

August 12, 2021

Q1FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	111		92	
Sales (Rs. m)	11,249	16,421	11,249	16,106
% Chng.	-	2.0		
EBITDA (Rs. m)	1,663	3,416	1,663	3,322
% Chng.	-	2.8		
EPS (Rs.)	3.9	9.7	3.9	9.2
% Chng.	-	5.8		

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	15,121	8,346	11,249	16,421
EBITDA (Rs. m)	3,135	870	1,663	3,416
Margin (%)	20.7	10.4	14.8	20.8
PAT (Rs. m)	1,972	134	879	2,203
EPS (Rs.)	8.6	0.6	3.9	9.7
Gr. (%)	29.1	(93.2)	560.9	150.7
DPS (Rs.)	3.5	1.0	1.5	3.2
Yield (%)	3.5	1.0	1.5	3.1
RoE (%)	23.9	1.5	9.2	20.8
RoCE (%)	25.5	5.0	12.2	23.2
EV/Sales (x)	1.7	2.9	2.2	1.6
EV/EBITDA (x)	8.3	27.4	14.9	7.6
PE (x)	11.8	174.2	26.4	10.5
P/BV (x)	2.7	2.5	2.4	2.0

Key Data

NAVN.BO | NELI IN

52-W High / Low	Rs.108 / Rs.72
Sensex / Nifty	54,844 / 16,364
Market Cap	Rs.23bn / \$ 314m
Shares Outstanding	229m
3M Avg. Daily Value	Rs.133.15m

Shareholding Pattern (%)

Promoter's	62.33
Foreign	4.30
Domestic Institution	14.67
Public & Others	18.70
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.9	23.3	32.2
Relative	(0.8)	15.9	(7.5)

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Traction evident in stationary exports

Quick Pointers:

- Staggered re-opening is expected for higher grades (9-12th). However, lower grades (primary & kindergarten) may witness a delay/not open at all resulting in business loss.
- Stationary exports increased 20% YoY to Rs1,850mn.

NELI's results were below our estimates due to delay in the start of academic session amid emergence of 2nd wave in a seasonally strong quarter. While higher divisions may witness staggered re-opening there is a possibility that lower grades especially kindergarten & primary may not open at all resulting in outright business loss in FY22. Nonetheless, management sounded confident on prospects of stationary exports and hinted that revenues in FY22 can be similar to FY20. Further, momentum is likely to continue in FY23 (minimum 20% growth targeted) as well aided by new product launches and expanding customer base. Further, NELI has also lined up aggressive expansion plans in the Ed-Tech space (launched Digi-Book, Kids Platform and Teachers Online Course recently) which we believe is a step in right direction as digital learning is expected to become even more relevant post-COVID. Amid expected normalcy from FY23, strong momentum in exports and renewed focus on Ed-Tech, we raise our target P/E multiple to 11.5x (10x earlier) and maintain ACCUMULATE on the stock with a revised TP of Rs111 (earlier Rs92).

Standalone sales decline 2% YoY: Standalone revenues declined 2% YoY to Rs3,183mn (PLe of Rs3,363mn). Publishing sales declined 20.1% YoY to Rs988mn while stationery sales increased 8.7% YoY to Rs2,184mn. Within stationery division – domestic sales were down 28% YoY to Rs334mn while export sales were up 20% YoY to Rs1,850mn.

Gross margins at 48.1%: Gross profit declined 1.5% YoY to Rs1,533mn (PLe of Rs1,597mn) with GM of 48.1% (PLe of 47.5%).

Standalone EBITDA declined 20.6% YoY: Standalone EBITDA declined 20.6% YoY to Rs618mn (PLe of Rs807mn) with a margin of 19.4%. Publishing EBIT declined from Rs377mn in 1QFY21 to Rs207mn (20.9% margin) while stationary EBIT grew 14.4% YoY to Rs443mn (20.3% margin)

Con-call highlights: 1) Stationery exports revenue in FY22 is likely to be similar to FY20 (~Rs5bn odd) with a minimum 20% growth targeted in FY23 2) EBITDA margin for stationary exports/domestic segment is in the range of 16-17%/8-9% respectively. 3) WC cycle for stationary exports is ~ 4months with ~60-90 days of credit period 4) Currently, 42 schools are operating under K12 brand and the plan is to take the count to 100 by FY25 5) Cash burn for existing Ed-tech ventures (excluding the new ones) is expected to be Rs300mn in FY22 6) New curriculum framework is expected to be announced in FY23 7) ~Rs300mn has been invested in 3 new Ed-Tech companies. Maximum cash burn of Rs30-40mn expected in only one of these companies. 8) ILL can achieve PAT break-even provided there is no further delay in reopening of schools.

