



## S Chand and Company Ltd. Stock Idea

### MARKET DATA

NSE TICKER	SCHAND
Net worth FY18 (Rs in Crs)	1018
P/BV Ratio (FY18) (x)	1.2
EPS (FY18 )(Rs.)	30.6
Market Price (Rs.)	365
P/E Ratio (FY18) (x)	12X
52 Week High (Rs)	554
52 Week Low (Rs)	335
Market Capitalisation (Rs. Cr)	1328

### AVERAGE MONTHLY VOLUME ('000)

BSE	6.4
NSE	21.7

### SHARE HOLDING PATTERN

Promoter	46.6
FII	4.5
DII	16.4
Public	32.5

RETURN (%)	1M	3M	1YR
S Chand	2.9	-10.3	-29
Nifty	0.01	3.8	12.4

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S Chand publishes books primarily for the K-12 (KG to XII standard) segment. It is also involved in early learning education (preschool) and for higher education such as competitive exams, and college education books. The company has recently forayed into digital learning and curriculum management services as well.

### Favourable Macro Environment and Changing Preference towards CBSE Schools to Augur Well for the Company

S Chand operates in the education industry that is poised to grow manifold in the coming years on the back of growing literacy rate, expansion in the number of schools, increasing enrolment and a decline in dropout rates, and enhanced government spend on education.

There is a changing preference of parents to admit their students in CBSE and ICSE schools which will increase the addressable market for S Chand. Between FY11-15 CBSE schools have clocked a much faster growth rate of 7.8% compared to state board schools growth of 2.6% and this trend is expected to continue.

### Prudent Acquisitions

Over the last 5 years, S Chand has grown its revenues at a CAGR of 38% aided by a combination of organic and inorganic growth. All the acquisitions made by the company have been EPS accretive highlighting management's efficiency in integrating operations. Going ahead, the management will continue scouting for new acquisitions which would provide additional fillip to the company.

### Industry Leader and Established Brand

S Chand has been in operation for over 70 years and has built strong brand equity. It is the market leader in CBSE and ICSE boards with a 12-13% market share. It has developed a strong distribution network, loyalty amongst its customers, and strong relationship with authors. All of these are difficult to replicate.

### Valuation & View:

Given these strong tailwinds we expect the company's revenue to grow at a CAGR of 13% through FY20 which will result in PAT growth of 22% CAGR. 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. We like S Chand due to its leadership position in terms of size, strong relationships with key stake holders and wide distribution network.

At current market price the stock is trading at 12X TTM P/E which is at a substantial discount to Navneet Education which is trading at a P/E of 23X. Given the quality of S Chand's management and the future growth trajectory we believe that the steep discount is unwarranted and the valuation gap will close between the two firms

We are valuing S Chand on a PE multiple basis. We value the company with a price objective of Rs.539 using a PE multiple of 14x based on FY19E EPS of 38.5 representing an upside of 48%.

Y/E	Sales	EBIDTA	PAT	EPS	ROCE	ROE	P/E	EV/EBIDTA
FY18	798.97	194.86	106.32	30.64	15.59%	12.69%	12.50	7.52
FY19E	922.17	236.59	141.55	38.49	16.93%	12.99%	9.39	6.20
FY20E	1026.58	260.63	158.02	43.24	18.45%	12.75%	8.41	5.62

