

April 11, 2011

ACCUMULATE
LOW RISK
PRICE Rs.60
TARGET Rs. 68

PRINTING & STATIONERY

SHARE HOLDING (%)

Promoters	61.8
FII	4.5
FI	5.5
Body Corporates	7.0
Public & Others	21.2

STOCK DATA

Reuters Code	NAVN.BO	
Bloomberg Code	NPI IN	
BSE Code	508989	
NSE Symbol	NAVNETPUBL	
Market Capitalization*	Rs.14292 mn US \$ 323 mn	
Shares Outstanding*	238.2 mn	
52 Weeks (H/L)	Rs.74 / 47	
Avg. Daily Volume (6m)	291,974 Shares	
Price Performance (%)		
1M	3M	6M
8	1	(14)
200 Days EMA: Rs.57		

*On fully diluted equity shares

 Part of  Bonanza


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Navneet Publications India Limited was founded by the Gala family in 1959. The company is into business of publishing Supplementary Books and Paper & Non-paper stationery for schools & offices. The Company currently enjoys 60% market share in Gujarat & Maharashtra under Publishing Segment (Schools). The company's products are sold under the 'Navneet', 'Vikas', 'Gala', 'FfUuNn', 'Boss' and 'Navneet Nxt' brand names.

Education Sector gaining importance

The Government has increased its focus on education and initiated several central and state-level programmes like Sarva Shiksha Abhiyan programme for education for all seeking compulsory education to increase the literacy rate. The fact that Government has allocated Rs. 520.57 bn for education this year (24% higher than last year), strongly indicates the huge growth opportunity the sector offers.

Leader in publishing books with a dominant market share

Navneet has been the leader by far in publishing various supplementary books viz. (1) educational books i.e. workbook, guides & 21 Question set (2) general books like children's activity books, health books, cookeries, mehendi & feng-shui, etc. Navneet enjoys 60% market share in this segment and is poised to maintain & further enhance its leadership status on the strength of its quality content, experienced writers & long standing relations with more than 150,000 schools. Expected syllabus changes in Gujarat and Maharashtra in coming years will further drive the growth.

Leveraging its strong distribution network to market Stationery products.

Navneet has a strong demand pull from students and a wide distribution reach with 75,000 retail outlets for its various products, 1,50,000 schools for direct marketing covering almost 20 mn students. It plans to further leverage its strong distribution network to market its Stationery products. It also exports its stationery products worldwide to retail majors like Walmart, Tesco & Target. The company has taken various steps in the last 3-4 quarters to rationalize its distribution network & reduce costs, the impact of which is already visible by way of improved margins in the past few quarters. Going ahead we expect a strong double digit growth in stationery segment along with improved margins.

E-Learning: Potential to grow bigger than its Publishing business.

Navneet forayed into e-learning two years ago through its subsidiary eSense. This venture has presence currently in Maharashtra & Gujarat. As on date the classroom training module has been installed in 375 schools and the company is confident of reaching 1000 schools by FY12. Once established, the potential to grow Revenues & Margins are immense in this segment & can easily grow bigger than its Publishing business over the coming few years.

OUTLOOK & VALUATION

Education is one of the important drivers for economic growth in India. We believe the government is playing its role for strengthening education infrastructure by increasing its budgetary allocation significantly. With approximately 58% of the population under the age of 30%, the education sector seems ripe for growth. Navneet is a market leader in the supplementary books segment in Maharashtra & Gujarat with almost 60% market share. Its foray into e-learning is a new initiative which will aid both topline and bottomline.

During 9MFY11, Navneet's standalone Revenues stood at Rs.4540 mn registering a growth of 7.5%, its EBIDTA grew by 15.3% to Rs. 1116 mn & its EBIDTA margins grew by 170 bps to 24.6%. Its APAT grew by 16.3% to Rs. 702 mn and it registered EPS of Rs.2.9 for 9MFY11. Considering the significant growth potential in the stationery segment, expected syllabus changes in Gujarat and Maharashtra in coming years and new avenues that the company plans to venture into, we believe that going ahead the Company's strong brand, wide distribution network, value addition and cost efficiency will lead to strong growth in revenues and APAT. We initiate our coverage on the Company with a "ACCUMULATE" rating and a target price of Rs.68 (17x FY12E EPS of Rs.4).

