Navneet Education Limited
November 22, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long/Short-term Bank Facilities	450	**CARE AA+; Stable/CARE A1+ [Double A Plus; Outlook: Stable/A One Plus]**	Reaffirmed
Short-term Bank Facilities	2	**CARE A1+ [A One Plus]**	Reaffirmed
Total	**452 (Rupees Four Hundred and Fifty Two crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Navneet Education Limited (NEL) continues to factor in long standing experience of its promoters, NEL's well-established market presence and strong brand recognition in the states of Maharashtra and Gujarat towards publication of educational books related to State Secondary Certificate (SSC) board, robust capital structure despite working capital intensive nature of business. The ratings also factor in the healthy profitability maintained by the company.

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

Rating Sensitivities

Positive factors

- NEL's ability to significantly expand its footprint in states other than Maharashtra and Gujarat and diversify its revenue streams in national level boards (CBSE and ICSE) and other state level boards, so that revenue concentration from any state board is less than 20%, while maintaining overall profitability of business would be a key rating positive.

Negative factors

- Continued financial support to various group/associate companies and the inability of these companies to report profitable operations would have negative impact on NEL's overall financial risk profile
- Any large acquisition in the foreseeable future could constrain current financial flexibility enjoyed by NEL, and would be a negative rating sensitivity.

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.

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

Healthy profitability driven by high operating margins in the publication segment
NEL's business operation enjoys healthy profit margins. The profitability is primarily driven by its publication segment which commands operating margins of about 27% 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.
In FY19, the PBILDT margin remained at FY18 level because the company built up inventory of paper in anticipation of increase in its price.
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 0.47 times as on March 31, 2019 (as against 0.35 times as on March 31, 2018). 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 the financial year. During this period, the company avails 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 and NEL's borrowings drop substantially for the rest of the year (July-December). NEL finances its working capital requirements predominantly through internal cash accruals, so that the capital solvency indicators remain robust even during January-June period. The debt coverage indicators also remain comfortable for FY19, interest coverage and total debt to GCA ratios were at 18.78x and 1.78x respectively in FY19 as against 27.17x and 1.61x respectively in FY18.

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 i.e. 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 board poses a 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 Encyclopedia Britannica (India) Pvt. Ltd.; rated CARE AA+ (CE); Stable/CARE A1+ (CE)). ILPL designs and develops educational products (print and digital) for the Indian schools. The acquisition value was Rs. 85 crore funded through internal accruals. Furthermore, NEL has extended corporate guarantee to lenders of ILPL towards its working capital limits. NEL expects to increase the company's curricular offering in the Indian school market at national level. However, NEL continues to face stiff competition from entrenched publishers in these boards. The company's stationery business has been growing its presence nationally as well as internationally. Total Operating income of the Company grew by 19.66% during FY19 mostly on account of 29% growth in the stationary segment followed by 13% growth in content publishing business of NEL. Furthermore, 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 the 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 the 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 subsidiaries companies (at standalone level) increased from Rs. 181.98 crore as on March 31, 2018 to Rs. 195.80 crore as on March 31, 2019. The investments are attributed towards increase in partner's capital in Navneet Education LLP and extension of financial guarantee to eSense Learning Pvt Ltd (ELPL; rated CARE AA+ (CE); Stable/CARE A1+ (CE)) and ILPL.
These subsidiaries are into the business of providing educational services. ELPL is provides online education support services towards SSC and CBSE curriculum students. ILPL publishes text books and supplementary books for CBSE, ICSE and IB curriculum. Navneet Education Limited through its step down subsidiary, Navneet Learning LLP (NLL), K12 Techno Services Pvt Ltd, is into K12 business. The subsidiary operates school based on CBSE curriculum under Orchids-The International School in Pune, Bangalore, Mumbai and Hyderabad. There are 33 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, continued parent support to support aggressive growth plan of subsidiaries/ joint ventures, and the inability to these subsidiaries/joint ventures to report profits would have a negative impact on the overall financial risk profile of the company, and would be the key rating sensitivity

Liquidity analysis: Strong
Liquidity position is marked by strong accruals against negligible repayment obligations and liquid investments to the tune of Rs.17.37 crore. With a gearing of 0.47 times as of March 31, 2019, the issuer has sufficient gearing headroom, to raise additional debt for its capex. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Furthermore, ability to raise short term money (commercial paper) from capital market at lower rates reflects that it has good access to the capital market.

Analytical approach: Consolidated
CARE combined financial and business risk profiles of NEL and its subsidiaries (viz. eSense Learning (P) Ltd. and Indiannica Learning (P) Ltd.) on account of financial and management linkages. The details of the subsidiaries and associate which have been consolidated as on March 31, 2019 are given in **Annexure 3**.

Applicable Criteria
Criteria on assigning ‘Outlook’ and ‘Credit Watch’ to Credit Ratings
CARE’s Policy on Default Recognition
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Loans by holding Companies
Criteria for Rating Credit Enhanced Debt
Short-term Instruments
Financial ratios – Non-Financial Sector
CARE’s methodology for manufacturing companies
Rating Methodology – Education Sector

About the Company
Navneet Educated Limited (NEL) was founded by Gala family in 1959 by opening its first shop in Dhobi Talao called the College Book Depot Subsequently and the company was incorporated in 1984 as; NEL (formerly Navneet Publications (India) Ltd) and is an educational syllabus-based content provider in Print & Digital medium, a manufacturer of scholastic paper and non-paper stationery, and a publisher of children’s 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 36% 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.

Brief Financials (Rs. crore)- Consolidated	FY18 (A)	FY19 (A)
Total operating income	1,221.98	1.466.07
PBILDT	236.34	293.35

Brief Financials (Rs. crore)- Consolidated	FY18 (A)	FY19 (A)
PAT	121.13	152.82
Overall gearing (times)	0.35	0.47
Interest coverage (times)	27.17	17.45

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

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	-	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	450.00	CARE AA+; Stable / CARE A1+	1)CARE AA+; Stable / CARE A1+ (22-May-19)	1)CARE AA+; Stable / CARE A1+ (25-Jan-19)	1)CARE AA+; Stable / CARE A1+ (11-Dec-17)	1)CARE AA+; Stable / CARE A1+ (19-Dec-16) 2)CARE AA+ / CARE A1+ (14-Oct-16)
2.	Non-fund-based - ST-Bank Guarantees	ST	2.00	CARE A1+	1)CARE A1+ (22-May-19)	1)CARE A1+ (25-Jan-19)	1)CARE A1+; Stable (11-Dec-17)	1)CARE A1+; Stable (19-Dec-16) 2)CARE A1+ (14-Oct-16)

Annexure -3: Details of the subsidiaries and associates which have been consolidated:

Group entities	% ownership of NEL as on March 31, 2019
Subsidiaries	
Esense Learning Pvt Ltd	100%
Navneet Learning LLP	93%
Indiannica Learning Pvt Ltd	100%
Navneet (HK) Ltd	70%
Associate	
K12 Techno Services Pvt Ltd	36%

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.*

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