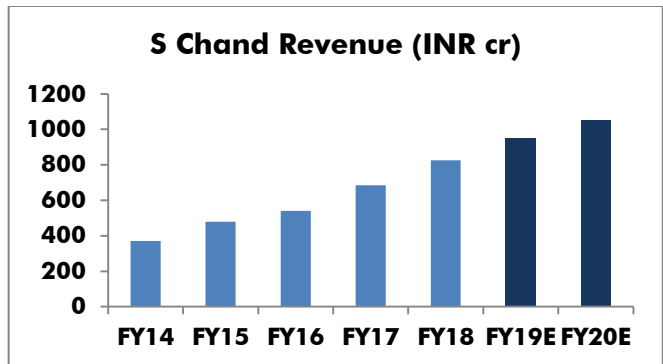
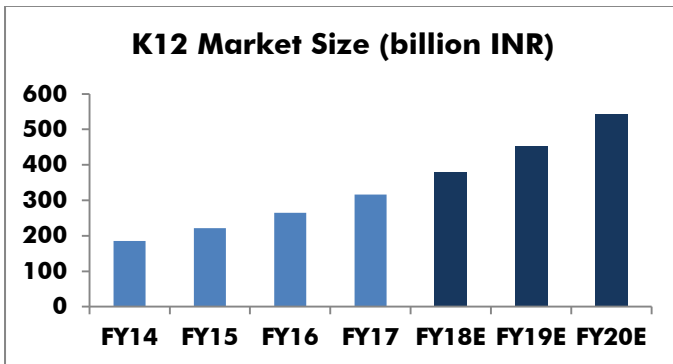


## ❖ About the Company:

S Chand publishes books primarily for the K-12 (KG to XII standard) segment. It is also involved in early learning education (preschool) and for higher education such as competitive exams and college education books. The company has over 9500 active titles and sold over 48 million books in FY17. Having a good content accepted by teachers and students as well as a strong distribution network are key success factors in the industry. S Chand excels in those parameters and it has a relationship with over 2400 authors and more than 6500 distributors. Furthermore, S Chand has a strong editorial team of over 300 people. S Chand does 70% of its printing in-house at its printing presses in Sahidabad (UP) and Rudrapur (Uttarakhand). The 2 facilities have a combined capacity of 55 TPD (Tons of Paper per Day). The company also owns 42 warehouses spread over 19 states.

S Chand is the market leader in CBSE education. The company has recently forayed into digital learning and curriculum management services as well. However, print content is the major source of revenue and other services are currently a very small portion of sales and earnings.

K-12 is the biggest source of income for the company and accounts for 80% of the sales. The company primarily sells text books and guides in this business segment. It mostly caters to the CBSE and ICSE boards and recently strengthened its position in state board in East India with the acquisition of Chhaya. Famous brands in this division include S Chand, Saraswati, Madhuban, and Chhaya. Higher education accounts for the next largest slice of revenues accounting for 18% of FY17 sales. The company primarily publishes books for college education and books for competitive exams in this division. Each of these subdivisions accounts for half of the higher education sales (9% of total revenue share each). The popular brands of this division include S Chand and Vikas. Early learning is a small business and accounted for 2% of FY17 sales. In this division the company publishes books for pre-KG children and also operates 6 play schools in the NCR region under the RiseKids brand. Other brands include BPI which makes children's' books, board games, activity packs, and puzzles and Smartivity which provides experiential interactive learning.



In the K-8 segment, the school is typically involved in the sale of books to students while for advanced learning above VIII grade the student typically directly purchases the books from the retailer. Thus, a good relationship with schools is important for selling books. Furthermore, the schools or retailers purchase the books from a distributor who in turn procures them from S Chand.

K-12	Higher Education (HE)
<ul style="list-style-type: none"> <li>Contribution of sales- 80%</li> <li>Consists of primarily CBSE and ICSE board books with a growing presence in state board education</li> <li>Key subjects are English, Hindi, Science, and Mathematics</li> <li>Popular brands include S Chand, Madhuban, Chhaya, and Saraswati</li> </ul>	<ul style="list-style-type: none"> <li>Contribution of sales- 18%</li> <li>Consists of College and Higher education (50% of HE) and competitive exam books (50% of HE)</li> <li>Key subjects are Quantitative Aptitude, verbal and non-verbal reasoning, Maths, Biology, Chemistry, and Physics</li> <li>Popular brand are S Chand and Vikas</li> </ul>

Based on FY17 Sales. Source: Dimensional Research



## ❖ Investment Rationale:

### Favourable Macro Environment

India has the highest population globally of people in the age group of the 0-24 (which is the target customer base for S Chand) at 606 million. This factor combined with the increasing share of education of consumers' disposable income (an increase from 4% in 2005 to 5% in 2016 and projected to increase to 5.6% by 2020) bodes well for the company- parents are increasingly viewing education as a long term investment necessary for their child's success.

