

November 13, 2019

Q2FY20 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		HOLD	
Target Price	92		71	
Sales (Rs. m)	6,159	7,271	6,159	7,271
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,352	1,614	1,232	1,556
% Chng.	9.7	3.7	-	-
EPS (Rs.)	17.3	23.0	17.7	24.3
% Chng.	(2.3)	(5.5)	-	-

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	5,220	6,159	7,271	8,574
EBITDA (Rs. m)	(312)	1,352	1,614	1,899
Margin (%)	(6.0)	21.9	22.2	22.2
PAT (Rs. m)	(645)	606	803	995
EPS (Rs.)	(18.4)	17.3	23.0	28.4
Gr. (%)	(160.1)	(194.0)	32.6	23.9
DPS (Rs.)	-	1.5	1.5	1.5
Yield (%)	-	2.0	2.0	2.0
RoE (%)	(6.7)	6.3	7.8	9.0
RoCE (%)	(3.7)	7.1	8.5	9.5
EV/Sales (x)	0.8	0.6	0.5	0.4
EV/EBITDA (x)	(12.7)	2.8	2.2	1.6
PE (x)	(4.1)	4.3	3.3	2.6
P/BV (x)	0.3	0.3	0.2	0.2

Key Data

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52-W High / Low	Rs.257 / Rs.47
Sensex / Nifty	40,116 / 11,840
Market Cap	Rs.3bn / \$ 37m
Shares Outstanding	35m
3M Avg. Daily Value	Rs.7.74m

Shareholding Pattern (%)

Promoter's	47.10
Foreign	1.87
Domestic Institution	10.37
Public & Others	40.65
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	26.1	(44.7)	(64.9)
Relative	19.9	(48.4)	(69.5)

Jinesh Joshi

jineshjoshi@plindia.com | 91-22-66322238

Program 3.0 yielding results

Quick Pointers

- Top-line growth is expected to be in the region of 10% for FY20E on a normalized base of FY19 (excluding the provisioning impact of Rs740mn).
- Improved collection efficiency leads to a 65-day reduction in receivable cycle. Receivable days stood at 157 days (222 days in 1QFY20)
- Net working capital reduced to 238days (280 days in 1QFY20). OCF is targeted to be at ~Rs900mn in FY20E.

We upgrade our rating from HOLD to ACCUMULATE as S Chand 3.0 program aimed at improving the working capital efficiency (engaging with quality channel partners, lowering inventory levels & improving the collection cycle) & lowering operating costs (rationalization of employee & other cost heads) has started yielding results. Improvement in collection efficiency and focus on working capital management has led to a reduction of 65 days in receivable cycle and 42 days in working capital cycle (highest ever reduction seen in 2Q over the last 4 years). In addition, New Education Policy (draft already announced in May 2019) will lay foundation for strong runway going ahead as 2nd hand books go out of the system. We believe transition challenges in the pre-NEP era are overblown given visible improvement in cash flow situation (OCF was negative by 27mn in 1HFY20 as compared to Rs535mn in 1HFY19). We value the stock at 4x FY21E EPS of Rs23 and arrive at a TP of Rs92 (earlier Rs71). Upgrade to ACCUMULATE.

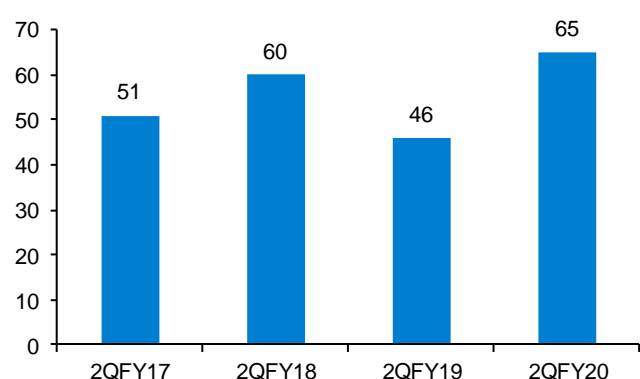
Broadly in-line performance in a seasonally lean quarter: Consolidated top-line increased 150.6% YoY to Rs266mn (PLe of Rs110mn) in a seasonally lean quarter. Consolidated EBITDA loss stood at Rs637mn (PLe of Rs580mn) while consolidated loss stood at Rs603mn (PLe of Rs545mn). Going ahead, implementation 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 22.2% (EBITDA loss in FY19) while the working capital cycle is expected to improve to 265 days in FY21E (318 days in FY19).

