

August 14, 2024

Q1FY25 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	HOLD		ACCUMULATE	
Target Price	161		167	
Sales (Rs. m)	18,522	20,717	19,009	21,462
% Chng.	(2.6)	(3.5)		
EBITDA (Rs. m)	3,346	3,850	3,546	4,118
% Chng.	(5.6)	(6.5)		
EPS (Rs.)	8.3	9.8	9.3	10.6
% Chng.	(11.2)	(6.9)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	16,968	17,513	18,522	20,717
EBITDA (Rs. m)	2,980	2,951	3,346	3,850
Margin (%)	17.6	16.9	18.1	18.6
PAT (Rs. m)	1,405	1,834	1,873	2,223
EPS (Rs.)	6.2	8.1	8.3	9.8
Gr. (%)	(4,434.9)	30.6	2.1	18.7
DPS (Rs.)	2.6	2.6	2.6	2.6
Yield (%)	1.7	1.7	1.7	1.7
RoE (%)	13.0	15.0	11.3	10.6
RoCE (%)	19.8	16.3	14.8	13.7
EV/Sales (x)	2.2	2.1	1.9	1.8
EV/EBITDA (x)	12.7	12.8	10.7	9.4
PE (x)	25.1	19.3	18.9	15.9
P/BV (x)	3.1	2.7	1.7	1.6

Key Data

NAV.NO | NELI IN

52-W High / Low	Rs.179 / Rs.129
Sensex / Nifty	79,106 / 24,144
Market Cap	Rs.35bn/ \$ 421m
Shares Outstanding	226m
3M Avg. Daily Value	Rs.99.92m

Shareholding Pattern (%)

Promoter's	63.31
Foreign	3.38
Domestic Institution	12.38
Public & Others	20.92
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.4	4.7	7.1
Relative	3.2	(5.0)	(11.4)

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Publishing segment continues to struggle

Quick Pointers:

- Exceptional gain of Rs6,605mn arising from stake sale in K-12 aids PAT.

We cut our EPS estimates by 11.2%/6.9% for FY25E/FY26E and downgrade the stock to a "HOLD" given near term growth challenges in publishing division and rising competitive intensity in domestic stationary market. NELI reported a weak set of numbers with revenue miss of 6% as publishing and domestic stationary business suffered due to fall in realizations. However, PAT was above our estimates aided by an exceptional gain of Rs6,605mn arising from partial exit in K-12 business. NELI has been facing considerable growth challenges in publishing division due to increasing usage of 2nd hand books. Further, lowering ASP in domestic stationary market indicates rising competitive pressures. Given weak operating environment, we expect sales/PAT CAGR of 9%/10% over FY24-FY26E and downgrade the stock to a 'HOLD' with revised SOTP based TP of Rs161 (earlier Rs167).

Top-line remains flat: Consolidated revenues increased 0.8% YoY to Rs7,978mn (PLe of Rs8,519mn). Publishing sales decreased 2.9% YoY to Rs4,204mn (PLe Rs4,502mn) while stationery sales increased 4.9% YoY to Rs3,752mn (PLe Rs4,007mn).

Consolidated gross margin at 49.3%: Gross profit increased 6.6% YoY to Rs3,931mn (PLe Rs4,192mn) with GM of 49.3% (PLe of 49.2%). Consolidated EBITDA increased by 5.3% YoY to Rs2,199mn (PLe of Rs2,411mn) with a margin of 27.6% (PLe 28.3%). Consolidated publishing EBIT margin stood at 37.2% whereas stationery EBIT margin stood at 17.4% for the quarter.

One-off gain aids PAT: Consolidated PAT stood at Rs7,457mn aided by an exceptional gain of Rs6,605mn (Rs1,891mn from disposal of part holding in K-12 and a one-off gain of Rs4,714mn arising from difference between carrying value and fair value of retained interest in the entity). Adjusting for the same, profit stood at Rs851mn (PLe Rs1,680mn) in 1QFY25.

