Navneet Education Limited

January 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	450.00	CARE AA; Stable/ CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Revised from CARE AA+; Negative / CARE A1+ (Double A Plus; Outlook: Negative / A One Plus)
Short Term Bank Facilities	2.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**452.00 (Rs. Four Hundred Fifty-Two Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Navneet Education Limited (NEL) factors in the significant impact of the pandemic, affecting the revenues and profitability of the company during FY21 The performance has witnessed improvement during H1FY22, however, CARE expects the performance in FY22 would be lower than envisaged at the time of last review on account of subsequent waves of the pandemic, resulting in prolonged closure of the schools. The ratings of NEL continues to factor favorably the long-standing experience of its promoters, NEL's well-established market presence and strong brand recognition. In addition, the rating also favorably factors in the healthy financial risk profile of the company aided by strong liquidity position and absence of any long-term debt, which is expected to be maintained.

The ratings are constrained by high dependence on syllabus change for revenue growth in publication segment, revenue concentration in the states of Maharashtra and Gujarat, seasonality of business operations, highly competitive and fragmented stationery industry, and volatility in margins due to raw material prices and foreign exchange fluctuation risk. While the outlook for the publication segment is expected to remain muted, intense competition in the digital content segment, will further increase the requirement of fresh investments into its subsidiaries.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- NEL's ability to significantly expand its footprint in states other than Maharashtra and Gujarat and make inroads in other national (CBSE and ICSE) and state level boards, amidst the competitive business environment will be the key positives.
- Healthy profitability in subsidiaries on sustained basis
- Working capital cycle below 150 days on sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any significant support/investment to group/associate companies impacting NEL's overall financial risk profile.
- Further closure of schools impacting financials risk profile of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Long standing experience of promoters

NEL has been operating in the field of educational publications for more than five decades. The company is presently being managed by five brothers (the Gala family) who are second-generation entrepreneurs. Over the years, the company's promoters and the management have managed to build strong brand image and market acceptance in the states of Maharashtra and Gujarat for its various publications viz Navneet, Vikas, Gala etc.

Well-established market presence and strong brand recognition in the states of Maharashtra and Gujarat

NEL has developed good relations with schools over the years, many of which allow them to showcase their products. Also, NEL's books are generally used/ recommended by the school faculty ensuring high acceptance among students and parents. According to the company, it takes utmost care to ensure superior content quality in order to maintain confidence of teachers and parents in its products.

Healthy profitability driven by robust operating margins in publication segment

NEL's profitability margins have remained healthy in the range of 20-22%, while the return ratios have remained robust at about 22-25%.The profitability is primarily driven by its publication segment which commands operating margins of around 30% with NEL's strong market position in the supplementary educational books space. While the company is exposed to volatility in paper prices, it manages to pass on and maintain strong margins owing to its strong brand image.

However, in FY21, owing to first wave of pandemic which led to imposition of lockdown across the country in Q1, the schools were shut down and remained closed even after lifting of restrictions as a precautionary measure. The company earns majority

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

of its income and profits in Q1 of every financial year, but due to pandemic its PBILDT margin declined to around 12% and ROCE declined to 10.46%.
During H1FY22 margins in publishing and stationary segment recovered as compared to that of FY21 as the company took many cost cutting initiatives during FY21, which led to improvement in margins and also overall revenue was 14% higher than that of H1FY21.

Robust capital structure despite working capital intensive nature of business
NEL's borrowing levels continues to be low despite highly working capital intensive nature. Overall gearing sharply improved to 0.09x as on March 31, 2021 as against 0.36x as on March 31, 2020 owing to sharp decline in working capital borrowings due to lower revenue in FY21. Owing to its seasonal nature of business, the company's inventory piles up in the months of January to June leading to substantially stretched operating cycle of about 200 to 230 days at the end of financial year. During this period, the company resorts to short term borrowings to part fund its working capital requirements. However, as inventory levels ease post June, operating cycle reduces to about 150 days as at end of H1. NEL's borrowings drop substantially for the rest of the year (July-December) as the company manages its working capital requirements predominantly through internal accruals during the period. Interest coverage ratio deteriorated in 9.25 times in FY21 as against 17.63 times in FY20 as absolute PBILDT registered a sharp decline owing to decline in revenue.
TDGCA improved to 0.67 years from 1.16 years owing to decline in overall debt.
During H1FY22 debt coverage ratios improved again with interest coverage ratio improving to 28 times as against 11.11 times in H1FY21.

Key Rating Weaknesses
Concentrated revenue streams
NEL has traditionally been operating in the markets of Maharashtra and Gujarat and derives major part of its income from the two states. NEL's key profit contributor - publication segment - derives almost its entire income through study material for the two state boards (SSC) leading to considerable concentration of revenues. At the same time, growing trend of schools switching from traditional state boards to CBSE boards poses challenge to NEL's publication business in the long term.
In order to offset this risk, NEL during FY17 acquired Indiannica Learning Pvt. Ltd. (**ILPL**, formerly known as Encyclopaedia Britannica (India) Pvt. Ltd.). ILPL designs and develops educational products (Print and Digital) for the Indian schools. NEL expects to increase company's curricular offering in Indian school market at national level.
However, NEL continues to face stiff competition from established publishers in these boards. The company's stationery business has been growing its presence nationally as well as internationally. Further, the company has entered into several other related businesses such as eLearning solutions, K12 schools etc.