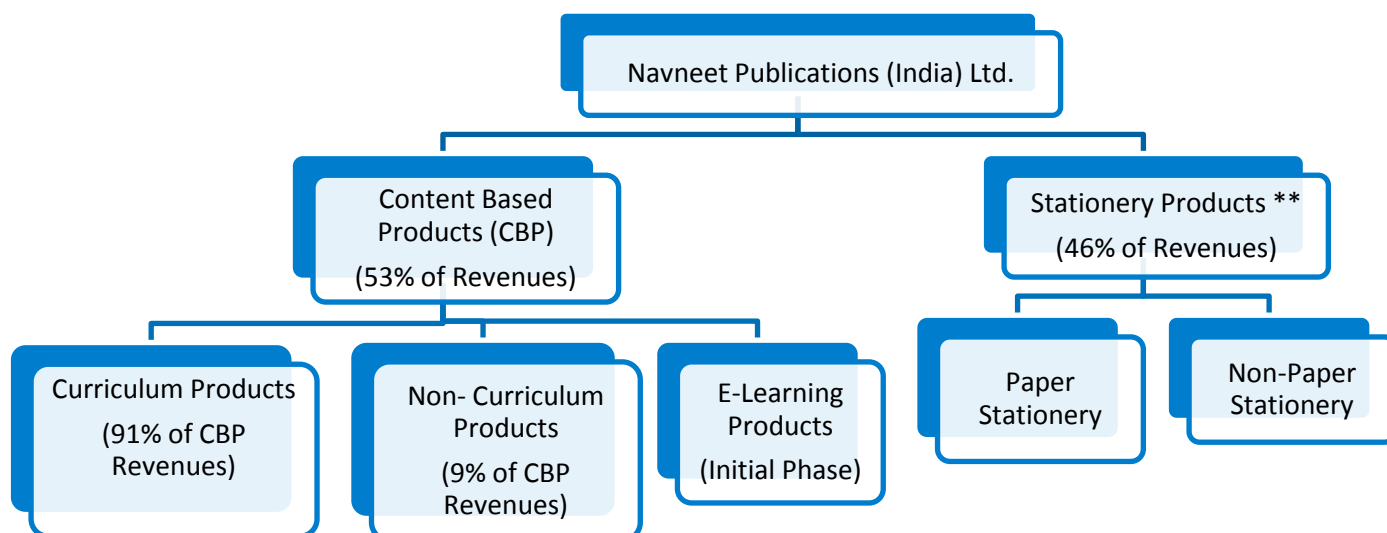
KEY FINANCIALS

Y/E March	Revenue (Rs mn)	APAT (Rs mn)	APAT (% Ch.)	AEPS (Rs.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
FY09	5152.6	558.2	2.8	5.9	10.2	18.0	22.9	2.2
FY10	5315.8	635.4	13.8	2.7	22.5	18.3	22.9	4.9
FY11E	5734.8	783.6	23.3	3.3	18.2	20.1	25.0	4.3
FY12E	6391.3	961.1	22.7	4.0	14.9	21.8	27.3	3.8

COMPANY OVERVIEW

Navneet Publications India Ltd. (Navneet), founded by the Gala Family, is in the business of educational and children books publishing, scholastic paper stationery and non-paper stationery products. Since 1959, Navneet has been a major force in the dissemination of knowledge. It is a dominant player in the field of publishing, with more than 5,000 titles in English, Hindi, Marathi, Gujarati and foreign languages. Navneet has manufacturing facilities located at Vasai, Silvassa, Daman, Santej and Dantali, all in Maharashtra and Gujarat, with major offices in Mumbai and Ahmedabad and 25 branches around the country. The Company has 2,341 employees and 185 authors on royalty programs.

