

Rating: BUY | CMP: Rs164 | TP: Rs220

November 14, 2022

## Q2FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	220		234	
Sales (Rs. m)	6,600	7,123	6,664	7,193
% Chng.	(1.0)	(1.0)		
EBITDA (Rs. m)	1,250	1,357	1,266	1,374
% Chng.	(1.2)	(1.2)		
EPS (Rs.)	17.2	19.4	17.6	19.8
% Chng.	(1.9)	(1.8)		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	4,809	6,019	6,600	7,123
EBITDA (Rs. m)	614	978	1,250	1,357
Margin (%)	12.8	16.3	18.9	19.0
PAT (Rs. m)	123	341	604	681
EPS (Rs.)	3.5	9.7	17.2	19.4
Gr. (%)	(319.4)	178.2	77.2	12.7
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	1.5	4.0	6.6	6.9
RoCE (%)	1.6	4.4	6.2	6.6
EV/Sales (x)	1.4	1.0	0.9	0.7
EV/EBITDA (x)	11.0	6.3	4.6	3.9
PE (x)	46.9	16.9	9.5	8.4
P/BV (x)	0.7	0.6	0.6	0.6

### Key Data

SCHA.NS | SCHAND IN

52-W High / Low	Rs.205 / Rs.92
Sensex / Nifty	61,624 / 18,329
Market Cap	Rs.6bn / \$ 71m
Shares Outstanding	35m
3M Avg. Daily Value	Rs.46.69m

### Shareholding Pattern (%)

Promoter's	47.30
Foreign	0.92
Domestic Institution	5.60
Public & Others	46.19
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(9.1)	69.4	29.7
Relative	(14.6)	45.1	27.8

### Jinesh Joshi

jineshjoshi@plindia.com | 91-22-66322238

### Shweta Shekhawat

shwetashkhawat@plindia.com | 91-22-66322256

## On track to meet FY23E guidance

### Quick Pointers:

- Revenue and EBITDA guidance maintained at Rs6,000mn+ and Rs1,000-1,200mn respectively for FY23E.
- Exceptional gain of Rs156mn pertains to stake sale in TestBook.

**In a non-seasonal quarter, S Chand's performance with a top-line of Rs473mn (PLe of Rs402mn) and loss of Rs199mn (PLe of Rs282mn; inclusive of gain on sale of TestBook) was better than our estimates.**

**Management commentary for FY23E is bullish with a top-line guidance of Rs6,000mn+ complemented by a price hike of 20%+. However, given persistent inflation in paper prices, we expect GM to decline by ~210bps YoY to 62% in FY23E. 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. We maintain BUY on the stock with a TP of Rs220 (12x Sep-24 EPS) given 1) strong possibility of surpassing growth guidance amid healthy performance in 1HFY23 2) strengthening BS (net debt of Rs711mn in 2QFY23 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 183 days in FY25E). In addition, as NCF for K-2 classes (forms ~15-20% of school education's top-line) has been announced in October, it paves the way for subsequent announcements for higher grades in near future and would act as a key growth lever, in our view. S Chand trades at 10x/9x our FY24E/FY25E EPS and valuations are undemanding for a business that commands FCF yield of ~12-16% over FY23-FY25E. Retain BUY with a TP of Rs220.**

**Top-line declined 8.8% YoY:** Top-line declined 8.8% YoY to Rs473mn (PLe of Rs402mn) on account of revenue spillover from Q1 to Q2 due to COVID wave in the base quarter coupled with shifting of higher education book demand to 3QFY23 due to delay in admissions.

**EBITDA loss at Rs294mn:** EBITDA loss stood at Rs294mn (PLe of Rs422mn) as against a loss of Rs264mn in 2QFY22. Net loss stood at Rs199mn (PLe loss of Rs282mn) versus a loss of Rs412mn in 2QFY22.

**Con call highlights:** 1) Net debt increased by Rs432mn sequentially to Rs711mn due to pre-stocking of RM inventory amid persistent cost inflation. Consequently, RM inventory has increased to Rs763mn in 2QFY23 versus Rs228mn in 2QFY22. 2) ~90% of the paper requirement for FY23E has been procured. 3) Within school education business, K-2 segment contributes ~15-20% to the top-line while K3-K5/K6-K8/K9-12 contributes 20-30% each. 4) ~20% price hike will be undertaken in FY23E to counter RM inflation. 5) EBITDA margins expected to be ~15-17% in FY23E. 6) Tax rate projected at 26% for FY23E. 7) Rs200-250mn of higher education revenue to spillover in 3QFY23E. 8) Sales return expected at 12% in FY23E and will further decline to 10% from FY24E.