Private schools segment to which S Chand largely caters to is growing a rate of 9% per annum. Schools can also be segmented based on the board they cater to; S Chand's growth aspects looks encouraging when viewed through this perspective. S Chand has traditionally been strong in the CBSE and ICSE boards and it is trying to make inroads in state board education which is a much larger market (Chhaya acquisition was a step in this direction). The CBSE and ICSE schools have grown at a much faster rate than state board schools at a CAGR of 7.8% and 7.2% respectively from FY10-17.

The total K-12 book publishing market in FY18 is expected to be 378 billion INR. The K-12 market has grown at a CAGR of 20% from FY10-15 and this growth is expected to continue for the following reasons

- Growing literacy rate- The literacy rate in India has improved from 65% in 2001 to 74% in 2011 and is projected to reach 90% by 2020
- Growth in number of schools- Number of schools has grown at a CAGR of 2.5% and private schools (to which S Chand caters to) have grown at a much faster rate
- Growth in enrolment- Enrolment has grown at a CAGR of 1.5% from 236 million students in FY08 to 259 million students in FY14
- Decline in dropout rates
- Increasing inflation and price rise- Publishers increase book prices by an average of 10% every year
- Increased government spend on education

### Prudent Acquisitions

S Chand has made several acquisitions to fill gaps in its portfolio which enhanced its size as well as presence in the education sphere. For instance, S Chand has traditionally been strong in English, Hindi, Mathematics, and Science and acquisitions were made to strengthen its position in other subjects. Madhubun which had a leading position in Hindi language books and Higher Education was acquired as a part of Vikas in FY13. Furthermore, Vikas focused on management and commerce while S Chand had been focused on science and engineering. Similarly, New Saraswati which was acquired in FY15 had an established position in language books such as French and regional languages and arts and crafts. The recent acquisition of Chhaya helped the company strengthen its presence in East India. It also helped the firm break into state board education; prior to the acquisition S Chand had mainly had a presence in CBSE and ICSE boards. The acquisition will also reduce the seasonality of S Chand's business; the business before acquisition mostly had sales in Q4 but Chhaya also has significant sales in Q1. These acquisitions have diversified S Chand's product portfolio.

The acquisitions have historically been in the range of 5-6X EV/EBITDA and that is the target range for future acquisitions. The margin profile of potential targets must be in a similar range as S Chand. Once the acquisition is complete, S Chand uses its larger size to optimize costs such as procurement of raw materials for the acquisitions.

In addition to traditional print media, the company has also made several in-house digital platforms and services and has made minority investments in several digital-based companies. S Chand has already invested around 130cr in digital ventures and it may make more minority investments in digital learning initiatives.



## In-house Digital/ Service Platforms



## Digital Investments (Inorganic)



Source: Dimensional Research

In the publishing business, further scope for acquisitions are in South and Western markets, or in state boards, as well as in Higher Education. The company currently has stronger presence in the Northern and Eastern markets and it has potential to grow in South and West India markets. There is also scope to add new content in the IX-XII segment- this segment currently accounts for a third of S Chand's K-12 revenues. Similarly, English, Hindi, Science and Mathematics account for about two-third of the K-12 revenue – management plans to add new content in other subjects as well. Test preparation is an avenue for growth as an ever increasing number of government jobs require entrance exams.

