

August 14, 2023

Q1FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	260		257	
Sales (Rs. m)	7,010	7,783	7,010	7,783
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,273	1,461	1,273	1,461
% Chng.	-	-	-	-
EPS (Rs.)	17.9	21.6	17.6	21.3
% Chng.	1.5	1.3	-	-

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	4,809	6,103	7,010	7,783
EBITDA (Rs. m)	614	963	1,273	1,461
Margin (%)	12.8	15.8	18.2	18.8
PAT (Rs. m)	123	328	628	759
EPS (Rs.)	3.5	9.3	17.9	21.6
Gr. (%)	(319.4)	166.8	91.6	20.8
DPS (Rs.)	-	3.0	3.0	3.0
Yield (%)	-	1.5	1.5	1.5
RoE (%)	1.5	3.8	6.8	7.7
RoCE (%)	1.6	4.1	6.3	7.2
EV/Sales (x)	1.6	1.2	1.0	0.8
EV/EBITDA (x)	12.9	7.6	5.4	4.3
PE (x)	56.6	21.2	11.1	9.2
P/BV (x)	0.8	0.8	0.7	0.7

Key Data

SCHA.NS | SCHAND IN

52-W High / Low	Rs.235 / Rs.140
Sensex / Nifty	65,402 / 19,435
Market Cap	Rs.7bn/ \$ 84m
Shares Outstanding	35m
3M Avg. Daily Value	Rs.34.13m

Shareholding Pattern (%)

Promoter's	47.06
Foreign	1.39
Domestic Institution	3.71
Public & Others	47.85
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.5)	10.1	40.2
Relative	(2.5)	2.7	27.5

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S Chand and Company (SCHAND IN)

Rating: BUY | CMP: Rs198 | TP: Rs260

GM springs a positive surprise

Quick Pointers:

- Board approval taken for an investment upto Rs200mn to explore an inorganic opportunity in education domain.
- GM jumps sharply to 68.8% amid better print runs and low wastage.

S Chand & Company (S Chand) reported strong operational performance due to better than expected GM of 68.8% (PLe 61.0%) resulting from better print runs and low wastage. Consequently, bottom-line was in black for the first time ever in 1Q (base quarter PAT was Rs62mn amid a onetime gain of Rs98mn on revaluation of Smartivity Labs; adjusting for it losses were Rs36mn). For FY24E, management is guiding for a top-line of Rs7,200-7,500mn with EBITDA margin of 16-18% backed by price hike, RM stabilization and increased volumes that would come from NCF roll-out. We keep our FY24E/FY25E EPS estimates broadly intact and expect sales/EBITDA CAGR of 13%/23% over FY23-FY25E. S Chand has a net cash BS and trades at attractive valuations of 11x/9x our FY24E/FY25E EPS with an expected FCF yield of 14% in FY25E. We maintain BUY on the stock with a revised TP of Rs260 (12x FY25E EPS). Volatile RM prices and delay in NCF roll-out can act as a key risk to our call.

Top-line increased 3.5% YoY with Gross/EBITDA margin of 68.8%/12.2%: S Chand reported highest-ever 1Q revenue at Rs1,111mn (PLe of Rs1,052mn), up 3.5% YoY. Gross profit increased 5.8% YoY to Rs765mn (PLe of Rs641mn) with a GM of 68.8% (PLe 61.0%) due to better production planning and lower wastage. EBITDA grew by 13.5% YoY and stood at Rs135mn (PLe EBITDA Loss of Rs63mn) as against an EBITDA of Rs119mn in 1QFY23. PAT declined 83% YoY driven by lower other income and stood at Rs11mn in 1QFY24 (PLe Loss of Rs133mn). However, in the base quarter there was a revaluation gain of Rs98mn on Smartivity Labs. Adjusting for it, loss in 1QFY23 stood at Rs36mn versus a PAT of Rs11mn in 1QFY24.

Best 1Q WC metrics: NWC was down 19 days on YoY basis to 143 days in 1QFY24, led by improvement in receivable cycle to 103 days (139 days in Q1FY23). Further, S Chand turned net debt free and had a net cash balance of Rs546mn at the end of the quarter.