**Exhibit 1: Q2FY23 Result Overview (Rs mn)**

Y/e March	2QFY23	2QFY22	YoY gr (%)	1QFY23	QoQ gr (%)	1HFY23	1HFY22	YoY gr (%)
<b>Net Sales</b>	<b>473</b>	<b>518</b>	<b>(8.8)</b>	<b>1,073</b>	<b>(55.9)</b>	<b>1,546</b>	<b>877</b>	<b>76.3</b>
<b>Expenditure</b>								
Raw Materials	181	252	(28.4)	350	(48.5)	531	311	70.8
<i>% of Net sales</i>	<i>38.2</i>	<i>48.6</i>		<i>32.6</i>		<i>34.3</i>	<i>35.4</i>	
Personnel	317	292	8.6	296	7.1	612	560	9.3
<i>% of Net sales</i>	<i>67.0</i>	<i>56.2</i>		<i>27.5</i>		<i>39.6</i>	<i>63.9</i>	
Selling, dist & Other Exp	270	239	13.1	308	(12.3)	578	476	21.5
<i>% of Net sales</i>	<i>57.1</i>	<i>46.0</i>		<i>28.7</i>		<i>37.4</i>	<i>54.2</i>	
Total Expenditure	767	782	(2.0)	954	(19.6)	1,721	1,346	27.8
<b>EBITDA</b>	<b>(294)</b>	<b>(264)</b>	<b>NM</b>	<b>119</b>	<b>NM</b>	<b>(175)</b>	<b>(469)</b>	<b>NM</b>
<i>Margin (%)</i>	<i>NM</i>	<i>NM</i>		<i>11.1</i>		<i>NM</i>	<i>NM</i>	
Depreciation	109	100	9.0	110	(0.6)	219	203	7.8
<b>EBIT</b>	<b>(403)</b>	<b>(364)</b>	<b>NM</b>	<b>10</b>	<b>NM</b>	<b>(394)</b>	<b>(672)</b>	<b>NM</b>
Interest	41	62	(34.3)	41	0.0	82	137	(40.0)
Other Income	2	53	(96.3)	143	(98.6)	145	89	62.2
Share of P/L in associates	-	(1)	NM	(1)	NM	(1)	(3)	NM
Exceptional items	(156)	-	NM	-	NM	(156)	-	NM
<b>PBT</b>	<b>(286)</b>	<b>(374)</b>	<b>NM</b>	<b>111</b>	<b>NM</b>	<b>(176)</b>	<b>(723)</b>	<b>NM</b>
Tax	(88)	38	NM	48	NM	(39)	3	NM
<i>Tax Rate (%)</i>	<i>30.6</i>	<i>NM</i>		<i>43.7</i>		<i>NM</i>	<i>NM</i>	
<b>Reported PAT</b>	<b>(199)</b>	<b>(412)</b>	<b>NM</b>	<b>62</b>	<b>NM</b>	<b>(136)</b>	<b>(726)</b>	<b>NM</b>
Minority interest	(21)	(7)	NM	(7)	NM	(29)	(16)	NM
OCI	(3)	(1)	NM	2	NM	(1)	2	(148.0)
<b>Total comprehensive income</b>	<b>(201)</b>	<b>(412)</b>	<b>NM</b>	<b>64</b>	<b>NM</b>	<b>(137)</b>	<b>(724)</b>	<b>NM</b>
<b>Reported EPS</b>	<b>(5.7)</b>	<b>(11.8)</b>	<b>NM</b>	<b>1.8</b>	<b>NM</b>	<b>(3.9)</b>	<b>(20.7)</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
Oct-22	Foundation stage (K-2) NCF announced
CY2022	Development of books based on the new curriculum
FY23 onwards	Complete impact of NCF to percolate into financials

