Navneet Education Limited

December 29, 2022

Ratings

Facilities/Instruments	Amount (₹ 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)	Reaffirmed
Short Term Bank Facilities	2.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**452.00 (₹ Four Hundred Fifty-Two Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation in ratings assigned to the bank facilities of Navneet Education Limited (NEL) factors in the well-established market position of the company in providing supplementary content for the syllabus-based educational curriculum published in the states of Gujarat and Maharashtra. The ratings of NEL continues to favorably factor the long-standing experience of its promoters (the Gala Family) of more than five decades, and strong brand recognition among the schools, authors, and teacher community. In addition, the rating also favorably factors in the healthy financial risk profile of the company, with no term loan outstanding as on Sep 30, 2022 and strong liquidity position. The rating also factors the company's raw material sourcing ability during periods of supply-chain disruption from increased paper prices.

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 foreign exchange fluctuation risk. The volatility in margins due to raw material inflation occurs due to export stationery business, where there is some lag in cost pass-through due to pre-booking of orders. The outlook for the publication business has been positive owing to the re-opening of schools.

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 significantly higher than anticipated support/investment to group/associate companies impacting NEL's overall financial risk profile.
- Any pressure on the cash flows arising from elongation of operating cycle leading to deterioration in its liquidity profile.

Detailed description of the key rating drivers

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.

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

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 on capital employed ratio has remained robust at about 22-25% in the past during normal year for the company. 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.
Export stationery business is more profitable (yielding 13-17% margins) as compared to ~9% margin for domestic stationery. Hence, the company's focus on export of stationery to increase going forward.
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 remains quite low at 0.14x as on March 31, 2022 as the company has negligible term loan and only utilizes working capital for managing the seasonality 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. Resultantly, short-term debt outstanding was Rs. 40.87 crores as on Sep 30, 2022 as against Rs. 113 crores as on Mar 31, 2022. Interest coverage ratio stands tall at 23.9x in FY22.

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 launched various digital products via its subsidiary Navneet Futuretech Limited (formerly Esense Learning Pvt Ltd). The revenue growth for this subsidiary during FY22 has been flattish (YoY basis) and some traction on this front is yet to be seen.
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.

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

Standalone Financials	**As on Mar 31, 2021**	**As on Mar 31, 2022**
Total equity investments	287.68	333.96
Loans to subsidiaries (outstanding)	8.50	33.11
Navneet Futuretech Limited		
Corporate Guarantee	16.50	16.50
Loan	4.50	24.61
Total investments	44.51	88.34
Indiannica Learning Private Limited		
Corporate Guarantee	40.00	40.00
Loan	4.00	8.50

Total investments	124.41	102.28
Other investments	118.76	143.34

Indiannica Learning is expected to break-even by FY2023 as per management. However, the digital arm- Navneet Futuretech Limited (NFL) may take sometime before it reaches break-even.

Liquidity: Strong
Liquidity position is marked by strong accruals against no term loan repayment obligations and cash equivalents to the tune of Rs. 96.37 crore (as on September 30, 2022). With a gearing of 0.06x as of September 30, 2022, NEL has sufficient headroom, to raise additional debt for liquidity. Average utilization of past 12 months ending on Sep 30, 2022 was 2% only and present utilization level is Nil in all the banks as confirmed by bankers. Also, the unutilised limits add further cushion to liquidity.

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, and business interlinkages are present between the parent and subsidiaries. The list of companies that have been consolidated for analysis purpose are mentioned below in the table.

No.	Name of the Company	% of shareholding (As on Mar-22)
	Subsidiaries	
1.	Navneet Futuretech Ltd	100
2.	Navneet (HK) Ltd	70
3.	Indiannica Learning Pvt. Ltd.	100
4.	Navneet Learning LLP	93
5.	Navneet Edutech LLP	96
6.	Navneet Tech Ventures Pvt Ltd	100
7.	Genext Students Pvt Ltd (Step-down subsidiary)	51.8
Associate		
1	K12 Techno Services Pvt Ltd	25.4
2.	Carveniche Technologies Private Limited	46.84

Applicable criteria

Policy on default recognition

Consolidation

Financial Ratios – Non financial Sector

Liquidity Analysis of Non-financial sector entities

Rating Outlook and Credit Watch

Education

Manufacturing Companies

About the company

Navneet Education Limited (NEL)- founded by Gala Family is one of the largest educational syllabus-based supplementary content provider 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 300+ authors on contractual basis with performance linked royalty program, resulting in publication of 5800+ titles, presence in 48000+ retail outlets and ~40 million students covering 5 medium languages. The company's strength lies in tying up with the schools who may/may not recommend Navneet publication books to the students (~30,000 school visits done annually in this regards).
Another segment is the stationery business (~50% in terms of revenue). Presently, the company has three manufacturing units in Maharashtra, Gujarat & Silvassa and more than 600 stock keeping units. The company is mainly into paper-based stationery

(~90%) like notebooks. 2/3rd of this business comes from exports. Office stationery contributes 17-18% of these exports. Export stationery is more profitable (yielding 13-17% margin) as compared to ~9% margin for domestic stationery.
The company has been into field of education publication for more than 5 decades and is being promoted by the founder (Gala Family). The promoter and management has managed to build strong brand image and market acceptance for its various publications like Navneet, Gala, Vikas through its superior content quality in the states of Maharashtra and Gujarat.
Additionally, NEL has ventured into several education-related fields over the past few years. The company provides digital learning solutions through its subsidiary NFL, designs and develops educational products (print and digital) for the Indian schools through ILPL and holds 25.40% stake in KTPL - through Navneet LLP, which is into School Management managing 42 Orchids The International schools in Bangalore, Hyderabad, Mumbai, Pune, Kolkata as of Mar 31, 2022.

Brief Financials (₹ crore)	FY2021 (A)	FY2022 (A)	H1 FY2023 (UA)
Total operating income	839.07	1,124.53	1,031.1
PBILDT	95.32	174.62	235.48
PAT	55.91	130.01	136.37
Overall gearing (times)	0.09	0.14	0.06
Interest coverage (times)	8.32	23.89	50.75

A: Audited, UA: Unaudited, Note: Financials have been prepared as per CARE Standards.

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 covenants of the rated instruments/facilities is given in Annexure-3

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

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	450.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (07-Jan-22)	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)
2	Non-fund-based - ST-Bank Guarantee	ST	2.00	CARE A1+	-	1)CARE A1+ (07-Jan-22)	1)CARE A1+ (08-Jan-21)	1)CARE A1+ (22-Nov-19) 2)CARE A1+ (22-May-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities -Not applicable

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 Guarantee	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 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:
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