## Industry Leader and Established Brand

### Relationship with Authors

One of the key success factors in the publishing industry is establishing and maintaining relationship with leading authors; this has contributed significantly to S Chand's success. The company has been able to attract new talent and retain famous authors because of its excellent track record of progressing authors' careers (helping young and unknown authors), strong distribution network, and generous revenue share with authors. The firm has developed relationships with over 2,400 authors. In addition to content generated by its authors, S Chand also produces its own content in house- the former constitutes a significant proportion of sales but the latter is growing in importance. This will help the firm reduce royalty expenses in the future. S Chand had over 9,500 active titles as of FY17 and some amongst them are very famous in the market place- for instance, 67 titles sold over 50,000 copies each in FY16, and 15 authors had each sold over 1 mn copies of their titles during the preceding five years. Some famous authors are R S Aggarwal, S N Maheshwari, Lakhmir Singh, H L Ahuja, and P C Tulsian.

### Distribution Muscle

The distribution network also plays a significant role in the business. While students are the final consumers of books, the purchase happens through the school for the K-8 segment and through retailers for higher classes. The schools and retailers in turn purchase the books from distributors. Thus publishers need to establish a strong relationship not only with students but also with schools, teachers, and distributors. Over the last seven decades S Chand has developed a large distribution reach of over 6500 distributors across the country. This was achievable as it has a strong in-house sales team of over 900 employees. To develop a strong relationship with teachers and schools, the company shares sample books with the schools and gets the opinions of teachers who are Subject Matter Experts on revisions to the books. It also organizes several brand building activities, reaching out to teachers and school management. Over 12,000 of the 21,000 CBSE schools in India use at least one title published by S Chand. In addition, S Chand is able to sell Higher Education books to students as it has already built strong



relationships with them over K-12. Currently, the company is using its K-12 relationships to cross-sell its digital offerings and education services such as curriculum management service and digital classroom learning solutions (Mylestone and Destination Success respectively).

