

Rating: BUY | CMP: Rs102 | TP: Rs156

May 25, 2022

## Q4FY22 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	156		159	
Sales (Rs. m)	6,019	6,664	6,168	6,821
% Chng.	(2.4)	(2.3)		
EBITDA (Rs. m)	959	1,221	1,319	1,507
% Chng.	(27.3)	(19.0)		
EPS (Rs.)	9.6	16.4	15.3	18.7
% Chng.	(37.1)	(12.2)		

### Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	4,252	4,809	6,019	6,664
EBITDA (Rs. m)	547	614	959	1,221
Margin (%)	12.9	12.8	15.9	18.3
PAT (Rs. m)	(56)	123	337	574
EPS (Rs.)	(1.6)	3.5	9.6	16.4
Gr. (%)	NA	NA	175.2	70.2
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	NA	1.5	4.0	6.4
RoCE (%)	1.0	1.6	4.3	6.0
EV/Sales (x)	1.2	1.0	0.7	0.6
EV/EBITDA (x)	9.5	7.5	4.5	3.3
PE (x)	NA	29.2	10.6	6.2
P/BV (x)	0.4	0.4	0.4	0.4

### Key Data

SCHA.NS | SCHAND IN

52-W High / Low	Rs.149 / Rs.92
Sensex / Nifty	53,749 / 16,026
Market Cap	Rs.4bn/ \$ 46m
Shares Outstanding	35m
3M Avg. Daily Value	Rs.12.21m

### Shareholding Pattern (%)

Promoter's	47.30
Foreign	0.01
Domestic Institution	6.37
Public & Others	46.32
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(10.8)	(11.1)	2.0
Relative	(6.1)	(2.8)	(3.9)

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## Turnaround complete; delivery eyed

### Quick Pointers:

- Targeting sales of >Rs6,000mn in FY23E complemented by a price hike of 12-15%.
- GM to get impacted by 100-200bps amid input cost pressure.

**S Chand reported a decent performance with PAT margin of 36.7% (PLe of 35.5%) on the back of strong tailwinds from school re-openings coupled with a price hike of ~5-10% taken across product portfolio.**

**Management commentary for FY23E is bullish with a top-line guidance of Rs6,000mn+ complemented by a price hike of 12-15%. However, given persistent RM cost inflation GM can be under pressure prompting us to cut our EPS estimates by 37%/12% for FY23E/FY24E as we re-align our COGS assumptions. Subsequent to turning PAT positive after a gap of 3 years, we believe S Chand's turnaround is complete and the company is back on growth track. We expect sales/PAT CAGR of 18%/121% over FY22-24E amid favorable base and maintain BUY on the stock with a TP of Rs156. S Chand trades at 11x/6x our FY23E/FY24E EPS estimates and we believe valuations are attractive given 1) strong growth guidance 2) strengthening BS (net debt of Rs721mn in FY22 with an intention to be net debt free by 4QFY23) and 3) improved NWC metrics (cash conversion cycle has improved from 318 days in FY19 to 226 days in FY22). We increase our target P/E multiple to 9.5x (8.5x earlier) to partially account for optionality arising from nearing NEP implementation timeline and improvement in BS and NWC metrics. Reiterate BUY. Near term pressure on GM is a key risk to our call.**

**Top-line up 20.9% YoY:** Consolidated top-line increased 20.9% YoY to Rs3,419mn (PLe of Rs3,619mn) on the back of strong tailwinds of school re-openings and a price hike of ~5-10% which was taken across product portfolio.

**PAT breaches pre-pandemic levels:** EBITDA increased 14.4% YoY to Rs1,423mn (PLe of Rs1,554mn) with a margin of 41.6% as against 44% in 4QFY21. Net profit increased 28.3% YoY to Rs1,253mn (PLe of Rs1,285mn) and has breached pre-COVID base of 4QFY19 due to cost reduction exercise undertaken earlier.

**Con call highlights:** 1) Pre-COVID, S Chand's reach was amongst ~35-40K schools and the current figure is similar. 2) By end of FY23E, target is to achieve receivable days of 180-210 and inventory of Rs800-900mn 3) Monetization of digital investments can result in an inflow of Rs150-200mn 4) In FY22, cash burn on digital side was Rs250-260mn which is expected to come down to Rs150mn in FY23E 5) Capex is likely to be in the range of Rs150-200mn in FY23E 6) In FY22, book volumes were similar to pre-COVID base 7) Target is to be net debt free by 4QFY23E 8) Revenue guidance for 1QFY23 is ~Rs900-1,200mn 9) Reach of Milestone has declined to 250+ schools in FY22 (300+ schools in FY21) as the strategy is to focus on bigger schools giving business of at least Rs0.5mn/annum.