Con call highlights: 1) For FY24E, price hike is likely to be in the band of 6-7%. 2) Paper prices were down 8-10% YoY, and 60% of the 18-20k tons of annual paper requirement has already been contracted from Indonesia. 3) Import to domestic RM mix is 60:40. 4) Sales return is expected to decline from 15.8% in FY23 to 14-14.5% in FY24E. 5) 500 new SKUs are to be launched in FY24E with upgraded/new/revised content forming 50%/25%/25% of the total SKUs respectively. 6) S Chand is exploring an inorganic opportunity and has ear-marked a sum of Rs200mn odd. 7) Out of Rs1,065mn FG inventory on BS, roughly Rs300mn worth of stock is lying with channel partners.

Exhibit 1: Q1FY24 Result Overview (Rs mn)

Y/e March	1QFY24	1QFY23	YoY gr (%)	4QFY23	QoQ gr (%)
Net Sales	1,111	1,073	3.5	3,905	(71.6)
Expenditure					
Raw Materials	346	350	(1.1)	1,469	(76.4)
<i>% of Net sales</i>	<i>31.2</i>	<i>32.6</i>		<i>37.6</i>	
Personnel	334	296	12.9	417	(20.1)
<i>% of Net sales</i>	<i>30.0</i>	<i>27.5</i>		<i>10.7</i>	
Selling , dist & Other Exp	295	308	(4.1)	552	(46.5)
<i>% of Net sales</i>	<i>26.6</i>	<i>28.7</i>		<i>14.1</i>	
Total Expenditure	975	954	2.3	2,439	(60.0)
EBITDA	135	119	13.5	1,466	(90.8)
<i>Margin (%)</i>	<i>12.2</i>	<i>11.1</i>		<i>37.6</i>	
Depreciation	108	110	(1.1)	135	(19.8)
EBIT	27	10	178.6	1,331	(98.0)
Interest	28	41	(30.7)	68	(58.4)
Other Income	28	143	(80.5)	81	(65.4)
Share of P/L in associates	-	(1)	NM	-	NM
Exceptional items	-	-	NM	-	NM
PBT	27	111	(76.0)	1,344	(98.0)
Tax	16	48	(67.3)	326	(95.2)
<i>Tax Rate (%)</i>	<i>59.4</i>	<i>43.7</i>		<i>24.3</i>	
Reported PAT	11	62	(82.7)	1,017	(98.9)
Minority interest	(15)	(7)	NM	(13)	NM
OCI	3	2	60.2	(21)	NM
Total comprehensive income	13	64	(79.0)	996	(98.6)
Reported EPS	0.7	1.8	(58.4)	29.0	(97.5)

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
CY22	Announcement of (NCF) for K-2 in Oct,22.
CY23E	Look forward to more NCF announcements for remaining classes during CY23.Development of books based on the new curriculum
FY24-FY26	Complete impact of NCF to percolate into financials

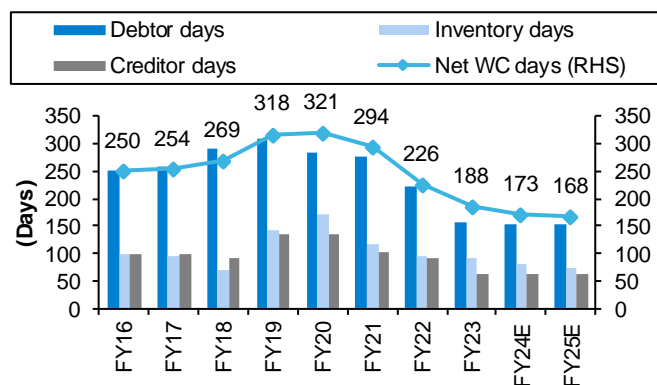
Source: Company, PL

Exhibit 3: OCF/EBITDA to be at 0.8x in FY25E

Particulars (Rsmn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OCF/EBITDA (x)	0.2	0.2	NM	NM	2.0	1.7	0.8	0.9	0.8
OCF	324	389	386	484	1,076	1,066	811	1,146	1,220
EBITDA	1,658	1,927	(312)	(220)	547	614	963	1,273	1,461

