

Rating: BUY | CMP: Rs137 | TP: Rs185

August 10, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	185		156	
Sales (Rs. m)	6,019	6,664	6,019	6,664
% Chng.	-	-	-	-
EBITDA (Rs. m)	978	1,266	959	1,221
% Chng.	2.0	3.7	-	-
EPS (Rs.)	9.8	17.6	9.6	16.4
% Chng.	1.7	7.2	-	-

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	978	1,266
Margin (%)	12.9	12.8	16.3	19.0
PAT (Rs. m)	(56)	123	343	616
EPS (Rs.)	(1.6)	3.5	9.8	17.6
Gr. (%)	NA	NA	179.8	79.6
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	NA	1.5	4.0	6.7
RoCE (%)	1.0	1.6	4.5	6.4
EV/Sales (x)	1.5	1.2	0.9	0.7
EV/EBITDA (x)	11.8	9.4	5.4	3.9
PE (x)	NA	39.2	14.0	7.8
P/BV (x)	0.6	0.6	0.5	0.5

Key Data

SCHA.NS | SCHAND IN

52-W High / Low	Rs.149 / Rs.92
Sensex / Nifty	58,817 / 17,535
Market Cap	Rs.5bn / \$ 60m
Shares Outstanding	35m
3M Avg. Daily Value	Rs.14.85m

Shareholding Pattern (%)

Promoter's	47.30
Foreign	0.01
Domestic Institution	5.59
Public & Others	47.10
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	18.9	16.7	12.0
Relative	10.1	16.0	3.6

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Re-writing a new chapter

Quick Pointers:

- Turns PAT positive for first time ever in 1Q.
- PAT of FY23E has cushion of ~Rs255mn coming in from exit/revaluation of EdTech investments (TestBook and Smartivity).

S Chand reported strong performance by turning PAT positive for first time ever in 1Q on the back of strong tailwinds from school re-openings. Even after adjusting for revaluation gain of Rs 98mn on Smartivity (EdTech investment), losses were meagre at Rs36mn when compared with past 1Q performance.

Management commentary for FY23E is bullish with a top-line guidance of Rs6,000mn+ complemented by a price hike of 15%+. However, given persistent inflation in paper prices, GM is expected to remain under pressure in near term. Subsequent to turning PAT positive after a gap of 3 years in FY22, we believe S Chand's turnaround is complete and the company is back on growth track. Though the stock has appreciated by 33% since our last update report we increase our target P/E multiple to 10.5x (earlier 9.5x) and maintain BUY given 1) strong growth guidance 2) strengthening BS (net debt of Rs279mn in 1QFY23 with an intention to be net debt free by 4QFY23) and 3) improved NWC metrics (cash conversion cycle to improve from 226 days in FY22 to 188 days in FY24E). S Chand trades at 14x/8x our FY23/FY24 EPS and valuations are undemanding for a business that commands FCF yield of ~14-17% over FY23-FY24E. Apart from valuation comfort, NEP implementation represents an option value in the business and can result in sharp re-rating. Retain BUY with a TP of Rs185 (earlier Rs156).

Records highest 1Q sales: Top-line increased 199.4% YoY to Rs1,073mn (PLe of Rs1,093mn) on the back of price hike, some deferrals from 4Q and strong tailwinds from school re-openings.

EBITDA margin at 11.1%: EBITDA stood at Rs119mn (PLe of Rs6mn) with a margin of 11.1% as against a loss of Rs205mn in 1QFY22. Net profit stood at Rs62mn (PLe loss of Rs93mn) with a margin of 5.8% as against a loss of Rs314mn in 1QFY22.

Con call highlights: 1) 80-85% of paper requirement for FY23 has been procured. 2) Paper is ~18-20% of input cost but it might go up to ~24-25% in FY23 given rising prices. 3) ~30-35% of paper is sourced from Indonesia while balance is from India. 4) Total count of subsidiaries will narrow from 12 to ~4-5 by FY24. 5) Sales return is expected to be at ~15% in FY23 as against 30% in COVID time. It is expected to further decline to 10-12%. 6) EBITDA is expected to be at Rs1,000-1,200mn in FY23E. 7) Channel partners were reduced by 30% in last 3 years to improve sales quality. 8) Accumulated losses for tax computation stand at ~Rs1,300mn. 9) CBSE/ICSE/state board contributes 60-65%/15-20%/15-20% respectively within K-12 segment. 10) Max 10-15% of the cash flows will be utilized to fund capex. 11) Average product price hike in a normalized environment is ~6-8%.

