Education

Event Update

April 10, 2023

Book publishers to enter a golden era

The Ministry of Education recently released a pre-draft of National Curriculum Framework (NCF) for school education. As this is a key document based on which new curriculum will get re-designed, it would make second hand books market redundant and result-in significant volume delta for book publishers. Substantial yield advantage would also accrue as repricing at a higher level becomes easier post curriculum revamp. We believe policy change would result-in strong growth for book publishers over a period of 2-3 years, as substantial volume/price delta is in the offing.

Our scenario analysis results in bull/bear case TP of Rs480/Rs299 for S Chand (refer exhibit 10 for more details), assuming the final draft is published in next 6-8 months. For Navneet Education Ltd (NELI), we have arrived at bull/bear case TP of Rs177/Rs165 (refer exhibit 12 for more details) as full blown NCF impact will be visible from FY25E. We prefer S Chand at current levels as business is on the verge of turnaround (on track to be net debt free and deliver Rs6,400-6,500mn in top-line in FY23E) and there is no overhang of EdTech losses (NELI will be seeding losses of Rs700-750mn in FY24E) that can negate NEP delta.

Key Takeaways:

- **Second hand books to become redundant post New Education Policy (NEP):** Post formal induction of NEP, entire curriculum will get re-designed and new books will be published rendering the second hand books market completely redundant. We believe this will result in significant volume delta for supplementary book publishers as usage of second hand books is high in this category.

- **NCF revision benefits to accrue over 2-3 years**: Last NCF revision happened in 2005 and back then new syllabus was rolled out over a period of 3 years. Like last time, we believe, new NCF adoption this time will also be staggered. Revised NCF for K-2 was already announced in October-22 and recently released pre-draft indicates subsequent announcement for higher grades is around the corner. Thus, NCF revision benefits will not be short lived and would benefit publishers for 2-3 years.

- **Scenario analysis for S Chand results in bull/bear case TP of Rs480/Rs299**: Our scenario analysis of bull/base/bear case after incorporating NEP benefits results in FY25E EPS of Rs37/Rs27/Rs23 respectively for S Chand. In bull/base/bear case, we have assumed 20%/15%/13% top-line growth over next 2 years and inflated our indirect cost structure by 10%. However, we have maintained our GM, depreciation, interest and other income estimates.

- **Scenario analysis for NELI results in bull/bear case TP of Rs177/Rs165:** Our scenario analysis of bull/base/bear case after incorporating NEP benefits results in standalone FY25E EPS of Rs15.0/Rs14.3/Rs13.8 respectively for NELI. Further, we have assumed publishing EBIT margin of 35%/34%/33% in FY25E for bull/base/bear case but have maintained our stationary segment assumptions as it is not impacted by NEP.

Navneet Education (NELI IN)

Rating: Acc | CMP: Rs99 | TP: Rs147

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	11,143	16,400	18,290	20,414
EBITDA (Rs. m)	1,626	2,722	2,869	3,344
Margin (%)	*14.6*	*16.6*	*15.7*	*16.4*
PAT (Rs. m)	560	1,329	1,686	1,993
EPS (Rs.)	2.5	5.9	7.5	8.8
Gr. (%)	*322.6*	*137.5*	*26.9*	*18.2*
DPS (Rs.)	1.5	1.9	1.8	2.1
Yield (%)	*1.5*	*1.9*	*1.8*	*2.1*
RoE (%)	*5.8*	*12.3*	*13.8*	*14.6*
RoCE (%)	*12.3*	*18.7*	*16.9*	*17.8*
EV/Sales (x)	2.1	1.5	1.3	1.2
EV/EBITDA (x)	14.4	8.9	8.5	7.3
PE (x)	40.1	16.9	13.3	11.2
P/BV (x)	2.2	1.9	1.7	1.6

S Chand and Company (SCHAND IN)