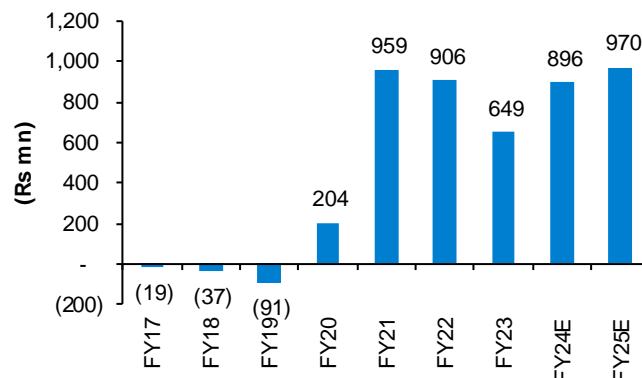
Source: Company, PL

Exhibit 4: NWC of S Chand to be at 168 days in FY25E



Source: Company, PL

Exhibit 5: FCFF to be at Rs970mn in FY25E



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	4,809	6,103	7,010	7,783
YoY gr. (%)	13.1	26.9	14.9	11.0
Cost of Goods Sold	1,729	2,207	2,463	2,710
Gross Profit	3,081	3,896	4,547	5,072
Margin (%)	64.1	63.8	64.9	65.2
Employee Cost	1,173	1,364	1,521	1,689
Other Expenses	1,294	1,569	1,753	1,922
EBITDA	614	963	1,273	1,461
YoY gr. (%)	12.2	56.9	32.3	14.7
Margin (%)	12.8	15.8	18.2	18.8
Depreciation and Amortization	421	464	487	500
EBIT	193	499	787	962
Margin (%)	4.0	8.2	11.2	12.4
Net Interest	274	207	127	127
Other Income	143	329	180	180
Profit Before Tax	51	778	840	1,015
Margin (%)	1.1	12.7	12.0	13.0
Total Tax	(35)	201	212	256
Effective tax rate (%)	(68.3)	25.8	25.2	25.2
Profit after tax	86	577	628	759
Minority interest	(30)	(83)	-	-
Share Profit from Associate	(5)	(1)	-	-
Adjusted PAT	123	328	628	759
YoY gr. (%)	(319.8)	167.6	91.6	20.8
Margin (%)	2.5	5.4	9.0	9.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	117	638	628	759
YoY gr. (%)	(385.8)	443.8	(1.5)	20.8
Margin (%)	2.4	10.5	9.0	9.8
Other Comprehensive Income	7	(21)	-	-
Total Comprehensive Income	87	555	628	759
Equity Shares O/s (m)	35	35	35	35
EPS (Rs)	3.5	9.3	17.9	21.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	3,345	3,596	4,046	4,496
Tangibles	1,304	1,574	1,824	2,074
Intangibles	2,041	2,022	2,222	2,422
Acc: Dep / Amortization	1,417	1,881	2,368	2,867
Tangibles	510	764	1,029	1,298
Intangibles	907	1,116	1,339	1,569
Net fixed assets	2,308	2,101	2,064	2,014
Tangibles	1,174	1,195	1,181	1,161
Intangibles	1,134	906	883	853
Capital Work In Progress	13	20	20	20
Goodwill	3,381	3,357	3,357	3,357
Non-Current Investments	135	236	236	236
Net Deferred tax assets	845	914	868	825
Other Non-Current Assets	65	46	46	46
Current Assets				
Investments	153	345	345	345
Inventories	1,276	1,562	1,536	1,599
Trade receivables	2,921	2,653	2,977	3,305
Cash & Bank Balance	675	807	1,271	1,810
Other Current Assets	113	119	125	131
Total Assets	11,933	12,201	12,889	13,734
Equity				
Equity Share Capital	175	176	176	176
Other Equity	8,139	8,780	9,304	9,958
Total Networth	8,314	8,956	9,480	10,134
Non-Current Liabilities				
Long Term borrowings	819	422	422	422
Provisions	-	-	-	-
Other non current liabilities	66	94	94	94
Current Liabilities				
ST Debt / Current of LT Debt	1,002	1,093	1,093	1,093
Trade payables	1,215	1,078	1,191	1,322
Other current liabilities	358	473	526	585
Total Equity & Liabilities	11,933	12,201	12,890	13,734

