



**“Navneet Publications
Conference Call”**

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Moderator: Ladies and gentlemen Good day and welcome to the Q1 FY13 Earnings Conference Call of Navneet Publications hosted by Ambit Capital. As a reminder for the duration of this call all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Saurabh Mukherjea Head of the Equities Ambit Capital. Thank you and over to you, Sir.

Saurabh Mukherjea: Welcome to our call on Navneet Publications' Q1 results. With me on the call is Navneet's President Finance, Mr. GNANESH Sunil Gala. So, without further adieu let me hand over the call to Mr. Gala, for him to take investors to Navneet's Q1 and results.

GNANESH (Sunil) Gala: Good afternoon to all the ladies and gentlemen attending this call. I am sure many of you would have already seen the result or would have got the result. Just to briefly inform you about the operations for Q1, as you saw, we have, overall, grown by around 20%. This was as per expectation. The overall 20% — in this the publication grew by 17% and stationery, by 25%.

Overall at the margin level I would say we were lower by around 0.6%, but that was mainly on account of the little higher growth in stationery compared to publications as well as the lower margin than what we are expecting in stationery. So, overall, at company level we have achieved operating level margins of 31.8% and profit before tax as you all saw, also has grown by around 16%. I am not going deep into the numbers on which if at all there are any questions I will definitely try and answer all of them.

Mainly I will focus on the outlook of the business. Overall as we were expecting, the publications business is growing in line with what we were expecting and we are very confident that in the current year overall we should grow beyond 20% for sure and the same scenario will continue for the next couple of years. There are a couple of reasons for that. One of course is the curriculum change in our core states that is Maharashtra and Gujarat and that is definitely giving us a good opportunity and growth.

Overall the stance of curriculum has shifted more towards CBSE now. The type of curriculum that has been created by even the State Government is very, very different from the earlier textbooks that we used to have. It has become rather more challenging for the teachers also to really teach the whole curriculum sent by the State Governments and of course that will also help a company like ours, but overall my point of saying was that the curriculum today is along the lines of CBSE already, as was envisaged, and we believe even our core two states will try to bring the curriculum to the CBSE pattern or the NCERT pattern level by 2014 for most of the standards.



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Apart from the curriculum change of course, we have got good Government orders also recently and we believe at the Government level also they feel that students in Government schools also need additional supplementary products beyond classroom teaching and therefore we are getting good response and we believe it will be definitely a sustainable business for years and years. Apart from that, the third thing is that we have already started creating content for publications for the Andhra Pradesh state syllabus. I also would like to say that it will take couple of years, at least two to three years to complete the full range, but the action has started from December 2012 we shall start marketing them across Andhra Pradesh, plus we have also launched our pre-primary publications for CBSE and started marketing in the Northern belt. We received overall a good response. So all in all, the company is looking beyond Maharashtra, Gujarat for publications and by the time the curriculum change cycle completes in Maharashtra, Gujarat we are very confident that we would go beyond Maharashtra, Gujarat as well. So, we feel that the publications business is likely to grow continuously well.

Related to publications that is content business, which is E-learning business. As of June 2012 we have already installed more than 1,300 institutions covering around 7,500 classrooms. Overall the feedback has been very good, encouraging. Once schools start using it, they understand the benefit of that and because of this more and more schools are now asking for this product on their own. So, one side of course we are aggressively trying to market and create awareness for our product, but simultaneously even schools are demanding such products. We have, of course, an advantage in Maharashtra and Gujarat, ours being the very trusted name among schools and the teaching community. So they always had preferred the Navneet product and with that we believe we should close at around 1,700 schools in FY13.

As far as numbers are concerned, which are not yet published for e-sense, though we were hoping that we would break even at least on a cash basis in FY2012, we have not been able to achieve this? There were two three reasons: One was that we had to change plenty of content than what we had originally planned, or create it and simultaneously we also tried doing aggressive marketing to create awareness — all of this brought us to some losses — of course this will be known when we declare our a new consolidated results. But for FY13, we are now very, very confident that we shall definitely break even, but most importantly what we understand is the acceptance of the product in the schools that really gives us lots of comfort and therefore we believe this business also is likely to grow gradually, slowly, but definitely on a sustainable basis.

