

## Education

### Sector Update – Channel check

#### Working capital intensity to remain high

*In an effort to better understand the nature of working capital/cash conversion cycle in education (publishing) industry we interacted with a few large dealers (Bihar/Jharkhand, Mumbai) and visited a lot of retail shops in and around Mumbai. Highly competitive nature of the CBSE/ICSE market coupled with seasonality (75-80% of S Chand's sales occur in 4Q; 50-55% of Navneet's sales occur in 1Q) results in higher receivable days for S Chand than Navneet. Consequently, Navneet has higher inventory days (pre-stocking happens prior to the start of the academic cycle) at year end than S Chand. We believe that working capital intensity of both the companies is unlikely to improve meaningfully in the near term. We have a BUY on both Navneet and S Chand with a TP of Rs 150 and Rs 400 respectively.*

**Key takeaways are as follows: -**

- If the book sale happens directly to schools typically 70-75% of the money is received within 2-3 months. However, the balance payment gets a bit delayed. Similar is the case if the sale happens via distributors.
- A lot of canvassing is required to push a publication in schools. Break-through in schools is achieved through long term relationships and offering discounts. Content is important but it is just not enough.
- Dealer finance is still not prevalent and will take time to gain traction. Higher cash discount is an incentive for the dealer to opt for bank finance. Savings on discount is more than the interest paid on borrowings, if financing option is availed.
- As far as supplementary books are concerned (digest/guides and 21 sets) point of sale is generally a retail shop. During lean season retailers pay within 15-30 days while during peak season the payment term gets extended to 60 days. Since students generally pay at point of sale cash flow management is much better. For work books, the credit term is slightly higher as canvassing is required (workbooks are typically recommended by schools).
- The nexus between a school and distributor is very strong. Generally, a retailer has access to the list of books that a school recommends which he sells to the students. However, if there are certain books that are to be sold via school in their premises, it becomes very difficult for the nearby retailers (located within the vicinity of the school) to get hold of them. The distributors tend to manage supplies as an outside retailer becomes an alternative purchasing option.

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#### Navneet Education

Rating: BUY | CMP: Rs109 | TP: Rs150

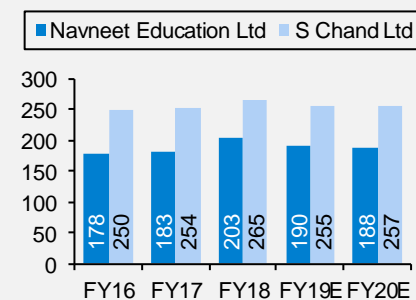
	FY17	FY18	FY19E	FY20E
Sales (Rs. m)	11,722	12,040	13,690	15,278
EBITDA (Rs. m)	2,741	2,225	2,660	3,061
Margin (%)	23.4	18.5	19.4	20.0
PAT (Rs. m)	1,706	1,270	1,664	1,945
EPS (Rs.)	7.3	5.4	7.1	8.3
Gr. (%)	62.7	(25.6)	31.0	16.9
DPS (Rs.)	2.5	1.5	2.5	3.2
Yield (%)	2.3	1.4	2.3	2.9
RoE (%)	26.7	17.6	20.8	21.6
RoCE (%)	34.8	23.8	25.1	25.9
EV/Sales (x)	2.3	2.3	2.0	1.8
EV/EBITDA (x)	9.8	12.4	10.2	8.8
PE (x)	14.9	20.0	15.3	13.1
P/BV (x)	3.7	3.4	3.0	2.7

#### S Chand and Company

Rating: BUY | CMP: Rs231 | TP: Rs400

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	7,944	9,021	10,897	12,210
EBITDA (Rs. m)	1,927	2,239	2,703	3,015
Margin (%)	24.3	24.8	24.8	24.7
PAT (Rs. m)	1,071	1,165	1,398	1,577
EPS (Rs.)	30.6	33.3	40.0	45.1
Gr. (%)	64.3	8.8	19.9	12.8
DPS (Rs.)	1.5	2.0	2.5	2.5
Yield (%)	0.7	0.9	1.1	1.1
RoE (%)	13.0	11.0	11.9	12.0
RoCE (%)	12.4	12.3	13.2	13.4
EV/Sales (x)	1.1	1.0	0.9	0.7
EV/EBITDA (x)	4.5	4.2	3.5	3.0
PE (x)	7.5	6.9	5.8	5.1
P/BV (x)	0.8	0.7	0.7	0.6

#### Cash conversion cycle (no. of days)



Source: Company, PL

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**Exhibit 1: Navneet vs S Chand – S Chand has 62 days' higher cash conversion cycle and goodwill**

