Navneet Education Limited

May 22, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long/Short-term bank facilities	450.00 (enhanced from 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	**452.00 (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 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 publication segment, revenue concentration in the states of Maharashtra and Gujarat and highly competitive and fragmented stationery industry segment.

NEL's ability to significantly expand its footprint in states other than Maharashtra and Gujarat and make inroads in other national and state level boards amidst the competitive business environment remains the key rating sensitivity. Any support/investment to group/associate companies impacting NEL's overall financial risk profile also remains crucial from the credit perspective.

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.

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 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.

The company's PBILDT margin dipped in FY18 as compared to FY17 due to higher raw material prices and volatility in foreign exchange rate. 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. Owing to its seasonal nature of business, the company's inventory piles up in the months of

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

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. Overall gearing of the company deteriorated to 0.46x as on March 31, 2019 as compared to 0.35x as on March 31, 2018 primarily on account of increased working capital borrowing to build up the stock of paper in anticipation of increase in the price of same. The debt coverage indicators also remained comfortable in FY19, despite their moderation due to the increase in debt; 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 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.; rated CARE AA+ (SO); Stable/CARE A1+ (SO)). ILPL designs and develops educational products (print and digital) for the Indian schools. The acquisition value was Rs. 85 crore funded through internal accurals. Further, NEL has extended corporate guarantee to lenders of ILPL towards its 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. The total operating income increased by 20% in FY19 contributed mostly by stationery exports and publications. The revenue from the stationery sold in international market grew by 60% whereas in the domestic market grew by 2% in FY19. 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 eSense Learning Pvt Ltd (ELPL; rated CARE AA+ (SO); Stable/CARE A1+ (SO)) 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, ICSE and IB curriculum. Navneet Education LLP through its step down subsidiary is into K12 business. The subsidiary operates school 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. The two major subsidiaries i.e. ILPL and ELPL have been reporting operating losses over the years (loss of Rs.13.19 crore in FY18 as compared to loss of Rs.4.83 crore in FY17) mainly on account of delay in stabilization of their operations in the competitive market scenario in the education sector.

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 analysis:

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 30-75% during Q4 and Q1 (January – June) of the financial year, 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.

Analytical approach: Consolidated

CARE has analyzed SEL's credit profile by considering the consolidated financial statements of the company owing to financial and operational linkages between the parent and subsidiaries. The details of the subsidiaries and associate which have been consolidated as on March 31, 2018 are given in **Annexure 3**.

Applicable Criteria

CARE's criteria on assigning Outlook to Credit Ratings
CARE's policy on Default Recognition
CARE's criteria for Short-term Instruments
Factoring Linkages in Ratings
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 and 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 35% stake in KTPL - through Navneet LLP, which is into School Management managing 19 Orchids The International schools in Bangalore, Mumbai, Pune and Hyderabad.

Brief Financials (Rs. crore)- Consolidated	FY18 (A)	FY19 (A)
Total operating income	1,221.98	1,461.93
PBILDT	236.34	287.72
PAT	121.13	157.02
Overall gearing (times)	0.35	0.43
Interest coverage (times)	27.17	18.78

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+ (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+ (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, 2018
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	35%

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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