Apart from the product that we have been selling to the schools, we have already launched just two weeks ago, for B2C market, a tablet version wherein we are giving pre-loaded content on the tablets to the student community, which we expect that after they watch something in the classroom, if they start using the tablet at home for their own learning, that will definitely be helpful. The key feature in the tablet is the question bank, so that the students can evaluate themselves any number of times for the chapter, for the subject or for the group of subjects. So, we believe if one student starts using this product at home, it will definitely benefit them and



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after the soft product that we have done recently, after understanding or getting the feedback from the market, there will a big launch of this product in both our core states. So, that is on e-learning.

On the stationery front of course the number looks good that we have grown by 25%, but rather more growth, the major growth, has come from exports of paper stationery whereas the domestic paper stationery and non-paper stationery segment has frankly not grown and there are various challenges that we are facing now but until the time we are very confident that our export is likely to grow quite substantially over the years, because now the end-consumer, that is the big retail chains of the developed countries, have started giving us orders and they really give large volumes and apart from large volumes, the beauty is that they give year-round orders, because of that particularly now are the lean periods but September and Decembers quarters also we believe we shall have good orders from them. So, overall though domestic paper stationery is not doing that well as of now, overall stationery should grow at around 15%-20% year-on-year and on the margin front there are challenges, may be in currency, as far as exports are concerned or competition in the domestic market, but we believe that we shall try and achieve the same type of margin what we used to have earlier though in the first quarter we have not been able to do so. But now we are devising certain strategies to come back to the same margin that we used to have. Overall the three businesses that we are in, I have tried briefing you all and I would now request it will be better if I can ask specific questions and clarify any queries or doubts that any of you have.

Moderator: Thank you very much sir. The first question is from the line of Prakash Kapadia from IAlpha Enterprises. Please go ahead.

Prakash Kapadia: Publications segment, if I look at it, has seen almost 17% growth. We have never seen such a high growth over the last seven-eight years. So, you shared some of the growth drivers how this will lead to over the medium term, how does the common curriculum shape up as an opportunity for us, and as you know the Government is firm in implementing that and if that happens what can you expect publications for Navneet to be over the medium to long term?

GNANESH (Sunil) Gala: **Of course I tried mentioning that that the new curriculum, that even Maharashtra or Gujarat are bringing out, is almost along the lines of the CBSE pattern — mainly of course on the Science and Mathematics subjects. So, it is a clear indication from the State Governments to bring out the title or the publications based on a common curriculum platform, which is the CBSE. Going forward if that continues to happen, then that will be a big advantage for the company because we, in any case, are going to bring out the products for Maharashtra and Gujarat being our core area. The same content if we can use in other states particularly now they said we are launching our products in Andhra Pradesh. So, for us to bring out products for Andhra Pradesh will be relatively very easy, as you all know that content creation is one of the biggest challenges for the company. If that happens, definitely we will be able to leverage the content.**

Prakash Kapadia: Any intention from the Central Government or State Government that implementation is now geared for this? Are we hearing or sensing this happening in the near term or within India or you do not know how and when?



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GNANESH (Sunil) Gala: No, I already told you that the new titles or publications, which have come from the State Government's desk, are all on the lines of the CBSE. I also tried mentioning that the type of curriculum that even the State Government schools are seeing now is very different from what they used to have. So, it is a big challenge for the teacher community also to impart education from these textbooks because these are tougher books, I would say content-wise. It means implementation has already started. Whether they continue with such a vast curriculum that can be one of the concerns, but now I believe a common curriculum is definitely clearly seen across India now.

Prakash Kapadia: If you could share some insights on the Government order? Would you know working capital are margin change from what it is in our current business if you know this Government order keeps on a structural basis and we keep on growing in that?

