

November 12, 2020

Q2FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	86		89	
Sales (Rs. m)	7,200	8,425	7,200	8,425
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,448	1,739	1,448	1,739
% Chng.	-	-	-	-
EPS (Rs.)	15.7	24.8	16.2	25.0
% Chng.	(3.3)	(0.8)	-	-

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)	451	548	869
EPS (Rs.)	(29.0)	12.9	15.7	24.8
Gr. (%)	NA	NA	21.6	58.6
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	NA	5.4	6.1	9.0
RoCE (%)	NA	6.4	7.2	8.7
EV/Sales (x)	1.0	0.7	0.6	0.4
EV/EBITDA (x)	NA	3.2	2.8	2.2
PE (x)	NA	5.0	4.1	2.6
P/BV (x)	0.3	0.3	0.2	0.2

Key Data

SCHA.NS | SCHAND IN

52-W High / Low	Rs.104 / Rs.34
Sensex / Nifty	43,357 / 12,691
Market Cap	Rs.2bn/ \$ 30m
Shares Outstanding	35m
3M Avg. Daily Value	Rs.6.21m

Shareholding Pattern (%)

Promoter's	47.29
Foreign	0.72
Domestic Institution	9.59
Public & Others	42.40
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.3)	30.2	(15.1)
Relative	(7.6)	(5.8)	(21.0)

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Aggressive plans for the Ed-Tech space

Quick Pointers:

- Ed-Tech business to be carved out into a separate entity with plans to raise funds (~US\$8-10mn) in order to fund the next leg of growth.
- On track to achieve the cost reduction guidance of ~15-20% (can exceed this range too) in FY21E.

S Chand's operating performance (EBITDA loss of Rs363mn) was in-line with our estimate of Rs374mn in a non-seasonal quarter due to stringent cost control. Management indicated that schools will re-open from November onwards in a phased manner and has lined up aggressive expansion plans in the Ed-Tech space. For Mylestone, a digital offering of S Chand, the target is to reach sales of Rs600-700mn in 2 years. In case of LearnFlix, another affordable learning app with annual subscription fee of ~Rs2,000, the intention is to reach 100K subscribers with 1mn downloads in 2 years (19K subscribers and 110K downloads as of Oct 2020). We keep our EPS estimates broadly unchanged (cut of 2.6%/3.3%/0.8% for FY21/FY22/FY23 respectively) and value S Chand at 5.5x (no change) our estimated FY22 EPS of Rs15.7 to arrive at a TP of Rs86 (earlier Rs89). Retain BUY given 1) the attractive FCF yield of 14% 2) BS comfort (D/E of 0.3x) 3) strong focus on digital offerings and 4) clarity on NEP implementation (see exhibit 2).

Top-line increases 37.3% in a non-seasonal quarter: Consolidated top-line increased 37.3% YoY to Rs365mn (PLe of Rs293mn).

Digital initiatives witnessing growth: LearnFlix, S Chand's digital offering, is witnessing strong growth. So far, it has managed 110K downloads and over 19K paid subscribers. It has annual subscription fee in the range of ~Rs2,000. S Chand has also started a pilot of Educate-360 (another digital offering) in over 50 schools during 2QFY21.

EBITDA loss of Rs363mn in-line with our estimate: S Chand reported EBITDA loss of Rs363mn (PLe EBITDA loss of Rs374mn) in 2QFY21 (non-seasonal quarter) versus an EBITDA loss of Rs637mn in 2QFY20. Losses were lower on YoY basis due to stringent cost control. SG&A expenses declined 48.6% YoY to Rs69mn while employee cost was down 20.8% YoY to Rs248mn. Other expenses saw a fall of 37.3% YoY to Rs158mn.

Generated positive OCF in 1HFY21: S Chand generated OCF of Rs130mn in 1HFY21. In 1HFY20 and 1HFY19, OCF was negative at (Rs27mn) and (Rs535mn) respectively.

Con call highlights: 1) Schools to re-open in a phased manner from November onwards 2) Net debt is at Rs2bn and net working capital days at 266 in 1HFY21. 3) Plans to carve out Ed-Tech business as a separate entity to raise funds (US\$8-10mn) to fund next leg of growth 4) On track to achieve the cost reduction guidance of ~15-20% in FY21E.

