

Rating: HOLD | CMP: Rs115 | TP: Rs125

May 29, 2019

Q4FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	125		234	
Sales (Rs. m)	6,159	7,271	9,110	9,927
% Chng.	(32.4)	(26.8)		
EBITDA (Rs. m)	1,232	1,556	2,029	2,178
% Chng.	(39.3)	(28.5)		
EPS (Rs.)	15.6	21.4	29.2	31.5
% Chng.	(46.5)	(32.0)		

Key Financials

	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	7,944	5,220	6,159	7,271
EBITDA (Rs. m)	1,927	(312)	1,232	1,556
Margin (%)	24.3	(6.0)	20.0	21.4
PAT (Rs. m)	1,072	(645)	546	748
EPS (Rs.)	30.7	(18.4)	15.6	21.4
Gr. (%)	64.0	NM	NM	37.1
DPS (Rs.)	1.5	-	2.5	2.5
Yield (%)	1.3	-	2.2	2.2
RoE (%)	13.1	NM	5.7	7.4
RoCE (%)	12.4	NM	6.9	8.8
EV/Sales (x)	0.6	1.0	0.9	0.7
EV/EBITDA (x)	2.4	NM	4.3	3.4
PE (x)	3.8	NM	7.4	5.4
P/BV (x)	0.4	0.4	0.4	0.4

Key Data

SCHA.NS | SCAND IN

52-W High / Low	Rs.399 / Rs.113
Sensex / Nifty	39,502 / 11,861
Market Cap	Rs.4bn / \$ 58m
Shares Outstanding	35m
3M Avg. Daily Value	Rs.10.28m

Shareholding Pattern (%)

Promoter's	46.69
Foreign	3.73
Domestic Institution	16.07
Public & Others	33.51
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(26.1)	(49.2)	(69.8)
Relative	(26.9)	(53.5)	(73.3)

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Prospect of new education policy mars growth

Quick Pointers:

- Likely roll out of new education policy & focus on cash flow management led to 28% higher sales return in FY19.
- Right sizing of over 400 employees, renegotiation of author royalties and rationalization of warehouse/regional offices is likely to result in cost savings of Rs600-800mn in FY20.
- OCF generation at Rs380mn in FY19 was commendable despite a 34.3% YoY fall in topline. NWC cycle was at 317 days in FY19.
- Target is to reduce sales return by 35-40% and improve the EBITDA/FCFF ratio at 50% for FY20.

We cut our revenue/PAT estimates by 32%/45% for FY20 and 27%/31% for FY21 given unrelenting focus on FCF generation by engaging with quality channel partners. Though channel cleansing is expected to eliminate dealers/distributors with elongated payment cycle we believe realigning credit terms is a long drawn process and growth could suffer in the interim. While New Education Policy can act as a growth kicker (2nd hand books go out of the system) given the uncertainty in time-line we remain apprehensive of any immediate benefits. We believe S Chand 3.0 program aimed at improving the working capital efficiency & lowering operating costs is a step in the right direction but implementation challenges galore. We value the stock at 8x FY20E EPS of Rs15.6 and arrive at a TP of Rs125 (earlier Rs234). Maintain HOLD.