Con call highlights: 1) Excluding the impact of Rs740mn in FY19 due to provisioning on account of sales return, the effective top-line growth is expected to be at ~25% for FY20E. 2) The cost rationalization program is on track (Rs260mn of cost reduction achieved in 1HFY20 against full year guidance of Rs500-550mn) 3) EBITDA margin is expected to be in the region of 20-22% for FY20E 4) Volume growth of ~4-5% is expected in FY20E 5) Inventory is expected to be at Rs1.3-1.4bn for FY20E 6) Interest cost is expected to be Rs320-340mn for FY20E 7) Depreciation is expected to be in the range of Rs350mn for FY20E 8) S Chand has a reach of 40-45K schools. ~70% of the schools effectively end up buying a S Chand product 9) New curriculum framework is expected to be announced by Dec 2020.

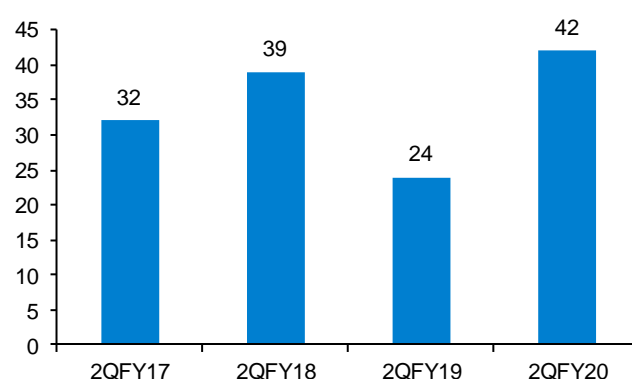
Exhibit 1: Q2FY20 Result Overview (Rs mn)

Y/e March	Q2FY20	Q2FY19	YoY gr (%)	Q1FY20	H1FY20	H1FY19	YoY gr (%)
Net Sales	266	106	150.6	613	879	683	28.7
Expenditure							
Raw Materials	202	71	183.6	329	532	495	7.4
<i>% of Net sales</i>	<i>76.1</i>	<i>67.3</i>		<i>53.7</i>	<i>60.5</i>	<i>72.5</i>	
Personnel	313	367	(14.8)	314	627	724	(13.3)
<i>% of Net sales</i>	<i>117.7</i>	<i>345.9</i>		<i>51.3</i>	<i>71.4</i>	<i>106.0</i>	
Selling , dist & Other Exp	387	443	(12.6)	269	656	752	(12.7)
<i>% of Net sales</i>	<i>145.6</i>	<i>417.3</i>		<i>43.8</i>	<i>74.6</i>	<i>110.1</i>	
Total Expenditure	903	881	2.4	912	1,815	1,970	(7.9)
EBITDA	(637)	(775)	NM	(299)	(936)	(1,287)	NM
<i>Margin (%)</i>	<i>NM</i>	<i>NM</i>		<i>NM</i>	<i>NM</i>	<i>NM</i>	
Depreciation	90	55	61.8	88	178	110	61.4
EBIT	(726)	(831)	NM	(387)	(1,113)	(1,397)	NM
Interest	89	57	55.3	84	172	111	54.7
Other Income	10	17	(41.9)	24	33	42	(19.8)
Share of P/L in associates	(3)	(4)	NM	(4)	(8)	(9)	NM
Exceptional items	-	-	NM	-	-	(58)	NM
PBT	(808)	(875)	NM	(452)	(1,260)	(1,535)	NM
Tax	(205)	304	NM	(73)	(279)	(465)	NM
<i>Tax Rate (%)</i>	<i>NM</i>	<i>NM</i>		<i>NM</i>	<i>NM</i>	<i>NM</i>	
Reported PAT	(603)	(571)	NM	(378)	(981)	(1,069)	NM
Minority interest	(2)	(5)	NM	(4)	(6)	(14)	NM
OCI	7	6	5.0	(7)	(1)	9	NM
Total comprehensive income	(596)	(565)	NM	(386)	(982)	(1,060)	NM
Reported EPS	(17.2)	(16.3)	NM	(10.8)	(28.1)	(30.6)	NM

