

February 7, 2022

Q3FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	159		147	
Sales (Rs. m)	6,168	6,821	6,321	6,989
% Chng.	(2.4)	(2.4)		
EBITDA (Rs. m)	1,319	1,507	1,446	1,578
% Chng.	(8.7)	(4.5)		
EPS (Rs.)	15.3	18.7	17.3	19.2
% Chng.	(11.7)	(3.0)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	4,252	5,009	6,168	6,821
EBITDA (Rs. m)	547	780	1,319	1,507
Margin (%)	12.9	15.6	21.4	22.1
PAT (Rs. m)	(56)	153	535	652
EPS (Rs.)	(1.6)	4.4	15.3	18.7
Gr. (%)	NA	NA	250.4	22.1
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	NA	1.8	6.2	7.1
RoCE (%)	1.0	2.9	6.7	7.4
EV/Sales (x)	1.3	1.1	0.9	0.8
EV/EBITDA (x)	10.3	7.0	4.2	3.6
PE (x)	NA	27.2	7.8	6.4
P/BV (x)	0.5	0.5	0.5	0.4

Key Data

SCHA.NS | SCHAND IN

52-W High / Low	Rs.149 / Rs.64
Sensex / Nifty	57,621 / 17,214
Market Cap	Rs.4bn / \$ 56m
Shares Outstanding	35m
3M Avg. Daily Value	Rs.11.94m

Shareholding Pattern (%)

Promoter's	47.30
Foreign	0.05
Domestic Institution	8.30
Public & Others	44.35
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	10.2	(10.4)	77.7
Relative	14.3	(15.6)	56.5

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S Chand and Company (SCHAND IN)

Rating: BUY | CMP: Rs119 | TP: Rs159

Anticipation of a normal sales season in 4Q

Quick Pointers:

- Sales to be in the region of Rs5bn in FY22E.
- Launched LearnFlixBangla for Science and Math in Dec-21.

S Chand's operational performance was sub-par with EBITDA loss of Rs340mn (PLe loss of Rs263mn) due to lower GM of 35.5% amid RM cost inflation. However, as most states have started physical classes from Feb, management is hopeful that the upcoming sales season in 4Q will be COVID-free after a gap of 2 years.

After having managed a successful turnaround in FY21 (break-even achieved after reporting losses in FY19 & FY20), NCF implementation remains a key factor to monitor (announcement expected in FY23) as it would set the growth trajectory for next 2-3 years. Given lingering uncertainty regarding the implementation date we have cut our FY23/FY24 EPS estimates by 12%/3% respectively. Nonetheless, we continue to maintain our positive stance on S Chand and retain BUY with a revised TP of Rs159 (Rs147 earlier) valuing the stock at 8.5x (no change) FY24EPS as 1) the upcoming COVID-free sales season would see the company back in black in FY22 after reporting losses in last 3 fiscals 2) strengthening BS (reduction in net debt to Rs1.6bn in 3QFY22 with an aim to be net debt free by 4QFY23) 3) improved NWC metrics and 4) rising focus on EdTech (contribution to rise to 20-25% in next 3 years).

Top-line up 48.5% YoY: Consolidated top-line increased 48.5% YoY to Rs513mn (PLe of Rs536mn) due to low base and spill-over effect amid gradual re-opening of schools across states.

Reports losses at EBITDA & PAT level: EBITDA losses came in at Rs340mn (PLe loss of Rs263mn) as against a loss of Rs352mn in 3QFY21. EBITDA loss was higher than our estimate due to lower than expected GM of 35.5% on the back of RM cost inflation. Net loss stood at Rs447mn versus a loss of Rs464mn in 3QFY21.

Launches LearnFlix Bangla: S Chand launched LearnFlix Bangla (targeted at West Bengal board students) in Dec-21. Initially the product will be available for classes 9th and 10th with Math and Science subjects. Content for classes 11th and 12th will be released in upcoming months.