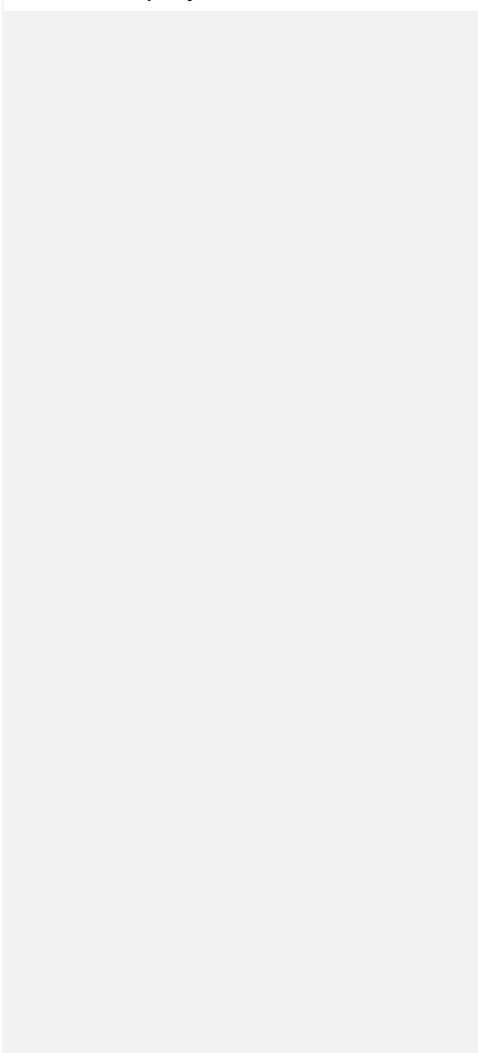
Focus on cash flow over growth hurts performance: Consolidated / standalone top-line declined 31.4% YoY/36.4% YoY to Rs4,491mn/Rs1,597mn respectively as channel partners lowered their off-take and increased sales return in anticipation of New Education Policy. Strategy to focus on improving cash flows by working with better channel partners also impacted growth. Consolidated EBITDA declined 45.4% YoY to Rs1,827mn with a margin of 40.7% in 4QFY19 due to lower sales and increase in paper prices. Consolidated profit declined 46.0% YoY to Rs1,215mn. Going ahead, implementation of S Chand 3.0 program is likely to improve EBITDA margins and working capital cycle due to rationalization of costs and improved trade terms with channel partners. We thus expect EBITDA margin to improve to 21.4% (EBITDA loss in FY19) while the working capital cycle is expected to improve to 265 days in FY21 (317 days in FY19) .

Con-call highlights: 1) There is a revenue impact of Rs740mn in FY19 due to provisioning on account of sales return **2)** National Education Policy is most likely to be announced in FY20 **3)** OCF was Rs380mn in FY19. Excluding an advance tax payment of Rs160mn, OCF would have been higher at Rs540mn **4)** Revenue breakdown is as follows: - K12 - 80%, Higher education - 13% and Digital - 7% **5)** Out of the total receivable of Rs4.44bn as of FY19, in the first 2 month's collection of Rs1.2bn is done. In Dec last year receivables stood at Rs3bn, the plan is to bring it down to Rs1.5bn by this Dec end **6)** 100-150 channel partners have been blocked amid plans to improve CF (Dealers with poor payment history have been blocked) **7)** Sales return is expected to be lower by 35-40% in FY20 **8)** S Chand has 6,000 distributors. No distributor forms more than 5% of revenues.

Exhibit 1: Q4FY19 Result Overview (Rs mn)

Y/e March	Standalone				Consolidated						
	Q4FY19	Q4FY18	YoY gr (%)	Q3FY19	Q4FY19	Q4FY18	YoY gr (%)	Q3FY19	FY19	FY18	YoY gr (%)
Net Sales	1,597	2,511	(36.4)	28	4,491	6,547	(31.4)	46	5,220.2	7,944.5	(34.3)
Expenditure											
Raw Materials	804	1,111	(27.6)	(52)	1,771	2,397	(26.1)	(10)	2,255	3,245	(30.5)
<i>% of Net sales</i>	<i>50.3</i>	<i>44.2</i>		<i>NM</i>	<i>39.4</i>	<i>36.6</i>		<i>NM</i>	<i>43.2</i>	<i>40.8</i>	
Personnel	151	157	(3.5)	146	384	371	3.7	403	1,511.4	1,385.6	9.1
<i>% of Net sales</i>	<i>9.5</i>	<i>6.2</i>		<i>522.8</i>	<i>8.6</i>	<i>5.7</i>		<i>874.4</i>	<i>29.0</i>	<i>17.4</i>	
Selling , dist & Other Exp	209	160	31.0	211	509	434	17.2	504	1,764.9	1,386.7	27.3
<i>% of Net sales</i>	<i>13.1</i>	<i>6.4</i>		<i>758.6</i>	<i>11.3</i>	<i>6.6</i>		<i>1,093.8</i>	<i>33.8</i>	<i>17.5</i>	
Total Expenditure	1,164	1,427	(18.4)	305	2,664	3,202	(16.8)	898	5,532	6,017	(8.1)
EBITDA	432	1,084	(60.1)	(277)	1,827	3,345	(45.4)	(852)	(312)	1,927	NM
<i>Margin (%)</i>	<i>27.1</i>	<i>43.2</i>		<i>NM</i>	<i>40.7</i>	<i>51.1</i>		<i>NM</i>	<i>NM</i>	<i>24.3</i>	
Depreciation	9	8	9.8	9	60	52	16.9	67	237.3	192.8	23.1
EBIT	423	1,076	(60.6)	(286)	1,767	3,293	(46.3)	(918)	(549)	1,734	NM
Interest	42	24	77.4	25	90	60	48.7	71	272.1	239.7	13.5
Other Income	108	109	(1.5)	37	42	67	(36.7)	32	116.2	127.2	(8.7)
Exceptional items	-	-	-	226	(51)	-	-	226	233	-	-
PBT	489	1,162	(57.9)	(499)	1,775	3,297	(46.2)	(1,193)	(938)	845	NM
Tax	160	415	(61.5)	(180)	560	2,251	(75.1)	(378)	(283)	539	NM
<i>Tax Rate (%)</i>	<i>32.7</i>	<i>35.8</i>		<i>NM</i>	<i>31.6</i>	<i>68.3</i>		<i>NM</i>	<i>NM</i>	<i>63.7</i>	
Reported PAT	329	746	(55.8)	(320)	1,215	2,251	(46.0)	(815)	(645)	1,072	NM

Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	7,944	5,220	6,159	7,271
YoY gr. (%)	20.5	(34.3)	18.0	18.1
Cost of Goods Sold	3,245	2,255	2,437	2,879
Gross Profit	4,699	2,965	3,721	4,392
Margin (%)	59.2	56.8	60.4	60.4
Employee Cost	1,386	1,511	1,139	1,272
Other Expenses	650	881	600	727
EBITDA	1,927	(312)	1,232	1,556
YoY gr. (%)	16.2	(116.2)	(495.4)	26.3
Margin (%)	24.3	(6.0)	20.0	21.4
Depreciation and Amortization	193	237	251	269
EBIT	1,734	(549)	981	1,288
Margin (%)	21.8	(10.5)	15.9	17.7
Net Interest	240	272	246	246
Other Income	127	116	110	110
Profit Before Tax	1,622	(938)	845	1,152
Margin (%)	20.4	(18.0)	13.7	15.8
Total Tax	539	(283)	287	392
Effective tax rate (%)	33.2	30.2	34.0	34.0
Profit after tax	1,083	(655)	558	760
Minority interest	0	-	-	-
Share Profit from Associate	(12)	(14)	(12)	(12)
Adjusted PAT	1,072	(645)	546	748
YoY gr. (%)	92.2	(160.1)	(184.7)	37.1
Margin (%)	13.5	(12.3)	8.9	10.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,072	(645)	546	748
YoY gr. (%)	92.2	(160.1)	(184.7)	37.1
Margin (%)	13.5	(12.3)	8.9	10.3
Other Comprehensive Income	1	25	-	-
Total Comprehensive Income	1,073	(620)	546	748
Equity Shares O/s (m)	35	35	35	35
EPS (Rs)	30.7	(18.4)	15.6	21.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	2,204	2,654	2,904	3,154
Tangibles	1,307	1,505	1,755	2,005
Intangibles	897	1,149	1,149	1,149
Acc: Dep / Amortization	436	673	924	1,193
Tangibles	233	353	478	620
Intangibles	203	320	446	573
Net fixed assets	1,768	1,981	1,980	1,961
Tangibles	1,074	1,152	1,277	1,385
Intangibles	694	829	703	576
Capital Work In Progress	68	110	110	110
Goodwill	3,374	3,374	3,374	3,374
Non-Current Investments	338	350	355	360
Net Deferred tax assets	220	593	593	593
Other Non-Current Assets	135	287	287	287
Current Assets				
Investments	468	216	216	216
Inventories	1,562	2,048	1,519	1,892
Trade receivables	6,312	4,446	4,724	5,179
Cash & Bank Balance	665	604	590	716
Other Current Assets	139	152	182	219
Total Assets	15,162	14,318	14,100	15,094
Equity				
Equity Share Capital	175	175	175	175
Other Equity	9,822	9,129	9,587	10,248
Total Networkth	9,997	9,304	9,762	10,423
Non-Current Liabilities				
Long Term borrowings	266	727	727	727
Provisions	-	-	-	-
Other non current liabilities	84	66	68	71
Current Liabilities				
ST Debt / Current of LT Debt	1,448	1,409	1,409	1,409
Trade payables	2,015	1,944	1,519	1,793
Other current liabilities	1,306	831	578	633
Total Equity & Liabilities	15,161	14,318	14,100	15,094

