1,296	1,303	(0.5)	1,314	(1.3)	6,837	6,427	6.4
<i>% of Net sales</i>	<i>50.1</i>	<i>49.3</i>		<i>49.4</i>		<i>52.0</i>	<i>49.9</i>	
Personnel	632	611	3.5	643	(1.7)	1,904	1,673	13.8
<i>% of Net sales</i>	<i>24.4</i>	<i>23.1</i>		<i>24.2</i>		<i>14.5</i>	<i>13.0</i>	
Selling, dist & Other Exp	619	626	(1.2)	744	(16.8)	2,332	2,396	(2.6)
<i>% of Net sales</i>	<i>23.9</i>	<i>23.7</i>		<i>28.0</i>		<i>17.7</i>	<i>18.6</i>	
Total Expenditure	2,547	2,540	0.3	2,701	(5.7)	11,074	10,496	5.5
EBITDA	40	103	(60.9)	(43)	NM	2,086	2,382	(12.4)
<i>Margin (%)</i>	<i>1.6</i>	<i>3.9</i>		<i>(1.6)</i>		<i>15.9</i>	<i>18.5</i>	
Depreciation	164	131	25.6	146	12.5	440	384	14.6
EBIT	(124)	(28)	NM	(189)	NM	1,646	1,999	(17.6)
Interest	36	26	39.8	39	(6.5)	150	72	107.5
Other Income	31	29	6.2	22	38.7	88	105	(15.9)
PBT	(129)	616	NM	476	NM	2,266	2,672	(15.2)
Tax	38	201	(81.1)	161	(76.3)	741	840	(11.8)
<i>Tax Rate (%)</i>	<i>(29.5)</i>	<i>32.6</i>		<i>33.8</i>		<i>32.7</i>	<i>31.4</i>	
Share of profit/loss from associates	(58)	(108)		41		55	(24)	NM
Adjusted PAT	(225)	(334)	NM	(326)	NM	899	1,167	(23.0)
Reported PAT	(225)	307	NM	356	NM	1,581	1,808	(12.6)
EPS	(1.0)	1.4	NM	1.6	NM	7.0	8.0	(13.1)

Source: Company, PL

Exhibit 2: Consolidated stationary margin at 4.9%

Y/e March (Rs mn)	Q3FY24	Q3FY23	YoY gr (%)	Q2FY24	QoQ gr (%)
Segment Revenue					
Publishing Content	844	910	(7.2)	732	15.3
Stationery Products	1,733	1,729	0.2	1,909	(9.2)
Others	17	11	62.3	23	(26.2)
Segment EBIT					
Publishing Content	(106)	(5)	NM	(257)	NM
Stationery Products	85	64	33.2	162	(47.7)
Others	5	4	27.8	7	(33.3)
EBIT Margin					
Publishing Content	NM	-0.5%	NM	NM	NM
Stationery Products	4.9%	3.7%	121 bps	8.5%	(360)bps
Others	26.7%	34.0%	(722)bps	29.6%	(287)bps

Source: Company, PL

Exhibit 3: Standalone publishing segment has higher revenue share in first quarter due to seasonality

Particulars	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Publishing revenue	253	907	988	890	945	893	3,571	1,331	860	1,022	4,273	696	857
YoY growth	-69.5%	62.3%	-20.1%	61.7%	273.2%	-1.5%	261.5%	49.5%	-9.0%	14.4%	19.7%	-47.7%	-0.3%
As a % of sales	19.9%	47.6%	31.1%	39.1%	40.3%	32.2%	52.4%	40.9%	30.9%	28.4%	54.5%	26.8%	34.0%
Stationery revenue	1,017	996	2,184	1,385	1,400	1,878	3,247	1,924	1,924	2,571	3,569	1,899	1,660
YoY growth	-6.9%	-34.0%	8.7%	32.4%	37.7%	88.5%	48.7%	39.0%	37.5%	36.9%	9.9%	-1.3%	-13.7%
As a % of sales	80.1%	52.4%	68.9%	60.9%	59.7%	67.8%	47.6%	59.1%	69.1%	71.6%	45.5%	73.2%	66.0%
Total sales	1,270	1,903	3,171	2,275	2,344	2,771	6,818	3,255	2,784	3,592	7,842	2,595	2,517