BUSINESS SEGMENT



** 29% & 71% of Stationery Products Revenues comes from Export & Domestic respectively.

Content Based Products: Over the decades, Navneet has emerged as a leading educational products and services company in India. Its products are sold under the 'Navneet', 'Vikas', 'Gala', 'FfUuNn', 'Boss' and 'Navneet Nxt' brand names. Its portfolio of syllabus-based books includes high quality supplementary books like digests (guides), workbooks and 21 question sets, most of which are published in four languages: English, Hindi, Marathi and Gujarati. The Company has a dominant market share in Gujarat and Maharashtra. Also, with the new range of supplementary books targeting the students from CBSE and ICSE boards, Navneet's educational products are now made available across India. Navneet also produces various titles in the children and general books category, which are not based on syllabus, such as activity books for children, board books, story books, health-related books, cookery books, mehendi & embroidery books, etc.

E-Learning Products: eSense is pedagogy empowered by digital technology. Computer based teaching / learning is a very powerful medium and if integrated with education, can revolutionize the teaching methods as it would standardize teaching and will help in Students in learning better, understanding faster and remembering more. Considering this potential, Navneet ventured in to this segment with its eSense vertical. The Company initiated its efforts in Maharashtra and Gujarat to address the challenges in achieving its primary objective. It has already prepared syllabus-based relevant content called as "Class Room Teaching Module", in English and regional medium of instruction, which can be used in the classroom. The content is offered to the school along with relevant hardware, with a mission to convert any normal school to IT-enabled school over few years. The Company expects teachers to access the content in the classroom

and believes the acceptance of teacher towards educational technologies would increase due to easy access and benefits that eSense modules offer in teaching methods.

Stationery Products: In 1993, Navneet saw opportunity in the exports of stationery products for which it now has state-of-art manufacturing facilities in Vasai (near Mumbai), Daman and Silvassa (Union Territories bordering Maharashtra and Gujarat). In the same year, the Company also launched its paper stationery products for the domestic market. Products range includes: tight bind note books, long-books, hard-case bound books and drawing books. In 2006, taking the success of the Paper Stationery products further, the Company launched its first range of non-paper stationery: FfUuNn Pencils.

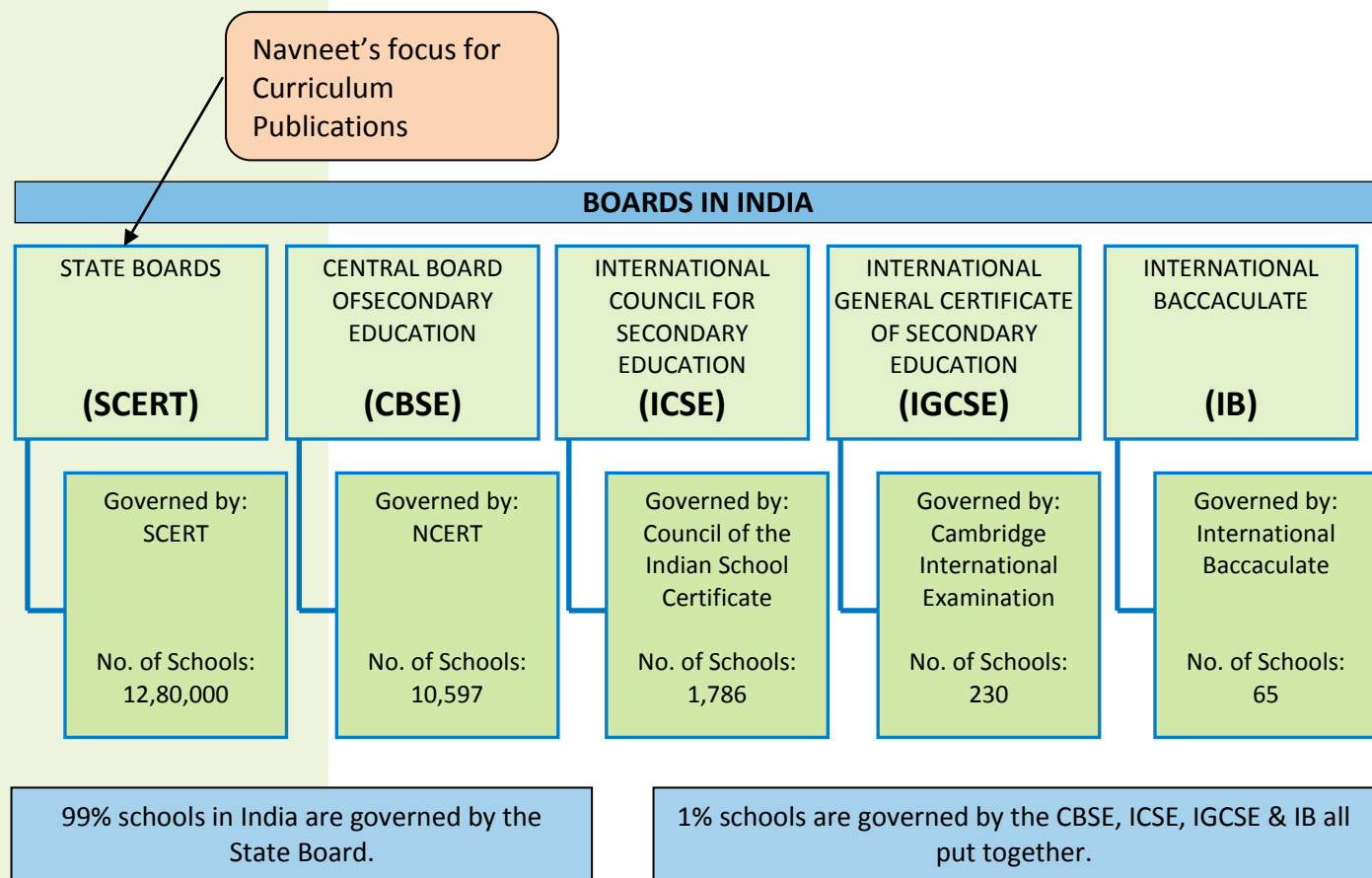
The Company enjoys leading position in premiere stationery markets in India, the Middle East, parts of Africa, USA and Europe. With now more than 500 Stock Keeping Units (SKUs), Navneet is one of the largest paper stationery brands in India and has aggressive growth plans in this segment.