Rating: BUY | CMP: Rs228 | TP: Rs228

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	4,809	6,240	6,723	7,256
EBITDA (Rs. m)	614	1,084	1,281	1,389
Margin (%)	*12.8*	*17.4*	*19.0*	*19.1*
PAT (Rs. m)	123	372	626	705
EPS (Rs.)	3.5	10.6	17.9	20.1
Gr. (%)	*(319.4)*	*203.3*	*68.6*	*12.5*
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	*1.5*	*4.3*	*6.7*	*7.0*
RoCE (%)	*1.6*	*5.3*	*6.4*	*6.7*
EV/Sales (x)	1.9	1.3	1.1	1.0
EV/EBITDA (x)	14.6	7.6	6.0	5.1
PE (x)	65.1	21.5	12.7	11.3
P/BV (x)	1.0	0.9	0.8	0.8

Jinesh Joshi
jineshjoshi@plindia.com | 91-22-66322238

Stuti Beria
stutiberia@plindia.com | 91-22-66322246

Second hand books to become redundant post New Education Policy (NEP)

As entire curriculum will get re-designed and new books will be published after adoption of NEP, second hand books market will become redundant. This will significantly aid volumes of state board publishers where usage of second hand supplementary books is substantially higher.

Exhibit 1: Supplementary books have higher 2nd hand usage

Board	Primary study material	Size of 2nd hand books market	Comments
State	Supplementary books like Workbooks, Guides & 21 sets; apart from Textbooks	Large	Children typically pass on supplementary books to their successors as they pass on to higher grades.
CBSE	Textbooks	~20-30%	Prevalence of 2nd hand usage is high in tier 3-4 towns.
ICSE	Textbooks	Miniscule	Every school has a tie-up with different publisher for every subject & hence usage of 2nd hand books is low.

Source: Company, PL

S Chand derives ~50-55% of revenue from CBSE board and ~15-20% of revenue through state board supplementary book publisher Chhaya Prakashani, where usage of second hand books is higher when compared with ICSE board. In comparison, NELI derives 87% of its publishing revenue from supplementary books like workbooks, guides and 21-sets where usage of second hand books is high.

Exhibit 2: CBSE board forms 50-55% of S Chand's revenue mix

Board	Revenue mix
CBSE	~50-55%
State	~15-20%
ICSE	~10-15%
Higher Education	~10-15%

Source: Company, PL *Note: Figures are approximate and will not sum to 100%*

Exhibit 3: State Board forms 87% of NELI's publishing revenue

Board	Revenue mix*
State	87%
CBSE/ICSE	13%

Source: Company, PL **FY22 figures*

NCF revision benefits to accrue over 2-3 years

Last NCF revision happened in 2005 and back then new syllabus was rolled out over a period of 3 years**.** First five grades moved to new syllabus in year-1, another 5 grades adopted revised curriculum in year-2 and migration for balance 2 grades happened in year-3.

Like last time, we believe, new NCF adoption this time will also be staggered. Revised NCF for K-2 was already announced in October-22 and recently a pre-draft was released for public feedback indicating subsequent announcement for higher grades is around the corner. Once NCF is published, new curriculum will get redesigned along those lines benefiting publishers over a period of 2-3 years as second hand books market will become redundant.

Exhibit 4: 2005 NCF roll-out time-line

Period	Grades undergoing syllabus change
Year-1	Kindergarten to 5th standard
Year-2	5th to 10th standard
Year-3	10th to 12th standard

Source: Company, PL

Exhibit 5: 2022-2023 NCF roll-out time-line

Period	Grades undergoing syllabus change
Year-1 (Oct-22)	Kindergarten to 2nd standard
Yet to be disclosed (Pre-draft released)	2nd standard to 12th standard*

Source: Company, PL

**It is not clear if adoption will be in one go or staggered in nature.*

Apart from grade segregation time-line, revenue contribution of each grade to publishers' revenue is also a critical indicator of whether NCF benefits will be front loaded or back ended.