GNANESH (Sunil) Gala: No, the beauty is that we are not making any additional fixed investment for these orders. These are all working capital investments that we need to do. Overall, our last year's experience has been that from the day we supply our products, within three to three-and-a-half months we realize 100% of our money. So, overall, there is no pressure on the working capital as well, and as far as margins are concerned, we have been seeing that **we will rather what we have already done and what feature are does that we already have in our hand.** The margins are almost on a par with the present margin that we are enjoying.

Prakash Kapadia: So, you do not see any change or any impact because of Government contribution?

GNANESH (Sunil) Gala: No.

Prakash Kapadia: Lastly, if I look at the inventory numbers, we are seeing almost 50% increase in inventory year on year so, is it a part of our order book or a part of our growth plans for the rest of the year, so we think you know this growth rate would be sustained in the coming few quarters?

GNANESH (Sunil) Gala: No, inventory level is not the indication of that, but every time whenever there is a curriculum change we always have a challenge of bringing out the titles on time, even the Government cannot bring out all its publications in time when the schools reopen. So, there are various titles, for which inventory has already been built we could not put that in the market because the textbooks have not come. So, finally if you see, as of now, inventory levels have really come down. As of now even the debtor levels have come down drastically. Borrowings also, are very high compared to the corresponding quarter, but as of now it is hardly 15-20 crore borrowing that is left in the company. In just one month time, the scenario has changed totally.

Prakash Kapadia: Lastly on the subsidiary, you just said about increasing stake in E-sense to 99.97%. So what should we read into this? And some updates on Grifalco, that it stopped bleeding, and we expect normalized earnings from Grifalco?



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GNANESH (Sunil) Gala: As far as E-sense shareholding is concerned, the 12 promoters, who owned 8.5%, they have exited from the business and therefore we have bought the total equity that they used to hold and therefore there is no otherwise change on the business front. Only the key people who are involved in the business are no more with us, but the areas that they were handling are quite well-set and we have right type of people with us. So, that is only the reason for increase in capital. As far as Grifalco is concerned, we have closed that company, so there is no question of any further loss in that company. There are no operations. What we have done is we have taken over all the copyrighted material in India and have started marketing from India so there is no expenditure in Spain.

Moderator: Thank you. The next question is from the line of Hitesh Zaveri from Birla Sun Life AMC. Please go ahead.

Hitesh Zaveri: It pertains to the export opportunity that you talked about in the stationery business. Could you talk about the size of the orders you have and how much bigger it can get in FY13 and FY14?

GNANESH (Sunil) Gala: We did around 53-54 crore, which in a FY13 we expect that to be between 90-100 crores. Going forward, and of course this is the big chunk compared to last year, but going forward we expect at least 20% growth in paper stationery business. The reason also I tried telling you is these retailers they just do not order for back to school season. They order round the year so in the other quarters also we are expecting certain numbers year-on-year and therefore we are likely to grow by 20% after FY13.

Hitesh Zaveri: Could you talk about what kind of products range you have for beyond the tenth standard level? Actually I am not aware if you have product ranges there, but what will be the magnitude of that market for you?

GNANESH (Sunil) Gala: As far as publications are you asking?

Hitesh Zaveri: Yes.

GNANESH (Sunil) Gala: We have publications up to twelfth grade for all the major faculties that is Arts, Science and Commerce also in regional languages and in English medium. So, we do not have any product range beyond twelfth grade and overall share after tenth grade for eleventh and twelfth is around 10%-11%.

Hitesh Zaveri: Lastly, again in education publication, could you talk about the nature of the competition that you have and how it has been changing recently?

GNANESH (Sunil) Gala: Competition is increasing. More and more publishers are also coming in. Only difference what I can say is that none of them comes with the full range as Navneet does and the other difference is that mainly on the content quality. So finally may be for a year they might get certain orders with



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them, but after using those products in the school or at home the users to realize this and our experience has been that in the year or so again people shift back to our product, though competition in the first year is increasing or overall it is increasing but we are very hopeful to continue our share of margin in the overall segment.

