Navneet Education Limited

January 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/short-term bank facilities	450.00	CARE AA; Stable/CARE A1+	Reaffirmed
Short-term bank facilities	2.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings of the bank facilities of Navneet Education Limited (NEL) have been reaffirmed, factoring in the well-established market position of the company in providing supplementary content for the syllabus-based educational curriculum published in Gujarat and Maharashtra. The ratings consider the more-than-five-decades of experience of NEL's promoters (the Gala family) and its strong brand recognition among schools, authors, and teachers. The ratings also take account of the company's healthy financial risk profile, with no term loan outstanding as on September 30, 2023, and its strong liquidity position.

During August 2023, NEL announced the amalgamation of Genext Students Private Limited, its step-down subsidiary, with it. This move aims at rationalising the company's group structure and achieving better synergies between its publication and edtech businesses. Concurrently, Navneet Futuretech Limited's (NFL's) edtech business will be demerged into NEL post the National Company Law Tribunal (NCLT) approval. This strategic approach aims at offering phygital education solutions and expanding both, its publications and digital product offerings. The move facilitates cost rationalisation by utilising the existing NEL workforce and resources to serve both product lines, broadening the company's product portfolio in a resource-efficient manner. CARE Ratings Limited (CARE Ratings) continues to follow the consolidated approach for NEL, and hence, there is no impact on the company's overall ratings.

NEL's ratings are constrained by its high dependence on syllabus change for revenue growth in the publication segment, revenue concentration in Maharashtra and Gujarat, the seasonality of business operations, the highly competitive and fragmented stationery industry, and foreign exchange fluctuation risk. The volatility in margins due to raw material inflation occurs due to the export stationery business, where there is some lag in cost pass-through due to the pre-booking of orders. The outlook for the publication business is stable owing to the re-opening of schools.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- NEL's ability to significantly expand its footprint in states other than Maharashtra and Gujarat and make inroads in other national (Central Board of Secondary Education [CBSE] and Indian Certificate of Secondary Education [ICSE]) and state level boards amid the competitive business environment.
- Healthy profitability in subsidiaries and ramp-up in the edtech business, generating profits on a sustained basis.
- Working capital cycle below 150 days on a sustained basis.

Negative factors

- Any significant support or investment to group or associate companies impacting NEL's overall financial risk profile.
- Significant debt-funded capex or increase in working capital requirement, leading to increase in the gearing above 1x.

Analytical approach: Consolidated

CARE Ratings has adopted a consolidated approach. There are various subsidiaries, having significant operational and financial linkages. There is significant reliance of the subsidiaries on the parent, with business interlinkages between the parent and subsidiaries. The list of companies consolidated for analysis is mentioned below.

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

No.	Name of the Company	Percentage of Shareholding (as on March 31, 2023)
Subsidiaries		
1.	Navneet Futuretech Ltd	100
2.	Navneet (HK) Ltd	70
3.	Indiannica Learning Pvt Ltd	100
4.	Navneet Learning LLP	93
5.	Navneet Tech Ventures Pvt Ltd (Non-operational)	100
6.	Genext Students Pvt Ltd (Step-down subsidiary)	100
Associates		
1.	K12 Techno Services Pvt Ltd	22.14
2.	Carveniche Technologies Private Limited	46.84

Outlook: Stable

CARE Ratings' stable outlook to NEL is per the expectations of the firm maintaining stable financial and business risk profiles and having a strong management risk profile with comfortable debt metrics.

Detailed description of the key rating drivers

Key strengths

Longstanding experience of promoters

NEL's operations in the field of educational publications spans more than five decades. The company is currently managed by five brothers, who are second-generation entrepreneurs of the Gala family. The company's promoters and management have, over the years, managed to build a strong brand image and market acceptance for its various publications, viz, Navneet, Vikas, and Gala, among others, in Maharashtra and Gujarat.

Market presence and strong brand recognition in Maharashtra and Gujarat

NEL has, over the years, developed connections with schools. Most of the schools also allow the company to showcase their products. NEL's books are generally used or recommended by school faculties, resulting in high acceptance among students and parents. The company, at the outset, ensures superior content quality to maintain the confidence of teachers and parents.

Healthy profitability driven by robust operating margins in publication segment

NEL's profitability margins have remained healthy in the range of 15-20%, while the return ratios have remained robust. Its profitability is primarily driven by the publication segment considering 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. Notably, the export stationery business yields more profits than the domestic stationery business. CARE Ratings expects NEL's focus on the export of stationery to increase, going forward.

Robust capital structure despite working capital intensive nature of business

NEL's borrowing level continues to be low despite its highly working capital-intensive operations. The overall gearing remained low at 0.26x as on March 31, 2023, as the company has negligible term loans and only utilises working capital for managing the seasonality nature of its business.

Notably, the company's inventory piles up between the months of January and June, leading to a substantially stretched operating cycle of about 190-200 days at the end of the fiscal. During this period, NEL resorts to short-term borrowings to part fund its working capital requirements. However, as the inventory level eases post June, the operating cycle reduces at the end of the first half of the fiscal. 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. Resultantly, the short-term debt outstanding stood at ₹47.55 crore as on September 30, 2023, as against ₹287.83 crore as on March 31, 2023. The interest coverage ratio (ICR) stood at 22.84x in FY23.