Exhibit 6: 10th standard contributes highest to NELI's publishing revenue

Class	1 to 4	5 to 7	8 to 9	10	11	12
Revenue mix	~24%	~24%	~20%	~18%	~3%	~6%

Source: Company, PL

Exhibit 7: K-2 contributes lowest to S Chand's revenue

Class	K to 2	3 to 5	6 to 8	9 to 12
Revenue mix*	~15-20%	~20-30%	~20-30%	~20-30%

Source: Company, PL   ** School education sales (excludes higher education)*

Tenth standard has highest contribution to NELI's publishing revenue indicating that volume delta will be highest in the year when corresponding grade would undergo a syllabus change under NCF grade segregation time-line. As for S Chand, revenue contribution beyond grade-3 is more or less similar at ~20-30% for each of the 3 buckets as evident in exhibit 7.

Publishers to get significant volume/price delta post NEP

In FY22, publishing business contributed 38% to NELI's revenue and thus is subject to NEP delta (pre-COVID, publishing revenue contribution was 51%). Within publishing business, guides (~40% of publishing top-line) would have highest volume delta, as usage of second hand books in this category is high.

Exhibit 8: NELI's 38% revenue is subject to NEP delta

Segment	Sub-segment	Supplementary books revenue mix	Volume delta	Pricing delta	Comments
Supplementary books (33% of revenue in FY22)	Workbooks	~45%	Minimal	High	Volume delta is minimal as students typically buy new workbooks every year.
	Guides	~40%	High	High	Biggest impact as second hand books become redundant.
	21-Sets	~15%	Minimal	High	Volume delta is minimal as new sets get published every year.
Primary books (Indiannica Learning Ltd; 5% of revenue in FY22)	Textbooks	NA	Average	High	Second hand textbooks market for CBSE is ~20-30% but miniscule for ICSE.

Source: Company, PL

As S Chand is a core publisher, entire revenue is subject to NEP delta. However, since revenue contribution of textbooks is higher for S Chand, volume delta will be lower as usage of second hand books in this category is low.

Exhibit 9: S Chand's entire revenue is subject to NEP delta

Segment	Revenue mix	Volume delta	Pricing delta	Comments
Textbooks	~80-85%	Minimal	High	Second hand textbooks market for CBSE is ~20-30% but miniscule for ICSE
Supplementary books (via Chhaya Prakashani)	~15-20%	High	High	Second hand usage of supplementary books is high.

Source: Company, PL

While volume delta is dependent on size of second hand books market, we believe both the publishers will be able to exercise significant pricing power as 1) new set of books will not have any existing value benchmark 2) repricing becomes easier due to change in curriculum. Further, if small publishers are not able to comply with new NCF and publish books on time, it can also aid in increasing market share of larger players like NELI and S Chand.

S Chand: Scenario analysis results in bull/bear case TP of Rs480/Rs299

Our scenario analysis of bull/base/bear case after incorporating NEP benefits results in FY25E EPS of Rs37/Rs27/Rs23 respectively for S Chand. Key highlights of our assumptions is as follows: -

- In all 3 cases, we have assumed final NCF draft will be rolled out in next 6-8 months and hence full blown impact will evident FY24E onwards. Since S Chand derives more than 70% of its revenue in 4th quarter, even if the final draft is published by Oct/Nov, it will be in a position to publish new books as per revised curriculum framework.
- In bull/base/bear case, we have assumed 20%/15%/13% top-line growth over next 2 years. Our existing FY23E revenue estimate of Rs6,240mn (management guidance of Rs6,400-Rs6,500mn) is a benchmark used to make future projections.
- We keep our existing GM estimate of 64.0% and 64.1% intact for FY24E/FY25E in all 3 scenarios.
- We have inflated our existing indirect cost structure (employee cost and other expenses) by 10% but have maintained our existing depreciation, interest and other income assumptions in all 3 scenarios.
- We increase our target P/E by 10% to 13x (existing 12x) to account for re-rating potential post NEP.