INVESTMENT RATIONALE

Education Sector gaining importance

The Government has increased its focus on education and initiated several central and state-level programmes like Sarva Shiksha Abhiyan programme for education for all seeking compulsory education to increase the literacy rate. The fact that Government has allocated Rs. 520.57 bn for education this year (24% higher than last year), strongly indicates the huge growth opportunity the sector offers.

Overview of school education system in India

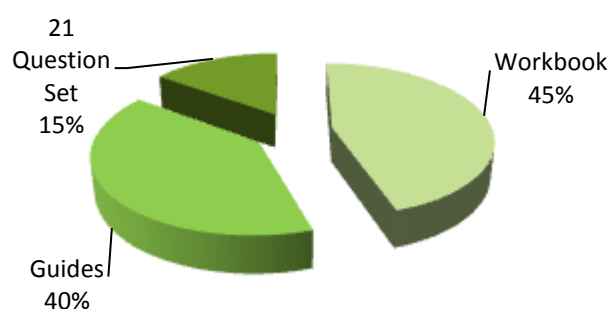


Leader in publishing books & enjoys a dominant market share:

Navneet has been the leader by far in publishing various supplementary books viz. (1) educational books i.e. workbook, guides & 21 question set (2) general books like children’s activity books, health books, cookeries, mehendi & feng-shui, etc.

Content-based segment contributes almost 53% to Navneet’s top-line, of which, 91% is curriculum-based publications and 9% non-curriculum based publications. Navneet’s curriculum-based publications are: supplementary educational aids such as guides, workbooks, and 21 question sets for students of Maharashtra & Gujarat State Board. In an estimated market size of Rs. 4,500 mn, Navneet is the market leader with almost 60% market share.

Revenue mix of Publication Segment (curriculum based)



The publications segment focuses on curriculum books – mainly for Gujarat and Maharashtra – as well as non-curriculum books across geographies. Currently, Navneet has 2,965 curriculum books and 1,176 non-curriculum books in print in India (in English and 11 Indian languages). In addition, the Company has 375 international books, largely sold through the trade fair route and usually branded by the purchaser. The Company has 175 authors on a royalty program.