Exhibit 1: Q1FY23 Result Overview (Rs mn)

Y/e March	1QFY23	1QFY22	YoY gr (%)	4QFY22	QoQ gr (%)
Net Sales	1,073	358	199.4	3,419	(68.6)
Expenditure					
Raw Materials	350	168	108.5	1,399	(75.0)
<i>% of Net sales</i>	<i>32.6</i>	<i>46.9</i>		<i>40.9</i>	
Personnel	296	268	10.1	320	(7.7)
<i>% of Net sales</i>	<i>27.5</i>	<i>74.9</i>		<i>9.4</i>	
Selling , dist & Other Exp	308	128	141.4	277	11.0
<i>% of Net sales</i>	<i>28.7</i>	<i>35.6</i>		<i>8.1</i>	
Total Expenditure	954	564	69.1	1,996	(52.2)
EBITDA	119	(205)	NM	1,423	(91.6)
<i>Margin (%)</i>	<i>11.1</i>	<i>NM</i>		<i>41.6</i>	
Depreciation	110	103	6.6	115	(4.6)
EBIT	10	(308)	NM	1,308	(99.3)
Interest	41	74	(44.8)	72	(43.2)
Other Income	143	36	295.7	48	198.1
Share of P/L in associates	(1)	(2)	NM	2	NM
Exceptional items	-	-	NM	(12)	NM
PBT	111	(349)	NM	1,298	(91.5)
Tax	48	(35)	NM	21	134.6
<i>Tax Rate (%)</i>	<i>43.7</i>	<i>10.1</i>		<i>1.6</i>	
Reported PAT	62	(314)	NM	1,277	(95.1)
Minority interest	(7)	(9)	NM	(15)	NM
OCI	2	3	(33.6)	4	(58.6)
Total comprehensive income	64	(311)	NM	1,281	(95.0)
Reported EPS	1.8	(9.0)	NM	35.8	(95.0)

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

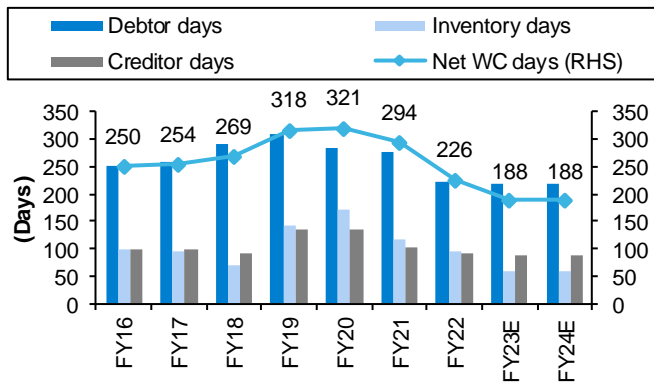
Source: Company, PL

Exhibit 3: OCF/EBITDA to be 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	1.1	0.7
OCF	324	389	386	484	1,076	1,066	1,043	862
EBITDA	1,658	1,927	(312)	(220)	547	614	978	1,266