	S Chand	Navneet	Comments
Education board	Largely CBSE/ICSE	Largely state board	S Chand is now looking to expand in state board (Chhaya & Chetana) and Navneet is looking to expand in CBSE (Indiannica Learning Ltd)
Geographical reach	Pan India	Gujarat & Maharashtra	
Cyclicality of revenue	Low with less frequent syllabus changes	High with syllabus change @4-5 years	
Type of books	Mostly text book	Mostly supplementary books	
2nd hand market/usage	Lower	Higher	
Cash conversion cycle (Days) (FY18)	265	203	Reflects bargaining power of publishers with the distributors
Royalty (% of revenue) (FY18)	6.4%	2.7%	
Goodwill on consolidation (Rs mn) (FY18)	Rs3.3bn	Rs0.45bn	S Chand has adopted an aggressive inorganic route unlike Navneet resulting in creation of goodwill
RoE (FY18)	13.0%	17.6%	
Money spent on M&A over last 6-7 years	Rs5.8bn	Rs0.9bn	
Investment in digital (Rs mn)	Rs1.4bn	Rs300mn	
Revenue from digital (Rs mn) (FY18)	Rs346mn	Rs175mn	

Source: Company, PL

**Receivables: S Chand at 3.1x days than Navneet**

As seen in the table below, S Chand's receivable days are significantly higher than Navneet. S Chand is predominantly a ICSE/CBSE textbook player (state board to some extent via Chhaya & Chetana) while Navneet is a state board supplementary books player (CBSE/ICSE to some extent via ILL).

**Exhibit 2: Stiff competition results in higher credit terms for S Chand**

Receivable days	FY16	FY17	FY18	FY19E	FY20E
Navneet Education Ltd	72	87	96	90	88
S Chand Ltd	252	260	290	275	275

Source: Company, PL

The ICSE/CBSE market is highly competitive in nature with large number of publishers like Orient Blackswan, Ratna Sagar, Macmillan Publishers, Pearson India, Harper Collins, Cambridge University etc. The K-12 publishing market is also fragmented with many small/regional players in the fray. With so much competition around, canvassing a school/distributor is a challenging task. Hence, publisher's typically offer extended credit terms (big discounts are also offered) to push a publication resulting in higher receivable days. Seasonality (75-80% sales happen in 4Q thereby bunching up receivables) is another factor that results in higher receivable days at the end of the fiscal for S Chand.

In the state board supplementary books market, entry barriers are high as every state has a different regional language and evaluation pattern. While canvassing a school is equally difficult (for workbooks due to fragmented nature of the market) sales of digests/guides and 21 most likely questions is driven by content. In other words, sales happen on pull model (students like the content and sales happen via word of mouth) resulting in a better bargaining power when it comes to negotiating credit period with distributors. However, presence in stationary business where credit period is longer stretches the receivable cycle for Navneet.

### Our view: No respite likely

We believe receivable days in the ICSE/CBSE textbook market would continue to remain elevated due to stiff competition and the push model adopted by publishers. While dealer finance can give some respite it is yet to gain traction. Factoring (selling receivables to banks at a discount) is another option but 1) it is a cumbersome process 2) the headache of collecting money is sometimes with the publisher itself rather than the bank 3) discount on selling receivables can be high. As far as state board supplementary book market is concerned; a leader with strong content (ex: guides & 21 sets) can exercise high bargaining power as evident in Navneet's case.

### Inventory: Navneet at 60% higher days due to seasonality

The divergence in inventory days for both Navneet & S Chand is due to difference in timing with respect to the start of the academic cycle. Navneet caters to state boards of Gujarat & Maharashtra and the academic cycle begins in 1Q (~50-55% of sales). Hence, inventory is at its peak in 4Q. S Chand is a ICSE/CBSE player and the academic cycle begins in 4Q. Hence, inventory is at its peak in 3Q.

#### Exhibit 3: Navneet's inventory days are high due to seasonality factor

Inventory days	FY16	FY17	FY18	FY19E	FY20E
Navneet Education Ltd	118	120	130	120	120
S Chand Ltd	99	94	72	75	75

Source: Company, PL

### Payables: Navneet scores over S Chand

The divergence in payable days for both Navneet & S Chand reflects the credit terms of both the players. Despite peak inventory in 4Q, Navneet's payment cycle is better than S Chand.

#### Exhibit 4: Navneet's payable cycle is better than S Chand

Creditor days	FY16	FY17	FY18	FY19E	FY20E
Navneet Education Ltd	11	24	23	20	20
S Chand Ltd	100	100	97	95	93

Source: Company, PL

### Our view

Our checks with the distributors/retailers reveals that since publishing is typically a one quarter business pre-stocking just prior to the start of academic cycle is an industry norm. Thus, there is limited scope for improving the inventory management cycle. As far as payable days are concerned, despite having peak inventory in 3Q (results in payable liability for COGS), S Chand has been able to stretch payment cycle better indicating lenient terms with its suppliers.

**Analyst Coverage Universe**

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	BUY	836	635
3	Music Broadcast	BUY	394	328
4	Navneet Education	BUY	150	111
5	S Chand and Company	BUY	400	221
6	Zee Media Corporation	BUY	39	26

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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