# Navneet Education Limited

January 25, 2019

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long/Short-term bank facilities | 300.00 | **CARE AA+; Stable/CARE A1+ [Double A Plus; Outlook: Stable/A One Plus]** | **Reaffirmed** |
| Short-term bank facilities | 2.00 | **CARE A1+ [A One Plus]** | **Reaffirmed** |
| **Total** | **302.00** | | |

**Detailed Rationale**

*The reaffirmation of ratings assigned to bank facilities of Navneet Education Limited (NEL) continues to factor in long standing experience of its promoters, NEL's well-established market presence & strong brand recognition in the states of Maharashtra & Gujarat towards publication of educational books related to State Secondary Certificate (SSC) board, stable operational performance translating into improved debt coverage indicators and robust capital structure of the company.*

*The above rating strengths are however partially offset by dependence on syllabus change for revenue growth in publication segment, revenue concentration in the state of Maharashtra & Gujarat and highly competitive & fragmented stationery industry segment.*

*Any support/investment to group/associate companies impacting NEL's overall financial risk profile remains key rating sensitivities.*

**x**

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Well established and experienced 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, promoters and the management of the company 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.

**Healthy profitability driven by high operating margins in publication segment**

NEL has regularly maintained healthy profitability. The profitability is primarily driven by its publication segment which commands operating margins of about 30-35% 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.

**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 & 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.

**Robust capital structure despite working capital intensive nature of business**

NEL's borrowing levels continues to be low despite highly working capital intensive nature of business with need for regular inventory holding. Overall gearing stood at 0.35 times as on March 31, 2018 (as against 0.23 times as on March 31, 2017). 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 250 days at the end of financial year. During this period, the company resorts to short term borrowings to part fund its working capital requirements.

**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

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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. The acquisition was done value was Rs. 85 crore funded through internal accurals. Further, NEL has extended corporate guarantee to lenders of the company towards company's working capital limits. NEL expects to increase company's curricular offering in Indian school market at national level.

However, NEL continues to face stiff competition from already 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. However, any large debt funded acquisition impacting overall financial risk profile of the company would be key rating sensitivity.

**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 companies and extension of financial support**

NEL's total investments in subsidiary companies (at standalone level) increased from Rs. 158.46 crore as on March 31, 2017 to Rs. 181.98 crore as on March 31, 2018. The investments are attributed towards increase in partner's capital in Navneet Education LLP and extension of financial guarantee to ELPL and ILPL.

These subsidiaries are into business of providing educational services. ELPL is into providing online education support services towards SSC and CBSE curriculum students. ILPL is into publishing of text books and supplementary books for CBSE and ICSE curriculum. Navneet Education LLP through its step down subsidiary is into K12 business. The subsidiary is a School Management Company managing schools based on CBSE curriculum under the Orchids-The International School in Pune, Bangalore, Mumbai and Hyderabad. There are 19 operational schools with around 73% occupancy.

As these companies are now in stabilizing phase of business operations, the requirement of financial support in the form of loans & advances or equity is expected to reduce gradually. However, any extension of support to these subsidiaries impacting the overall financial risk profile of the company would be the key rating monitorable.

**Liquidity position:**

NEL's short term credit profile is comfortable. Although the nature of business is working capital intensive, the company funds major portion of its working capital requirements internally. Cash Credit (CC) average maximum utilization is around 45-50% during the first quarter while it is very low for the rest of the year. Operating cycle is also high at March end due to higher inventory holding. While NEL has cushion of unutilized CC limits for most part of the year, the free cash is mostly utilized for raw material (paper) procurement. Further, the company does not have any term debt obligation.

**Analytical approach:** Consolidated

**Applicable Criteria**

***CARE's criteria on assigning Outlook to Credit Ratings***
***CARE's policy on Default Recognition***
***Factoring Linkages in Ratings***
***CARE's methodology for Short-term Instruments***
***Financial ratios – Non-Financial Sector***
***CARE's methodology for manufacturing companies***

**About the Company**

Incorporated in 1984, NEL's (formerly Navneet Publications (India) Ltd) operations are classified into publication and stationery segments. 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 & 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 (eSense Learning Pvt Ltd), designs and develops educational products (Print and Digital) for the Indian schools through Indiannica Learning Private Limited (ILPL, formerly known as Encyclopaedia Britannica (India) Pvt. Ltd.) and holds 35% stake in K-12 Techno Services Private Limited (KTPL - through Navneet LLP), which is into School Management managing 12 Orchids-International Schools in Bangalore, Mumbai, Pune and Hyderabad.

| Brief Financials (Rs. crore)- Consolidated | FY17 (A) | FY18 (A) |
|---|---|---|
| Total operating income | 1,178.86 | 1,221.98 |
| PBILDT | 277.38 | 236.34 |
| PAT | 170.01 | 121.13 |
| Overall gearing (times) | 0.23 | 0.35 |
| Interest coverage (times) | 50.34 | 27.17 |

*A: Audited*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

**Analyst Contact:**
Name: Hitesh M Avachat
Tel: 022-67543510
Email: hitesh.avachat@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

**About CARE Ratings:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | 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 | - | - | - | 300.00 | 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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Commercial Paper-CP/STD | ST | - | - | - | - | - | 1)Withdrawn (23-Mar-16)<br>2)CARE A1+ (22-Dec-15)<br>3)CARE A1+ (20-May-15) |
| 2. | Fund-based/Non-fund-based-LT/ST | LT/ST | 300.00 | CARE AA+; Stable / CARE A1+ | - | 1)CARE AA+; Stable / CARE A1+ (11-Dec-17) | 1)CARE AA+; Stable / CARE A1+ (19-Dec-16)<br>2)CARE AA+ / CARE A1+ (14-Oct-16) | 1)CARE AA+ / CARE A1+ (22-Dec-15)<br>2)CARE AA+ / CARE A1+ (20-May-15) |
| 3. | Non-fund-based - ST-Bank Guarantees | ST | 2.00 | CARE A1+ | - | 1)CARE A1+; Stable (11-Dec-17) | 1)CARE A1+; Stable (19-Dec-16)<br>2)CARE A1+ (14-Oct-16) | - |

## CONTACT

**Head Office Mumbai**


**Ms. Meenal Sikchi**
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

**Mr. Ankur Sachdeva**
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

**Ms. Rashmi Narvankar**
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

**Mr. Saikat Roy**
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

**CARE Ratings Limited**

**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

**AHMEDABAD**
**Mr. Deepak Prajapati**
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

**BENGALURU**
**Mr. V Pradeep Kumar**
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

**CHANDIGARH**
**Mr. Anand Jha**
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

**CHENNAI**
**Mr. V Pradeep Kumar**
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

**COIMBATORE**
**Mr. V Pradeep Kumar**
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

**HYDERABAD**
**Mr. Ramesh Bob**
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

**JAIPUR**
**Mr. Nikhil Soni**
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

**KOLKATA**
**Ms. Priti Agarwal**
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

**NEW DELHI**
**Ms. Swati Agrawal**
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

**PUNE**
**Mr.Pratim Banerjee**
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com


**CIN - L67190MH1993PLC071691**