Source: Company, PL

Exhibit 2: Highest reduction in receivable days in 2QFY20 since FY17


Source: Company, PL

Exhibit 3: Highest reduction in net working capital days in 2QFY20 since FY17


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	5,220	6,159	7,271	8,574
YoY gr. (%)	(34.3)	18.0	18.1	17.9
Cost of Goods Sold	2,255	2,437	2,879	3,400
Gross Profit	2,965	3,721	4,392	5,175
Margin (%)	56.8	60.4	60.4	60.4
Employee Cost	1,511	1,139	1,272	1,501
Other Expenses	881	480	669	789
EBITDA	(312)	1,352	1,614	1,899
YoY gr. (%)	(116.2)	(533.9)	19.4	17.6
Margin (%)	(6.0)	21.9	22.2	22.2
Depreciation and Amortization	237	337	357	386
EBIT	(549)	1,015	1,257	1,514
Margin (%)	(10.5)	16.5	17.3	17.7
Net Interest	272	299	278	278
Other Income	116	110	110	110
Profit Before Tax	(938)	826	1,090	1,346
Margin (%)	(18.0)	13.4	15.0	15.7
Total Tax	(283)	208	275	339
Effective tax rate (%)	30.2	25.2	25.2	25.2
Profit after tax	(655)	618	815	1,007
Minority interest	-	-	-	-
Share Profit from Associate	(14)	(12)	(12)	(12)
Adjusted PAT	(645)	606	803	995
YoY gr. (%)	(160.1)	(194.0)	32.6	23.9
Margin (%)	(12.3)	9.8	11.0	11.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(645)	606	803	995
YoY gr. (%)	(160.1)	(194.0)	32.6	23.9
Margin (%)	(12.3)	9.8	11.0	11.6
Other Comprehensive Income	25	-	-	-
Total Comprehensive Income	(620)	606	803	995
Equity Shares O/s (m)	35	35	35	35
EPS (Rs)	(18.4)	17.3	23.0	28.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	2,654	2,904	3,154	3,404
Tangibles	1,505	1,755	2,005	2,255
Intangibles	1,149	1,149	1,149	1,149
Acc: Dep / Amortization	673	1,010	1,367	1,752
Tangibles	353	564	794	1,053
Intangibles	320	446	573	699
Net fixed assets	1,981	1,894	1,787	1,651
Tangibles	1,152	1,191	1,211	1,201
Intangibles	829	703	576	450
Capital Work In Progress	110	110	110	110
Goodwill	3,374	3,374	3,374	3,374
Non-Current Investments	350	355	360	365
Net Deferred tax assets	593	593	593	593
Other Non-Current Assets	287	287	287	287
Current Assets				
Investments	216	216	216	216
Inventories	2,048	1,519	1,892	2,232
Trade receivables	4,446	4,724	5,179	5,873
Cash & Bank Balance	604	771	1,075	1,449
Other Current Assets	152	182	219	263
Total Assets	14,318	14,195	15,279	16,617
Equity				
Equity Share Capital	175	175	175	175
Other Equity	9,129	9,682	10,433	11,375
Total Networkth	9,304	9,857	10,608	11,550
Non-Current Liabilities				
Long Term borrowings	727	727	727	727
Provisions	-	-	-	-
Other non current liabilities	66	68	71	74
Current Liabilities				
ST Debt / Current of LT Debt	1,409	1,409	1,409	1,409
Trade payables	1,944	1,519	1,793	2,114
Other current liabilities	831	578	633	705
Total Equity & Liabilities	14,318	14,195	15,279	16,617