Moderator: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: I have just one question. This quarter, if I look at finance expenses, they are quite high year-on-year and even quarter-on-quarter. Is there any particular reason why we are witnessing, you know, a slightly significant jump in the interest expenses?

GNANESH (Sunil) Gala: There are two reasons: One is the interest rate itself compared to the corresponding quarter has increased; and the other reason being that the question that Prakash also asked higher inventory level, higher debtor level, it means in the current quarter we had to carry higher inventory and we have higher debtors with us that also has carried interest; and the third reason was that in the last year the balance quarterly numbers there were no investment in the Hyderabad school management business that we had done 30 crore is invested there. Certain amounts are landed to our subsidiary, E-sense to build the business. These are three main reasons why borrowing has gone up and therefore apart from borrowing, the interest rate also has played a role, both reasons put together have increased our finance cost, but again in the second and third quarters, you will not see such variations in the finance cost.

Kaushal Shah: Right. They expect two sorts of levels out there?

GNANESH (Sunil) Gala: May not be level out, but there will be definitely certain additional interest expenditure, one on account of the rate differential between the last corresponding quarters; and secondly because of certain investments that we have done, which we had not done earlier. There would be around 20%-25% increase in the interest cost than we used to spend on.

Moderator: Thank you. The next question is from the line of Dheeraj Devata from ICICI Prudential. Please go ahead.

Dheeraj Devata: I just wanted a business update on the E-sense subsidiary and how do you see things? The last time around when I met you there were some negatives on the competition part. How is that panning out?

GNANESH (Sunil) Gala: As of now we have already crossed around 1,350 schools and as of June, around 1,300 schools. So, though competition is increasing the only issue that we are facing is I would say, that the school or the teachers who are deciding on the product, they have not been able to really understand the importance of the content and therefore any other company, which develops very simple animated things or even PPTs and if they offer at a lower price, they just ask us that why



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is this company offering at such a lower price? So we need to really go into detail and explain to them in detail and finally convince them. Not that I am saying that we are successful every time, but we were expecting around 1,800 to 2,000 schools in the current year. We end up at around 1,700 schools, so this could be one of the reasons of this competition, overall. But we have strategically decided that we will never get into competition and we will never try and reduce our product pricing. We will try and convince the schools or the teaching communities why our prices are such and my team is very confident that if we continue to focus on quality of content then we need not worry about pricing.

Dheeraj Devata: Sure. Roughly what is the pricing around?

GNANESH (Sunil) Gala: There are several models that we are offering, but for simple understanding our pricing of a product per student on a month-on-month basis works out to around Rs.50 odd.

Dheeraj Devata: Okay, roughly can I assume around five classrooms per school or?

GNANESH (Sunil) Gala: Yes. Five classrooms per school is the right number.

Dheeraj Devata: I also wanted to understand the stationery part. You said exports are expected at around 95,000 crore, so 20% jump there?

GNANESH (Sunil) Gala: Not 20, from 5,400 to 9,500.

Dheeraj Devata: So, on an overall company level you see stationery growing at 20%.

GNANESH (Sunil) Gala: I said two things. One was overall stationery for FY2013, we are likely to see growth of around 20%. The second thing that I said that though this year will be growing at around 80% to 90% in stationery exports, but after FY2013 we are likely to see around 20% growth in exports of stationery.

Moderator: Thank you. The next question is from the line of Danish Mistry from Tata Mutual Fund. Please go ahead.

Danish Mistry: Actually taking off from the previous caller on stationery and margins per se, now the margins seemed to have come up slightly though we have grown. So, will there be a function of asserting the export markets with differential pricing or kind of holding those big customers back?

GNANESH (Sunil) Gala: You are very right, as far as one of the large customers is concerned we had to be little aggressive and I would say that was an entry strategic decision for us as far as exports are concerned, but more importantly we got hit on our margin because of the stiff competition that we are facing in domestic and that is the concern at present with us and we are deliberating very seriously in the



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next couple of weeks and trying to bring out some strategy so that we regain our margins in domestic simultaneously with the growth.