Exhibit 1: Q2FY21 Result Overview (Rs mn)

Y/e March	Q2FY21	Q2FY20	YoY gr (%)	Q1FY21	QoQ gr. (%)	H1FY21	H1FY20	YoY gr. (%)
Net Sales	365	266	37.3	714	(48.9)	1,080	879	22.8
Expenditure								
Raw Materials	253	202	25.2	266	(4.6)	519	532	(2.4)
<i>% of Net sales</i>	<i>69.4</i>	<i>76.1</i>		<i>37.2</i>		<i>48.1</i>	<i>60.5</i>	
Personnel	248	313	(20.8)	219	13.0	467	627	(25.6)
<i>% of Net sales</i>	<i>67.8</i>	<i>117.7</i>		<i>30.7</i>		<i>43.2</i>	<i>71.4</i>	
Selling, dist & Other Exp	228	387	(41.2)	210	8.1	438	656	(33.2)
<i>% of Net sales</i>	<i>62.3</i>	<i>145.6</i>		<i>29.4</i>		<i>40.6</i>	<i>74.6</i>	
Total Expenditure	729	903	(19.3)	695	4.8	1,424	1,815	(21.5)
EBITDA	(363)	(637)	NM	19	NM	(344)	(936)	NM
<i>Margin (%)</i>	<i>NM</i>	<i>NM</i>		<i>2.7</i>		<i>NM</i>	<i>NM</i>	
Depreciation	97	90	8.5	96	1.5	193	178	8.6
EBIT	(461)	(726)	NM	(76)	NM	(537)	(1,113)	NM
Interest	81	89	(8.5)	83	(2.7)	164	172	(4.6)
Other Income	14	10	42.8	68	(79.1)	82	33	146.3
Share of P/L in associates	1	(3)	NM	(3)	NM	(2)	(8)	NM
Exceptional items	-	-	NM	-	NM	-	-	NM
PBT	(527)	(808)	NM	(95)	NM	(621)	(1,260)	NM
Tax	(54)	(205)	NM	10	NM	(44)	(279)	NM
<i>Tax Rate (%)</i>	<i>NM</i>	<i>NM</i>		<i>NM</i>		<i>NM</i>	<i>NM</i>	
Reported PAT	(473)	(603)	NM	(105)	NM	(578)	(981)	NM
Minority interest	(4)	(2)	NM	(2)	NM	(7)	(6)	NM
OCI	6	7	(13.4)	6	4.5	11	(1)	NM
Total comprehensive income	(467)	(596)	NM	(99)	NM	(566)	(982)	NM
Reported EPS	(13.5)	(17.2)	NM	(3.0)	NM	(17)	(28)	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

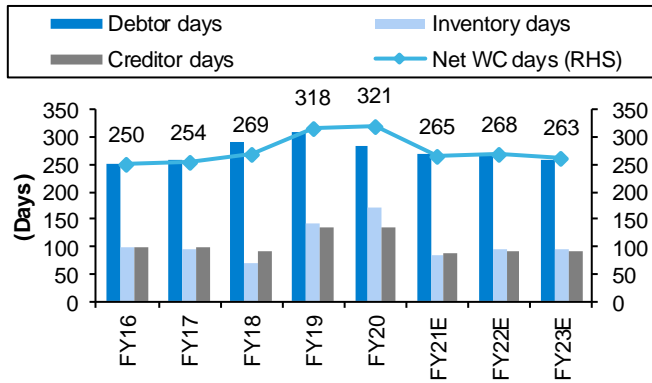
Source: Company, PL

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	0.4	0.4	0.5
OCF	324	389	386	484	561	638	806
EBITDA	1,658	1,927	(312)	(220)	1,266	1,448	1,739

