

August 17, 2020

## Q1FY21 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
<b>Rating</b>	<b>BUY</b>		<b>ACCUMULATE</b>	
<b>Target Price</b>	<b>87</b>		<b>57</b>	
Sales (Rs. m)	6,212	7,200	6,395	71,99
% Chng.	(2.9)	-		
EBITDA (Rs. m)	1,266	1,448	1,267	1,448
% Chng.	-	-		
EPS (Rs.)	12.7	15.7	12.7	16.1
% Chng.	-	(2.6)		

### Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	4,294	6,212	7,200	8,425
EBITDA (Rs. m)	(220)	1,266	1,448	1,739
Margin (%)	(5.1)	20.4	20.1	20.6
PAT (Rs. m)	(1,013)	446	550	859
EPS (Rs.)	(29.0)	12.7	15.7	24.6
Gr. (%)	57.2	(144.0)	23.3	56.2
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(11.6)	5.3	6.2	8.9
RoCE (%)	(4.6)	6.4	7.1	8.4
EV/Sales (x)	0.9	0.6	0.5	0.4
EV/EBITDA (x)	(17.8)	3.1	2.7	2.0
PE (x)	(2.4)	5.5	4.5	2.9
P/BV (x)	0.3	0.3	0.3	0.2

### Key Data

SCHA.NS | SCHAND IN

52-W High / Low	Rs.104 / Rs.34
Sensex / Nifty	38,051 / 11,247
Market Cap	Rs.2bn/ \$ 33m
Shares Outstanding	35m
3M Avg. Daily Value	Rs.4.44m

### Shareholding Pattern (%)

Promoter's	47.29
Foreign	0.74
Domestic Institution	9.92
Public & Others	42.05
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	36.2	(3.1)	28.2
Relative	32.6	4.5	25.8

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## Maiden EBITDA profit in a non-seasonal quarter

### Quick Pointers:

- Management envisages revenues of Rs6-6.25bn and operating cost reduction of ~15-20% in FY21E.
- If National Curriculum Framework (NCF) is released by April-May 2021, full blown impact will percolate into financials from FY22E.

**We upgrade S Chand from ACCUMULATE to BUY by raising our target P/E multiple to 5.5x (3.5x earlier) as 1) maiden EBITDA profit of Rs19mn (PLe loss of Rs230mn) in a non-seasonal quarter indicates that cost rationalization program is on track (opex cost was down 26.3% YoY; a reduction of ~15-20% is envisaged in FY21E) 2) focus on working capital efficiency is clearly evident with pre-tax OCF of Rs157mn in 1QFY21 and 3) formal induction of National Education Policy (NEP) has laid strong foundation for growth over the next 2-3 years as 2<sup>nd</sup> hand books are expected to go out of the system. Our estimates are broadly unchanged as we were conservative with our revenue spill-over assumptions given uncertain timelines regarding the start of upcoming academic season and our upgrade is primarily driven by increase in valuation multiple. We believe our target P/E of 5.5x is justified given the attractive FCFF yield of 15%, BS comfort (D/E of 0.3x), strong focus on digital offerings (after Learn-Flix, Educate-360 has been launched recently) and clarity on NEP implementation. In addition, our target multiple is still at a 48% discount to Navneet (we value NELI at 10.5x) signifying valuation comfort. Upgrade to BUY with a TP of Rs87.**

**Top-line broadly in-line:** Consolidated top-line increased 16.5% YoY to Rs714mn (PLe of Rs766mn). Digital revenues were Rs100-110mn in 1QFY21 while higher education sales are spilled over to next quarter (2QFY21) as schools/educational institutions were shut.

**Records first ever EBITDA profit in a non-seasonal quarter:** S Chand reported first ever EBITDA profit of Rs19mn (PLe EBITDA loss of Rs230mn) in 1QFY21 (non-seasonal quarter) versus an EBITDA loss of Rs299mn in 1QFY20 due to 1) GM expansion and 2) stringent cost control. SG&A expenses declined 55.1% YoY to Rs47mn while employee cost was down 30.3% YoY to Rs219mn. Overall, opex cost was down 26.3% YoY to Rs430mn.