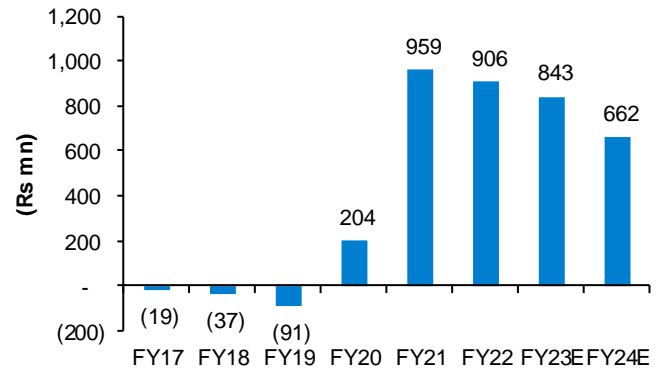
Source: Company, PL

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

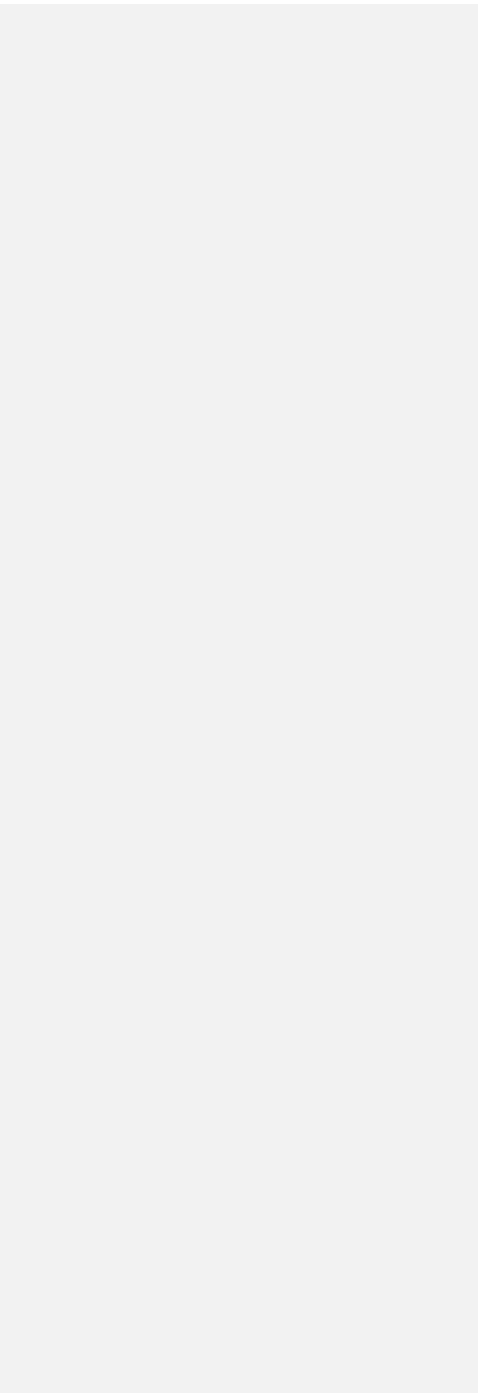


Source: Company, PL

Exhibit 5: FCFF to be at Rs662mn in FY24E



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	4,252	4,809	6,019	6,664
YoY gr. (%)	(1.0)	13.1	25.2	10.7
Cost of Goods Sold	1,571	1,729	2,290	2,399
Gross Profit	2,681	3,081	3,729	4,265
Margin (%)	63.1	64.1	62.0	64.0
Employee Cost	993	1,173	1,276	1,366
Other Expenses	846	1,294	1,475	1,633
EBITDA	547	614	978	1,266
YoY gr. (%)	NA	12.2	59.4	29.4
Margin (%)	12.9	12.8	16.3	19.0
Depreciation and Amortization	416	421	436	449
EBIT	131	193	543	817
Margin (%)	3.1	4.0	9.0	12.3
Net Interest	323	274	143	137
Other Income	201	143	400	150
Profit Before Tax	6	51	800	830
Margin (%)	0.2	1.1	13.3	12.5
Total Tax	65	(35)	201	209
Effective tax rate (%)	1,006.4	(68.3)	25.2	25.2
Profit after tax	(58)	86	598	621
Minority interest	(7)	(30)	-	-
Share Profit from Associate	(7)	(5)	(5)	(5)
Adjusted PAT	(56)	123	343	616
YoY gr. (%)	NA	NA	179.8	79.6
Margin (%)	NA	2.5	5.7	9.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(41)	117	593	616
YoY gr. (%)	NA	NA	405.3	3.8
Margin (%)	NA	2.4	9.8	9.2
Other Comprehensive Income	17	7	-	-
Total Comprehensive Income	(48)	87	593	616
Equity Shares O/s (m)	35	35	35	35
EPS (Rs)	(1.6)	3.5	9.8	17.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	3,449	3,679	4,079	4,479
Tangibles	1,490	1,638	1,838	2,038
Intangibles	1,959	2,041	2,241	2,441
Acc: Dep / Amortization	1,331	1,752	2,187	2,636
Tangibles	620	844	1,065	1,289
Intangibles	710	907	1,123	1,347
Net fixed assets	2,599	2,308	2,272	2,223
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
Current Assets				
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	748	1,073
Other Current Assets	108	113	118	124
Total Assets	12,359	11,933	12,406	13,226
Equity				
Equity Share Capital	175	175	175	175
Other Equity	8,008	8,139	8,732	9,348
Total Networkth	8,183	8,314	8,907	9,523
Non-Current Liabilities				
Long Term borrowings	1,009	819	643	643
Provisions	-	-	-	-
Other non current liabilities	65	66	66	66
Current Liabilities				
ST Debt / Current of LT Debt	1,373	1,002	750	750
Trade payables	1,179	1,215	1,484	1,643
Other current liabilities	362	358	397	442
Total Equity & Liabilities	12,359	11,933	12,406	13,226