Seasonal nature of business
As NEL predominantly caters to the education sector, it witnesses maximum demand during the first quarter of the financial year (which precedes start of an academic year). The company's profitability also spikes up during that quarter as publication segment generates higher margin. The seasonal nature also causes NEL's inventory and consequently borrowing levels to rise during Q4 and Q1 (January – June) of the financial year.

Sharp decline in revenue in FY21 and further H1FY22 albeit closure of schools
The company reported 45% decline in total income in FY21 on Y-o-Y basis to Rs.850 crore owing to schools being shut for majority of classes over the year, which impacted the income from publishing and stationary segments significantly. Also, due to no change in syllabus the revenue was further impacted.
During H1FY22 NEL reported 14% increase in TOI to Rs.574 crore as compared to H1FY21 as the schools in Gujarat reopened after Q1FY22. Closure of schools has affected both publishing and stationary segment of the company it has also affected exports of stationary as well (due to uncertainty in clients about school re-opening in key markets like USA). Decline in revenue has resulted in significant decline in margin as company had to bare entire fixed cost.

Liquidity: Strong
Liquidity position is marked by strong accruals against negligible repayment obligations and bank balance to the tune of Rs.58 crore (as on September 30, 2021). With a gearing of 0.09x as of September 30, 2021, NEL has sufficient headroom, to raise additional debt for liquidity. Average utilization of past 12 months ending on October 31, 2021 was 1.33% only and present utilization level is Nil in all the banks as confirmed by bankers. Also, the unutilised limits adds further cushion to liquidity.

Analytical approach - Consolidated
For arriving at the ratings, CARE has considered the audited consolidated financial statements published in the FY21 annual report. NEL has various subsidiaries, and associates and joint ventures. These companies are fully consolidated due to operational and financial linkages, fungible cash-flows and support provided by NEL to various subsidiaries/associates etc. List of companies that are consolidated to arrive at the ratings are given in Annexure below.

No.	Name of the Companies	% of shareholding
	Subsidiaries	
1.	eSense Learning Pvt Ltd	100
2.	Navneet (HK) Ltd	70
3.	Indiannica Learning Pvt. Ltd.	100
4.	Navneet Learning LLP	93
5.	Navneet Tech Ventures Private Limited*	100
Associate		
1.	K12 Techno Services Private Limited	27.69

**The company was incorporated on March 30, 2021*

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's policy on default recognition
Rating Methodology: Consolidation
Criteria for Rating Credit Enhanced Debt
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology – Manufacturing Companies
Rating Methodology – Education Sector
Liquidity Analysis of Non-financial sector entities

About the Company
Navneet Educated Limited (NEL) as founded by Gala family in 1959 by opening its first shop in Dhobi Talao called the College Book Depot Subsequently the company was incorporated in 1984; NEL (formerly Navneet Publications (India) Ltd) is an educational syllabus-based content provider in Print & Digital medium, a manufacturer of scholastic paper and nonpaper stationery, and a publisher of children books. Having started its operations as a publishing house for educational & children books, NEL publishes supplementary educational books in five languages - English, Gujarati, Hindi, Marathi, and Urdu. The company also publishes various titles in the children and general books category such as coloring and activity books, board books, story books and books on health & hygiene, art & artist, cooking, mehendi, embroidery etc. The publication segment accounts for about 55-60% of the company's revenues. In 1993, the company ventured into paper based stationery with products such as tight bound note books, long books, hard case bound books and drawing books; catering to domestic as well as overseas markets. Further in 2006, NEL diversified to non-paper based stationery such as pencils, erasers, sharpeners, rulers, compass boxes and art materials etc. Stationery segment (both paper as well as non-paper based) accounts for 40-45% of its revenues. Presently, the company has four manufacturing units in Maharashtra, Gujarat & Silvassa and more than 500 stock keeping units. Additionally, NEL has ventured into several education-related fields over the past few years. The company provides digital learning solutions through its subsidiary ELPL, designs and develops educational products (print and digital) for the Indian schools through ILPL and holds 27.69% stake in KTPL - through Navneet LLP, which is into School Management managing 33 Orchids The International schools in Bangalore, Hyderabad, Mumbai, Pune, Kolkata and one PUC and Degree college in Bangalore.

Consolidated Financials

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	1,531.81	849.65	573.76
PBILDT	335.15	105.90	96.67
PAT	197.25	55.91	37.14
Overall gearing (times)	0.36	0.09	0.07
Interest coverage (times)	17.63	9.25	28

A: Audited; UA: Unaudited
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	-	450.00	CARE AA; Stable / CARE A1+
Non-fund-based - ST-Bank Guarantees	-	-	-	-	2.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	450.00	CARE AA; Stable / CARE A1+	-	1)CARE AA+; Negative / CARE A1+ (08-Jan-21)	1)CARE AA+; Stable / CARE A1+ (22-Nov-19) 2)CARE AA+; Stable / CARE A1+ (22-May-19)	1)CARE AA+; Stable / CARE A1+ (25-Jan-19)
2	Non-fund-based - ST-Bank Guarantees	ST	2.00	CARE A1+	-	1)CARE A1+ (08-Jan-21)	1)CARE A1+ (22-Nov-19) 2)CARE A1+ (22-May-19)	1)CARE A1+ (25-Jan-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated facilities - NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based/Non-fund-based-LT/ST	Simple
2	Non-fund-based - ST-Bank Guarantees	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Hitesh Avachat
Contact no.: 90048 60007
Email ID: hitesh.avachat@careedge.in

Relationship Contact
Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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