

Navneet Education Limited

December 11, 2017

Ratings

Facilities/Instruments	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 (Rs. Three hundred and two crore)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The reaffirmation of ratings of bank facilities of Navneet Education Limited (NEL) continues to factor long 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 comfortable debt coverage indicators and robust capital structure of the company.

The 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 and fragmented stationery industry segment.

Change in debt coverage indicators and any support/investment to group/associate companies impacting NEL's overall financial risk profile remains key rating sensitivities.

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. through its superior content quality.

Healthy profitability driven by the high operating margins in publication segment

NEL has 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

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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 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. NEL 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 0.26x as on March 31, 2017 (as against 0.18x as on March 31, 2016). 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 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.

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 subsidiaries companies increased from Rs. 73.78 crore at end-FY16 to Rs. 158.46 crore at end-FY17. These subsidiaries are into business of providing educational products. As these companies are in early stages of business, there might be requirement of

continuous financial support in form of loans & advances or equity. Any extension of support to these subsidiaries impacting the overall financial risk profile of the company would be key rating monitorable.

Presence in highly competitive and fragmented stationary segment

NEL operates in stationary segment the company faces stiff competition from organised players like ITC (Classmate) as well as unorganized manufacturers leading to lower operating margins in the segment. However, being a well-established player in the stationary segment, the company is able to mitigate the risk to a larger extent.

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. During FY17 the publication segment contributed around 57% and stationary segment contributed around 43% to total income from operations. 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 publication segment accounts for about 55%-60% of the company's revenues. Later, in 1993, the company ventured into paper based stationery. Further in 2006, NEL diversified to non-paper based stationery such as pencils, erasers, sharpeners, rulers, compass boxes & art materials etc. The segment accounts for 40% - 45% of revenues. During FY17 export contribute around 25% to total revenue of the company.

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 operates five pre-schools in Pune and Mumbai, provides digital learning solutions through its subsidiary (eSense Learning Pvt Ltd) and holds 35% stake in K-12 Techno Services Private Limited (through Navneet LLP), which is into School Management managing 12 Orchids- International Schools in Bangalore, Mumbai, Pune and Hyderabad. During FY17, NEL acquired Indiannica Learning Private Limited (ILPL, formerly known as Encyclopaedia Britannica

(India) Pvt. Ltd.). ILPL designs and develops educational products (Print and Digital) for the Indian schools.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	945.89	1,178.86
PBILDT	199.40	277.38
PAT	107.46	170.01
Overall gearing (times)	0.17	0.26
Interest coverage (times)	43.63	50.34

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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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+; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper-CP/STD	ST	-	-	-	-	1)Withdrawn (23-Mar-16) 2)CARE A1+ (22-Dec-15) 3)CARE A1+ (20-May-15)	1)CARE A1+ (12-Mar-15)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	300.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (19-Dec-16) 2)CARE AA+ / CARE A1+ (14-Oct-16)	1)CARE AA+ / CARE A1+ (22-Dec-15) 2)CARE AA+ / CARE A1+ (20-May-15)	-
3.	Non-fund-based - ST-Bank Guarantees	ST	2.00	CARE A1+; Stable	-	1)CARE A1+; Stable (19-Dec-16) 2)CARE A1+ (14-Oct-16)	-	-

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