



S Chand and Company Ltd.

Q1 FY19 Quarterly Update

MARKET DATA

NSE TICKER	SCHAND
Networth FY18 (Rs in Crs)	1020
P/BV Ratio (FY18) (x)	1.1X
EPS (FY18)(Rs.)	31
Market Price (Rs.)	336
P/E Ratio (FY18E) (x)	10.8
52 Week High(Rs)	327
52 Week Low (Rs)	534
Market Capitalisation (rs. Cr)	1177

AVERAGE MONTHLY VOLUME

BSE	1058
NSE	11,454

SHARE HOLDING PATTERN

Promoter	46.6
FII	4.6
DII	16
Public	32.8

RETURN (%)

	3M	6M	1 Yr
S Chand	-9.7	-26.8	-26.4
Nifty	5.1	7.7	16.9

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Financial performance:

S Chand operates in a very cyclical business where most of the sales and profits are concentrated in Q4. Q1 sales accounts for just 7-8% of full year sales and the firm operates at a loss at both the EBITDA and the PAT level. In Q1 FY19, sales declined by 4.8% to 58cr, EBITDA loss increased by 34% to -51cr, and PAT loss increased by 34% to -50cr. The decline in revenue and EBITDA was largely because of poor performance of the higher education business and flatish growth in the K-12 segment.

Chetana Acquisition

S Chand has spent 58.5cr for a 51% stake in Chetana, a Mumbai based regional publishing company with a strong presence in Maharashtra. The transaction is expected to close by 15th September 2018. Chetana has a portfolio of 1600 titles, primarily consisting of supplementary educational material (reference books used in addition to the text books) for K-12 and it sells over 8 million books a year. It has annual revenues of 75cr, EBITDA margin around 28%, and is expected to grow at 18-20%. The acquisition is at 6X EV/EBITDA and the remaining stake will be purchased after 2022.

The acquisition will help S Chand gain a presence in Maharashtra and diversify across boards of education, types of educational material, geographies, and help spread revenue across different quarters. Supplementary books are currently a small portion of S Chand's sales; this business has become bigger with the acquisition of Chhaya and Chetana. This acquisition will also increase reach amongst schools and coaching centers; Chetana reaches out to over 2500 coaching centers and 10,000 schools. 85% to 90% of Chetana's sales come from Q1 which is a lean quarter for S Chand; this will help in the optimal utilization of equipment such as printing presses. Margins may go up to 30% via cost reduction efforts in distribution, printing, bulk paper purchases, and digital media. The EBITDA margin of the business will improve as S Chand operates at margin around 25% compared to 28-30% margin of Chetana.

Operational Performance

While K12 sales remained flat at 47.5cr, higher education sales declined from 12.5cr last year to 7.5cr in Q1FY19. This decline was due to higher preordering of books in certain regions in Q1FY18. COGS is high during the quarter due to inventory rationalization of 3-4cr; some value may be realized from this inventory over the next couple of quarters. S Chand has contracted a paper price increase of 4.5% this year compared to 8% hike obtained by competition. Tax benefit of 50-100 BPs will be obtained this year due to reverse merger with loss making subsidiaries and as 2 subsidiaries have annual sales less than 250cr. Furthermore, a Chhaya subsidiary responsible for printing has been merged into Chhaya; this move will reduce GST expense incurred by that subsidiary. Debtors have been reduced from 631cr in Q1FY18 to 501cr in Q1FY19. The working capital cycle has been reduced from 253 days to 228 days.

Quarterly Performance:

Particulars (RS in crs)	Q1 FY19	Q1 FY18	YoY (%)	FY18	FY17	Y-o-Y
Net Sales	57.7	60.6	-4.8	799.0	663.2	20.5
RM Cost	34.7	27.7	25.3	327.2	251.3	30.2
RM Cost as % of Sales	60.1	45.7	NA	41.0	37.9	NA
Employee Cost	35.7	32.3	10.5	127.1	112.7	12.8
Other Operating Expenses	38.5	38.8	-0.8	149.8	120.7	24.1
EBITDA	-51.2	-38.2	34.0	194.9	178.5	9.2
EBITDA Margin	NA	NA	NA	24.4	26.9	NA
Interest	5.4	8.8	-38.6	23.7	35.6	-33.4
PBT	-59.7	-50.5	18.2	163.5	116.7	40.1
Tax	-16.2	-13.5	20.0	54.6	43.6	25.2
PAT	-49.8	-37.1	34.2	108.9	67.7	60.9
EPS	-14.4	-10.7	34.2	31.0	22.1	40.3