Exhibit 1: Q1FY22 Standalone Result Overview (Rs mn)

Y/e March	Q1FY22	Q1FY21	YoY gr (%)	Q4FY21	QoQ gr. (%)
Net Sales	3,183	3,249	(2.0)	1,908	66.9
Expenditure					
Raw Materials	1,651	1,692	(2.5)	797	107.2
<i>% of Net sales</i>	<i>51.9</i>	<i>52.1</i>		<i>41.8</i>	
Personnel	362	324	11.9	360	0.7
<i>% of Net sales</i>	<i>11.4</i>	<i>10.0</i>		<i>18.8</i>	
Selling , dist & Other Exp	553	455	21.6	454	21.8
<i>% of Net sales</i>	<i>17.4</i>	<i>14.0</i>		<i>23.8</i>	
Total Expenditure	2,566	2,471	3.8	1,610	59.4
EBITDA	618	778	(20.6)	298	107.5
<i>Margin (%)</i>	<i>19.4</i>	<i>23.9</i>		<i>15.6</i>	
Depreciation	80	83	(3.6)	89	(9.8)
EBIT	538	695	(22.7)	209	157.2
Interest	12	36	(67.2)	8	55.3
Other Income	69	23	203.1	29	133.0
PBT	594	682	(12.8)	231	157.5
Tax	149	175	(15.0)	68	119.6
<i>Tax Rate (%)</i>	<i>25.1</i>	<i>25.7</i>		<i>29.4</i>	
Share of profit/loss from associates	-	-		-	
Adjusted PAT	445	507	(12.1)	163	173.3
Reported PAT	445	507	(12.1)	163	173.3
EPS	2.0	2.2	(11.9)	0.7	174.6

Source: Company, PL

Exhibit 2: Standalone segment revenue & EBIT table

Y/e March (Rs mn)	Q1FY22	Q1FY21	YoY gr (%)	Q4FY21	QoQ gr. (%)
Segment Revenue					
Publishing Content	988	1,236	(20.1)	907	8.9
Stationery Products	2,184	2,008	8.7	996	119.1
Others	20	9	135.3	8	156.4
Segment EBIT					
Publishing Content	207	377	(45.3)	194	6.4
Stationery Products	443	387	14.4	144	207.9
Others	7	4	73.8	2	386.7
EBIT Margin (%)					
Publishing Content	20.9%	30.5%	(962)bps	21.4%	(50)bps
Stationery Products	20.3%	19.3%	100 bps	14.4%	585 bps
Others	36.5%	49.4%	(1,291)bps	19.2%	1,727 bps

Source: Company, PL

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

Particulars	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Publishing revenue	3,660	1,795	1,031	622	4,322	1,277	830	559	1,236	550	253	907	988
YoY growth	-1.5%	52.5%	22.0%	14.4%	18.1%	-28.9%	-19.5%	-10.1%	-71.4%	-56.9%	-69.5%	62.3%	-20.1%
As a % of sales	54.7%	68.2%	56.9%	25.4%	54.4%	51.8%	43.2%	27.0%	38.1%	34.5%	19.9%	47.6%	31.1%
Stationary revenue	3,034	836	783	1,829	3,625	1,187	1,092	1,510	2,008	1,046	1,017	996	2,184
YoY growth	59.6%	31.0%	-12.4%	16.0%	19.5%	42.0%	39.5%	-17.5%	-44.6%	-11.8%	-6.9%	-34.0%	8.7%
As a % of sales	45.3%	31.8%	43.1%	74.6%	45.6%	48.2%	56.8%	73.0%	61.9%	65.5%	80.1%	52.4%	68.9%
Total sales	6,693	2,631	1,814	2,451	7,947	2,463	1,922	2,068	3,244	1,597	1,270	1,903	3,171

Source: Company, PL

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

Particulars	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Publishing EBIT margin	42.3%	32.4%	23.0%	16.2%	37.9%	20.1%	19.8%	2.4%	30.5%	2.4%	-70.5%	21.4%	20.9%
Stationary EBIT margin	18.2%	-5.8%	-8.9%	11.3%	21.8%	6.6%	7.4%	18.2%	19.3%	8.5%	14.3%	14.4%	20.3%

Source: Company, PL

Exhibit 5: Snapshot of consolidated results

Particulars	Q1FY22			Q1FY21		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
NEL	3,183.1	685.8	445.2	3,248.7	800.6	506.4
Esense	22.6	(19.2)	(50.2)	11.0	(25.5)	(39.7)
ILL	96.1	(15.9)	(34.6)	60.3	(60.7)	(74.7)
NHKL + NLLP	15.4	2.1	2.1	9.0	-	-
K12	-	-	(43.6)	-	-	8.5
K12 Diminution Gain	-	-	-	-	-	-
Inter-segment	(38.7)	1.6	2.1	(9.0)	(7.6)	(6.8)
Total	3,278.5	654.4	321.0	3,320.0	706.8	393.7