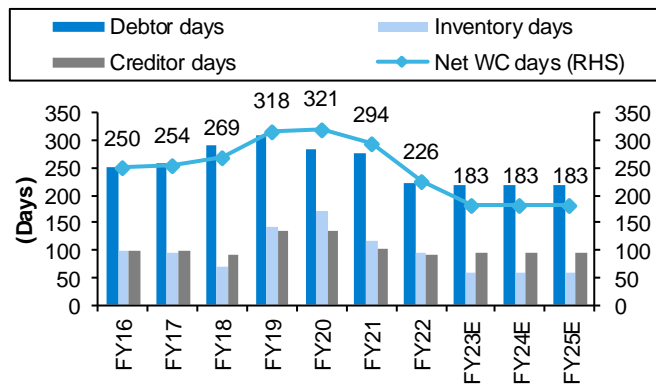
Source: Company, PL

**Exhibit 3: OCF/EBITDA to be at 0.7x in FY25E**

Particulars (Rsmn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OCF/EBITDA (x)	0.2	0.2	NM	NM	2.0	1.7	1.2	0.7	0.7
OCF	324	389	386	484	1,076	1,066	1,130	891	1,005
EBITDA	1,658	1,927	(312)	(220)	547	614	978	1,250	1,357

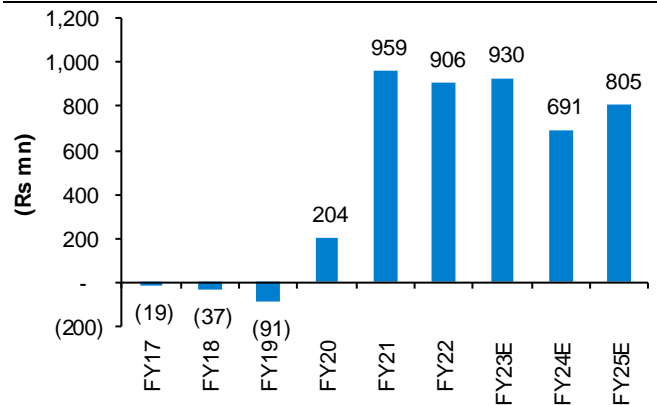
Source: Company, PL

**Exhibit 4: NWC of S Chand to be at 183 days in FY25E**

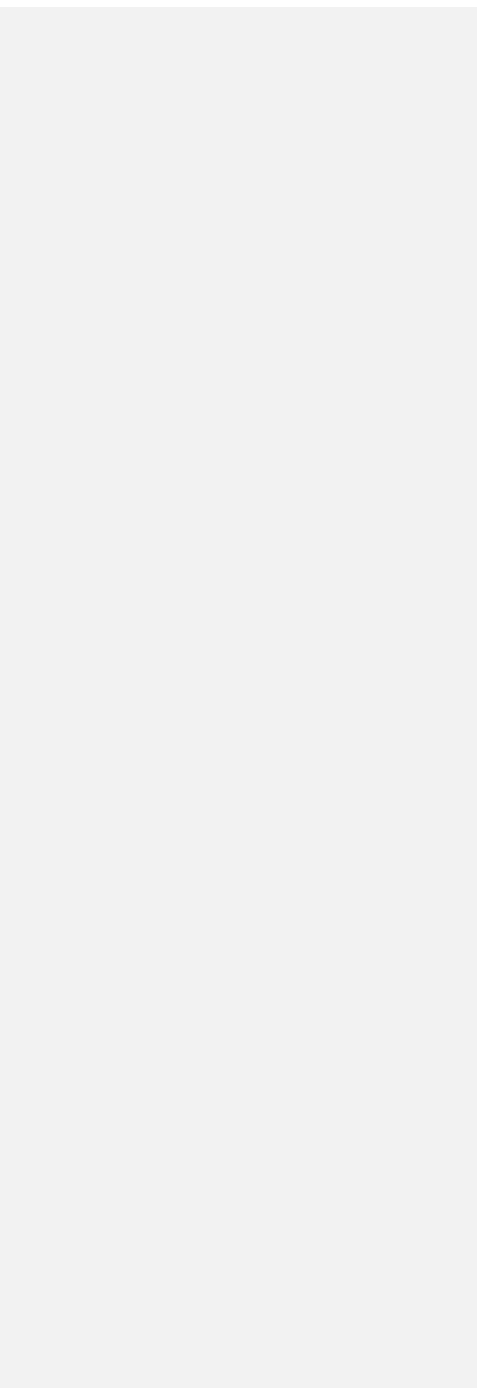


Source: Company, PL

**Exhibit 5: FCFF to be at Rs805mn in FY25E**



Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>4,809</b>	<b>6,019</b>	<b>6,600</b>	<b>7,123</b>
YoY gr. (%)	13.1	25.2	9.7	7.9
Cost of Goods Sold	1,729	2,290	2,380	2,561
Gross Profit	3,081	3,729	4,221	4,562
Margin (%)	64.1	62.0	63.9	64.0
Employee Cost	1,173	1,276	1,353	1,460
Other Expenses	1,294	1,475	1,617	1,745
<b>EBITDA</b>	<b>614</b>	<b>978</b>	<b>1,250</b>	<b>1,357</b>
YoY gr. (%)	12.2	59.4	27.8	8.5
Margin (%)	12.8	16.3	18.9	19.0
Depreciation and Amortization	421	436	449	452
<b>EBIT</b>	<b>193</b>	<b>542</b>	<b>802</b>	<b>904</b>
Margin (%)	4.0	9.0	12.1	12.7
Net Interest	274	143	137	137
Other Income	143	250	150	150
<b>Profit Before Tax</b>	<b>51</b>	<b>805</b>	<b>815</b>	<b>917</b>
Margin (%)	1.1	13.4	12.3	12.9
Total Tax	(35)	203	205	231
Effective tax rate (%)	(68.3)	25.2	25.2	25.2
<b>Profit after tax</b>	<b>86</b>	<b>602</b>	<b>609</b>	<b>686</b>
Minority interest	(30)	-	-	-
Share Profit from Associate	(5)	(5)	(5)	(5)
<b>Adjusted PAT</b>	<b>123</b>	<b>341</b>	<b>604</b>	<b>681</b>
YoY gr. (%)	(319.8)	178.2	77.2	12.7
Margin (%)	2.5	5.7	9.2	9.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>117</b>	<b>597</b>	<b>604</b>	<b>681</b>
YoY gr. (%)	(385.8)	409.0	1.2	12.7
Margin (%)	2.4	9.9	9.2	9.6
Other Comprehensive Income	7	-	-	-
Total Comprehensive Income	87	597	604	681
<b>Equity Shares O/s (m)</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>35</b>
<b>EPS (Rs)</b>	<b>3.5</b>	<b>9.7</b>	<b>17.2</b>	<b>19.4</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>3,345</b>	<b>3,745</b>	<b>4,145</b>	<b>4,545</b>
Tangibles	1,304	1,504	1,704	1,904
Intangibles	2,041	2,241	2,441	2,641