Source: Company, PL

Exhibit 4: Standalone margins in stationery division are low due to stiff competition

Particulars	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Publishing EBIT margin	-70.5%	21.4%	20.9%	14.8%	20.4%	18.7%	41.8%	23.9%	31.1%	14.1%	41.5%	0.9%	19.5%
Stationery EBIT margin	14.3%	14.4%	20.3%	16.0%	14.2%	14.4%	19.6%	7.5%	3.2%	13.2%	15.2%	8.7%	5.7%

Source: Company, PL

Exhibit 5: Consolidated snapshot of 9MFY24* results

Particulars (Rs mn)	9MFY24			9MFY23		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
NEL	12,988.0	2,746.0	1,691.0	12,682.0	3,025.0	1,996.0
NFL (Esense)	139.0	(147.0)	(271.0)	86.0	(260.0)	(330.0)
ILL (Indiannica)	5.0	(290.0)	(360.0)	125.0	(187.0)	(247.0)
NHKL	108.0	3.0	2.0	40.0	1.0	1.0
GeNext (Be Masterly)	3.0	(114.0)	(128.0)	1.0	(70.0)	(81.0)
Share of profit from Associates	-	172.0	55.0	-	92.0	(24.0)
Inter co Adjust	(83.0)	(26.0)	(92.0)	(55.0)	(22.0)	(148.0)
Total	13,160.0	2,344.0	1,580.0	12,879.0	2,579.0	1,808.0

Source: Company, PL, *Without considering NEL's share in Associate Companies

Exhibit 6: SOTP Valuation Table – Core business valued at 11x; while combined per share value of subs/associates is Rs29

Particulars	Amount invested (Rs mn)	Valuation method	Multiple assigned (x)	Business valuation (Rs mn)	Per share value (Rs)	Comments
Core business (Printing + Stationary)	NA	P/E	11	34,565	153	We assign P/E multiple of 11x to our standalone PAT
Ed-Tech	2,730	Book value	0.5	1,365	6	Total amount includes SFA investment. We value EdTech venture at 0.5x book value given rejig in strategy which can lead to write-off in past investments.
K12	1,186	Third party benchmarking	NM	5,200	23	As per last funding round, NELI's 20% stake in K12 is valued at Rs8,000mn. We assign 35% discount to this value as the investment is illiquid in nature.
SOTP value				41,130	182	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	16,968	17,510	19,134	21,631
YoY gr. (%)	52.3	3.2	9.3	13.0
Cost of Goods Sold	8,459	8,930	9,280	10,491
Gross Profit	8,509	8,580	9,854	11,140
Margin (%)	50.1	49.0	51.5	51.5
Employee Cost	2,322	2,554	2,758	2,979
Other Expenses	2,128	2,189	2,296	2,596
EBITDA	2,980	2,769	3,614	4,203
YoY gr. (%)	83.3	(7.1)	30.5	16.3
Margin (%)	17.6	15.8	18.9	19.4
Depreciation and Amortization	581	620	717	786
EBIT	2,399	2,149	2,897	3,417
Margin (%)	14.1	12.3	15.1	15.8
Net Interest	116	180	170	160
Other Income	147	120	150	180
Profit Before Tax	2,430	2,089	2,877	3,437
Margin (%)	14.3	11.9	15.0	15.9
Total Tax	942	731	639	866
Effective tax rate (%)	38.8	35.0	22.2	25.2
Profit after tax	1,488	1,358	2,238	2,571
Minority interest	(8)	0	0	0
Share Profit from Associate	(92)	(70)	(70)	(70)
Adjusted PAT	1,405	1,288	2,168	2,501
YoY gr. (%)	NA	(8.3)	68.3	15.3
Margin (%)	8.3	7.4	11.3	11.6
Extra Ord. Income / (Exp)	641	682	-	-
Reported PAT	2,045	1,970	2,168	2,501
YoY gr. (%)	170.7	(3.7)	10.1	15.3
Margin (%)	12.1	11.2	11.3	11.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,045	1,970	2,168	2,501
Equity Shares O/s (m)	226	226	226	226
EPS (Rs)	6.2	5.7	9.6	11.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	6,283	6,913	7,543	8,173
Tangibles	5,036	5,636	6,236	6,836
Intangibles	1,247	1,277	1,307	1,337
Acc: Dep / Amortization	4,210	4,906	5,702	6,568
Tangibles	3,266	3,886	4,603	5,389
Intangibles	944	1,020	1,099	1,179
Net fixed assets	2,167	2,100	1,934	1,698
Tangibles	1,863	1,843	1,726	1,540
Intangibles	303	257	208	158
Capital Work In Progress	74	74	74	74
Goodwill	239	239	239	239
Non-Current Investments	3,258	3,277	3,299	3,322
Net Deferred tax assets	(375)	(375)	(375)	(375)
Other Non-Current Assets	284	296	309	322
Current Assets				
Investments	-	-	-	-
Inventories	6,247	6,716	7,444	8,593
Trade receivables	3,314	3,598	4,194	4,860
Cash & Bank Balance	275	841	1,375	2,145
Other Current Assets	457	526	605	695
Total Assets	16,567	17,965	19,825	22,368
Equity				
Equity Share Capital	452	452	452	452
Other Equity	11,051	12,548	14,195	16,096
Total Networkth	11,503	13,000	14,648	16,548
Non-Current Liabilities				
Long Term borrowings	4	4	4	4
Provisions	11	12	12	13
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,875	2,523	2,500	2,876
Trade payables	645	672	786	889
Other current liabilities	1,122	1,348	1,469	1,630
Total Equity & Liabilities	16,565	17,965	19,826	22,367