**Con call highlights:** 1) Paper prices are expected to be lower by 5-10% aiding GM expansion in FY21E. 2) With colleges remaining shut higher education sales have spilled over to 2Q 3) Total provision taken on debtors is Rs550mn (Rs100mn taken in 1QFY21; part of other expenses) 4) Other income includes Rs35mn of one time settlement income from promoters of Saraswati House 5) Employee cost is expected to be at Rs1bn in FY21E 6) Inventory reduction of Rs600-700mn is targeted by year end 7) By 2025, digital revenues will constitute ~40% of sales 8) Price of Learn-Flix is Rs2-2.5K 9) Digital revenue is expected to be Rs500-600mn in FY21E and Rs750-800mn in FY22E 10) GM for E-books is higher 11) Cost of borrowing is 10-10.5%.

**Exhibit 1: Q1FY21 Result Overview (Rs mn)**

Y/e March	Q1FY21	Q1FY20	YoY gr (%)	Q4FY20	QoQ gr. (%)
<b>Net Sales</b>	714	613	16.5	3,318	(78.5)
<b>Expenditure</b>					
Raw Materials	266	329	(19.3)	1,221	(78.2)
<i>% of Net sales</i>	<i>37.2</i>	<i>53.7</i>		<i>36.8</i>	
Personnel	219	314	(30.3)	312	(29.8)
<i>% of Net sales</i>	<i>30.7</i>	<i>51.3</i>		<i>9.4</i>	
Selling , dist & Other Exp	210	269	(21.7)	239	(12.0)
<i>% of Net sales</i>	<i>29.4</i>	<i>43.8</i>		<i>7.2</i>	
Total Expenditure	695	912	(23.8)	1,772	(60.8)
<b>EBITDA</b>	19	(299)	NM	1,547	(98.8)
<i>Margin (%)</i>	<i>2.7</i>	<i>NM</i>		<i>46.6</i>	
Depreciation	96	88	8.7	137	(29.9)
<b>EBIT</b>	(76)	(387)	NM	1,410	NM
Interest	83	84	(0.4)	90	(7.4)
Other Income	68	24	190.1	54	25.5
Share of P/L in associates	(3)	(4)	NM	16	NM
Exceptional items	-	-	NM	102	(100.0)
<b>PBT</b>	(95)	(452)	NM	1,289	NM
Tax	10	(73)	NM	674	(98.5)
<i>Tax Rate (%)</i>	<i>NM</i>	<i>NM</i>		<i>52.3</i>	
<b>Reported PAT</b>	(105)	(378)	NM	615	NM
Minority interest	(2)	(4)	NM	8	NM
OCI	6	(7)	NM	(7)	NM
Total comprehensive income	(99)	(386)	NM	608	NM
<b>Reported EPS</b>	(3.0)	(10.8)	NM	17.6	NM

Source: Company, PL

**Exhibit 2: Key timelines of National Education Policy (NEP) implementation**

Dates	Event
May-19	Announcement of draft NEP
Jul-20	Adoption of NEP
April/May 2021	Announcement of draft National Curriculum Framework (NCF) expected
CY2021	Development of books based on the new curriculum
FY22 onwards	Complete impact of NCF to percolate into financials

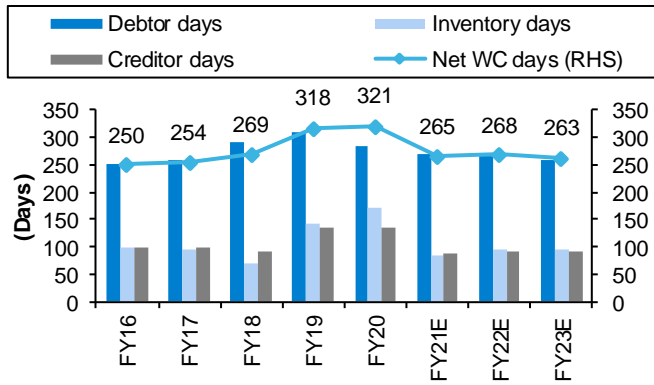
Source: Company, PL

**Exhibit 3: OCF/EBITDA ratio expected to improve to 0.5x in FY23E**

Particulars (Rsmn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
OCF/EBITDA (x)	0.2	0.2	NM	NM	0.5	0.5	0.5
OCF	324	389	386	484	625	654	839
EBITDA	1,658	1,927	(312)	(220)	1,266	1,448	1,739