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	1,622	(938)	845	1,152
Add. Depreciation	193	237	251	269
Add. Interest	225	272	246	246
Less Financial Other Income	127	116	110	110
Add. Other	(30)	(545)	(40)	(46)
Op. profit before WC changes	2,009	(974)	1,302	1,620
Net Changes-WC	(1,117)	1,078	(441)	(514)
Direct tax	(502)	283	(287)	(392)
Net cash from Op. activities	389	387	574	714
Capital expenditures	(397)	(198)	(250)	(250)
Interest / Dividend Income	-	-	-	-
Others	(214)	198	(5)	(5)
Net Cash from Inv. activities	(610)	0	(255)	(255)
Issue of share cap. / premium	3,318	-	-	-
Debt changes	(2,235)	423	-	-
Dividend paid	(44)	-	(87)	(87)
Interest paid	(225)	(272)	(246)	(246)
Others	(264)	(8)	-	-
Net cash from Fin. activities	551	142	(333)	(333)
Net change in cash	329	(61)	(14)	126
Free Cash Flow	(37)	189	324	464

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	30.7	(18.4)	15.6	21.4
CEPS	36.2	(11.6)	22.8	29.1
BVPS	285.8	266.0	279.1	298.0
FCF	(1.1)	5.4	9.3	13.3
DPS	1.5	-	2.5	2.5
Return Ratio(%)				
RoCE	12.4	NM	6.9	8.8
ROIC	9.0	NM	4.8	6.2
RoE	13.1	NM	5.7	7.4
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.1	0.1
Net Working Capital (Days)	197	175	190	170
Valuation(x)				
PER	3.8	NM	7.4	5.4
P/B	0.4	0.4	0.4	0.4
P/CEPS	3.2	NM	5.0	4.0
EV/EBITDA	2.4	NM	4.3	3.4
EV/Sales	0.6	1.0	0.9	0.7
Dividend Yield (%)	1.3	-	2.2	2.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Net Revenue	189	131	28	1,597
YoY gr. (%)	(35.8)	(24.7)	(94.0)	(36.4)
Raw Material Expenses	169	102	(52)	804
Gross Profit	20	29	80	793
Margin (%)	10.5	22.0	286.9	49.7
EBITDA	(226)	(295)	(277)	432
YoY gr. (%)	NM	NM	NM	NM
Margin (%)	NM	NM	NM	NM
Depreciation / Depletion	9	9	9	9
EBIT	(235)	(305)	(286)	423
Margin (%)	NM	NM	NM	NM
Net Interest	21	19	25	42
Other Income	46	41	37	108
Profit before Tax	(209)	(283)	(274)	489
Margin (%)	NM	NM	NM	NM
Total Tax	(69)	(103)	(180)	160
Effective tax rate (%)	32.8	36.5	65.7	32.7
Profit after Tax	(141)	(180)	(94)	329
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(141)	(180)	(94)	329
YoY gr. (%)	NM	NM	NM	NM
Margin (%)	NM	NM	NM	NM
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(141)	(180)	(94)	329
YoY gr. (%)	NM	NM	NM	NM
Margin (%)	NM	NM	NM	NM
Other Comprehensive Income	-	2	(2)	-
Total Comprehensive Income	(140)	(178)	(96)	329
Avg. Shares O/s (m)	35	35	35	35
EPS (Rs)	(4.0)	(5.1)	(2.7)	9.4

Source: Company Data, PL Research

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Dec-18	BUY	400	221
2	7-Jan-19	BUY	400	214
3	15-Feb-19	Hold	234	199

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Accumulate	662	495
3	Music Broadcast	BUY	75	59
4	Navneet Education	BUY	142	107
5	S Chand and Company	Hold	234	199
6	V.I.P. Industries	BUY	564	431
7	Zee Media Corporation	Under Review	-	14

PL's Recommendation Nomenclature (Absolute Performance)

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



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