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	2,980	2,089	2,877	3,437
Add. Depreciation	581	620	717	786
Add. Interest	116	180	170	160
Less Financial Other Income	147	120	150	180
Add. Other	(588)	(72)	(90)	(108)
Op. profit before WC changes	3,089	2,817	3,674	4,275
Net Changes-WC	(2,638)	(581)	(1,181)	(1,656)
Direct tax	(667)	(681)	(589)	(816)
Net cash from Op. activities	(216)	1,555	1,904	1,803
Capital expenditures	(10,816)	(553)	(552)	(550)
Interest / Dividend Income	16	72	90	108
Others	9,940	(19)	(21)	(23)
Net Cash from Inv. activities	(860)	(501)	(483)	(465)
Issue of share cap. / premium	-	-	-	-
Debt changes	5,912	(352)	(23)	377
Dividend paid	(342)	(588)	(473)	(520)
Interest paid	(101)	(180)	(170)	(160)
Others	(4,458)	-	-	-
Net cash from Fin. activities	1,011	(1,120)	(666)	(304)
Net change in cash	(64)	(65)	755	1,034
Free Cash Flow	(725)	1,002	1,353	1,253

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	6.2	5.7	9.6	11.1
CEPS	8.8	8.4	12.8	14.5
BVPS	50.9	57.5	64.8	73.2
FCF	(3.2)	4.4	6.0	5.5
DPS	2.6	2.1	2.3	2.7
Return Ratio(%)				
RoCE	19.8	15.2	18.6	19.7
ROIC	18.0	15.4	18.2	18.8
RoE	13.0	10.5	15.7	16.0
Balance Sheet				
Net Debt : Equity (x)	0.2	0.1	0.1	0.0
Net Working Capital (Days)	192	201	207	212
Valuation(x)				
PER	24.6	26.8	15.9	13.8
P/B	3.0	2.7	2.4	2.1
P/CEPS	17.4	18.1	12.0	10.5
EV/EBITDA	12.4	13.1	9.9	8.4
EV/Sales	2.2	2.1	1.9	1.6
Dividend Yield (%)	1.7	1.4	1.5	1.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