Con-call highlights: **1)** Stationery business is expected to grow in double digits in FY25E. **2)** Domestic stationery business is expected to grow by 12-15% in FY25E. **3)** Volumes in domestic stationery business grew by 4% in 1QFY25. **4)** Sales returns was Rs300mn/Rs30mn in publication/stationery business respectively during 1QFY25. **5)** Publishing business is expected to grow by ~5% in FY25E. **6)** Volumes in publishing business volumes experienced a marginal growth of 2%. **7)** SSC board schools form ~92-93% of the total schools in the country. **8)** NELI engages with 38-40K private schools in Maharashtra and Gujarat to enhance brand awareness. **9)** Stationery EBITDA margin is expected to improve by 100bps in FY25E.

Exhibit 1: Q1FY25 Consolidated Result Overview (Rs mn)

Y/e March	Q1FY25	Q1FY24	YoY gr (%)	Q4FY24	QoQ gr (%)	FY25E	FY24	YoY gr (%)
Net Sales	7,978	7,915	0.8	4,353	83.3	18,522	17,513	5.8
Expenditure								
Raw Materials	4,047	4,227	(4.3)	1,945	108.0	8,983	8,783	2.3
<i>% of Net sales</i>	<i>50.7</i>	<i>53.4</i>		<i>44.7</i>		<i>48.5</i>	<i>50.1</i>	
Personnel	710	629	12.8	674	5.3	2,784	2,578	8.0
<i>% of Net sales</i>	<i>8.9</i>	<i>8.0</i>		<i>15.5</i>		<i>15.0</i>	<i>14.7</i>	
Selling, dist & Other Exp	1,023	970	5.5	868	17.8	3,408	3,201	6.5
<i>% of Net sales</i>	<i>12.8</i>	<i>12.2</i>		<i>19.9</i>		<i>18.4</i>	<i>18.3</i>	
Total Expenditure	5,779	5,826	(0.8)	3,488	65.7	15,175	14,561	4.2
EBITDA	2,199	2,089	5.3	865	154.1	3,346	2,951	13.4
<i>Margin (%)</i>	<i>27.6</i>	<i>26.4</i>		<i>19.9</i>		<i>18.1</i>	<i>16.9</i>	
Depreciation	150	130	16.0	214	(29.9)	673	654	2.9
EBIT	2,048	1,959	4.6	651	214.7	2,673	2,297	16.4
Interest	67	75	(10.5)	50	35.5	170	200	(14.8)
Other Income	81	35	130.1	46	76.5	150	134	11.9
PBT	8,667	1,919	351.6	647	1,239.4	2,653	2,232	18.9
Tax	1,210	201	501.0	106	1,046.2	1,368	388	252.1
<i>Tax Rate (%)</i>	<i>14.0</i>	<i>10.5</i>		<i>16.3</i>		<i>51.5</i>	<i>13.3</i>	
Share of profit/loss from associates	(0)	72		(62)		(70)	(7)	NM
Adjusted PAT	851	1,790	(52.4)	479	77.7	1,873	1,834	2.1
Reported PAT	7,457	1,790	316.6	479	1,456.4	7,866	2,516	212.7
EPS	31.0	7.9	292.2	2.1	1,370.1	8.3	11.1	(25.5)

Source: Company, PL

Exhibit 2: Consolidated stationary margin at 17.4%

Y/e March (Rs mn)	Q1FY25	Q1FY24	YoY gr (%)	Q4FY24	QoQ gr (%)
Segment Revenue					
Publishing Content	4,204	4,329	(2.9)	1,443	191.3
Stationery Products	3,752	3,578	4.9	2,906	29.1
Others	35	18	94.4	13	176.8
Segment EBIT					
Publishing Content	1,564	1,574	(0.6)	372	320.9
Stationery Products	651	543	20.0	373	74.4
Others	11	9	21.6	7	59.7
EBIT Margin					
Publishing Content	37.2%	36.4%	84 bps	25.7%	1,146 bps
Stationery Products	17.4%	15.2%	220 bps	12.8%	451 bps
Others	30.9%	49.4%	(1,851)bps	53.6%	(2,268)bps

Source: Company, PL

Exhibit 3: Standalone publishing segment has higher revenue share in first quarter due to seasonality