Change in Syllabus in Maharashtra

Year	Standard	Subject
2011-12	I & II	All Subjects
	IV & VIII	English (LL)
	X	Science / Mathematics I & II
	XI	Science
2012-13	III & IV	All Subjects
	XII	Science
2013-14	V & VI	All Subjects
2014-15	VII & VIII	All Subjects
2015-16	IX & X	All Subjects

Though the change in Syllabus in Gujarat on the anvil, the details of standard-wise schedule across subjects, is still awaited.

Navneet enjoys 60% market share in this segment and is poised to maintain and further enhance its leadership status on the strength of its quality content, experienced writers and long standing relations with more than 150,000 schools. Expected syllabus changes in Gujarat and Maharashtra in coming years will further drive the growth.

Leveraging its strong distribution network to market Stationery products

Stationery (Paper and Non-paper based) contributes 46% to the top-line. Navneet has a strong demand pull from students and a wide distribution reach with 75,000 retail outlets for its various products, 1.5 lakh schools for direct marketing covering almost 20 mn students. It plans to further leverage its strong distribution network to market its stationery products.

The product portfolio includes various types of long books, note books and drawing books. The market size of paper stationery products is Rs. 60 bn growing @ 5-7%. Currently, only 12-15% of the paper stationery market is organized. Navneet's non-paper stationery product portfolio includes pencils, erasers, sharpeners, oil pastels, crayons, geometry boxes etc. It sells under the brand name "FfUuNn". The market size of the non-paper stationery products is Rs. 40 bn growing @ 5-7%. Currently only 12% of the non-paper stationery market is organized.

In this segment, exports account for almost 29% of segment sales, and is expected to be a major growth driver in coming years. Navneet's overseas customers for paper stationeries are Walmart, Target, Tesco etc. It sells under the brand name Navneet.

The Company recently undertook restructuring exercise in this segment to rationalize its distribution network and reduce costs, which restricted its growth in FY10. In a view of long-term scalability and profitability, the Company took a conscious decision to focus sales in selected 5-6 states to improve efficiency of this segment, the impact of which is already visible by way of improved margins in the past few quarters. Going ahead, we expect a strong double digit growth in stationery segment along with improved margins.

E-Learning: Potential to grow bigger than its Publishing business

Navneet forayed into e-learning 2 years ago through its subsidiary eSense. This venture has presence currently in Maharashtra & Gujarat. Computer-based teaching / learning is a very powerful medium and if integrated with education, can revolutionize the teaching methods as it would standardize teaching and will help students in Learning Better, Understanding Faster and Remembering More. Considering this potential, Navneet has ventured with eSense vertical. Navneet has initiated its efforts in Maharashtra and Gujarat to address the challenges in achieving its primary objective. The Company has prepared syllabus based relevant content called as "Class Room Teaching Module", in English and regional medium of instruction, which can be used in the classroom. The content is offered to the school along with relevant hardware with a mission to convert any normal school to an IT-enabled school. It expects teachers to access the content in the classroom and believes the acceptance of teachers towards educational technologies would increase due to easy access and benefits that eSense modules would offer in teaching methods.

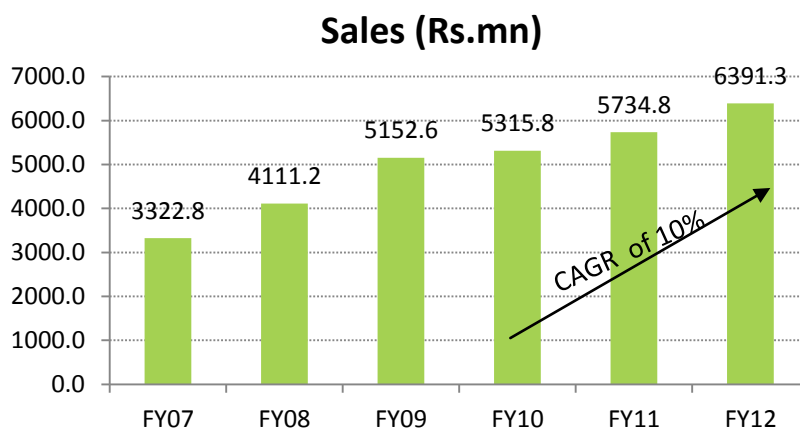
The Company has received encouraging response for its classroom oriented e-learning modules in Gujarat & Maharashtra over the last 2 years. Considering the benefits of e-learning modules, many school authorities have expressed the desire to take these modules to classroom instead of restricting to audio-visual room. Understanding this need, the Company has initiated efforts on marketing the modules in the classroom together with the hardware, if the schools so desire.