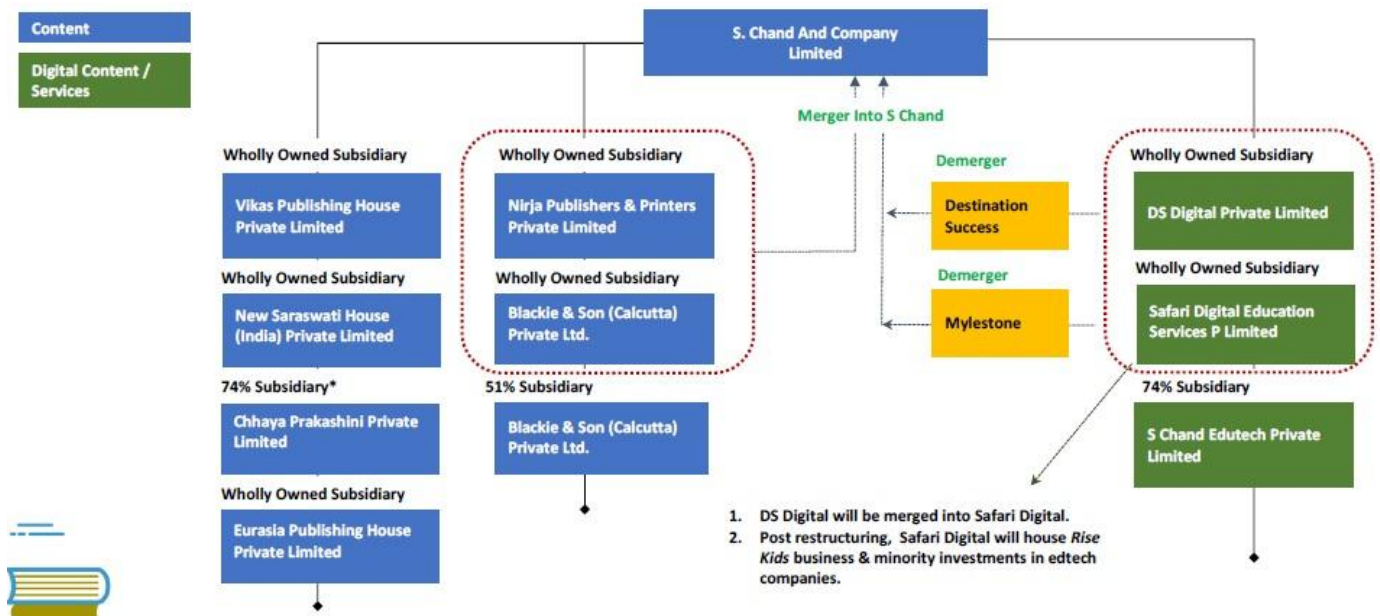
### In-house Printing

S Chand has its own printing facilities at Sahidabad and Rudrapur and it carries out 70% of its printing in-house. This insulates the company from peak demand of printing presses owned by third parties in Q3 as most of the sales for publishing companies are concentrated in Q4. As a result of demand in Q3, third party printing presses have high bargaining power in Q3 and there is also a risk of order not getting completed. Since S Chand owns its own presses, this risk is mitigated (they still have to outsource 30% of production). All purchasing decisions are aggregated (including subsidiaries) and this provides the firm with good bargaining power associated with large volumes. As the orders for Chhaya are aggregated with the parent company and some of its printing is brought in house, there is a scope for further increase in margin.

### Tax Benefits from Reverse Merger

S Chand is currently getting approvals for reverse merging the loss making digital subsidiaries with the parent company. This will boost the PAT by reducing tax; a portion of the core business profits can be offset by losses of the digital businesses. A total of 37cr is the accumulated loss for the digital businesses and the reverse merger will provide a one-time tax benefit of 13cr. In addition, the digital businesses incur an 8-9cr loss every year and this will provide an ongoing tax benefit of 3cr every year.

Under the current budget, the tax slab has been reduced to 25% for companies having sales less than 250cr. This is favorable for S Chand as 2 of its subsidiaries- New Saraswati and Chhaya come under this tax bracket. As a result, S Chand will save tax outflow of around 5cr every year. Hence, the net tax benefit from next year (assuming that the reverse merger is completed) is a one-time benefit of 13cr and ongoing benefits of 8cr every year.



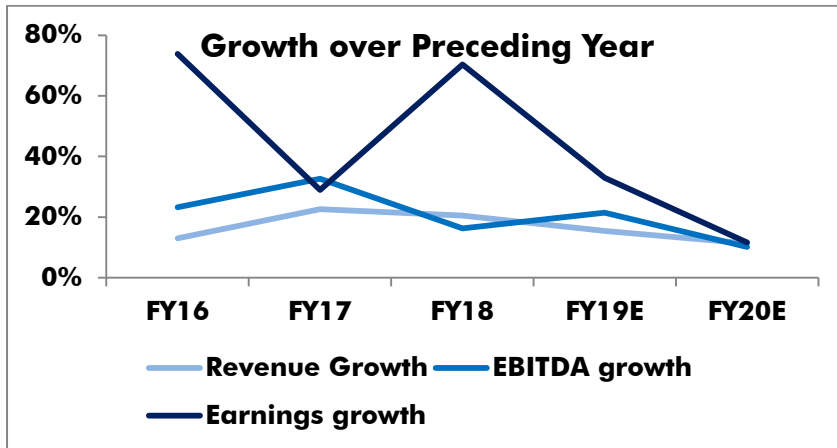
Source: Dimensional Research

### Lower Interest Burden and Tax Benefits to Accelerate Earnings Growth

During its IPO in May 2017, S Chand raised 325cr in fresh issue (total size was 730cr). The primary reason for raising capital was repayment of loans taken for acquisition of Chhaya and other loans on the books of subsidiaries. The firm has already repaid 255cr of the debt and as a result interest cost declined from 35cr in FY17 to 24cr in FY18. The firm is expected to grow sales and EBITDA at a CAGR of 13% and 16% respectively over the next 2 years. However, due to lower interest, depreciation



(as the firm has shifted to Straight Line Depreciation method) and tax burden the EPS is expected to grow at a CAGR of 23% over the next 2 years.