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	0	46	800	830
Add. Depreciation	416	421	436	449
Add. Interest	313	274	143	137
Less Financial Other Income	201	143	400	150
Add. Other	13	110	(53)	(56)
Op. profit before WC changes	742	850	1,325	1,361
Net Changes-WC	236	333	(80)	(289)
Direct tax	99	(117)	(201)	(209)
Net cash from Op. activities	1,076	1,066	1,043	862
Capital expenditures	(108)	(132)	(200)	(200)
Interest / Dividend Income	-	-	-	-
Others	(68)	104	(200)	(200)
Net Cash from Invt. activities	(176)	(28)	(400)	(400)
Issue of share cap. / premium	-	5	-	-
Debt changes	(156)	(459)	(428)	-
Dividend paid	-	-	-	-
Interest paid	(266)	(238)	(143)	(137)
Others	(157)	(156)	-	-
Net cash from Fin. activities	(579)	(848)	(571)	(137)
Net change in cash	321	190	72	325
Free Cash Flow	959	906	843	662

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	(1.6)	3.5	9.8	17.6
CEPS	10.3	15.5	22.2	30.4
BVPS	234.0	237.3	254.2	271.7
FCF	27.4	25.9	24.1	18.9
DPS	-	-	-	-
Return Ratio(%)				
RoCE	1.0	1.6	4.5	6.4
ROIC	NA	2.9	3.6	5.3
RoE	(0.7)	1.5	4.0	6.7
Balance Sheet				
Net Debt : Equity (x)	0.2	0.1	0.1	0.0
Net Working Capital (Days)	175	129	130	130
Valuation(x)				
PER	NA	39.2	14.0	7.8
P/B	0.6	0.6	0.5	0.5
P/CEPS	13.3	8.8	6.2	4.5
EV/EBITDA	11.8	9.4	5.4	3.9
EV/Sales	1.5	1.2	0.9	0.7
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	518	513	3,419	1,073
YoY gr. (%)	42.0	48.5	20.9	199.4
Raw Material Expenses	197	244	1,174	350
Gross Profit	321	270	2,245	723
Margin (%)	61.9	52.5	65.7	67.4
EBITDA	(264)	(340)	1,423	119
YoY gr. (%)	NA	NA	14.4	(158.1)
Margin (%)	NA	NA	41.6	11.1
Depreciation / Depletion	100	103	115	110
EBIT	(364)	(442)	1,308	10
Margin (%)	NA	NA	38.2	0.9
Net Interest	62	65	72	41
Other Income	53	6	48	143
Profit before Tax	(373)	(501)	1,271	112
Margin (%)	NA	NA	37.2	10.4
Total Tax	38	(58)	21	48
Effective tax rate (%)	(10.1)	11.6	1.6	43.2
Profit after Tax	(411)	(443)	1,251	63
Minority interest	(7)	5	(15)	(7)
Share Profit from Associates	(1)	(5)	2	(1)
Adjusted PAT	(404)	(452)	1,280	(29)
YoY gr. (%)	NA	NA	32.7	(90.7)
Margin (%)	NA	NA	37.5	(2.7)
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(405)	(451)	1,272	71
YoY gr. (%)	NA	NA	32.0	(123.5)
Margin (%)	NA	NA	37.2	6.6
Other Comprehensive Income	(1)	1	4	2
Total Comprehensive Income	(412)	(446)	1,257	64
Avg. Shares O/s (m)	35	35	35	35
EPS (Rs)	(11.6)	(12.9)	36.5	(0.8)

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	BUY	156	115
2	25-May-22	BUY	156	102
3	08-Apr-22	BUY	159	114
4	07-Feb-22	BUY	159	119
5	10-Jan-22	BUY	147	108
6	07-Oct-21	BUY	147	122
7	14-Aug-21	BUY	147	121

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Entertainment Network (India)	Hold	184	180
2	Indian Railway Catering and Tourism Corporation	Hold	648	583
3	Inox Leisure	BUY	699	603
4	Music Broadcast	Hold	24	23
5	Navneet Education	BUY	163	117
6	Nazara Technologies	BUY	911	636
7	PVR	BUY	2,330	1,915
8	S Chand and Company	BUY	156	115
9	Safari Industries (India)	BUY	1,288	931
10	V.I.P. Industries	BUY	857	650
11	Zee Entertainment Enterprises	BUY	358	223

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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