Particulars	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Publishing revenue	988	890	945	893	3,571	1,331	860	1,022	4,273	696	883	1,012	4,167
YoY growth	-20.1%	61.7%	273.2%	-1.5%	261.5%	49.5%	-9.0%	14.4%	19.7%	-47.7%	2.7%	-2.3%	-3.2%
As a % of sales	31.1%	39.1%	40.3%	32.2%	52.4%	40.9%	30.9%	28.4%	54.5%	26.8%	34.7%	26.3%	52.6%
Stationery revenue	2,184	1,385	1,400	1,878	3,247	1,924	1,924	2,571	3,569	1,899	1,660	2,835	3,752
YoY growth	8.7%	32.4%	37.7%	88.5%	48.7%	39.0%	37.5%	36.9%	9.9%	-1.3%	-13.7%	10.3%	5.1%
As a % of sales	68.9%	60.9%	59.7%	67.8%	47.6%	59.1%	69.1%	71.6%	45.5%	73.2%	65.3%	73.7%	47.4%
Total sales	3,171	2,275	2,344	2,771	6,818	3,255	2,784	3,592	7,842	2,595	2,543	3,847	7,918

Source: Company, PL

Exhibit 4: Standalone margins in stationery division are low due to stiff competition

Particulars	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Publishing EBIT margin	20.9%	14.8%	20.4%	18.7%	41.8%	23.9%	31.1%	14.1%	41.5%	0.9%	6.7%	9.3%	39.3%
Stationery EBIT margin	20.3%	16.0%	14.2%	14.4%	19.6%	7.5%	3.2%	13.2%	15.2%	8.7%	5.7%	14.3%	17.3%

Source: Company, PL

Exhibit 5: Consolidated snapshot of Q1FY25 results

Particulars (Rs mn)	Q1FY25			Q1FY24		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
NEL	7,940.0	2,350.0	1,590.0	7,880.0	2,190.0	1,810.0
NFL (Esense)	10.0	-	-	10.0	-	-
ILL (Indiannica)	30.0	(70.0)	(80.0)	30.0	(70.0)	(90.0)
K12	-	10.0	-	-	140.0	80.0
Exceptional Item + OCI	-	-	6,600.0	-	-	-
Inter co Adjust/Others	(10.0)	-	(650.0)	(10.0)	-	-
Total	7,970.0	2,290.0	7,460.0	7,910.0	2,260.0	1,800.0