Danish Mistry: All right and just one more point I logged in a bit late so I would have missed this because I know you brought it on earlier, but in terms of our inventory and debtors and obviously that is why your borrowings have gone up but just to understand what one would go with at this time around?

GNANESH (Sunil) Gala: One mainly because of the changed curriculum. Unfortunately neither the Government nor a company like ours can come out with the product before the schools reopen. So, there is a spill over from June to July. So, what I was trying to explain is that if I talk of today's number, everything has come off inventory, debtors, borrowings, everything has come off. So, unfortunately this is the 30th June number. It has bloated and mainly because we have not been able to sell all our products in the month of June.

Danish Mistry: So, because of the spillover the school openings per se that is why this happened?

GNANESH (Sunil) Gala: The schools open on a particular date, but till that time Government does not come out with the textbook of a particular standard. As a publisher, we cannot also bring out those publications in the market.

Danish Mistry: Although, you will be having that content?

GNANESH (Sunil) Gala: More or less yes, but normally we have always seen that even State Government also cannot cope with the changed curriculum in time. They are always late in their areas. That is the main reason for the higher numbers as of 30th June.

Moderator: Thank you. The next question is from the line of Hitesh Zaveri from Birla Sun Life AMC. Please go ahead.

Hitesh Zaveri: My question is about the paper prices. How do you see them moving forward over the next few quarters and may be couple of years to the extent you could provide a color?

GNANESH (Sunil) Gala: For a couple of years they will not be, but for the next couple of quarters you clearly see that paper prices are not likely to go up. The only reason is that the paper mills are giving all of us their higher input cost so that extends 1% or 2% higher paper prices that might be seen, but for the next three to four quarters at least we do not see paper prices rising.

Hitesh Zaveri: The next question is about the pricing increase that you tend to take over many years. How does it work for you? What range of pricing increase you tend to have over?



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GNANESH (Sunil) Gala: See, normally as per our practice whenever there is a higher input cost or increase in input cost or other inflationary expenditure, to that extent only we increase our prices, even if we can increase otherwise. So, normally we are seeing that for the current year, where there is not much paper price rise, but there is inflationary pressure, so our price rise would have been accounted for by around 7% odd.

Moderator: Thank you. The next question is from the line of Aliasgar Shakir from Elara Capital. Please go ahead.

Aliasgar Shakir: If you can give me the export revenue number out of the total stationery business we did in this quarter?

GNANESH (Sunil) Gala: Out of 130 odd crore, 48 crore was from exports.

Aliasgar Shakir: So, now you mentioned about 9,000 odd crore of export orders that we have for this year. So we are left with another 50 odd crore?

GNANESH (Sunil) Gala: That is correct.

Aliasgar Shakir: On the e-learning side, for the quarter would you be able to give any ballpark revenue with the number that we closed in this quarter?

GNANESH (Sunil) Gala: In the current quarter?

Aliasgar Shakir: Current quarter?

GNANESH (Sunil) Gala: For e-sense?

Aliasgar Shakir: Right.

GNANESH (Sunil) Gala: E-sense, we have done an EBITDA level at around 1.15 crore. Yes, but meanwhile again the same story of Navneet that every quarter is not same. The next two quarters we may have little sales or lower sales, but expenditure is on the same level. So, at the year end, what we are expecting is that we will definitely break even.

Aliasgar Shakir: Right. What is the revenue number we did sir this year in this quarter?

GNANESH (Sunil) Gala: It is around 5 or 5.5 crore.

Aliasgar Shakir: Revenue number?



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GNANESH (Sunil) Gala: Yes, and you know as with our accounting practice, whatever is actually billable in the quarter only, we bill. Even though, we have confirmed orders or we have already supplied, but we do not account that as revenue. We will account as and when the month passes.