Source: Dimensional Research

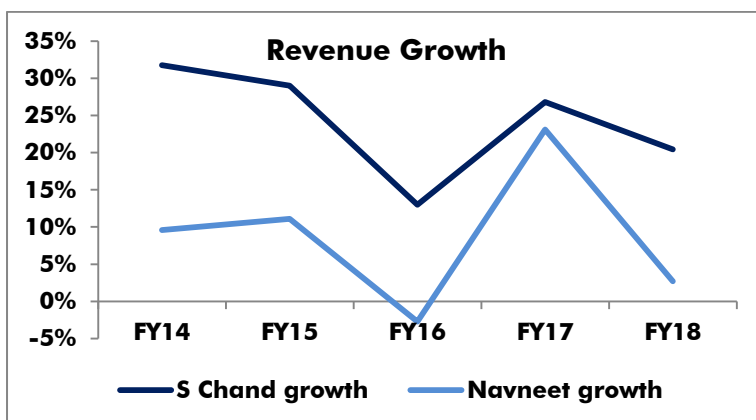
The business generates substantial cash flows; in FY17 the CFO was 46cr. However, debt had increased over the last few years as the company had used those cash flows for acquisitions and investments in the digital space. The firm is currently scouting for acquisitions in the Western India State Board and Cambridge International board. If those acquisitions fall in place then the debt will increase and consequently the interest burden will also increase.

## Attractively Valued

S Chand is compared to Navneet Education. Navneet is also in the publishing business primarily for state board education. However, it also has a large stationary division which partially shelters it from the seasonality evident in S Chand's business.

S Chand's current stock price of 382.4 implies that it is trading at a P/E multiple of 12.5 and an EV/EBITDA multiple of 7.5 based on FY18 results. This can be compared to Navneet Education which is trading at a P/E multiple of 23 and an EV/EBITDA multiple of 13.8. This difference can be partly attributed to S Chand's lower return ratios. Even though S Chand has a higher EBITDA margin its ROCE and ROE is lower than Navneet. The difference in margins can be attributed to S Chand's digital ventures. So far S Chand has invested around 130cr in digital businesses but these aren't profitable yet. The company expects them to turn profitable but model conservatively assumes the status quo as far as the digital business is considered.

S Chand is expected to narrow the difference in return ratios with Navneet and its ROCE is forecasted to increase to 18.5% which is closer to Navneet's ROCE of 20% by 2020. We believe that the steep valuation gap between Navneet and S Chand is unwarranted especially as S Chand has grown much faster than Navneet over the last 5 years. We value S Chand with a P/E multiple of 14 on FY19 earnings which is at a 40% discount to Navneet.



Source: Dimensional Research





S Chand and Company Ltd.- Relative Valuation		
Description	S Chand	Navneet Education
Latest Price Date	6-15-18	6-15-18
Latest Market Cap	1328.8	2928.8
Latest Price	383.0	125.4
PBIDTM (%)	27%	18%
PATM (%)	10%	11%
ROE (%)	10%	17%
ROCE (%)	13%	20%
Inventory Turnover(x)	1.4	1.4
Debtors Turnover(x)	1.5	3.8
Fixed Asset Turnover (x)	1.3	6.3
Receivable days	248.8	96.4
Inventory Days	252.2	267.0
Payable days	288.9	47.0
Cash conversion cycle	212.0	316.5
PE (x)	12.5	23.0
Price / Book Value(x)	1.3	3.9
EV/EBITDA(x)	7.5	13.8
M Cap / Sales	1.7	2.4

Source: Dimensional Research

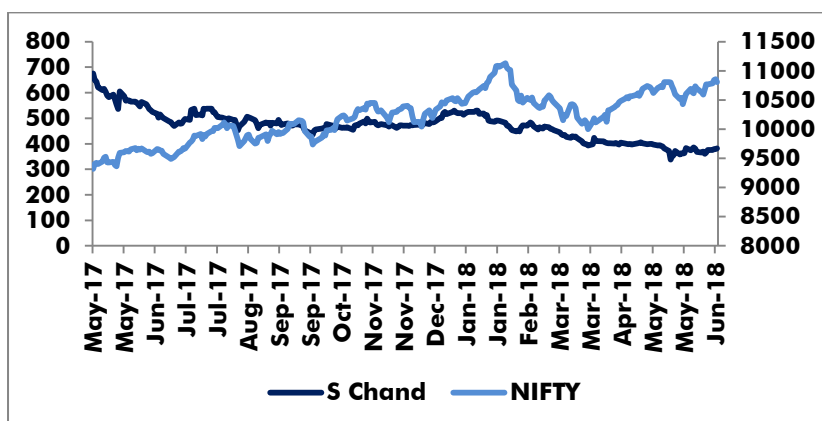
## ❖ Valuation & View:

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## ❖ Price Chart





## ❖ Key Risks

### **NCERT Text-books Made Compulsory**

A Tamil Nadu High Court judge recently directed CBSE to ensure that all private schools affiliated with it only follow books published by NCERT (National Council for Educational Research and Training). CBSE in turn is periodically issuing circulars to private schools affiliated with it to do the same. However, this hasn't resulted in any significant changes so far. Furthermore, action can be initiated by CBSE against a school that violates this directive only if parents or any other person lodges a complaint against the school. Currently 2% of S Chand's sales come from TN and the high court directive will not have a major effect on earnings. However, if CBSE and ICSE are mandated to follow text books published by NCERT (which are much cheaper than those published by private players) in other states as well, and the order is strictly enforced it would seriously impact the business.

### **Seasonal Business**

The business is WC intensive and requires significant funding to meet Q3 and Q4 needs. Over 80% of the sales are realized in Q4 and the firm needs funds to sustain operations in the other quarters. An increase in interest rates could adversely impact the profitability of the business or constrain its ability to borrow to grow via acquisitions

### **Business Disruption through Digital Learning**

S Chand is using digital content as a value added service to traditional textbooks and does not have a platform exclusively built for digital learning. Native digital platforms especially MOOC (Massive Open Online Courses) such as Coursera and Byjus may pose a serious threat to the business. Such courses are becoming increasingly popular in North America and Europe especially as text books are a significant expense. In India, text books account for a relatively small portion of education costs and thus the shift is less likely to occur; it is more likely that online learning will complement text books.

### **Pitfalls of Inorganic Growth**

S Chand has been growing inorganically by making acquisitions in the traditional publishing business as well as making minority investments in technology aided learning firms. Furthermore, it has also organically grown its own digital offerings. Inability to integrate acquisitions with S Chand or imprudent deployment of capital at unwarranted high prices may adversely impact business. However, so far the firm has allocated capital judiciously for acquisitions.





## ❖ Financials:

S Chand and Company Ltd.- Statement of Profit & Loss				
Description	FY17	FY18	FY19E	FY20E
Net Sales	663.2	799.0	922.2	1026.6
Expenditure:				
COGS	198.2	258.8	290.3	318.0
Royalty	39.8	51.7	57.1	61.6
Publishing cost	13.3	16.7	19.1	21.3
Employee cost	112.7	127.1	145.6	169.3
Other operating expenses	120.7	149.8	173.5	195.8
<b>EBITDA excluding OI</b>	<b>178.5</b>	<b>194.9</b>	<b>236.6</b>	<b>260.6</b>
<b>EBITDA margin</b>	<b>26.9%</b>	<b>24.4%</b>	<b>25.7%</b>	<b>25.4%</b>
Depreciation	28.2	19.6	17.0	17.6
<b>EBIT</b>	<b>150.3</b>	<b>175.2</b>	<b>219.6</b>	<b>243.0</b>
OI	2.0	10.0	5.0	5.0
Interest	35.6	23.7	24.6	27.1
PBT	116.7	161.5	200.0	220.9
<b>PBT</b>	<b>116.7</b>	<b>161.5</b>	<b>200.0</b>	<b>220.9</b>
Provision for tax	43.6	53.9	62.0	69.3
Minority interest	-5.5	0.0	0.0	0.0
<b>PAT</b>	<b>67.7</b>	<b>107.6</b>	<b>138.0</b>	<b>151.6</b>
<b>EPS</b>	<b>22.1</b>	<b>30.6</b>	<b>38.5</b>	<b>43.2</b>