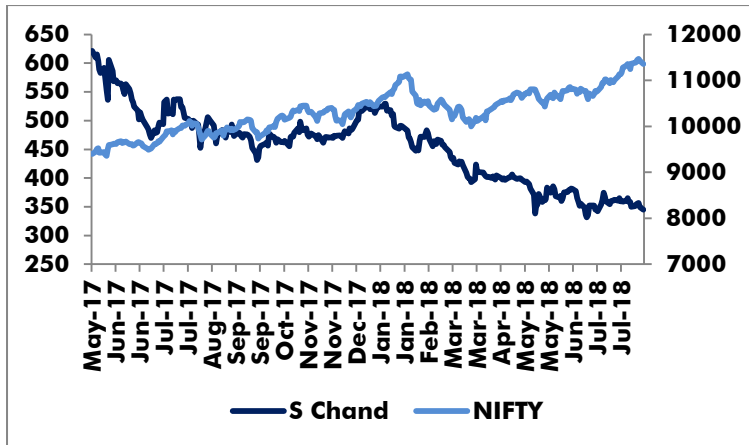


Valuation & View:

S Chand commands a strong brand value in the publishing industry especially in the K-12 segment built over a period of seven decades. It is trusted by schools, students, authors, and teachers. S Chand has acquired a leadership position in terms of size, strong relationships with key stake holders and wide distribution network.

We like S Chand because of the quality of S Chand's management and the future growth trajectory. We are valuing S Chand on a P/E multiple basis. We value the company with a price objective of Rs.519 using a PE multiple of 14x based on FY19E EPS of 37.1 representing an upside of 52%.

Price comparison with NIFTY



Conference Call Highlights

- Government's announcement of reducing syllabus by 50% will have a positive impact on the company but this policy may not be implemented next year depending on which party comes to power. Whenever there is a syllabus change, sales increase as used books move out of the market
- For Chhaya, the remaining stake will be acquired between mid-November and mid-December. Management expects net debt by year end to be 150cr. However, year-end WC is elevated. Long term debt excluding WC requirements would be around 100cr
- Exceptional loss of 5.8cr was due to fire in one of the warehouses. This is protected by insurance
- Chetana has grown by 16% last year. It had an EBITDA margin around 30%. The firm has made investments in office space and people for growth which will reduce margin to 28%. These are largely fixed expenses and margin will improve as fixed costs are spread over a larger base
- Long term organic growth of 14-15% is doable
- Net debt is 87cr and will come down next quarter as the firm generates cash. Debt will peak in Q3 as remaining Chhaya stake is acquired and to meet working capital requirements
- Firm expects margins to remain the same (around 25%)
- Schools account for 5-10% of S Chand's revenues and distributors account for the balance of S Chand's sales. It is not possible for S Chand to collect from each individual school as there are 40,000 schools. 110 to 150 days credit is provided to the customers
- In Maharashtra, Navneet is the largest player. Next two players are Chetana and Jeevandeep which are of similar sizes
- Supplementary books are currently a small portion of S Chand's sale. Chhaya and Chetana have supplementary books. In CBSE and ICSE, text books is a more lucrative market while in state boards supplementary books have a larger share. Supplementary books business has higher competition than text books business; thus higher discounts are offered to distributors in supplementary books business compared to text books business