Aliasgar Shakir: So, this number for the entire year FY2013 could be somewhere about 15 to 20 odd crore or it would be lower?

GNANESH (Sunil) Gala: No, it will be beyond 15 crore.

Aliasgar Shakir: It would be okay. This would in terms of EBIO level it would be kind of just breaking even?

GNANESH (Sunil) Gala: That is right.

Aliasgar Shakir: So, on the PAT level we would still be negative?

GNANESH (Sunil) Gala: No, at PAT level I am not saying at EBITDA level, we are breaking even at the PAT level.

Aliasgar Shakir: For the quarter, can you give me the price increase that we have taken?

GNANESH (Sunil) Gala: In publication?

Aliasgar Shakir: In publication.

GNANESH (Sunil) Gala: Around 7%.

Aliasgar Shakir: Okay and in stationery though since they were largely export orders, it would be like first time?

GNANESH (Sunil) Gala: Yes, there is no price hike there.

Moderator: Thank you. The next question is from the line of Janaki Raman from Franklin Templeton. Please go ahead.

Janaki Raman: You said progressively these state boards are aligning their syllabus with that of CBSC. While it opens up new markets for you or at least it makes the task of creating content for new markets less difficult?

GNANESH (Sunil) Gala: That is right.

Janaki Raman: On the other side the people who are right now offering CBSC material, can they get into your markets?

GNANESH (Sunil) Gala: Definitely they will get into our market only efforts that they will have to put in is though the content is same, they will have to realign to the evaluation pattern framed by the Government and



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same activity we also will have to do when we go beyond Maharashtra or Gujarat. So, that is one area that is to be done by the newcomer. As well as another big activity that they will have to do is build relationship with the schools. So, what you are asking is that will it hit on our core market? Yes, I believe there would be a little more competition than what we have today if that really becomes a reality, but simultaneously we believe that at least if we focus on two to three more states beyond Maharashtra and Gujarat, that will definitely surpass the selling that we are facing in our core states.

Janaki Raman: Sure and you also mentioned that the difficulty in syllabus between a state board and CBSC is quite high and when they do this transition, the teachers find it difficult and I am sure the students also will find it initially difficult?

GNANESH (Sunil) Gala: 100%.

Janaki Raman: So, does this actually increase the size of the market for you quite significantly?

GNANESH (Sunil) Gala: Yes, I did mention that yes that in a way helps us because whenever there is a difficulty among the users they have to have supplementary products for them and therefore it will help all the supplementary publishers for sure.

Janaki Raman: So, for the revised syllabus, which is more in line with CBSC for Maharashtra and Gujarat state boards for standard I to XII is your material now, the content is it ready?

GNANESH (Sunil) Gala: No, because all standards have not yet changed. Last year only one standard in one of the state has changed and this year two standards in both these states have changed. So, the cycle is yet to be over for the next two years. So by the time the cycle gets over we are sure that from class I to XII all the standards will be on CBSC particularly for science and mathematics.

Moderator: Thank you. The next question is from the line of Suryanarayan Nayak from Network Stock Broking. Please go ahead.

Suryanarayan Nayak: I just want to understand how big is the new opportunity that is coming over for the state boards and the state schools they are planning to go the CBSC way, some amount of old opportunities might have gone from out of your hand and new opportunities will be coming. So, if you can quantify that?

GNANESH (Sunil) Gala: No, there is no question of old opportunity and new opportunity because the number of schools is the same or may be increase in the some little percentage or students are also the same. Earlier they used to use based on the old curriculum, publications were based on old curriculum. Now, all publications are based on the new curriculum. So, the old curriculum titles of course are of no use now for that particular standard and the same students are buying our new products. So, there is no new opportunity that we have got, only the curriculum has changed. Therefore, on two



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fronts we benefit particularly product like guides that there is no second hand book market for at least the first year and as well as for all the publications the inventory level across the markets are also not there so that also gives us additional opportunities. So, whenever there is a curriculum change, on account of such curriculum change, we always have seen around 12 odd percentage is the quantitative growth.