**Exhibit 1: Q4FY22 Result Overview (Rs mn)**

Y/e March	4QFY22	4QFY21	YoY gr (%)	3QFY22	QoQ gr (%)	FY22	FY21	YoY gr (%)
<b>Net Sales</b>	<b>3,419</b>	<b>2,827</b>	<b>20.9</b>	<b>513</b>	<b>566.0</b>	<b>4,809</b>	<b>4,252</b>	<b>13.1</b>
<b>Expenditure</b>								
Raw Materials	1,399	1,142	22.4	331	322.5	2,151	1,929	11.5
<i>% of Net sales</i>	<i>40.9</i>	<i>40.4</i>		<i>64.5</i>		<i>44.7</i>	<i>45.4</i>	
Personnel	320	271	18.1	293	9.3	1,173	993	18.1
<i>% of Net sales</i>	<i>9.4</i>	<i>9.6</i>		<i>57.0</i>		<i>24.4</i>	<i>23.3</i>	
Selling, dist & Other Exp	277	170	63.1	229	21.1	872	784	11.3
<i>% of Net sales</i>	<i>8.1</i>	<i>6.0</i>		<i>44.6</i>		<i>18.1</i>	<i>18.4</i>	
Total Expenditure	1,996	1,583	26.1	853	134.0	4,196	3,705	13.2
<b>EBITDA</b>	<b>1,423</b>	<b>1,243</b>	<b>14.4</b>	<b>(340)</b>	<b>NM</b>	<b>614</b>	<b>547</b>	<b>12.2</b>
<i>Margin (%)</i>	<i>41.6</i>	<i>44.0</i>		<i>NM</i>		<i>12.8</i>	<i>12.9</i>	
Depreciation	115	129	(10.6)	103	12.0	421	416	1.1
<b>EBIT</b>	<b>1,308</b>	<b>1,115</b>	<b>17.3</b>	<b>(442)</b>	<b>NM</b>	<b>193</b>	<b>131</b>	<b>47.7</b>
Interest	72	80	(10.3)	65	11.4	274	323	(15.3)
Other Income	48	97	(50.6)	6	672.1	143	201	(28.7)
Share of P/L in associates	2	(5)	NM	(5)	NM	(5)	(7)	NM
Exceptional items	12	2	397.1	-	NM	(12)	(2)	NM
<b>PBT</b>	<b>1,274</b>	<b>1,124</b>	<b>13.3</b>	<b>(506)</b>	<b>NM</b>	<b>45.6</b>	<b>(0.2)</b>	<b>NM</b>
Tax	21	148	(86.1)	(58)	NM	(35)	65	NM
<i>Tax Rate (%)</i>	<i>1.6</i>	<i>13.1</i>		<i>NM</i>		<i>NM</i>	<i>NM</i>	
<b>Reported PAT</b>	<b>1,253</b>	<b>977</b>	<b>28.3</b>	<b>(447)</b>	<b>NM</b>	<b>80.4</b>	<b>(64.9)</b>	<b>NM</b>
Minority interest	(15)	14	NM	5	NM	(30)	(7)	NM
OCI	4	2	167.3	1	335.9	7	17	(59.7)
Total comprehensive income	<b>1,257</b>	<b>978</b>	<b>28.5</b>	<b>(446)</b>	<b>NM</b>	<b>87.3</b>	<b>(47.8)</b>	<b>NM</b>
<b>Reported EPS</b>	<b>35.8</b>	<b>27.9</b>	<b>28.1</b>	<b>(12.8)</b>	<b>NM</b>	<b>2.3</b>	<b>(1.9)</b>	<b>NM</b>

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
CY2022	Announcement of draft National Curriculum Framework (NCF) expected Development of books based on the new curriculum
FY23 onwards	Complete impact of NCF to percolate into financials

