



S Chand and Company Ltd.

Q2 FY19 Quarterly Update

MARKET DATA

NSE TICKER	SCHAND
Networth FY18 (Rs in Crs)	1020
P/BV Ratio (FY18) (x)	0.7X
EPS (FY18)(Rs.)	31
Market Price (Rs.)	207.4
P/E Ratio (FY18E) (x)	6.7
52 Week High(Rs)	184.3
52 Week Low (Rs)	533.8
Market Capitalisation (rs. Cr)	710

AVERAGE MONTHLY VOLUME

BSE	4882
NSE	13,983

SHARE HOLDING PATTERN

Promoter	46.7
FII	4.7
DII	16.1
Public	32.5

RETURN (%)

	3M	6M	1 Yr
S Chand	-43	-48	-57
Nifty	-7.7	-1.5	2.7

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Financial performance:

S Chand operates in a very seasonal business where most of the sales and profits are concentrated in Q4. Q1, Q2, and Q3 sales put together account for just 20% of full year sales and the firm operates at a loss at both the EBITDA and the PAT levels in these quarters; this is because little revenue is recognized but costs are still incurred. In Q2 FY19, sales declined by 6% to 11cr, EBITDA loss increased by 16% to -77cr, and PAT loss increased by 3% to -57cr.

Digital Initiatives:

S Chand has invested 30cr in inorganic investments in the digital sphere. It is encouraging that the investment portfolio now commands a valuation of 2X the invested amount as per latest funding rounds. Furthermore, the firm has also invested 100cr organically for several digital initiatives. Looking ahead, those initiatives may be a long term value driver for the firm by complementing the publishing business.

Destination Success is firm's interactive class room training module. This subsidiary is already profitable at the EBITDA level- it had an EBITDA of 3cr on sales of 21cr in FY18. PAT level profitability will be achieved on higher sales volume.

Milestone is the firm's curriculum management initiative. 70 schools were added in the first year, and 170 in the second year; breakeven will be achieved at 400 schools. Management expects to achieve this target next year.

Testbook is a mobile test preparation tool designed for competitive exams such as banking, railways, and government examinations. This is a lucrative field as 2.5cr students appear for competitive exams in India every year. Product test among 2000 students in Delhi yielded encouraging results. Firm has invested 2cr in the business and will break even at 5000 users.

NuriNori is curriculum management venture (in a partnership with Sigong Media) designed for preschool kids. Just 20% of this market is organized and the company intends to take market share away from the unorganized sector. This venture required an investment of 2.5cr and will break even after expanding reach to 100 schools.

Operational Performance:

The decline in revenue and EBITDA was largely because of poor performance of the higher education business and due to delayed translation of certain editions. S&D expense increased by 36% as Sourav Ganguly signed as a brand ambassador; this will boost sales of Chhaya in West Bengal where he's a strong influencer. Other expenses increased by 17% as provisioning for bad debt was increased to 6cr from 3cr last year.

Working capital management is an important focus area for management. Payable days increased as the company arranged vendor financing for its suppliers; the financing was at lower interest rate than what the suppliers used to pay. Company is also working on arranging dealer financing for its customers- it will also provide cash discount to customers for quick payments; this will reduce receivable days. Furthermore, company will enforce stricter payment terms for its best sellers. In addition, S Chand will also carry out credit check of its customers to reduce bad debt.

Quarterly Performance:

Particulars (RS in crs)	Q2 FY19	Q2 FY18	YoY (%)	Q1 FY19	QoQ (%)	FY18	FY17	Y-o-Y
Net Sales	10.61	11.26	-6%	57.7	-82%	799	663.2	20%
RM Consumed	0.73	5.79	-87%	34.7	-98%	327.2	251.3	30%
RM as % Sales	6.88%	51.42%	NM	60.14%	NM	40.95%	37.89%	306 bps
Employee Cost	36.71	32.98	11%	35.7	3%	127.1	112.7	13%
Other Expenses	20.85	15.37	36%	38.5	-46%	149.8	120.7	24%
EBITDA	-77.52	-66.64	16%	-51.2	51%	194.9	178.5	9%
EBITDA Margin	NM	NM	NM	NM	NM	24.39%	26.91%	-252 bps
Interest	5.71	4.45	28%	5.4	6%	23.7	35.6	-33%
PBT	-87.05	-74.09	17%	-59.7	46%	163.5	116.7	40%
Tax	-30.37	-18.98	60%	-16.2	87%	54.6	43.6	25%
PAT	-56.68	-55.11	3%	-49.8	14%	108.9	67.7	61%
EPS	-16.3	-15.4	-6%	-14.4	-14%	31.0	22.1	40%



Changes in Model:

