Navneet Education Limited

February 04, 2025

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 assigned to the bank facilities of Navneet Education Limited (NEL) continues to factor 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 rating also considers more-than-five-decades of experience of NEL's promoters (the Gala family) and its strong brand recognition among schools, authors, and teachers.

In FY24, on consolidated basis, company posted Total Operating Income (TOI) of ₹1,758.41 crores as compared to ₹1,701.54 crores in FY23, registering growth of 3.34% Y-o-Y. The growth in TOI is largely attributable to a strong uptick in demand for branded and quality stationery products in domestic market as well as growth in exports on account of partnerships with major retailers in the United States (US) and globally. Publication business witnessed a marginal decline of ~2% Y-o-Y basis on account of certain external challenges, such as lower-than-expected off-take of channel inventory and surge in the resale of second-hand books due to a lack of major curriculum changes. PBILDT margin moderated to 17.27% in FY24 from 17.89% in FY23 on account of increased employee cost and other expenses during the year. In H1FY25, the company has reported TOI of ₹1,069 crore and PBILDT margin of 20.79%, PBILDT margin has improved due to lower raw material cost.

The outlook for the publication business is stable owing to expectations of curriculum change for 15 subjects for grades 1 to 4 for State Board Schools in Gujarat and grade 1 to 2 in Maharashtra for academic year 2025-26. Further, the stationery business segment of the company is expected to drive growth of the company going forward.

NEL has completed demerger of the edtech business under its subsidiary "Navneet Futuretech Limited" with itself, to offer 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 thereby broadening the company's product portfolio in a resource-efficient manner.

In May 2024, the company sold 5.12% of its stake in K12 Techno Services Private Limited (K12) for a consideration of ₹225.18 crore. This is first partial exit by the company in K12. Post stake sale, the company continues to hold 14.35% in K12.

The company has used the proceeds to fund buyback of ₹100 crore done in August 2024 and proposes to use the balance cash towards capex and working capital funding. The company plans to incur capex of ₹200 crore in the next 2-3 years, primarily towards capacity expansion under stationery segment and regular maintenance for publication segment.

The ratings also takes into account the company's healthy financial risk profile, with no term loan outstanding as on September 30, 2024, and its strong liquidity position. Post stake sale, the company's cash balance has increased significantly to ₹223 crore as on September 30, 2024.

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.

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.
- 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.

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

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 provided in Annexure 6.

Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects that NEL will continue to maintain its business and financial risk profile backed by its strong brand and presence and experience of management in education content publication business.

Detailed description of 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.

Strong market position in education content publication business

Navneet Education Limited (Navneet) has strong market position in the education content publication for SSC Board in Maharashtra and Gujarat. Further the company through its subsidiary Indiannica Learning Private Limited offers textbooks to CBSE Schools with presence in Northern and Eastern belt. Apart from Printing and Publication business, 58% of the company's revenue was from stationary business in FY24.

The publication segment is expected to benefit in FY26 with the adoption of new curriculum (under NEP) for grades 1 to 4 in Gujarat and grade 1 to 2 in Maharashtra for academic year 2025-26. Revised curriculum would require printing new school supplementary materials, the company publishes supplementary books for state boards in Gujarat and Maharashtra with sales majorly in Q1 as schools start the new academic year from June. This change is anticipated to drive higher single digit growth in the publication segment in FY26. Stationery business is projected to grow by lower double digit annually with export demand and newer product offering, stationery exports contribute ~35% of total revenue.

Restructuring of business

The group has recently restructured its business where NEL has merged Edtech business of Navneet Futuretech Limited (Toptech & BeMasterly) and Genext Students Private Limited (step down subsidiary) with its publishing business. This restructuring aims to enhance synergies between the publication and Edtech sectors, achieve cost rationalisation, and make effective use of existing workforce and resources. Additionally, it seeks to diversify Navneet's product offerings and adapt to the changing educational landscape.

Stake sale in K12 Techno Services Private Limited in Q1FY25

As on March 31, 2024, the company holds 20.25% stake in K12 Techno Services Private Limited (K12). The company manages 96 schools and colleges under the Orchid International Brand. In May 2024, the company sold 5.12% stake for a consideration of ₹225.18 crore. This is first partial exit by the company in K12. Post stake sale, the company continues to hold 14.35% in K12. Navneet has invested ~₹118 crore in K12 till date and currently has no plans to further dilute its holding in the company. Post stake sale, the company's cash balance has increased significantly to ₹223 crore as on September 30, 2024.

The company has used the proceeds to fund buyback of ₹100 crore done in August 2024 and proposes to use the balance cash towards capex and working capital funding. The company plans to incur capex of ₹200 crore in the next 2-3 years, primarily towards capacity expansion under stationery segment and regular maintenance for publication segment.

Healthy profitability driven by growing stationery segment

In FY24, NEL reported 3% y-o-y growth in total operating income to ₹1,758.41 crore. The growth was largely attributable to uptick in demand for branded and quality stationery products in domestic market as well as growth in the exports on account of partnerships with major retail outlets in the United States (US) and globally. Publication business witnessed a marginal decline of ~2% on Y-o-Y basis on account of certain external challenges, such as lower-than-expected off-take of channel inventory and surge in the resale of second-hand books due to a lack of major curriculum changes during the year.