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	1001.3	1142.9	1300.9
<b>Shareholder's Funds</b>	<b>657.3</b>	<b>1018.7</b>	<b>1160.2</b>	<b>1318.2</b>
<b>Minority Interest</b>	<b>13.1</b>	<b>13.1</b>	<b>-11.4</b>	<b>-11.4</b>
Long term debt	31.3	0.0	0.0	0.0
Other Long Term Liabilities	-4.4	-4.4	-4.4	-4.4
<b>Total Non-Current Liabilities</b>	<b>27.0</b>	<b>-4.4</b>	<b>-4.4</b>	<b>-4.4</b>
Trade Payables	185.1	224.5	235.0	268.3
Short term debt	439.2	160.4	182.5	41.9
<b>Total Current Liabilities</b>	<b>624.3</b>	<b>385.0</b>	<b>417.4</b>	<b>310.2</b>
<b>Total Liabilities</b>	<b>1321.6</b>	<b>1412.3</b>	<b>1561.9</b>	<b>1612.7</b>
Fixed Assets	495.0	497.3	540.0	540.2
Other Non Current Assets	50.8	50.8	50.8	50.8
<b>Total Non-Current Assets</b>	<b>545.8</b>	<b>548.1</b>	<b>590.8</b>	<b>590.9</b>
Current Investments	19.5	19.5	19.5	19.5
Inventories	153.6	196.9	189.9	228.5
Sundry Debtors	506.1	539.2	642.0	644.8
Cash and Bank	37.5	37.5	37.5	37.5
Other Current Assets	59.1	71.2	82.2	91.5
<b>Total Current Assets</b>	<b>775.8</b>	<b>864.3</b>	<b>971.1</b>	<b>1021.8</b>
<b>Total Assets</b>	<b>1321.6</b>	<b>1412.3</b>	<b>1561.9</b>	<b>1612.7</b>



S Chand and Company Ltd.- Cash flow statement			
Description	Mar-18	Mar-19 E	Mar-20 E
PAT	106.3	141.6	158.0
Changes in WC	-49.0	-96.4	-17.3
Depreciation	19.6	17.0	17.6
<b>Cash flow from operations</b>	<b>77.0</b>	<b>62.1</b>	<b>158.3</b>
<b>Cash flow from investment</b>	<b>21.9</b>	<b>17.1</b>	<b>17.8</b>
<b>Net proceeds from IPO</b>	<b>255.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Free cash flow</b>	<b>310.1</b>	<b>45.0</b>	<b>140.6</b>
Change in LT debt	-31.3	0.0	0.0
<b>Closing LT debt</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Change in ST debt	-278.8	22.0	-140.6
<b>Closing ST debt</b>	<b>160.4</b>	<b>182.5</b>	<b>41.9</b>

Source: Dimensional Research

S Chand and Company Ltd. Operation Ratios				
DESCRIPTION	FY17	FY18E	FY19E	FY20E
<b>Operational &amp; Financial Ratios</b>				
Earnings Per Share	22.06	30.64	40.80	45.55
Book Value (Rs)	220.25	293.60	334.40	379.94
<b>Margin Ratios</b>				
PBIDTM (%)	26.9%	24.4%	25.7%	25.4%
EBITM (%)	23.0%	23.2%	24.4%	24.2%
PATM (%)	9.9%	13.3%	15.3%	15.4%
<b>Performance Ratios</b>				
ROA (%)	5.7%	7.8%	9.5%	10.0%
ROE (%)	10.5%	12.7%	13.0%	12.8%
ROCE (%)	13.4%	15.6%	16.9%	18.5%
Asset Turnover(x)	0.50	0.57	0.59	0.64
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	1.71	1.90
<b>Efficiency Ratios</b>				
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

Source: Dimensional Research



## ANALYST CERTIFICATION

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