Key highlights from management interaction: 1) As educational institutes have gradually started re-opening across states, S Chand is looking forward to a normal sales season in 4Q after a gap of 2 years 2) Price hike is lined up in 4Q to cover RM cost inflation 3) Targets to be net debt free by 4QFY23 3) NCF expected to be announced in FY23 but no definitive timeline is communicated as yet 4) Inventory levels targeted to be at Rs800mn-Rs1,000mn by end of FY22 5) In Mylestone segment, S Chand has decided to not undertake any low value business henceforth 6) The company is mulling exit in one of the EdTech investments made in the past.

Exhibit 1: Q3FY22 Result Overview (Rs mn)

Y/e March	3QFY22	3QFY21	YoY gr (%)	2QFY22	QoQ gr (%)	9MFY22	9MFY21	YoY gr (%)
Net Sales	513	346	48.5	518	(1.0)	1,390	1,425	(2.5)
Expenditure								
Raw Materials	331	268	23.7	252	31.3	751	787	(4.5)
% of Net sales	64.5	77.4		48.6		54.0	55.2	
Personnel	293	255	14.9	292	0.4	853	722	18.1
% of Net sales	57.0	73.7		56.2		61.3	50.6	
Selling , dist & Other Exp	229	176	30.4	239	(4.1)	595	614	(3.0)
% of Net sales	44.6	50.8		46.0		42.8	43.0	
Total Expenditure	853	698	22.2	782	9.0	2,199	2,122	3.6
EBITDA	(340)	(352)	NM	(264)	NM	(809)	(697)	NM
Margin (%)	NM	NM		NM		NM	NM	
Depreciation	103	95	8.6	100	2.7	306	288	6.3
EBIT	(442)	(447)	NM	(364)	NM	(1,115)	(984)	NM
Interest	65	78	(17.2)	62	3.7	201	243	(17.0)
Other Income	6	22	(71.5)	53	(88.3)	96	104	(8.3)
Share of P/L in associates	(5)	0	NM	(1)	NM	(8)	(2)	NM
Exceptional items	-	-		-	NM	-	-	NM
PBT	(506)	(503)	NM	(374)	NM	(1,228)	(1,125)	NM
Tax	(58)	(39)	NM	38	NM	(55)	(83)	(33.3)
Tax Rate (%)	NM	NM		NM		NM	NM	
Reported PAT	(447)	(464)	NM	(412)	NM	(1,173)	(1,042)	NM
Minority interest	5	(14)	NM	(7)	NM	(11)	(21)	NM
OCI	1	4	(78.3)	(1)	(270.4)	3	16	NM
Total comprehensive income	(446)	(460)	NM	(412)	NM	(1,170)	(1,026)	NM
Reported EPS	(12.8)	(13.3)	NM	(11.8)	NM	(33.5)	(29.8)	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
CY2021/2022	Announcement of draft National Curriculum Framework (NCF) expected
CY2022	Development of books based on the new curriculum
FY23 onwards	Complete impact of NCF to percolate into financials

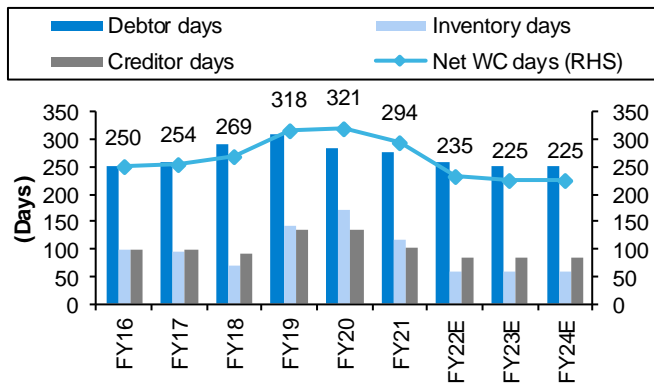
Source: Company, PL

Exhibit 3: OCF/EBITDA to bet at 0.6x in FY24E

Particulars (Rsmn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OCF/EBITDA (x)	0.2	0.2	NM	NM	2.0	1.1	0.4	0.6
OCF	324	389	386	484	1,076	871	569	871
EBITDA	1,658	1,927	(312)	(220)	547	780	1,319	1,507