<b>Acc: Dep / Amortization</b>	<b>1,417</b>	<b>1,853</b>	<b>2,302</b>	<b>2,755</b>
Tangibles	510	732	956	1,165
Intangibles	907	1,122	1,347	1,589
<b>Net fixed assets</b>	<b>2,308</b>	<b>2,272</b>	<b>2,223</b>	<b>2,171</b>
Tangibles	1,174	1,153	1,129	1,119
Intangibles	1,134	1,119	1,094	1,051
Capital Work In Progress	13	13	13	13
Goodwill	3,381	3,381	3,381	3,381
Non-Current Investments	135	135	135	135
Net Deferred tax assets	845	887	931	978
Other Non-Current Assets	65	65	65	65
<b>Current Assets</b>				
Investments	153	153	153	153
Inventories	1,276	956	1,049	1,132
Trade receivables	2,921	3,628	3,978	4,293
Cash & Bank Balance	675	835	1,189	1,656
Other Current Assets	113	118	124	131
<b>Total Assets</b>	<b>11,933</b>	<b>12,493</b>	<b>13,293</b>	<b>14,161</b>
<b>Equity</b>				
Equity Share Capital	175	175	175	175
Other Equity	8,139	8,736	9,340	10,021
<b>Total Networkth</b>	<b>8,314</b>	<b>8,912</b>	<b>9,516</b>	<b>10,196</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	819	643	643	643
Provisions	-	-	-	-
Other non current liabilities	66	66	66	66
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,002	750	750	750
Trade payables	1,215	1,567	1,718	1,854
Other current liabilities	358	397	442	492
<b>Total Equity &amp; Liabilities</b>	<b>11,933</b>	<b>12,493</b>	<b>13,293</b>	<b>14,161</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	46	805	815	917
Add. Depreciation	421	436	449	452
Add. Interest	274	143	137	137
Less Financial Other Income	143	250	150	150
Add. Other	110	(53)	(56)	(58)
Op. profit before WC changes	850	1,331	1,345	1,449
Net Changes-WC	333	2	(248)	(213)
Direct tax	(117)	(203)	(205)	(231)
<b>Net cash from Op. activities</b>	<b>1,066</b>	<b>1,130</b>	<b>891</b>	<b>1,005</b>
Capital expenditures	(132)	(200)	(200)	(200)
Interest / Dividend Income	-	-	-	-
Others	104	(200)	(200)	(200)
<b>Net Cash from Inv. activities</b>	<b>(28)</b>	<b>(400)</b>	<b>(400)</b>	<b>(400)</b>
Issue of share cap. / premium	5	-	-	-
Debt changes	(459)	(428)	-	-
Dividend paid	-	-	-	-
Interest paid	(238)	(143)	(137)	(137)
Others	(156)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(848)</b>	<b>(571)</b>	<b>(137)</b>	<b>(137)</b>
<b>Net change in cash</b>	<b>190</b>	<b>160</b>	<b>354</b>	<b>467</b>
Free Cash Flow	906	930	691	805