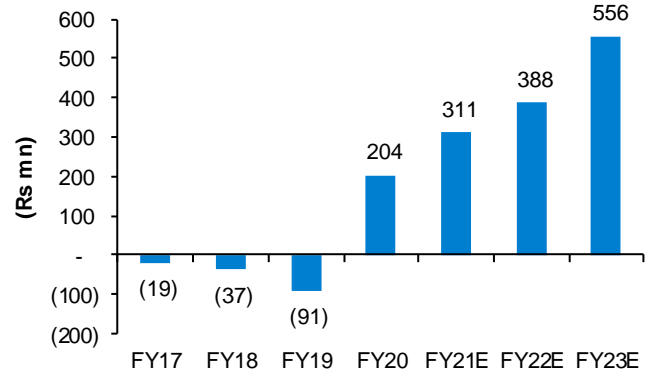
Source: Company, PL

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

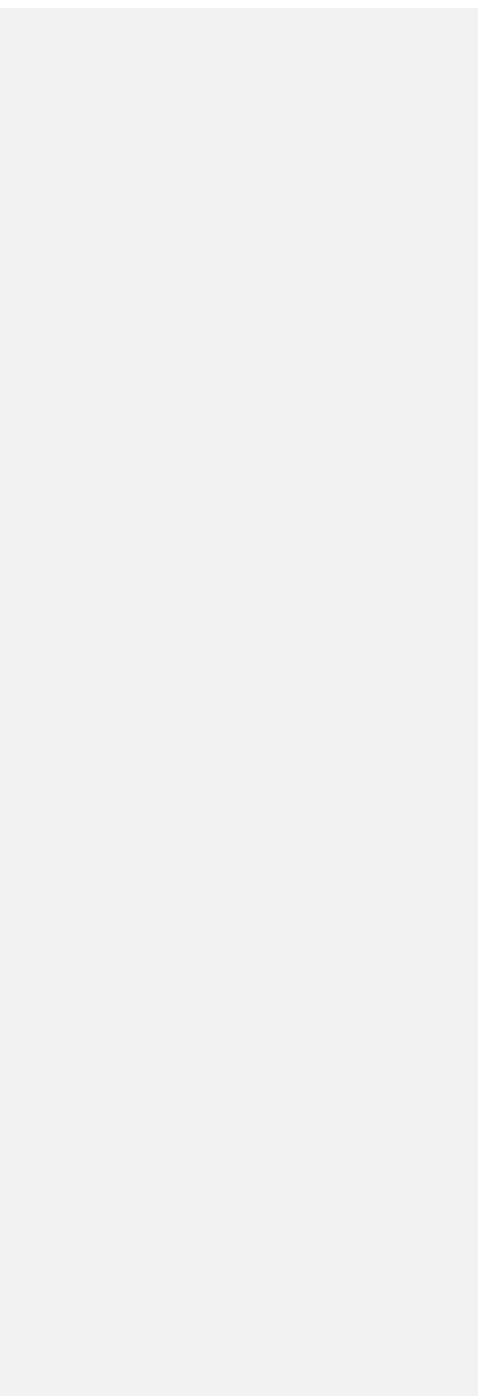


Source: Company, PL

Exhibit 5: FCFF to rise to Rs556mn in FY23E



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	4,294	6,212	7,200	8,425
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
EBITDA	(220)	1,266	1,448	1,739
YoY gr. (%)	NA	NA	14.3	20.1
Margin (%)	NA	20.4	20.1	20.6
Depreciation and Amortization	408	414	426	440
EBIT	(628)	852	1,022	1,299
Margin (%)	NA	13.7	14.2	15.4
Net Interest	348	376	397	235
Other Income	94	120	110	100
Profit Before Tax	(881)	596	735	1,164
Margin (%)	NA	9.6	10.2	13.8
Total Tax	128	150	185	293
Effective tax rate (%)	(14.5)	25.2	25.2	25.2
Profit after tax	(1,009)	446	550	871
Minority interest	-	(7)	-	-
Share Profit from Associate	(4)	(2)	(2)	(2)
Adjusted PAT	(1,013)	451	548	869
YoY gr. (%)	NA	NA	21.6	58.6
Margin (%)	NA	7.3	7.6	10.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(1,013)	451	548	869
YoY gr. (%)	NA	NA	21.6	58.6
Margin (%)	NA	7.3	7.6	10.3
Other Comprehensive Income	(6)	-	-	-
Total Comprehensive Income	(1,019)	451	548	869
Equity Shares O/s (m)	35	35	35	35
EPS (Rs)	(29.0)	12.9	15.7	24.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	2,792	3,042	3,292	3,542
Tangibles	1,356	1,606	1,856	2,106
Intangibles	1,436	1,436	1,436	1,436
Acc: Dep / Amortization	915	1,329	1,755	2,195
Tangibles	397	622	854	1,090
Intangibles	518	707	901	1,105
Net fixed assets	2,500	2,250	2,074	1,884
Tangibles	1,583	1,522	1,540	1,554
Intangibles	918	728	535	331
Capital Work In Progress	26	46	46	46
Goodwill	3,383	3,383	3,383	3,383
Non-Current Investments	293	139	142	145
Net Deferred tax assets	541	541	541	541
Other Non-Current Assets	301	301	301	301
Current Assets				
Investments	167	153	153	153
Inventories	2,014	1,447	1,874	2,193
Trade receivables	3,349	4,595	5,227	6,001
Cash & Bank Balance	98	553	540	335
Other Current Assets	156	171	197	227
Total Assets	12,908	13,662	14,566	15,301
Equity				
Equity Share Capital	175	175	175	175
Other Equity	8,010	8,460	9,008	9,877
Total Networkth	8,185	8,635	9,183	10,051
Non-Current Liabilities				
Long Term borrowings	974	1,112	1,112	907
Provisions	-	-	-	-
Other non current liabilities	69	73	76	80
Current Liabilities				
ST Debt / Current of LT Debt	1,240	1,388	1,388	1,070
Trade payables	1,582	1,532	1,815	2,124
Other current liabilities	829	894	963	1,040
Total Equity & Liabilities	12,908	13,662	14,566	15,301