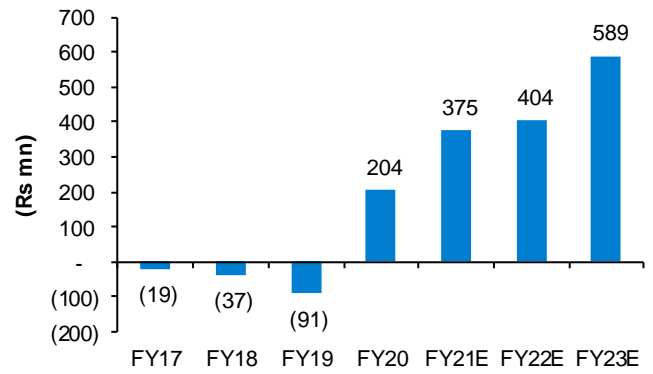
Source: Company, PL

**Exhibit 4: NWC of S Chand to be at 263 days in FY23E**

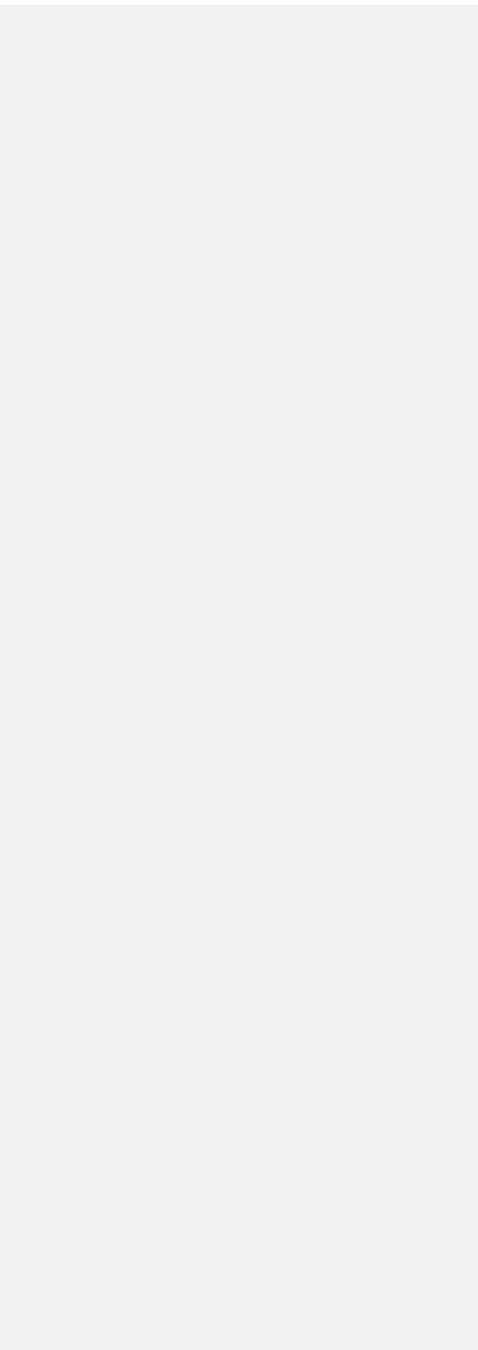


Source: Company, PL

**Exhibit 5: FCFF to rise to Rs589mn in FY23E; yield of 24.1% at CMP**



Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>4,294</b>	<b>6,212</b>	<b>7,200</b>	<b>8,425</b>
YoY gr. (%)	(17.7)	44.7	15.9	17.0
Cost of Goods Sold	2,030	2,809	3,124	3,645
Gross Profit	2,264	3,403	4,076	4,780
Margin (%)	52.7	54.8	56.6	56.7
Employee Cost	1,260	1,056	1,368	1,559
Other Expenses	632	553	648	767
<b>EBITDA</b>	<b>(220)</b>	<b>1,266</b>	<b>1,448</b>	<b>1,739</b>
YoY gr. (%)	NA	NA	14.3	20.1
Margin (%)	NA	20.4	20.1	20.6
Depreciation and Amortization	408	411	433	468
<b>EBIT</b>	<b>(628)</b>	<b>856</b>	<b>1,015</b>	<b>1,271</b>
Margin (%)	NA	13.8	14.1	15.1
Net Interest	348	364	384	228
Other Income	94	110	110	110
<b>Profit Before Tax</b>	<b>(881)</b>	<b>601</b>	<b>740</b>	<b>1,154</b>
Margin (%)	NA	9.7	10.3	13.7
Total Tax	128	152	187	291
Effective tax rate (%)	NA	25.2	25.2	25.2
<b>Profit after tax</b>	<b>(1,009)</b>	<b>450</b>	<b>554</b>	<b>863</b>
Minority interest	-	-	-	-
Share Profit from Associate	(4)	(4)	(4)	(4)
<b>Adjusted PAT</b>	<b>(1,013)</b>	<b>446</b>	<b>550</b>	<b>859</b>
YoY gr. (%)	NA	NA	23.3	56.2
Margin (%)	NA	7.2	7.6	10.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(1,013)</b>	<b>446</b>	<b>550</b>	<b>859</b>
YoY gr. (%)	NA	NA	23.3	56.2
Margin (%)	NA	7.2	7.6	10.2
Other Comprehensive Income	(6)	-	-	-
Total Comprehensive Income	(1,019)	446	550	859
<b>Equity Shares O/s (m)</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>35</b>
<b>EPS (Rs)</b>	<b>(29.0)</b>	<b>12.7</b>	<b>15.7</b>	<b>24.6</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>2,968</b>	<b>3,218</b>	<b>3,468</b>	<b>3,718</b>
Tangibles	1,453	1,703	1,953	2,203
Intangibles	1,515	1,515	1,515	1,515
<b>Acc: Dep / Amortization</b>	<b>1,081</b>	<b>1,491</b>	<b>1,925</b>	<b>2,392</b>
Tangibles	493	646	822	1,025
Intangibles	588	845	1,103	1,368
<b>Net fixed assets</b>	<b>2,510</b>	<b>2,349</b>	<b>2,166</b>	<b>1,948</b>