Source: Company, PL

Exhibit 6: Syllabus change schedule FY22

Academic Year	Maharashtra		Gujarat	
	Class	Subject	Class	Subject
2021-2022	Not Yet Communicated		5	Gujarati (First Language)
			4	Marigold (English), RimJim (First Language)
			6	Gujarati (Second Language)
			8	Social Science

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	15,121	8,346	11,249	16,421
YoY gr. (%)	4.6	(44.8)	34.8	46.0
Cost of Goods Sold	7,289	3,971	5,445	7,915
Gross Profit	7,831	4,375	5,805	8,506
Margin (%)	51.8	52.4	51.6	51.8
Employee Cost	1,801	1,641	1,723	1,921
Other Expenses	2,895	1,864	2,419	3,169
EBITDA	3,135	870	1,663	3,416
YoY gr. (%)	15.8	(72.2)	91.1	105.4
Margin (%)	20.7	10.4	14.8	20.8
Depreciation and Amortization	469	471	500	530
EBIT	2,666	399	1,164	2,885
Margin (%)	17.6	4.8	10.3	17.6
Net Interest	171	101	120	150
Other Income	224	137	190	210
Profit Before Tax	2,719	434	1,234	2,945
Margin (%)	18.0	5.2	11.0	17.9
Total Tax	746	328	311	742
Effective tax rate (%)	27.4	75.6	25.2	25.2
Profit after tax	1,973	106	923	2,203
Minority interest	-	-	0	0
Share Profit from Associate	(1)	28	(44)	-
Adjusted PAT	1,972	134	879	2,203
YoY gr. (%)	29.1	(93.2)	556.1	150.7
Margin (%)	13.0	1.6	7.8	13.4
Extra Ord. Income / (Exp)	-	425	-	-
Reported PAT	1,972	559	879	2,203
YoY gr. (%)	29.1	(71.7)	57.1	150.7
Margin (%)	13.0	6.7	7.8	13.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,972	559	879	2,203
Equity Shares O/s (m)	229	229	227	227
EPS (Rs)	8.6	0.6	3.9	9.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	5,322	5,576	6,014	6,644
Tangibles	4,519	4,851	5,151	5,751
Intangibles	803	725	863	893
Acc: Dep / Amortization	3,205	3,677	4,278	4,862
Tangibles	2,710	3,181	3,680	4,211
Intangibles	496	496	597	651
Net fixed assets	2,525	2,173	2,009	2,055
Tangibles	2,218	1,944	1,744	1,814
Intangibles	307	229	265	242
Capital Work In Progress	57	224	224	224
Goodwill	457	433	433	433
Non-Current Investments	1,109	1,640	1,926	2,279
Net Deferred tax assets	97	(24)	(24)	(24)
Other Non-Current Assets	78	97	98	99
Current Assets				
Investments	-	-	-	-
Inventories	4,710	4,156	4,623	6,074
Trade receivables	2,679	1,845	2,681	3,824
Cash & Bank Balance	101	244	733	520
Other Current Assets	525	690	793	873
Total Assets	12,897	11,805	13,847	16,742
Equity				
Equity Share Capital	458	458	454	454
Other Equity	8,170	8,847	9,374	10,850
Total Network	8,628	9,305	9,828	11,304
Non-Current Liabilities				
Long Term borrowings	341	220	220	220
Provisions	10	11	12	13
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,442	521	2,085	3,058
Trade payables	463	784	647	900
Other current liabilities	1,009	937	1,025	1,219
Total Equity & Liabilities	12,897	11,805	13,846	16,741