Source: Company, PL

Exhibit 6: SOTP Valuation Table

Particulars	Amount invested (Rs mn)	Valuation method	Multiple assigned (x)	Business valuation (Rs mn)	Per share value (Rs)	Comments
Core business (Printing + Stationary)	NA	P/E	11	30,079	133	We assign P/E multiple of 11x to our standalone PAT
K12	1,186	Third party benchmarking	NM	6,300	28	NELI recently divested 5% stake in K12 at Rs2,250mn. It now owns 14.3% stake in K12 business. We value NELI's residual stake in K12 at par (without any illiquidity discount) given it has managed an successful partial exit.
SOTP value				36,379	161	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	16,968	17,513	18,522	20,717
YoY gr. (%)	52.3	3.2	5.8	11.9
Cost of Goods Sold	8,459	8,783	8,983	10,048
Gross Profit	8,509	8,730	9,539	10,669
Margin (%)	50.1	49.9	51.5	51.5
Employee Cost	2,322	2,578	2,784	3,007
Other Expenses	2,128	2,175	2,260	2,507
EBITDA	2,980	2,951	3,346	3,850
YoY gr. (%)	83.3	(1.0)	13.4	15.1
Margin (%)	17.6	16.9	18.1	18.6
Depreciation and Amortization	581	654	673	804
EBIT	2,399	2,297	2,673	3,046
Margin (%)	14.1	13.1	14.4	14.7
Net Interest	116	200	170	160
Other Income	147	134	150	180
Profit Before Tax	2,430	2,232	9,303	3,066
Margin (%)	14.3	12.7	50.2	14.8
Total Tax	942	388	1,368	773
Effective tax rate (%)	38.8	17.4	14.7	25.2
Profit after tax	1,488	1,843	7,936	2,294
Minority interest	(8)	2	0	0
Share Profit from Associate	(92)	(7)	(70)	(70)
Adjusted PAT	1,405	1,834	1,873	2,223
YoY gr. (%)	(4,434.9)	30.6	2.1	18.7
Margin (%)	8.3	10.5	10.1	10.7
Extra Ord. Income / (Exp)	641	682	6,650	-
Reported PAT	2,045	2,516	7,866	2,223
YoY gr. (%)	170.7	23.0	212.7	(71.7)
Margin (%)	12.1	14.4	42.5	10.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,045	2,516	7,866	2,223
Equity Shares O/s (m)	226	226	226	226
EPS (Rs)	6.2	8.1	8.3	9.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	6,282	6,797	7,527	8,857
Tangibles	5,035	5,309	6,009	7,309
Intangibles	1,247	1,488	1,518	1,548
Acc: Dep / Amortization	4,210	4,657	5,421	6,318
Tangibles	3,266	3,441	4,114	4,918
Intangibles	944	1,216	1,307	1,400
Net fixed assets	2,165	2,260	2,225	2,659
Tangibles	1,862	1,988	2,014	2,510
Intangibles	303	272	211	148
Capital Work In Progress	74	64	64	64
Goodwill	239	239	239	239
Non-Current Investments	3,228	3,085	7,804	7,825
Net Deferred tax assets	(375)	(339)	(339)	(339)
Other Non-Current Assets	314	760	776	793
Current Assets				
Investments	-	-	-	-
Inventories	6,247	6,388	7,206	8,230
Trade receivables	3,314	3,673	4,060	4,654
Cash & Bank Balance	275	247	1,835	1,813
Other Current Assets	457	619	712	818
Total Assets	16,565	17,472	25,080	27,280
Equity				
Equity Share Capital	452	452	452	452
Other Equity	11,051	12,482	19,759	21,394
Total Networkth	11,503	12,934	20,211	21,847
Non-Current Liabilities				
Long Term borrowings	4	91	91	91
Provisions	11	12	13	14
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,875	2,485	2,344	2,681
Trade payables	645	524	761	851
Other current liabilities	1,122	1,041	1,273	1,411
Total Equity & Liabilities	16,565	17,472	25,080	27,281

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	2,980	2,906	9,303	3,066
Add. Depreciation	581	654	673	804
Add. Interest	116	200	170	160
Less Financial Other Income	147	134	150	180
Add. Other	(588)	(733)	(90)	(108)
Op. profit before WC changes	3,089	3,027	10,056	3,922
Net Changes-WC	(2,638)	(676)	(845)	(1,516)
Direct tax	(667)	(791)	(1,318)	(723)
Net cash from Op. activities	(216)	1,560	7,894	1,684
Capital expenditures	(10,816)	(11,528)	(639)	(1,237)
Interest / Dividend Income	16	19	90	108
Others	9,940	11,154	(19)	(21)
Net Cash from Inv. activities	(860)	(355)	(568)	(1,150)
Issue of share cap. / premium	-	-	-	-
Debt changes	5,912	7,761	(140)	336
Dividend paid	(342)	(590)	(588)	(588)
Interest paid	(101)	(183)	(170)	(160)
Others	(4,458)	(8,205)	-	-
Net cash from Fin. activities	1,011	(1,217)	(898)	(412)
Net change in cash	(64)	(13)	6,428	122
Free Cash Flow	(725)	810	7,255	447