Tangibles	1,583	1,679	1,754	1,801
Intangibles	927	670	412	147
Capital Work In Progress	26	26	26	26
Goodwill	3,374	3,374	3,374	3,374
Non-Current Investments	293	296	299	302
Net Deferred tax assets	541	541	541	541
Other Non-Current Assets	301	301	301	301
<b>Current Assets</b>				
Investments	167	167	167	167
Inventories	2,014	1,447	1,874	2,193
Trade receivables	3,349	4,595	5,227	6,001
Cash & Bank Balance	98	406	423	275
Other Current Assets	156	171	197	227
<b>Total Assets</b>	<b>12,908</b>	<b>13,756</b>	<b>14,681</b>	<b>15,446</b>
<b>Equity</b>				
Equity Share Capital	175	175	175	175
Other Equity	8,010	8,456	9,005	9,864
<b>Total Networkth</b>	<b>8,185</b>	<b>8,630</b>	<b>9,180</b>	<b>10,039</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	608	708	708	531
Provisions	-	-	-	-
Other non current liabilities	69	73	76	80
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,114	1,314	1,314	986
Trade payables	1,582	1,532	1,815	2,124
Other current liabilities	955	1,104	1,193	1,291
<b>Total Equity &amp; Liabilities</b>	<b>12,908</b>	<b>13,756</b>	<b>14,681</b>	<b>15,446</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	(987)	601	740	1,154
Add. Depreciation	408	411	433	468
Add. Interest	338	364	384	228
Less Financial Other Income	94	110	110	110
Add. Other	207	(16)	(26)	(30)
Op. profit before WC changes	(34)	1,360	1,532	1,819
Net Changes-WC	648	(584)	(691)	(690)
Direct tax	(129)	(152)	(187)	(291)
<b>Net cash from Op. activities</b>	<b>484</b>	<b>625</b>	<b>654</b>	<b>839</b>
Capital expenditures	(259)	(250)	(250)	(250)
Interest / Dividend Income	-	-	-	-
Others	82	(3)	(3)	(3)
<b>Net Cash from Inv. activities</b>	<b>(177)</b>	<b>(253)</b>	<b>(253)</b>	<b>(253)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(327)	300	-	(506)
Dividend paid	-	-	-	-
Interest paid	(347)	(364)	(384)	(228)
Others	(141)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(815)</b>	<b>(64)</b>	<b>(384)</b>	<b>(733)</b>
<b>Net change in cash</b>	<b>(506)</b>	<b>308</b>	<b>17</b>	<b>(148)</b>
Free Cash Flow	204	375	404	589