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	2,719	888	1,234	2,945
Add. Depreciation	469	471	500	530
Add. Interest	171	101	120	150
Less Financial Other Income	224	137	190	210
Add. Other	40	(345)	(114)	(126)
Op. profit before WC changes	3,398	1,115	1,739	3,500
Net Changes-WC	195	1,819	(1,458)	(2,230)
Direct tax	(761)	(255)	(261)	(692)
Net cash from Op. activities	2,832	2,679	20	577
Capital expenditures	(12,717)	(10,863)	(336)	(576)
Interest / Dividend Income	38	18	114	126
Others	12,090	10,443	(10)	(21)
Net Cash from Inv. activities	(589)	(401)	(232)	(472)
Issue of share cap. / premium	-	-	-	-
Debt changes	11,373	3,103	1,565	972
Dividend paid	(1,104)	-	(229)	(351)
Interest paid	(140)	(73)	(120)	(150)
Others	(12,138)	(5,171)	3	-
Net cash from Fin. activities	(2,009)	(2,141)	1,219	471
Net change in cash	235	137	1,007	576
Free Cash Flow	(9,906)	(8,188)	(316)	1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	8.6	0.6	3.9	9.7
CEPS	10.7	2.6	6.1	12.0
BVPS	37.7	40.7	43.3	49.8
FCF	(43.3)	(35.8)	(1.4)	-
DPS	3.5	1.0	1.5	3.2
Return Ratio(%)				
RoCE	25.5	5.0	12.2	23.2
ROIC	24.3	7.4	12.0	20.4
RoE	23.9	1.5	9.2	20.8
Balance Sheet				
Net Debt : Equity (x)	0.3	0.1	0.2	0.2
Net Working Capital (Days)	167	228	216	200
Valuation(x)				
PER	11.8	174.2	26.4	10.5
P/B	2.7	2.5	2.4	2.0
P/CEPS	9.6	38.6	16.8	8.5
EV/EBITDA	8.3	27.4	14.9	7.6
EV/Sales	1.7	2.9	2.2	1.6
Dividend Yield (%)	3.5	1.0	1.5	3.1

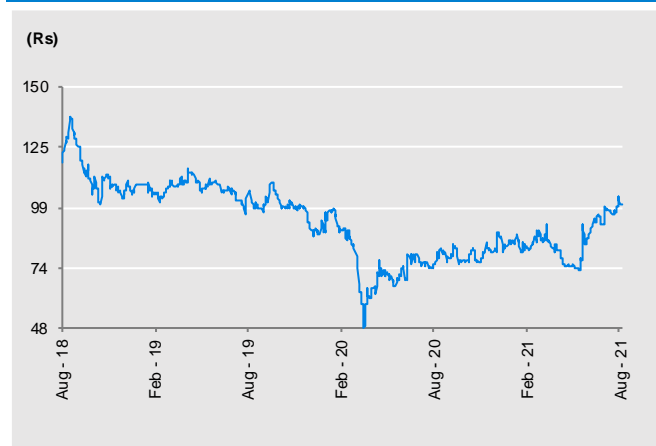
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	1,599	1,274	1,908	3,183
YoY gr. (%)	(35.2)	(33.9)	(7.9)	(2.0)
Raw Material Expenses	757	599	797	1,651
Gross Profit	842	675	1,111	1,533
Margin (%)	52.6	53.0	58.2	48.1
EBITDA	92	(54)	298	618
YoY gr. (%)	(71.1)	NA	NA	(20.6)
Margin (%)	5.7	NA	15.6	19.4
Depreciation / Depletion	87	89	89	80
EBIT	5	(144)	209	538
Margin (%)	0.3	NA	11.0	16.9
Net Interest	16	9	8	12
Other Income	43	50	29	69
Profit before Tax	32	(102)	231	594
Margin (%)	2.0	NA	12.1	18.7
Total Tax	10	(26)	68	149
Effective tax rate (%)	29.9	NA	29.4	25.1
Profit after Tax	23	(76)	163	445
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	23	(76)	163	445
YoY gr. (%)	(94.7)	NA	NA	(12.1)
Margin (%)	1.4	NA	8.5	14.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	23	(76)	163	445
YoY gr. (%)	(94.7)	NA	NA	(12.1)
Margin (%)	1.4	NA	8.5	14.0
Other Comprehensive Income	43	7	(5)	(25)
Total Comprehensive Income	65	(69)	158	421
Avg. Shares O/s (m)	229	229	229	228
EPS (Rs)	0.1	(0.3)	0.7	2.0

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-21	Accumulate	92	98
2	31-May-21	Accumulate	92	85
3	07-Apr-21	Accumulate	98	82
4	15-Feb-21	Accumulate	94	84
5	11-Jan-21	Accumulate	93	76
6	11-Nov-20	Accumulate	93	79
7	09-Oct-20	Accumulate	95	76
8	13-Aug-20	Accumulate	94	81

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	193	183
3	Indian Railway Catering and Tourism Corporation	BUY	2,329	2,169
4	Inox Leisure	BUY	380	316
5	Music Broadcast	Hold	24	25
6	Navneet Education	Accumulate	92	98
7	PVR	BUY	1,625	1,400
8	S Chand and Company	BUY	146	113
9	V.I.P. Industries	BUY	457	386
10	Zee Entertainment Enterprises	BUY	253	197

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

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