As on date, the classroom training module has been installed in 375 schools and the Company is confident of reaching 1,000 schools by FY12. Once established, the potential to grow revenues and margins are immense in this segment, and can easily grow bigger than its publishing business over the coming few years.

FINANCIAL OUTLOOK

Sales to grow at CAGR of 10% over FY10-FY12

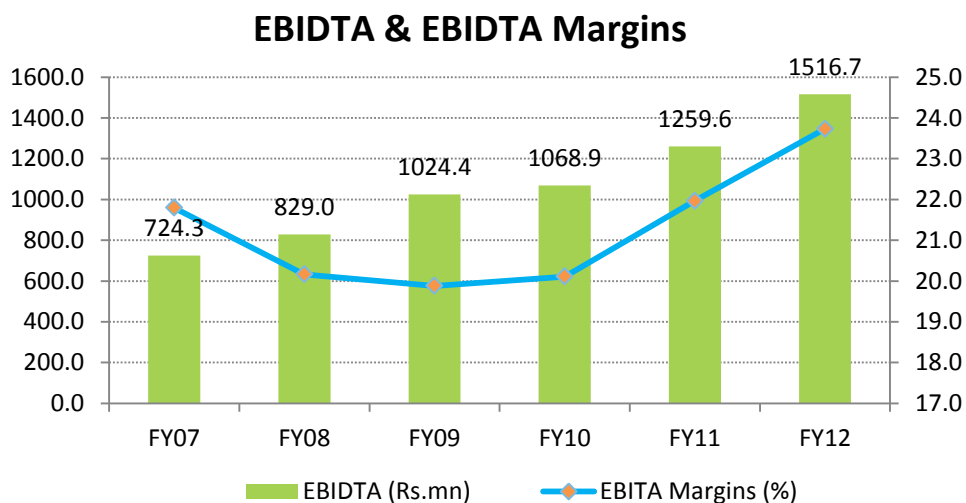
Navneet's net sales have grown at a 17% CAGR of the past three years (FY07-FY10). The Company is well-positioned to encash the growth as it enjoys higher brand equity. We expect its sales to grow at a CAGR of 10% over FY10-FY12.



Source: Company & Sushil Finance Research estimates

EBITDA margins expected to grow to 23.7%

We believe that the Company will be able to improve its margins by 360 bps from 20.1% in FY10 to 23.7% in FY12, this is mainly due continuous improvement in its operational efficiencies through product innovation and due restructuring in stationery segment which has resulted in cost reduction the impact of which is already visible by way of improved margins in the past few quarters.



Source: Company & Sushil Finance Research estimates

APAT to grow at CAGR of 23% over FY10-FY12

APAT (Rs. Mn)



Source: Company & Sushil Finance Research estimates

OUTLOOK & VALUATION

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PROFIT & LOSS STATEMENT

Rs.mn

Y/E March	FY09	FY10	FY11E	FY12E
Total Sales	5152.6	5315.8	5734.8	6391.3
Total Raw Mat. Cost	2938.3	2914.1	3019.8	3278.1
Staff Cost	400.0	474.2	545.3	613.5
Other Expenditure	789.9	858.6	910.1	982.9
EBITDA	1024.4	1068.9	1259.6	1516.7
Interest	42.8	20.9	25.1	27.6
Depreciation	126.3	128.1	130.0	130.7
Other Income	(9.1)	64.2	77.0	92.4
PBT incl OI	846.2	984.1	1181.5	1450.9
Tax	285.6	350.6	399.9	491.9
APAT	560.6	633.5	781.6	959.0
Minority Interest	(1.6)	(1.9)	(2.0)	(2.1)
Sh. of P/L in the ass cos	4.0	0.0	0.0	0.0
CONAPAT	558.2	635.4	783.6	961.1