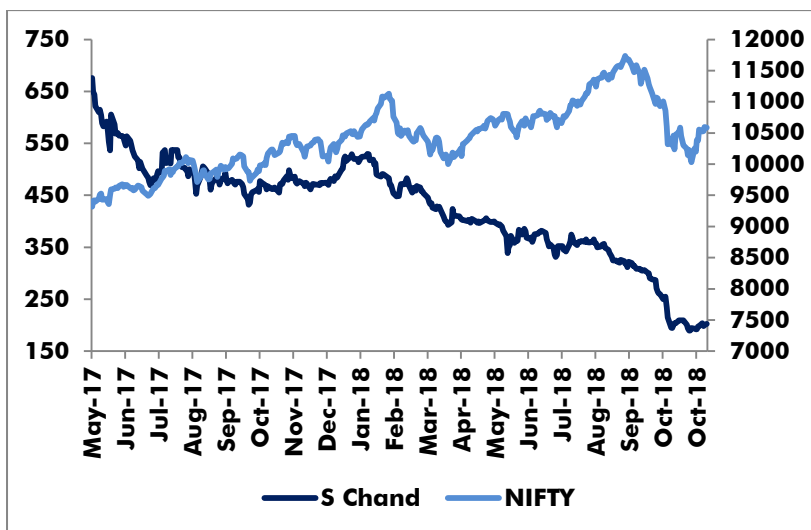
- The sales growth has been reduced from 14% to 13.5%. This is in line with results and falls within management guidance of 13-14%
- The selling and distribution and general and admin expenses have been increased. Both these expenses have been increased in line with current results. The selling and distribution expenses have been increased due to the 2 year contract with Sourav Ganguly. The general and admin expenses have been increased on account of higher provisioning for bad debts
- Due to the lower sales growth and higher expenses, EBITDA margin in FY19E reduced from 25% to 24.4%

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 stakeholders and wide distribution network.

We like S Chand because of the attractive industry dynamics 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.500 using a PE multiple of 14x based on FY19E normalized EPS of 35.7 representing an upside of 141%.

Price comparison with NIFTY



Conference Call Highlights

- Amount spent on acquisitions so far is 450cr. Payback period for normal acquisitions is 6 years. For Chhaya acquisition, payback period is expected to be 3 years
- Revenue growth rate is expected to remain the same as earlier guidance- 13-14%. Management expects EBITDA margin to be maintained at 24-25%
- Chetana acquisition will occur by next quarter- this will have a negative impact of 3-4cr this fiscal as expenses will occur throughout the year but substantial sales will occur in Q1
- Current net debt is 150cr (this includes preponed paper purchase as price was trending higher and some mills were taking shut down- paper purchases pushed debt higher by 30cr). Management expects net debt by year end to be 200cr including payment to Chhaya and Chetana
- CFO was nil in H1FY19- WC improvements were used up for absorbing losses
- Management aims to make digital businesses profitable by 2020
- Expect 25% ROCE in next 5 years due to growth of business, operational efficiencies, limited acquisitions, and improvement in WC
- Expected tax rate is 33.5-34%



S Chand and Company Ltd.- Statement of Profit & Loss				
Description	FY17	FY18	FY19E	FY20E
Net Sales	663.2	799.0	906.6	1066.3
Expenditure:				
COGS	198.2	258.8	289.9	340.8
Royalty	39.8	51.7	56.1	64.0
Publishing cost	13.3	16.7	18.8	22.1
Employee cost	112.7	127.1	145.6	169.3
Other operating expenses	120.7	149.8	175.2	209.0
EBITDA excluding OI	178.5	194.9	221.0	261.1
EBITDA margin	26.9%	24.4%	24.4%	24.5%
Depreciation	28.2	19.6	17.0	17.6
EBIT	150.3	175.2	204.0	243.6
OI	2.0	12.0	5.0	5.0
Interest	35.6	23.7	24.1	31.0
PBT	116.7	163.5	184.9	217.6
PBT	116.7	163.5	184.9	217.6
Provision for tax	43.6	54.6	56.7	68.2
Minority interest	-5.5	0.0	0.0	0.0
PAT	67.7	108.9	128.2	149.4
EPS	22.1	31.0	35.7	42.6

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	1134.4	1290.2
Shareholder's Funds	657.3	1020.0	1151.7	1307.5
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	234.3	305.0
Short term debt	439.2	159.1	227.4	180.8
Total Current Liabilities	624.3	383.7	461.7	485.8
Total Liabilities	1321.6	1412.3	1597.7	1777.6
Fixed Assets	495.0	497.3	597.6	601.2
Other Non Current Assets	50.8	50.8	50.8	50.8
Total Non-Current Assets	545.8	548.1	648.4	652.0
Current Investments	19.5	19.5	19.5	19.5
Inventories	153.6	196.9	189.4	259.0
Sundry Debtors	506.1	539.2	622.1	714.5
Cash and Bank	37.5	37.5	37.5	37.5
Other Current Assets	59.1	71.2	80.8	95.0
Total Current Assets	775.8	864.3	949.3	1125.6
Total Assets	1321.6	1412.3	1597.7	1777.6



S Chand and Company Ltd.- Cash flow statement			
Description	Mar-18	Mar-19 E	Mar-20 E
PAT	107.6	131.8	155.8
Changes in WC	-49.0	-75.3	-105.6
Depreciation	19.6	17.0	17.6
Cash flow from operations	78.3	73.5	67.8
Cash flow from investment	21.9	16.2	21.2
Net proceeds from IPO	255.0	0.0	0.0
Free cash flow	311.4	57.3	46.6
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	68.2	-46.6
Closing ST debt	159.1	227.4	180.8

S Chand and Company Ltd. Operation Ratios				
DESCRIPTION	FY17	FY18	FY19E	FY20E
Operational & Financial Ratios				
Earnings Per Share	22.06	31.02	37.99	44.90
Book Value (Rs)	220.25	293.97	331.96	376.86
Margin Ratios				
PBIDTM (%)	26.9%	24.4%	24.4%	24.5%
EBITM (%)	23.0%	23.4%	23.1%	23.3%
PATM (%)	9.9%	13.5%	14.5%	14.6%
Performance Ratios				
ROA (%)	5.7%	7.9%	8.8%	9.2%
ROE (%)	10.5%	12.8%	12.1%	12.7%
ROCE (%)	13.4%	15.8%	15.3%	16.9%
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	1.52	1.77
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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