Key weaknesses

Concentrated revenue streams

NEL has traditionally been operating in the markets of Maharashtra and Gujarat and derives a major part of its income from the two states. The company's key profit contributor – the publication segment – derives almost its entire income through study material for the two state boards (Secondary School Certificate [SSC]), leading to considerable concentration of revenue. The growing trend of schools switching from the traditional state boards to CBSE board poses a challenge to NEL's publication business in the long term.

To offset this risk, during FY17, NEL acquired Indiannica Learning Private Limited (ILPL; formerly known as Encyclopaedia Britannica (India) Private Limited), which designs and develops educational products (print and digital) for Indian schools. NEL expects to increase the company's curricular offerings in Indian schools at the national level. The company, however, continues to face stiff competition from established publishers in these boards.

The presence of NEL's stationery business has been growing nationally as well as internationally. The company has launched various products via its subsidiary, Navneet Futuretech Limited (formerly Esense Learning Private Limited). Revenue visibility from the same is moderate and may take a while before it becomes break-even.

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 the start of an academic year). The company's profitability also spikes up during this quarter as the publication segment generates higher margins. The seasonal nature also causes NEL's inventory, and consequently, the borrowing level to rise during Q4 and Q1 (January to June) of a financial year.

Investment in subsidiary/associate and extension of financial support
NEL continues to extend support to the entities listed below by providing corporate guarantee (CG), loans and advances, and equity investments. Following is the investment profile of NEL in its subsidiaries.

Standalone Financials	As on March 31, 2022 (₹ crore)	As on March 31, 2023 (₹ crore)
Total investments	333.97	507.88
Loans to subsidiaries (outstanding)	33.11	15.50
Navneet Futuretech Limited		
Corporate guarantee	16.50	16.50
Loan	24.61	-
Total investments	88.34	262.20
Indiannica Learning Private Limited		
Corporate guarantee	40.00	40.00
Loan	8.50	15.50
Total investments	102.28	121.26
Other investments	143.34	124.42

Apart from CG, NEL has extended support to ILPL through a loan of ₹15.50 crore as on March 31, 2023.

Liquidity: Strong
The liquidity position is marked by strong accruals against no term loan repayment obligations and cash equivalents of ₹75.66 crore (as on September 30, 2023). With a gearing of 0.04x as on September 30, 2023, NEL has sufficient headroom to raise additional debt for liquidity. The average utilisation for the last 12 months ending November 30, 2023, was 15%, and at present, the utilisation level is marginal in all the banks, as confirmed by bankers. Also, the unutilised limits add further cushion to the liquidity.

Environment, social, and governance (ESG) risks

	Risk factors
Environmental	1. The company has offset nearly 472.85 TCO2e emissions in 2022-23 and 601.32 TCO2e emissions in 2021-22 through various greenhouse gas (GHG) offsetting projects. 2. Power consumption has reduced by 30% due to renewable (solar) energy consumption.
Social	The company supported self-help groups related to income generation and infrastructure development, benefiting 2,500 families. More than 12,200 groups, comprising 131,700 or more women, have improved their socio-economic situations through these programs.
Governance	26% are independent directors

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Service Sector Companies

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer services	Other consumer services	Education

NEL is one of the largest educational syllabus-based supplementary content providers for state-board based curriculum (workbooks, digest, general books for children) for schools in Gujarat and Maharashtra (with 65% market share). Over the years, the company has tied-up with 300+ authors on a contractual basis with a performance-linked royalty programme, resulting in publication of 5,800+ titles, presence in 48,000+ retail outlets, and around 40 million students covering five medium languages. The company's strength lies in tying up with schools that may or may not recommend Navneet publication books to students (around 30,000 school visits done annually).

Another segment is the stationery business (around 50% in terms of revenue). Currently, the company has three manufacturing units – in Maharashtra, Gujarat, and Silvassa, and more than 600 stock keeping units (SKUs). The company is mainly into paper-based stationery (around 90%) like notebooks. Approximately 25-30% of this business comes from exports. Office stationery contributes 17-18% of these exports.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	1,124.54	1,701.54	1057.23
PBILDT	174.63	304.43	210.32
PAT	74.37	203.78	180.54
Overall gearing (times)	0.15	0.26	0.04
Interest coverage (times)	23.89	22.84	18.48

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ 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 guarantee		-	-	-	2.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	450.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (29-Dec-22)	1)CARE AA; Stable / CARE A1+ (07-Jan-22)	1)CARE AA+; Negative / CARE A1+ (08-Jan-21)
2	Non-fund-based - ST-Bank guarantee	ST	2.00	CARE A1+	-	1)CARE A1+ (29-Dec-22)	1)CARE A1+ (07-Jan-22)	1)CARE A1+ (08-Jan-21)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple
2	Non-fund-based - ST-Bank guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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