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	(987)	596	735	1,164
Add. Depreciation	408	414	426	440
Add. Interest	338	376	397	235
Less Financial Other Income	94	120	110	100
Add. Other	207	(7)	(24)	(28)
Op. profit before WC changes	(34)	1,379	1,534	1,811
Net Changes-WC	648	(668)	(711)	(712)
Direct tax	(129)	(150)	(185)	(293)
Net cash from Op. activities	484	561	638	806
Capital expenditures	(259)	(250)	(250)	(250)
Interest / Dividend Income	-	-	-	-
Others	82	234	(3)	(3)
Net Cash from Inv. activities	(177)	(16)	(253)	(253)
Issue of share cap. / premium	-	-	-	-
Debt changes	(327)	368	-	(523)
Dividend paid	-	-	-	-
Interest paid	(347)	(376)	(397)	(235)
Others	(141)	(82)	-	-
Net cash from Fin. activities	(815)	(91)	(397)	(758)
Net change in cash	(506)	455	(13)	(205)
Free Cash Flow	204	311	388	556

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	96	3,318	714	365
YoY gr. (%)	108.8	(26.1)	16.5	37.3
Raw Material Expenses	278	1,221	266	253
Gross Profit	(181)	2,098	449	112
Margin (%)	NA	63.2	62.8	30.6
EBITDA	(831)	1,547	19	(363)
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	NA	46.6	2.7	NA
Depreciation / Depletion	93	137	96	97
EBIT	(924)	1,410	(76)	(461)
Margin (%)	NA	42.5	NA	NA
Net Interest	86	90	83	81
Other Income	7	54	68	14
Profit before Tax	(1,003)	1,273	(92)	(528)
Margin (%)	NA	38.3	NA	NA
Total Tax	(267)	674	10	(54)
Effective tax rate (%)	26.6	53.0	(11.0)	10.2
Profit after Tax	(736)	599	(102)	(474)
Minority interest	(2)	8	(2)	(4)
Share Profit from Associates	(13)	16	(3)	1
Adjusted PAT	(746)	607	(102)	(469)
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	NA	18.3	NA	NA
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(746)	607	(102)	(469)
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	NA	18.3	NA	NA
Other Comprehensive Income	2	(7)	6	6
Total Comprehensive Income	(745)	600	(97)	(463)
Avg. Shares O/s (m)	35	35	35	35
EPS (Rs)	(21.3)	17.3	(2.9)	(13.4)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	(29.0)	12.9	15.7	24.8
CEPS	(17.3)	24.7	27.8	37.4
BVPS	234.0	246.9	262.5	287.4
FCF	5.8	8.9	11.1	15.9
DPS	-	-	-	-
Return Ratio(%)				
RoCE	NA	6.4	7.2	8.7
ROIC	NA	5.1	5.7	6.7
RoE	NA	5.4	6.1	9.0
Balance Sheet				
Net Debt : Equity (x)	0.2	0.2	0.2	0.1
Net Working Capital (Days)	150	180	173	168
Valuation(x)				
PER	NA	5.0	4.1	2.6
P/B	0.3	0.3	0.2	0.2
P/CEPS	NA	2.6	2.3	1.7
EV/EBITDA	NA	3.2	2.8	2.2
EV/Sales	1.0	0.7	0.6	0.4
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-20	BUY	89	66
2	17-Aug-20	BUY	87	70
3	08-Jul-20	Accumulate	57	51
4	01-Jul-20	Accumulate	57	45
5	19-Apr-20	Accumulate	67	39
6	14-Feb-20	Accumulate	90	76
7	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)	Accumulate	185	146
3	Indian Railway Catering and Tourism Corporation	BUY	1,647	1,356
4	Inox Leisure	BUY	322	267
5	Music Broadcast	Hold	20	21
6	Navneet Education	Accumulate	93	79
7	PVR	Accumulate	1,435	1,255
8	S Chand and Company	BUY	89	66
9	V.I.P. Industries	Accumulate	333	292

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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