In H1FY25, the company reported TOI of ₹1,069.60 crore driven by stable revenue in publication business on account of reduction in syllabus which led to redesigning of products and led to reduction in prices which was offset by the increase in volumes. In stationery business, domestic sales declined on account of repricing of products, reduction in raw material prices as well as slowerthan-expected movement in channel level inventory in key markets. Export stationery business has shown strong growth on account growing demand for both traditional paper-based and modern non-paper products. PBILDT margins have resultantly improved to 20.79% for H1FY25 from 17.27% in FY24.

NEL's profitability margins have remained healthy in the range of 15-20%, while the return ratios have remained robust. 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.

Comfortable capital structure supported by adequate liquidity

NEL's borrowing level continues to be low despite its highly working capital-intensive operations. The overall gearing remained low at 0.21x as on March 31, 2024, 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. The company has cash surplus of ₹223 crore as on September 30, 2024. The liquidity profile is further supported by working capital limits of ₹515 crore which were utilised at 9.58% for past 12 months, up to November 2024, providing adequate cushion to meet contingencies, if any.

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.

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 its associates/subsidiaries by providing corporate guarantee, loans and advances and equity Investments. Any support, impacting the company's liquidity profile or capital structure will remain a key monitorable.

Liquidity: Strong

NEL has a robust liquidity position, supported by strong accruals and no term loan repayment obligations. As of September 30, 2024, the company holds Rs. 223 crore in cash equivalents and has an adjusted gross cash flow of Rs. 444 crore. With a gearing ratio of 0.15x on September 30, 2024, NEL has ample capacity to secure additional debt for liquidity purposes for funding any regular capex requirement. Over the past 12 months, up to November 2024, the average utilisation of working capital limits was nominal at 9.58%.The unutilised limits further enhance the company's liquidity cushion.

Environment, social, and governance (ESG) risks

	Risk factors
Environmental	The company has off settled nearly 5929.8 metric tonnes of CO_2 emissions in 2023-24 and 4728.5 metric tonnes of CO_2 emissions in 2022-23 through their various GHG offsetting project. Power consumption has reduced 70% due to renewable (solar) energy consumption.
Social	The company covered the educational fees for 271 children, including those with special needs, cancer and underprivileged backgrounds. In Gujarat and Maharashtra, the company has set-up medical centres, providing treatment for 74,004 patients with various ailments. Furthermore, 57,927 patients benefited from the medical camp services and diagnostic facilities, including dental, x-ray, sonography, and surgical specialties.
Governance	The company's board comprises of 50% independent directors.

Applicable criteria

[Consolidation]
[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Short Term Instruments]

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Media, entertainment and publication	Printing and publication	Printing and publication

Navneet Education Limited (NEL) is one of the largest educational syllabus-based supplementary content providers for the state-board based curriculum (like workbooks, digest, general books for children) for the schools in the state of Gujarat and Maharashtra (with 65% market share). Over the years, the company has tied-up with 400+ authors on contractual basis with performance linked royalty program, resulting in publication of 5800+ titles, ~260 million students covering five mediums/languages for state board publication. Another segment is the stationery business (~59% in terms of revenue). Presently, the company has three manufacturing units in Maharashtra, Gujarat and Silvassa and more than 1,240 and 1,476 stock keeping units (SKU's) developed for domestic and export market respectively. The company is mainly into paper-based stationery (~90%) like notebooks. Approximately 35% of this business comes from exports.

Consolidated Financials

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	1,701.54	1,758.41	1,069.60
PBILDT	304.44	303.66	222.42
PAT	203.80	251.74	740.80
Overall gearing (times)	0.26	14.24	0.15
Interest coverage (times)	22.84	22.84	21.02

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: Annexure-2
Covenants of the rated instruments/facilities: 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 2024-2025	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	450.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (19-Jan-2024)	-	1)CARE AA; Stable / CARE A1+ (29-Dec-22)	1)CARE AA; Stable / CARE A1+ (07-Jan-22)
2	Non-fund-based - ST-Bank guarantee	ST	2.00	CARE A1+	1)CARE A1+ (19-Jan-2024)	-	1)CARE A1+ (29-Dec-22)	1)CARE A1+ (07-Jan-22)

LT: Long term; ST: Short term; LT/ST: 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

Annexure-6: List of Subsidiaries/associates/JV consolidated as on March 31, 2024

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Navneet Futuretech Limited	Full	Subsidiary
2	Navneet Learning LLP	Full	Subsidiary
3	Indiannica Learning Private Limited	Full	Subsidiary
4	Navneet Tech Ventures Private Limited	Full	Subsidiary
5	Navneet (HK) Limited	Full	Subsidiary
6	K 12 Techno Services Private Limited*	Proportionate	Associate
7	Carveniche Technologies Private Limited	Proportionate	Associate

* During Q1FY25, Navneet Learning LLP, a subsidiary of Navneet Education Limited, divested a 5.12% stake in K12 Techno Services Private Limited to Venturi Partners for Rs. 225.18 Lakhs. Following this divestment, the company continues to own a 14.35% stake in K12.

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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: + 079 40265617 E-mail: ranjan.sharma@careedge.in Pulkit Agarwal Director **CARE Ratings Limited** Phone: +022- 6754 3505 E-mail: pulkit.agarwal@careedge.in Sonal Bhageria Assistant Director **CARE Ratings Limited** Phone: 912267543631 E-mail: Sonal.Bhageria@careedge.in

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.

For the detailed Rationale Report and subscription information, please visit www.careedge.in