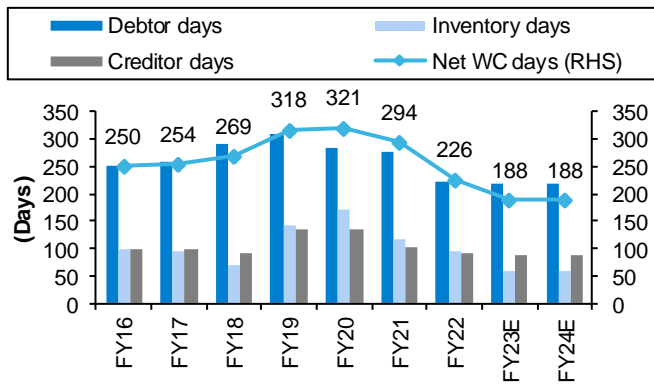
Source: Company, PL

**Exhibit 3: OCF/EBITDA to bet at 0.7x in FY24E**

Particulars (Rsmn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OCF/EBITDA (x)	0.2	0.2	NM	NM	2.0	1.7	0.9	0.7
OCF	324	389	386	484	1,076	1,066	880	862
EBITDA	1,658	1,927	(312)	(220)	547	614	959	1,221

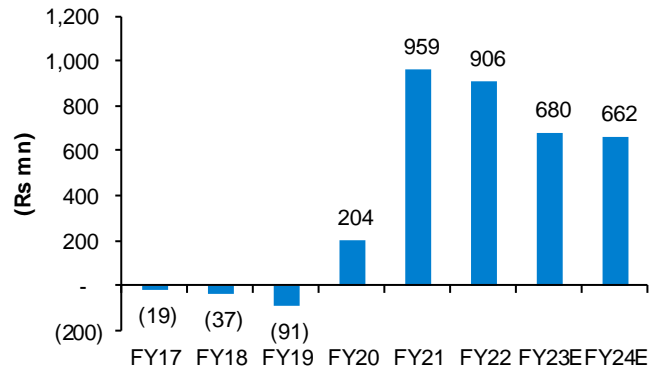
Source: Company, PL

**Exhibit 4: NWC of S Chand to be at 188 days in FY24E**

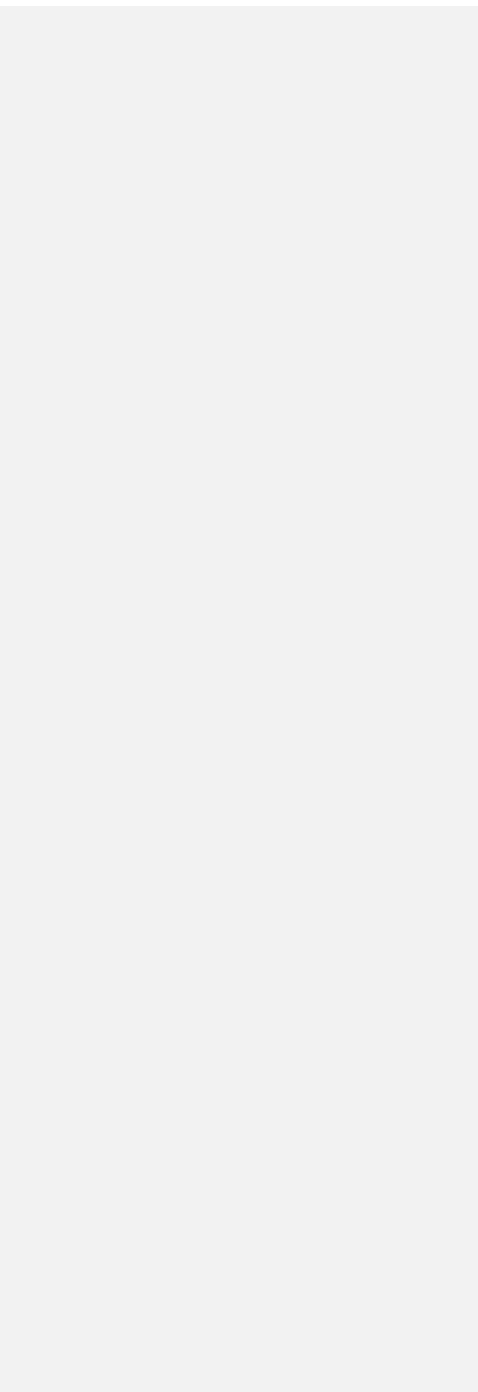


Source: Company, PL

**Exhibit 5: FCFF to be at Rs662mn in FY24E**



Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>4,252</b>	<b>4,809</b>	<b>6,019</b>	<b>6,664</b>
YoY gr. (%)	(1.0)	13.1	25.2	10.7
Cost of Goods Sold	1,929	2,151	2,803	3,010
Gross Profit	2,323	2,659	3,216	3,654
Margin (%)	54.6	55.3	53.4	54.8
Employee Cost	993	1,173	1,276	1,366
Other Expenses	488	872	981	1,066
<b>EBITDA</b>	<b>547</b>	<b>614</b>	<b>959</b>	<b>1,221</b>
YoY gr. (%)	NA	12.2	56.3	27.3
Margin (%)	12.9	12.8	15.9	18.3
Depreciation and Amortization	416	421	436	449
<b>EBIT</b>	<b>131</b>	<b>193</b>	<b>524</b>	<b>772</b>
Margin (%)	3.1	4.0	8.7	11.6
Net Interest	323	274	236	178
Other Income	201	143	170	180
<b>Profit Before Tax</b>	<b>9</b>	<b>63</b>	<b>458</b>	<b>774</b>
Margin (%)	0.2	1.3	7.6	11.6
Total Tax	65	(35)	115	195
Effective tax rate (%)	730.4	(55.2)	25.2	25.2
<b>Profit after tax</b>	<b>(56)</b>	<b>98</b>	<b>342</b>	<b>579</b>
Minority interest	(7)	(30)	-	-
Share Profit from Associate	(7)	(5)	(5)	(5)
<b>Adjusted PAT</b>	<b>(56)</b>	<b>123</b>	<b>337</b>	<b>574</b>
YoY gr. (%)	NA	NA	175.2	70.2
Margin (%)	NA	2.5	5.6	8.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(56)</b>	<b>123</b>	<b>337</b>	<b>574</b>
YoY gr. (%)	NA	NA	175.2	70.2
Margin (%)	NA	2.5	5.6	8.6
Other Comprehensive Income	17	7	-	-
Total Comprehensive Income	(39)	129	337	574
<b>Equity Shares O/s (m)</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>35</b>
<b>EPS (Rs)</b>	<b>(1.6)</b>	<b>3.5</b>	<b>9.6</b>	<b>16.4</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>3,449</b>	<b>3,679</b>	<b>4,079</b>	<b>4,479</b>
Tangibles	1,490	1,638	1,838	2,038
Intangibles	1,959	2,041	2,241	2,441
<b>Acc: Dep / Amortization</b>	<b>1,331</b>	<b>1,752</b>	<b>2,187</b>	<b>2,636</b>