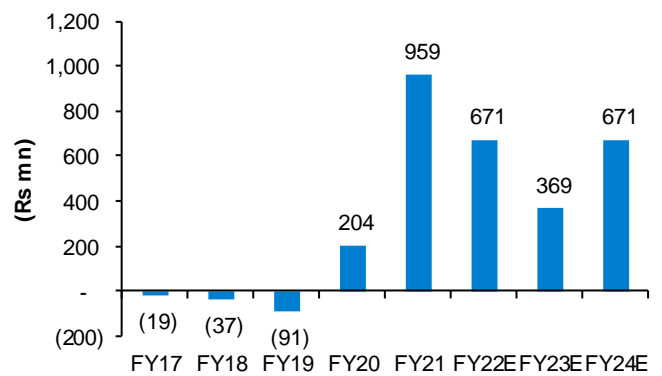
Source: Company, PL

Exhibit 4: NWC of S Chand to be at 225 days in FY24E



Source: Company, PL

Exhibit 5: FCFF to rise to Rs671mn in FY24E



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	4,252	5,009	6,168	6,821
YoY gr. (%)	(1.0)	17.8	23.1	10.6
Cost of Goods Sold	1,929	2,226	2,677	2,981
Gross Profit	2,323	2,783	3,491	3,840
Margin (%)	54.6	55.6	56.6	56.3
Employee Cost	993	1,152	1,234	1,296
Other Expenses	488	501	524	580
EBITDA	547	780	1,319	1,507
YoY gr. (%)	NA	42.6	69.2	14.2
Margin (%)	12.9	15.6	21.4	22.1
Depreciation and Amortization	416	414	453	483
EBIT	131	365	866	1,024
Margin (%)	3.1	7.3	14.0	15.0
Net Interest	323	282	291	291
Other Income	201	130	150	150
Profit Before Tax	9	214	725	883
Margin (%)	0.2	4.3	11.8	12.9
Total Tax	65	64	183	223
Effective tax rate (%)	730.4	30.0	25.2	25.2
Profit after tax	(56)	150	543	660
Minority interest	(7)	(11)	-	-
Share Profit from Associate	(7)	(8)	(8)	(8)
Adjusted PAT	(56)	153	535	652
YoY gr. (%)	NA	NA	250.4	22.1
Margin (%)	NA	3.0	8.7	9.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(56)	153	535	652
YoY gr. (%)	NA	NA	250.4	22.1
Margin (%)	NA	3.0	8.7	9.6
Other Comprehensive Income	17	-	-	-
Total Comprehensive Income	(39)	153	535	652
Equity Shares O/s (m)	35	35	35	35
EPS (Rs)	(1.6)	4.4	15.3	18.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	3,449	3,849	4,249	4,649
Tangibles	1,490	1,690	1,890	2,090
Intangibles	1,959	2,159	2,359	2,559
Acc: Dep / Amortization	1,331	1,745	2,199	2,682
Tangibles	620	823	1,050	1,290
Intangibles	710	922	1,149	1,392
Net fixed assets	2,599	2,584	2,531	2,447
Tangibles	1,350	1,347	1,320	1,280
Intangibles	1,249	1,237	1,211	1,167
Capital Work In Progress	25	25	25	25
Goodwill	3,381	3,381	3,381	3,381
Non-Current Investments	118	120	122	125
Net Deferred tax assets	674	843	969	1,114
Other Non-Current Assets	76	76	76	76
Current Assets				
Investments	258	258	258	258
Inventories	1,377	823	1,014	1,121
Trade receivables	3,221	3,568	4,225	4,672
Cash & Bank Balance	419	606	483	660
Other Current Assets	99	114	131	151
Total Assets	12,359	12,521	13,349	14,179
Equity				
Equity Share Capital	175	175	175	175
Other Equity	8,008	8,161	8,695	9,348
Total Network	8,183	8,335	8,870	9,523
Non-Current Liabilities				
Long Term borrowings	1,009	1,009	1,009	1,009
Provisions	-	-	-	-
Other non current liabilities	65	65	65	65
Current Liabilities				
ST Debt / Current of LT Debt	1,159	1,159	1,159	1,159
Trade payables	1,179	1,166	1,436	1,588
Other current liabilities	575	597	621	647
Total Equity & Liabilities	12,359	12,521	13,349	14,179