S Chand and Company Ltd.- Statement of Profit & Loss				
Description	FY17	FY18	FY19E	FY20E
Net Sales	663.2	799.0	914.4	1088.7
Expenditure:				
COGS	198.2	258.8	292.4	347.9
Royalty	39.8	51.7	56.6	65.3
Publishing cost	13.3	16.7	18.9	22.6
Employee cost	112.7	127.1	145.6	169.3
Other operating expenses	120.7	149.8	172.1	207.9
EBITDA excluding OI	178.5	194.9	228.8	275.7
EBITDA margin	26.9%	24.4%	25.0%	25.3%
Depreciation	28.2	19.6	17.0	17.6
EBIT	150.3	175.2	211.8	258.2
OI	2.0	12.0	5.0	5.0
Interest	35.6	23.7	24.4	31.8
PBT	116.7	163.5	192.5	231.4
PBT	116.7	163.5	192.5	231.4
Provision for tax	43.6	54.6	59.4	73.0
Minority interest	-5.5	0.0	0.0	0.0
PAT	67.7	108.9	133.1	158.4
EPS	22.1	31.0	37.1	45.2

S Chand and Company Ltd.- Balance Sheet				
Description	FY17	FY18	FY19E	FY20E
Equity Share Capital	14.9	17.3	17.3	17.3
Total Reserves	642.4	1002.6	1139.3	1304.0
Shareholder's Funds	657.3	1020.0	1156.6	1321.4
Minority Interest	13.1	13.1	-11.4	-11.4
Long term debt	31.3	0.0	0.0	0.0
Other Long Term Liabilities	-4.4	-4.4	-4.4	-4.4
Total Non-Current Liabilities	27.0	-4.4	-4.4	-4.4
Trade Payables	185.1	224.5	238.3	312.4
Short term debt	439.2	159.1	233.0	186.9
Total Current Liabilities	624.3	383.7	471.3	499.3
Total Liabilities	1321.6	1412.3	1612.2	1805.0
Fixed Assets	495.0	497.3	598.1	602.5
Other Non Current Assets	50.8	50.8	50.8	50.8
Total Non-Current Assets	545.8	548.1	648.8	653.3
Current Investments	19.5	19.5	19.5	19.5
Inventories	153.6	196.9	192.7	265.1
Sundry Debtors	506.1	539.2	632.1	732.6
Cash and Bank	37.5	37.5	37.5	37.5
Other Current Assets	59.1	71.2	81.5	97.0
Total Current Assets	775.8	864.3	963.3	1151.7
Total Assets	1321.6	1412.3	1612.2	1805.0



S Chand and Company Ltd.- Cash flow statement			
Description	Mar-18	Mar-19 E	Mar-20 E
PAT	107.6	136.7	164.7
Changes in WC	-49.0	-85.3	-114.3
Depreciation	19.6	17.0	17.6
Cash flow from operations	78.3	68.3	68.0
Cash flow from investment	21.9	16.7	22.0
Net proceeds from IPO	255.0	0.0	0.0
Free cash flow	311.4	51.7	46.0
Change in LT debt	-31.3	0.0	0.0
Closing LT debt	0.0	0.0	0.0
Change in ST debt	-280.1	73.8	-46.0
Closing ST debt	159.1	233.0	186.9

S Chand and Company Ltd. Operation Ratios				
DESCRIPTION	FY17	FY18	FY19E	FY20E
Operational & Financial Ratios				
Earnings Per Share	22.06	31.02	39.39	47.48
Book Value (Rs)	220.25	293.97	333.37	380.85
Margin Ratios				
PBIDTM (%)	26.9%	24.4%	25.0%	25.3%
EBITM (%)	23.0%	23.4%	23.7%	24.2%
PATM (%)	9.9%	13.5%	14.9%	15.1%
Performance Ratios				
ROA (%)	5.7%	7.9%	9.0%	9.6%
ROE (%)	10.5%	12.8%	12.6%	13.3%
ROCE (%)	13.4%	15.8%	15.8%	17.6%
Asset Turnover(x)	0.50	0.57	0.57	0.60
Inventory Turnover(x)	1.45	1.48	1.50	1.52
Debtors Turnover(x)	1.47	1.53	1.56	1.60
Fixed Asset Turnover (x)	1.34	1.61	1.53	1.81
Efficiency Ratios				
Receivable days	248.75	238.75	233.75	228.75
Inventory Days	252.16	247.16	243.16	240.16
Payable days	288.87	288.87	288.87	288.87



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