Tangibles	620	844	1,065	1,289
Intangibles	710	907	1,123	1,347
<b>Net fixed assets</b>	<b>2,599</b>	<b>2,308</b>	<b>2,272</b>	<b>2,223</b>
Tangibles	1,350	1,174	1,154	1,129
Intangibles	1,249	1,134	1,119	1,094
Capital Work In Progress	25	13	13	13
Goodwill	3,381	3,381	3,381	3,381
Non-Current Investments	118	135	135	135
Net Deferred tax assets	674	845	887	931
Other Non-Current Assets	76	65	65	65
<b>Current Assets</b>				
Investments	258	153	153	153
Inventories	1,377	1,276	956	1,059
Trade receivables	3,221	2,921	3,628	4,017
Cash & Bank Balance	485	675	920	903
Other Current Assets	108	113	118	124
<b>Total Assets</b>	<b>12,359</b>	<b>11,933</b>	<b>12,579</b>	<b>13,056</b>
<b>Equity</b>				
Equity Share Capital	175	175	175	175
Other Equity	8,008	8,139	8,476	9,050
<b>Total Networkth</b>	<b>8,183</b>	<b>8,314</b>	<b>8,652</b>	<b>9,226</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	1,009	819	819	719
Provisions	-	-	-	-
Other non current liabilities	65	66	66	66
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,373	1,002	1,002	802
Trade payables	1,179	1,215	1,484	1,643
Other current liabilities	362	358	397	442
<b>Total Equity &amp; Liabilities</b>	<b>12,359</b>	<b>11,933</b>	<b>12,579</b>	<b>13,056</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	0	46	458	774
Add. Depreciation	416	421	436	449
Add. Interest	313	274	236	178
Less Financial Other Income	201	143	170	180
Add. Other	13	110	(53)	(56)
Op. profit before WC changes	742	850	1,076	1,346
Net Changes-WC	236	333	(80)	(289)
Direct tax	99	(117)	(115)	(195)
<b>Net cash from Op. activities</b>	<b>1,076</b>	<b>1,066</b>	<b>880</b>	<b>862</b>
Capital expenditures	(108)	(132)	(200)	(200)
Interest / Dividend Income	-	-	-	-
Others	(68)	104	(200)	(200)
<b>Net Cash from Inv. activities</b>	<b>(176)</b>	<b>(28)</b>	<b>(400)</b>	<b>(400)</b>
Issue of share cap. / premium	-	5	-	-
Debt changes	(156)	(459)	-	(300)
Dividend paid	-	-	-	-
Interest paid	(266)	(238)	(236)	(178)
Others	(157)	(156)	-	-
<b>Net cash from Fin. activities</b>	<b>(579)</b>	<b>(848)</b>	<b>(236)</b>	<b>(478)</b>
<b>Net change in cash</b>	<b>321</b>	<b>190</b>	<b>245</b>	<b>(17)</b>
Free Cash Flow	959	906	680	662