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Revenue</b>	<b>513</b>	<b>3,419</b>	<b>1,073</b>	<b>473</b>
YoY gr. (%)	48.5	20.9	199.4	(8.8)
Raw Material Expenses	244	1,174	350	181
Gross Profit	270	2,245	723	292
Margin (%)	52.5	65.7	67.4	61.8
<b>EBITDA</b>	<b>(340)</b>	<b>1,423</b>	<b>119</b>	<b>(294)</b>
YoY gr. (%)	NA	14.4	NA	NA
Margin (%)	NA	41.6	11.1	(62.3)
Depreciation / Depletion	103	115	110	109
<b>EBIT</b>	<b>(442)</b>	<b>1,308</b>	<b>10</b>	<b>(403)</b>
Margin (%)	NA	38.2	0.9	NA
Net Interest	65	72	41	41
Other Income	6	48	143	2
<b>Profit before Tax</b>	<b>(501)</b>	<b>1,271</b>	<b>112</b>	<b>(286)</b>
Margin (%)	NA	37.2	10.4	NA
Total Tax	(58)	21	48	(88)
Effective tax rate (%)	11.6	1.6	43.2	30.6
<b>Profit after Tax</b>	<b>(443)</b>	<b>1,251</b>	<b>63</b>	<b>(199)</b>
Minority interest	5	(15)	(7)	(21)
Share Profit from Associates	(5)	2	(1)	-
<b>Adjusted PAT</b>	<b>(452)</b>	<b>1,280</b>	<b>(29)</b>	<b>(333)</b>
YoY gr. (%)	NA	32.7	NA	NA
Margin (%)	NA	37.5	NA	NA
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(451)</b>	<b>1,272</b>	<b>71</b>	<b>(180)</b>
YoY gr. (%)	NA	32.0	NA	NA
Margin (%)	NA	37.2	6.6	NA
Other Comprehensive Income	1	4	2	(3)
<b>Total Comprehensive Income</b>	<b>(446)</b>	<b>1,257</b>	<b>64</b>	<b>(201)</b>
Avg. Shares O/s (m)	35	35	35	35
<b>EPS (Rs)</b>	<b>(12.9)</b>	<b>36.5</b>	<b>(0.8)</b>	<b>(9.5)</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	3.5	9.7	17.2	19.4
CEPS	15.5	22.2	30.0	32.3
BVPS	237.3	254.3	271.5	291.0
FCF	25.9	26.6	19.7	23.0
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	1.6	4.4	6.2	6.6
ROIC	2.9	3.6	5.2	5.7
RoE	1.5	4.0	6.6	6.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.1	0.0	0.0	0.0
Net Working Capital (Days)	129	125	125	125
<b>Valuation(x)</b>				
PER	46.9	16.9	9.5	8.4
P/B	0.7	0.6	0.6	0.6
P/CEPS	10.6	7.4	5.5	5.1
EV/EBITDA	11.0	6.3	4.6	3.9
EV/Sales	1.4	1.0	0.9	0.7
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

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


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	234	187
2	10-Aug-22	BUY	185	137
3	07-Jul-22	BUY	156	115
4	25-May-22	BUY	156	102
5	08-Apr-22	BUY	159	114
6	07-Feb-22	BUY	159	119
7	10-Jan-22	BUY	147	108

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Entertainment Network (India)	Hold	189	163
2	Indian Railway Catering and Tourism Corporation	Hold	635	731
3	Inox Leisure	BUY	652	515
4	Music Broadcast	Hold	23	24
5	Navneet Education	BUY	163	127
6	Nazara Technologies	BUY	1,012	670
7	PVR	BUY	2,119	1,689
8	S Chand and Company	BUY	234	187
9	Safari Industries (India)	BUY	2,457	1,811
10	V.I.P. Industries	BUY	1,009	710
11	Zee Entertainment Enterprises	BUY	308	266

**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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### **Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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