Suryanarayan Nayak: Can you just quantify in monetary terms a ballpark figure?

GNANESH (Sunil) Gala: So, as I said 12% quantitative growth plus 6 to 7% price growth, inflationary growth, all put together is around 18 to 19%, plus the new markets may be of Government orders or new markets that are opening up. So, we are very confident that we will grow beyond 20%.

Suryanarayan Nayak: Secondly, are you seeing any obsolescence in your inventory due to the change in the curriculum?

GNANESH (Sunil) Gala: See, last 50 odd years there has always been some obsolescence, but it is in fraction of a percentage. This is mainly because we knew about curriculum change very long back, so we plan our production in the earlier year accordingly, and with our experience, we have been able to manage that quite well. So it will be not even 0.5% of our total inventory.

Suryanarayan Nayak: Lastly, if you can throw light on your penetration strategy to move out of western regions to may be southern regions namely Karnataka, Tamil Nadu, and may be northern states or eastern states. What is the strategy and time line to penetrate those areas?

GNANESH (Sunil) Gala: First, I would say time line will be couple of years at least 3 to 4 years, but let me tell you that we knew one day we will have to go out and therefore be it our children book's publication or stationery, we have been marketing across India. So, it is really good that Navneet brand is known among the users quite well. Now, having known the brand, what we need to do is go from school-to-school and create awareness of our new publications. This is time consuming and for that we will require 3 to 4 years.

Suryanarayan Nayak: Okay, any sort of roadmap you have prepared for any regions right now, eastern region or as northern region?

GNANESH (Sunil) Gala: No, at present only Andhra Pradesh.

Suryanarayan Nayak: Not even Tamil Nadu and others?

GNANESH (Sunil) Gala: No.

Suryanarayan Nayak: Okay and just now you are also getting significant amount 36% to 40% from export for stationery products. So, understanding your seasonality of stationery products how seasonal is the



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business compared to the publications, it is quite seasonal so to understand the seasonality if you can throw light?

GNANESH (Sunil) Gala: Overall, stationery finally leads you all to the back-to-school season only. Therefore, our first quarter always has been the best like publications, and the fourth quarter is always better because there are many states in the country or certain international markets, they store the product before March, so they order before March and many of the schools in the country also open around March, particularly all CBSC schools. So, the last quarter also is better, but the best is the first quarter, then the last quarter, and the second and third quarters are almost similar.

Suryanarayan Nayak: Yes, but I just want to understand the export thing if you can include the export business and tell because now I do not know much about the export business?

GNANESH (Sunil) Gala: Rather this year is the first year that at the last quarter of last year and the first quarter of this year where we got orders from the big retail chains and the way they have accepted us and the way they have already started giving us the additional orders for that I said that in the lean period also particularly second and third quarter also we will have certain revenues coming in because of that, but how much will come we really need to see the order book position and rather achieve them and then discuss because I will not be able to tell you that last year we did hardly 15% of total revenue, but this second quarter we will do 20% that I will not be able to tell you right now.

Suryanarayan Nayak: What are the geographical regions of export, which are the geographies? Is it Africa or something?

GNANESH (Sunil) Gala: Major exports are to USA.

Suryanarayan Nayak: USA?

GNANESH (Sunil) Gala: Yes.

Moderator: Thank you. The next question is from the line of Kishan Gupta from CD Equiserch. Please go ahead.

Kishan Gupta: Could you please discuss margins on these export orders you discussed as 100 and 105 crore export order?

GNANESH (Sunil) Gala: Margins including the Government incentives should be around 9.5% to 10%.

Kishan Gupta: So, are they not lower than your traditional margins?

GNANESH (Sunil) Gala: They are definitely lower, but overall we believe that to the company the non-stationery division benefits because of the huge volumes that it can get and our generic business that we have, so



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even though they are lower, they are generating additional revenue for us and we have always experienced that some year exports does well, some year domestic does well. So, on a balancing strategy also, if we concentrate in these markets it is always better.