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Net Revenue</b>	<b>266</b>	<b>96</b>	<b>3,318</b>	<b>714</b>
YoY gr. (%)	150.6	108.8	(26.1)	16.5
Raw Material Expenses	202	278	1,221	266
Gross Profit	63	(181)	2,098	449
Margin (%)	23.9	NA	63.2	62.8
<b>EBITDA</b>	<b>(637)</b>	<b>(831)</b>	<b>1,547</b>	<b>19</b>
YoY gr. (%)	NA	NA	NA	(106.5)
Margin (%)	NA	NA	46.6	NA
Depreciation / Depletion	90	93	137	96
<b>EBIT</b>	<b>(726)</b>	<b>(924)</b>	<b>1,410</b>	<b>(76)</b>
Margin (%)	NA	NA	42.5	NA
Net Interest	89	86	90	83
Other Income	10	7	54	68
<b>Profit before Tax</b>	<b>(805)</b>	<b>(1,003)</b>	<b>1,273</b>	<b>(92)</b>
Margin (%)	NA	NA	38.3	NA
Total Tax	(205)	(267)	674	10
Effective tax rate (%)	NA	NA	53.0	NA
<b>Profit after Tax</b>	<b>(600)</b>	<b>(736)</b>	<b>599</b>	<b>(102)</b>
Minority interest	(2)	(2)	8	(2)
Share Profit from Associates	(3)	(13)	16	(3)
<b>Adjusted PAT</b>	<b>(601)</b>	<b>(746)</b>	<b>607</b>	<b>(102)</b>
YoY gr. (%)	NA	NA	(50.0)	NA
Margin (%)	NA	NA	18.3	NA
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(601)</b>	<b>(746)</b>	<b>607</b>	<b>(102)</b>
YoY gr. (%)	NA	NA	(50.0)	NA
Margin (%)	NA	NA	18.3	NA
Other Comprehensive Income	7	2	(7)	6
<b>Total Comprehensive Income</b>	<b>(594)</b>	<b>(745)</b>	<b>600</b>	<b>(97)</b>
Avg. Shares O/s (m)	35	35	35	35
<b>EPS (Rs)</b>	<b>(17.2)</b>	<b>(21.3)</b>	<b>17.3</b>	<b>(2.9)</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	(29.0)	12.7	15.7	24.6
CEPS	(17.3)	24.5	28.1	37.9
BVPS	234.0	246.8	262.5	287.0
FCF	5.8	10.7	11.6	16.8
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	NA	6.4	7.1	8.4
ROIC	NA	5.0	-	-
RoE	NA	5.3	6.2	8.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.2	0.2	0.2	0.1
Net Working Capital (Days)	150	180	173	168
<b>Valuation(x)</b>				
PER	NA	5.5	4.5	2.9
P/B	0.3	0.3	0.3	0.2
P/CEPS	NA	2.9	2.5	1.8
EV/EBITDA	NA	3.1	2.7	2.0
EV/Sales	0.9	0.6	0.5	0.4
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	Accumulate	57	51
2	01-Jul-20	Accumulate	57	45
3	19-Apr-20	Accumulate	67	39
4	14-Feb-20	Accumulate	90	76
5	13-Nov-19	Accumulate	92	75

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	157	129
3	Indian Railway Catering and Tourism Corporation	Accumulate	1,495	1,401
4	Inox Leisure	Accumulate	262	235
5	Music Broadcast	Hold	18	16
6	Navneet Education	Accumulate	94	81
7	PVR	Accumulate	1,107	1,073
8	S Chand and Company	Accumulate	57	51
9	V.I.P. Industries	Hold	240	262

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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