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	(1.6)	3.5	9.6	16.4
CEPS	10.3	15.5	22.1	29.2
BVPS	234.0	237.3	246.9	263.3
FCF	27.4	25.9	19.4	18.9
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	1.0	1.6	4.3	6.0
ROIC	NA	2.6	3.5	4.9
RoE	NA	1.5	4.0	6.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.2	0.1	0.1	0.1
Net Working Capital (Days)	175	129	130	130
<b>Valuation(x)</b>				
PER	NA	29.2	10.6	6.2
P/B	0.4	0.4	0.4	0.4
P/CEPS	9.9	6.6	4.6	3.5
EV/EBITDA	9.5	7.5	4.5	3.3
EV/Sales	1.2	1.0	0.7	0.6
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Net Revenue</b>	<b>358</b>	<b>518</b>	<b>513</b>	<b>3,419</b>
YoY gr. (%)	(49.8)	42.0	48.5	20.9
Raw Material Expenses	168	252	331	1,399
Gross Profit	190	266	182	2,020
Margin (%)	53.1	51.4	35.5	59.1
<b>EBITDA</b>	<b>(205)</b>	<b>(264)</b>	<b>(340)</b>	<b>1,423</b>
YoY gr. (%)	NA	NA	NA	14.4
Margin (%)	NA	NA	NA	41.6
Depreciation / Depletion	103	100	103	115
<b>EBIT</b>	<b>(308)</b>	<b>(364)</b>	<b>(442)</b>	<b>1,308</b>
Margin (%)	NA	NA	NA	38.2
Net Interest	74	62	65	72
Other Income	36	53	6	48
<b>Profit before Tax</b>	<b>(346)</b>	<b>(373)</b>	<b>(501)</b>	<b>1,271</b>
Margin (%)	NA	NA	NA	37.2
Total Tax	(35)	38	(58)	21
Effective tax rate (%)	10.1	(10.1)	11.6	1.6
<b>Profit after Tax</b>	<b>(311)</b>	<b>(411)</b>	<b>(443)</b>	<b>1,251</b>
Minority interest	(9)	(7)	5	(15)
Share Profit from Associates	(2)	(1)	(5)	2
<b>Adjusted PAT</b>	<b>(305)</b>	<b>(404)</b>	<b>(452)</b>	<b>1,268</b>
YoY gr. (%)	NA	NA	NA	31.8
Margin (%)	NA	NA	NA	37.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(305)</b>	<b>(404)</b>	<b>(452)</b>	<b>1,268</b>
YoY gr. (%)	NA	NA	NA	31.8
Margin (%)	NA	NA	NA	37.1
Other Comprehensive Income	3	(1)	1	4
<b>Total Comprehensive Income</b>	<b>(303)</b>	<b>(405)</b>	<b>(451)</b>	<b>1,272</b>
Avg. Shares O/s (m)	35	35	35	35
<b>EPS (Rs)</b>	<b>(8.7)</b>	<b>(11.6)</b>	<b>(12.9)</b>	<b>36.2</b>

Source: Company Data, PL Research

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


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-22	BUY	159	114
2	07-Feb-22	BUY	159	119
3	10-Jan-22	BUY	147	108
4	07-Oct-21	BUY	147	122
5	14-Aug-21	BUY	147	121
6	07-Jul-21	BUY	146	113
7	23-Jun-21	BUY	146	122

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Entertainment Network (India)	Hold	184	204
2	Indian Railway Catering and Tourism Corporation	Hold	727	791
3	Inox Leisure	BUY	681	493
4	Music Broadcast	Hold	24	26
5	Navneet Education	BUY	121	91
6	Nazara Technologies	BUY	1,747	1,248
7	PVR	BUY	2,227	1,706
8	S Chand and Company	BUY	159	114
9	Safari Industries (India)	BUY	1,288	898
10	V.I.P. Industries	BUY	817	598
11	Zee Entertainment Enterprises	BUY	413	286

**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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