Exhibit 10: NEP implication: Scenario analysis for S Chand reveals bull/bear case TP of Rs480/Rs299 respectively

Particulars (Rs mn)	Bull Case		Base Case		Bear Case	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	7,488	8,986	7,176	8,252	7,051	7,968
EBITDA	1,464	2,168	1,264	1,698	1,184	1,516
EBITDA margin	*19.5%*	*24.1%*	*17.6%*	*20.6%*	*16.8%*	*19.0%*
PAT	771	1,297	621	944	561	808
PAT margin	*10.3%*	*14.4%*	*8.7%*	*11.4%*	*8.0%*	*10.1%*
EPS (Rs)	22	37	18	27	16	23
Target P/E		13		13		13
Target price (Rs)		**480**		**350**		**299**

Source: Company, PL

NELI: Scenario analysis results in bull/bear case TP of Rs177/Rs165

Our scenario analysis of bull/base/bear case after incorporating NEP benefits results in standalone FY25E EPS of Rs15.0/Rs14.3/Rs13.8 respectively for NELI. Key highlights of our assumptions is as follows: -

- 1Q is the strongest quarter for NELI as it coincides with start of academic session and hence, full blown impact will be visible only from FY25E. Hence, we have maintained our existing publishing segment assumptions for FY24E and scenario analysis impact is limited to FY25E.
- We have assumed publishing EBIT margin of 35%/34%/33% in FY25E for bull/base/bear case. Our publishing segment estimates excludes Indiannica business.
- Stationary segment assumptions are intact as it is not impacted by NEP.
- We value NELI on SOTP and hence we have added per share value of Rs8 for EdTech and Rs19 for K-12 business to our final TP in all 3 cases.

Exhibit 11: NEP implication: Scenario analysis for NELI reveals bull/bear case publishing EBIT of Rs3.2bn/Rs2.8bn

Particulars (Rs mn)	Bull Case		Base Case		Bear Case	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Publishing revenue	7,625	9,150	7,625	8,769	7,625	8,616
Publishing EBIT	2,364	3,203	2,364	2,981	2,364	2,843
Publishing EBIT margin	*31%*	*35%*	*31%*	*34%*	*31%*	*33%*

Source: Company, PL

Exhibit 12: NEP implication: Scenario analysis of Navneet reveals bull/bear case TP of R177/Rs165 respectively

Particulars - FY25E (Rs mn)	Bull case	Base case	Bear case	Comments
Stationary EBIT	1,477	1,477	1,477	Existing stationary EBIT for FY25E; no change due to NEP
Publishing EBIT	3,203	2,981	2,843	Refer exhibit 11
Total EBIT	4,680	4,458	4,320	
Interest	160	160	160	Existing assumption
Standalone PBT	4,520	4,298	4,160	
Tax	1,130	1,075	1,040	Tax rate at standalone level is 25%
Standalone PAT	3,390	3,224	3,120	
Shares outstanding	226.2	226.2	226.2	
Standalone EPS	15.0	14.3	13.8	
P/E	10	10	10	Existing target P/E for core business
Standalone TP (Rs)	150	143	138	
EdTech (Rs per share)	8	8	8	We value EdTech venture at 0.8x book value as losses will have to be seeded for 2-3 years.
K12 (Rs per share)	19	19	19	As per last funding round, NELI's 22% stake in K12 is valued at Rs6,440mn. We assign 35% discount to this value as the investment is illiquid in nature.
SOTP (Rs)	**177**	**170**	**165**	

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	474	357
2	Entertainment Network (India)	Hold	189	149
3	Indian Railway Catering and Tourism Corporation	Hold	694	644
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	BUY	2,347	1,834
6	Music Broadcast	Hold	23	27
7	Navneet Education	Accumulate	148	105
8	Nazara Technologies	BUY	898	592
9	PVR	BUY	2,096	1,530
10	S Chand and Company	BUY	228	175
11	Safari Industries (India)	BUY	2,553	1,889
12	V.I.P. Industries	BUY	1,014	700
13	Zee Entertainment Enterprises	BUY	277	218

PL's Recommendation Nomenclature

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

(Indian Clients)

We/I Mr. Jinesh Joshi- MS(Finance) and CFA, Ms. Stuti Beria- MBA Finance Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is a registered with SEBI under the SEBI (Research Analysts) Regulation, 2014 and having registration number INH000000271.

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Jinesh Joshi- MS(Finance) and CFA, Ms. Stuti Beria- MBA Finance Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com

Amnish Aggarwal