Kishan Gupta: What about the currency effect on exports then because the company has not been benefited largely on this rupee depreciation?

GNANESH (Sunil) Gala: Yes, the company never would depend on the currency fluctuation, so as part of our strategy what we have adopted is that as and when we get confirmed orders from the customer we hedge our receivables. Therefore, the receivable which were there for the current quarter were at a lower rate compared to the current market price of a dollar, but going forward this will benefit till the time customers do not bargain further because they also know that currency has depreciated so it is a tendency to bargain for them, but for the next two quarters, we will definitely benefit because of this currency fluctuations.

Kishan Gupta: So, basically you are saying that part is still unhedged and that is why there will be a benefit?

GNANESH (Sunil) Gala: No, the new orders that we receive in the second and third quarters, there we will have a better margin than what we have achieved earlier.

Kishan Gupta: So, is it due to different lines?

GNANESH (Sunil) Gala: No, even if the clients are the same, but we would have quoted prices to them last October, so prices are the same that what we have quoted so that the current up to the next back-to-school season, which according to them is October, so till then whatever orders that they give will be based on our quotations of last October. So, because of that if they give orders based on that, then we will definitely benefit even from the same customer.

Moderator: Thank you. The next question is from the line of Suryanarayan Nayak from Network Stock Broking. Please go ahead.

Suryanarayan Nayak: Yes, regarding the exports front business majorly is to retention strategy in B2B mode?

GNANESH (Sunil) Gala: Retention, yes, they are B2B mode.

Suryanarayan Nayak: How is the margin when compared to the domestic project?

GNANESH (Sunil) Gala: They are a bit lower, around 200 basis points lower than the domestic margin than what we used to have, but even at the current level, domestic margins also have fallen because of the stiff competition. For the current year, if you ask me, then it is the same margin, but if we compare it with the earlier year's domestic margin, then it is 200 basis lower than the domestic margin.



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Suryanarayan Nayak: Okay, in terms of country specific who will compete together with China?

GNANESH (Sunil) Gala: China and Indonesia.

Suryanarayan Nayak: China and Indonesia. Okay and how big will be the opportunity in those markets and particularly American markets and are you looking beyond American market or any other market?

GNANESH (Sunil) Gala: Of course US and Africa. These are two main markets. I would say opportunities are large if we try to be more little competitive, opportunity can be further larger, but again these being little seasonable, whatever we may say, but major orders will be received for back-to-school season only. Then, we are not equipped to cater to such large volumes so if we grow 15 to 20% every year then we are okay. Even if opportunity comes it will be difficult for us to grow beyond that and I do not know whether we have discussed earlier, but as a strategy Navneet has decided not to further invest in fixed assets for stationery business.

Suryanarayan Nayak: Okay and what is the school calendar for them especially America. Is it similar to India?

GNANESH (Sunil) Gala: No, schools reopen in the month of September there, so it is September to July.

Moderator: Thank you. The next question is from the line of Dhvani Modi from ICICI Direct. Please go ahead.

Dhvani Modi: This is just in response to what you just said. You said that as a strategy you have decided not to make further investments in the stationery segment and fixed assets?

GNANESH (Sunil) Gala: That is right.

Dhvani Modi: To my understanding we were largely outsourcing the product for the stationery segment so is it that there is some gap here and we have also started manufacturing in-house or?

GNANESH (Sunil) Gala: No, Dhvani even as of now if you ask me 80 to 85% is manufactured in-house as far as paper stationery.

Dhvani Modi: Total stationery, okay.

GNANESH (Sunil) Gala: On paper stationery we have always been outsourcing.

Dhvani Modi: Okay.

GNANESH (Sunil) Gala: So, on paper stationery we are not going to make further investments in fixed assets.

Dhvani Modi: Anyway that is why you are saying there is not a much an uptake in the demand?



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GNANESH (Sunil) Gala: That is right.

Moderator: Thank you. Thank you. On behalf of Ambit Capital that concludes this conference. Thank you for joining us.