BALANCE SHEET STATEMENT

Rs.mn

As on 30 st March	FY09	FY10	FY11E	FY12E
Equity Share Capital	190.6	476.4	476.4	476.4
Reserves	2392.8	2463.3	2831.5	3236.9
Net worth	2583.4	2939.7	3307.9	3713.3
Minority Intrest	2.2	0.4	0.5	0.7
Total loans	735.2	709.4	922.2	968.3
Capital Employed	3320.8	3649.5	4230.6	4682.3
Gross Block	1897.2	1989.2	2289.2	2439.2
Depreciation	985.2	1098.6	1228.6	1359.3
Net block	912.0	890.6	1060.6	1079.9
CWIP	7.2	55.4	50.0	75.0
Investments	89.0	1.7	1.7	1.7
Sundry Debtors	679.1	829.4	894.8	947.3
Cash & Bank Bal	80.5	110.9	322.6	500.7
Loans & Advances	274.3	305.2	329.3	366.9
Inventory	1971.3	1793.0	1934.3	2112.6
Total Current assets	3005.2	3038.5	3481.0	3927.7
Total Current Lia.	664.8	313.7	338.4	377.2
Net Current assets	2340.4	2724.8	3142.5	3550.5
Def. Tax Asset	(27.8)	(23.0)	(24.2)	(24.8)
Capital Deployed	3320.8	3649.5	4230.6	4682.3

FINANCIAL RATIO STATEMENT

Y/E March	FY09	FY10	FY11E	FY12E
Growth (%)				
Net Sales	25.3	3.2	7.9	11.4
APAT	4.1	13.3	22.5	22.7
EBITDA	23.6	4.3	17.8	20.4
Profitability (%)				
EBITDA Margin	19.9	20.1	22.0	23.7
Adj. PAT Margin	10.9	12.0	13.7	15.0
ROCE	18.0	18.3	20.1	21.8
ROE	22.9	22.9	25.0	27.3
Per Share Data (Rs.)				
Adj. EPS	5.9	2.7	3.3	4.0
Adj. CEPS	7.2	3.2	3.8	4.6
BVPS	27.1	12.3	13.9	15.6
Valuations (X)				
PER	10.2	22.5	18.2	14.9
PEG	3.6	(0.4)	0.8	0.7
P/BV	2.2	4.9	4.3	3.8
EV / EBITDA	6.2	14.0	11.8	9.7
EV / Net sales	1.2	2.8	2.6	2.3
Turnover Days				
Debtors days	48	57	57	54
Creditors days	25	19	19	19
Gearing Ratio				
Total Debt to Equity	0.3	0.2	0.3	0.3

CASH FLOW STATEMENT

Rs. mn

Y/E March	FY09	FY10	FY11E	FY12E
RPAT	564.1	639.4	783.6	961.1
Depreciation	120.9	113.4	130.0	130.7
Chg in Deferred tax	3.6	0.0	0.0	0.0
Chg in Working cap	(2.8)	(354.0)	(206.1)	(229.8)
Cash flow from operations	685.8	398.8	707.5	862.0
Chg in Gross PPE	(132.5)	(140.2)	(294.6)	(175.0)
Chg in Investments	(87.4)	87.3	0.0	0.0
Cash flow from investing	(219.9)	(52.9)	(294.6)	(175.0)
Chg in debt	(151.8)	(30.6)	214.0	46.7
Chg in Share Capital	0.0	285.8	0.0	0.0
Chg in other reserves	1.1	(290.2)	0.0	0.0
Chg in Minority Interest	2.2	(1.8)	0.1	0.2
Dividend	(289.8)	(278.7)	(415.4)	(555.8)
Cash flow from financing	(438.3)	(315.5)	(201.3)	(508.8)
Chg in cash	27.6	30.4	211.6	178.2
Cash at start	47.9	52.9	80.5	110.9
Cash at end	52.9	80.5	110.9	322.5

Source : Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Equity Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.

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