Source: Company Data, PL Research

Key Financial Metrics

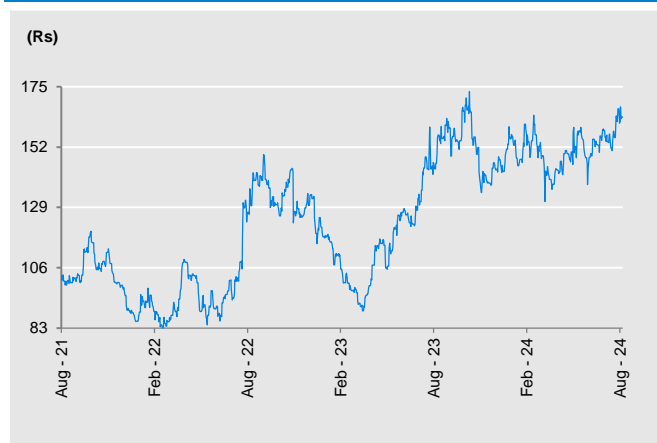
Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	6.2	8.1	8.3	9.8
CEPS	8.8	11.0	11.3	13.4
BVPS	50.9	57.2	89.4	96.6
FCF	(3.2)	3.6	32.1	2.0
DPS	2.6	2.6	2.6	2.6
Return Ratio(%)				
RoCE	19.8	16.3	14.8	13.7
ROIC	18.0	16.9	13.3	14.1
RoE	13.0	15.0	11.3	10.6
Balance Sheet				
Net Debt : Equity (x)	0.2	0.2	0.0	0.0
Net Working Capital (Days)	192	199	207	212
Valuation(x)				
PER	25.1	19.3	18.9	15.9
P/B	3.1	2.7	1.7	1.6
P/CEPS	17.8	14.2	13.9	11.7
EV/EBITDA	12.7	12.8	10.7	9.4
EV/Sales	2.2	2.1	1.9	1.8
Dividend Yield (%)	1.7	1.7	1.7	1.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	2,658	2,588	4,353	7,978
YoY gr. (%)	(19.4)	(2.1)	6.4	0.8
Raw Material Expenses	1,314	1,296	1,945	4,047
Gross Profit	1,344	1,291	2,408	3,931
Margin (%)	50.6	49.9	55.3	49.3
EBITDA	(43)	40	865	2,199
YoY gr. (%)	NA	(60.9)	44.7	5.3
Margin (%)	NA	1.6	19.9	27.6
Depreciation / Depletion	146	164	214	150
EBIT	(189)	(124)	651	2,048
Margin (%)	NA	NA	15.0	25.7
Net Interest	39	36	50	67
Other Income	22	31	46	81
Profit before Tax	476	(129)	647	8,667
Margin (%)	17.9	NA	14.9	108.6
Total Tax	161	(56)	106	1,210
Effective tax rate (%)	33.8	43.1	16.3	14.0
Profit after Tax	315	(74)	542	7,457
Minority interest	-	-	-	-
Share Profit from Associates	41	(58)	(62)	-
Adjusted PAT	(326)	(131)	479	851
YoY gr. (%)	NA	NA	108.8	(52.4)
Margin (%)	NA	NA	11.0	10.7
Extra Ord. Income / (Exp)	682	-	-	6,605
Reported PAT	356	(131)	479	7,457
YoY gr. (%)	NA	NA	108.8	316.6
Margin (%)	13.4	NA	11.0	93.5
Other Comprehensive Income	(4)	16	(526)	(2)
Total Comprehensive Income	352	(115)	(47)	7,455
Avg. Shares O/s (m)	226	226	226	226
EPS (Rs)	(1.4)	(0.6)	2.1	3.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Jul-24	Accumulate	167	156
2	26-May-24	Accumulate	167	155
3	22-Apr-24	BUY	182	151
4	09-Apr-24	BUY	182	142
5	09-Feb-24	BUY	182	153
6	08-Jan-24	BUY	206	155
7	08-Nov-23	BUY	195	140
8	07-Oct-23	BUY	205	166

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	Accumulate	887	836
2	Imagicaaworld Entertainment	BUY	116	79
3	Indian Railway Catering and Tourism Corporation	Reduce	811	1,026
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	Accumulate	4,958	4,493
6	Lemon Tree Hotels	BUY	159	126
7	Navneet Education	Accumulate	167	156
8	Nazara Technologies	Hold	878	919
9	PVR Inox	Hold	1,474	1,430
10	S Chand and Company	BUY	312	216
11	Safari Industries (India)	BUY	2,476	2,237
12	V.I.P. Industries	Hold	454	451
13	Zee Entertainment Enterprises	Hold	157	149

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

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