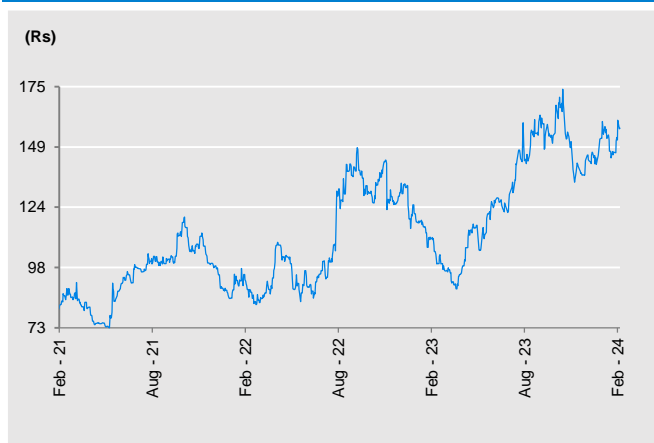
Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	4,090	7,915	2,658	2,588
YoY gr. (%)	27.0	14.1	(19.4)	(2.1)
Raw Material Expenses	2,032	4,227	1,314	1,296
Gross Profit	2,058	3,688	1,344	1,291
Margin (%)	50.3	46.6	50.6	49.9
EBITDA	598	2,089	(43)	40
YoY gr. (%)	(4.9)	6.9	NA	(60.9)
Margin (%)	14.6	26.4	NA	1.6
Depreciation / Depletion	197	130	146	164
EBIT	401	1,959	(189)	(124)
Margin (%)	9.8	24.8	NA	NA
Net Interest	44	75	39	36
Other Income	43	35	22	31
Profit before Tax	399	1,919	476	(129)
Margin (%)	9.8	24.2	17.9	(5.0)
Total Tax	103	542	161	38
Effective tax rate (%)	25.7	28.2	33.8	(29.5)
Profit after Tax	297	1,378	315	(167)
Minority interest	-	-	-	-
Share Profit from Associates	(67)	72	41	(58)
Adjusted PAT	229	1,449	(326)	(225)
YoY gr. (%)	(24.2)	(4.8)	NA	NA
Margin (%)	5.6	18.3	NA	NA
Extra Ord. Income / (Exp)	-	-	682	-
Reported PAT	229	1,449	356	(225)
YoY gr. (%)	(24.2)	(4.8)	NA	NA
Margin (%)	5.6	18.3	13.4	NA
Other Comprehensive Income	463	17	(4)	16
Total Comprehensive Income	692	1,466	352	(209)
Avg. Shares O/s (m)	226	226	226	226
EPS (Rs)	1.0	6.4	(1.4)	(1.0)

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Segment Revenues				
Publishing	6,718	6,785	7,124	8,193
Stationery	9,471	9,870	11,053	12,344
EBIT				
Publishing	2,222	1,357	1,995	2,622
Stationery	1,182	987	1,492	1,728

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-24	BUY	206	155
2	08-Nov-23	BUY	195	140
3	07-Oct-23	BUY	205	166
4	06-Aug-23	BUY	192	144
5	05-Jul-23	BUY	152	125
6	17-May-23	BUY	152	113
7	11-Apr-23	Accumulate	147	102
8	10-Apr-23	Accumulate	147	99
9	11-Feb-23	Accumulate	148	105

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	Accumulate	820	762
2	Indian Railway Catering and Tourism Corporation	Hold	749	902
3	Inox Leisure	BUY	587	502
4	InterGlobe Aviation	Accumulate	3,312	3,127
5	Lemon Tree Hotels	BUY	155	138
6	Navneet Education	BUY	206	155
7	Nazara Technologies	Hold	833	871
8	PVR Inox	Accumulate	1,719	1,455
9	S Chand and Company	BUY	357	262
10	Safari Industries (India)	BUY	2,271	2,045
11	V.I.P. Industries	Hold	589	539
12	Zee Entertainment Enterprises	Reduce	151	156

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

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