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	0	214	725	883
Add. Depreciation	416	414	453	483
Add. Interest	313	282	291	291
Less Financial Other Income	201	130	150	150
Add. Other	13	(180)	(151)	(173)
Op. profit before WC changes	742	729	1,318	1,484
Net Changes-WC	236	206	(566)	(391)
Direct tax	99	(64)	(183)	(223)
Net cash from Op. activities	1,076	871	569	871
Capital expenditures	(108)	(200)	(200)	(200)
Interest / Dividend Income	-	-	-	-
Others	(68)	(202)	(202)	(202)
Net Cash from Invt. activities	(176)	(402)	(402)	(402)
Issue of share cap. / premium	-	-	-	-
Debt changes	(156)	-	-	-
Dividend paid	-	-	-	-
Interest paid	(266)	(282)	(291)	(291)
Others	(157)	-	-	-
Net cash from Fin. activities	(579)	(282)	(291)	(291)
Net change in cash	321	187	(124)	178
Free Cash Flow	959	671	369	671

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	(1.6)	4.4	15.3	18.7
CEPS	10.3	16.2	28.2	32.5
BVPS	234.0	238.3	253.6	272.3
FCF	27.4	19.2	10.6	19.2
DPS	-	-	-	-
Return Ratio(%)				
RoCE	1.0	2.9	6.7	7.4
ROIC	NA	2.2	5.3	6.0
RoE	NA	1.8	6.2	7.1
Balance Sheet				
Net Debt : Equity (x)	0.2	0.2	0.2	0.1
Net Working Capital (Days)	175	175	165	165
Valuation(x)				
PER	NA	27.2	7.8	6.4
P/B	0.5	0.5	0.5	0.4
P/CEPS	11.5	7.3	4.2	3.7
EV/EBITDA	10.3	7.0	4.2	3.6
EV/Sales	1.3	1.1	0.9	0.8
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Net Revenue	2,827	358	518	513
YoY gr. (%)	(14.8)	(49.8)	42.0	48.5
Raw Material Expenses	1,142	168	252	331
Gross Profit	1,684	190	266	182
Margin (%)	59.6	53.1	51.4	35.5
EBITDA	1,243	(205)	(264)	(340)
YoY gr. (%)	(19.6)	NA	NA	NA
Margin (%)	44.0	NA	NA	NA
Depreciation / Depletion	129	103	100	103
EBIT	1,115	(308)	(364)	(442)
Margin (%)	39.4	NA	NA	NA
Net Interest	80	74	62	65
Other Income	97	36	53	6
Profit before Tax	1,129	(346)	(373)	(501)
Margin (%)	39.9	NA	NA	NA
Total Tax	148	(35)	38	(58)
Effective tax rate (%)	13.1	10.1	(10.1)	11.6
Profit after Tax	981	(311)	(411)	(443)
Minority interest	14	(9)	(7)	5
Share Profit from Associates	(5)	(2)	(1)	(5)
Adjusted PAT	962	(305)	(404)	(452)
YoY gr. (%)	58.6	NA	NA	NA
Margin (%)	34.0	NA	NA	NA
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	962	(305)	(404)	(452)
YoY gr. (%)	58.6	NA	NA	NA
Margin (%)	34.0	NA	NA	NA
Other Comprehensive Income	2	3	(1)	1
Total Comprehensive Income	964	(303)	(405)	(451)
Av g. Shares O/s (m)	35	35	35	35
EPS (Rs)	27.5	(8.7)	(11.6)	(12.9)

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jan-22	BUY	147	108
2	7-Oct-21	BUY	147	122
3	14-Aug-21	BUY	147	121
4	7-Jul-21	BUY	146	113
5	23-Jun-21	BUY	146	122
6	7-Apr-21	BUY	127	109
7	16-Feb-21	BUY	89	68

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Netw ork (India)	Hold	197	172
3	Indian Railw ay Catering and Tourism Corporation	Hold	779	861
4	Inox Leisure	BUY	486	380
5	Music Broadcast	Hold	24	25
6	Navneet Education	BUY	128	91
7	Nazara Technologies	BUY	3,125	2,413
8	PVR	BUY	1,891	1,537
9	S Chand and Company	BUY	147	108
10	V.I.P. Industries	BUY	769	677
11	Zee Entertainment Enterprises	BUY	413	293

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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