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	(938)	826	1,090	1,346
Add. Depreciation	237	337	357	386
Add. Interest	256	299	278	278
Less Financial Other Income	116	110	110	110
Add. Other	108	(40)	(46)	(53)
Op. profit before WC changes	(337)	1,422	1,679	1,956
Net Changes-WC	1,200	(441)	(514)	(658)
Direct tax	(478)	(208)	(275)	(339)
Net cash from Op. activities	386	773	890	959
Capital expenditures	(466)	(250)	(250)	(250)
Interest / Dividend Income	-	-	-	-
Others	(373)	(5)	(5)	(5)
Net Cash from Invt. activities	(839)	(255)	(255)	(255)
Issue of share cap. / premium	-	-	-	-
Debt changes	709	-	-	-
Dividend paid	(52)	(52)	(52)	(52)
Interest paid	(253)	(299)	(278)	(278)
Others	(16)	-	-	-
Net cash from Fin. activities	388	(351)	(330)	(330)
Net change in cash	(61)	167	304	374
Free Cash Flow	(91)	523	640	709

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	(18.4)	17.3	23.0	28.4
CEPS	(11.6)	27.0	33.2	39.5
BVPS	266.0	281.8	303.3	330.2
FCF	(2.6)	15.0	18.3	20.3
DPS	-	1.5	1.5	1.5
Return Ratio(%)				
RoCE	(3.7)	7.1	8.5	9.5
ROIC	(2.8)	5.7	7.0	-
RoE	(6.7)	6.3	7.8	9.0
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.1	0.0
Net Working Capital (Days)	175	190	170	160
Valuation(x)				
PER	(4.1)	4.3	3.3	2.6
P/B	0.3	0.3	0.2	0.2
P/CEPS	(6.5)	2.8	2.3	1.9
EV/EBITDA	(12.7)	2.8	2.2	1.6
EV/Sales	0.8	0.6	0.5	0.4
Dividend Yield (%)	-	2.0	2.0	2.0

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	46	4,491	613	266
YoY gr. (%)	(93.2)	(31.4)	6.3	150.6
Raw Material Expenses	(10)	1,771	329	202
Gross Profit	56	2,721	284	63
Margin (%)	121.7	60.6	46.3	23.9
EBITDA	(852)	1,827	(299)	(637)
YoY gr. (%)	131.5	(45.4)	(41.6)	(17.9)
Margin (%)	(1,846.4)	40.7	(48.8)	(239.4)
Depreciation / Depletion	67	60	88	90
EBIT	(918)	1,767	(387)	(726)
Margin (%)	(1,991.4)	39.3	(63.2)	(273.1)
Net Interest	71	90	84	89
Other Income	32	42	24	10
Profit before Tax	(1,183)	1,770	(447)	(805)
Margin (%)	(2,565.5)	39.4	(73.0)	(302.7)
Total Tax	(378)	560	(73)	(205)
Effective tax rate (%)	32.0	31.6	16.4	25.5
Profit after Tax	(805)	1,210	(374)	(600)
Minority interest	(1)	2	(4)	(2)
Share Profit from Associates	(10)	5	(4)	(3)
Adjusted PAT	(814)	1,213	(374)	(601)
YoY gr. (%)	202.5	(45.8)	(23.8)	6.3
Margin (%)	(1,764.2)	27.0	(61.0)	(226.0)
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(814)	1,213	(374)	(601)
YoY gr. (%)	202.5	(45.8)	(23.8)	6.3
Margin (%)	(1,764.2)	27.0	(61.0)	(226.0)
Other Comprehensive Income	(6)	22	(7)	7
Total Comprehensive Income	(820)	1,235	(381)	(594)
Avg. Shares O/s (m)	35	35	35	35
EPS (Rs)	(23.3)	34.7	(10.7)	(17.2)

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	Hold	71	63
2	13-Aug-19	Hold	62	57
3	4-Jul-19	Hold	125	85
4	15-Feb-19	Hold	234	199
5	7-Jan-19	BUY	400	214
6	4-Dec-18	BUY	400	221

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	447	325
3	Inox Leisure	BUY	416	354
4	Music Broadcast	Hold	39	30
5	Navneet Education	BUY	153	106
6	PVR	Accumulate	2,131	1,835
7	S Chand and Company	Hold	71	63
8	V.I.P. Industries	BUY	530	454
9	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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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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