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	46	777	840	1,015
Add. Depreciation	421	464	487	500
Add. Interest	274	207	127	127
Less Financial Other Income	143	329	180	180
Add. Other	110	(342)	40	37
Op. profit before WC changes	850	1,105	1,493	1,678
Net Changes-WC	333	(112)	(135)	(202)
Direct tax	(117)	(183)	(212)	(256)
Net cash from Op. activities	1,066	811	1,146	1,220
Capital expenditures	(132)	(158)	(250)	(250)
Interest / Dividend Income	-	-	-	-
Others	104	114	(200)	(200)
Net Cash from Invt. activities	(28)	(44)	(450)	(450)
Issue of share cap. / premium	5	9	-	-
Debt changes	(459)	(304)	-	-
Dividend paid	-	-	(105)	(105)
Interest paid	(238)	(182)	(127)	(127)
Others	(156)	(131)	-	-
Net cash from Fin. activities	(848)	(607)	(232)	(232)
Net change in cash	190	160	464	538
Free Cash Flow	906	649	896	970

Source: Company Data, PL Research

Key Financial Metrics

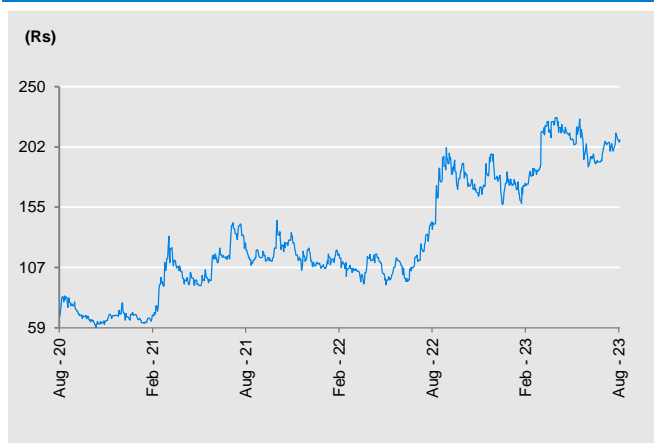
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	3.5	9.3	17.9	21.6
CEPS	15.5	22.5	31.7	35.8
BVPS	237.3	254.8	269.6	288.2
FCF	25.9	18.5	25.5	27.6
DPS	-	3.0	3.0	3.0
Return Ratio(%)				
RoCE	1.6	4.1	6.3	7.2
ROIC	2.9	3.4	5.4	6.4
RoE	1.5	3.8	6.8	7.7
Balance Sheet				
Net Debt : Equity (x)	0.1	0.0	0.0	(0.1)
Net Working Capital (Days)	129	94	93	93
Valuation(x)				
PER	56.6	21.2	11.1	9.2
P/B	0.8	0.8	0.7	0.7
P/CEPS	12.8	8.8	6.2	5.5
EV/EBITDA	12.9	7.6	5.4	4.3
EV/Sales	1.6	1.2	1.0	0.8
Dividend Yield (%)	-	1.5	1.5	1.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	473	652	3,905	1,111
YoY gr. (%)	(8.8)	27.1	14.2	3.5
Raw Material Expenses	181	207	1,469	346
Gross Profit	292	445	2,436	765
Margin (%)	61.8	68.3	62.4	68.8
EBITDA	(294)	(329)	1,466	135
YoY gr. (%)	11.5	(3.2)	3.1	13.5
Margin (%)	(62.3)	(50.4)	37.6	12.2
Depreciation / Depletion	109	110	135	108
EBIT	(403)	(438)	1,331	27
Margin (%)	(85.3)	(67.2)	34.1	2.4
Net Interest	41	56	68	28
Other Income	2	104	81	28
Profit before Tax	(286)	(391)	1,344	27
Margin (%)	(60.5)	(60.0)	34.4	2.4
Total Tax	(88)	(86)	326	16
Effective tax rate (%)	30.6	22.1	24.3	59.4
Profit after Tax	(199)	(305)	1,017	11
Minority interest	(21)	(43)	(13)	(15)
Share Profit from Associates	-	-	-	-
Adjusted PAT	(333)	(262)	1,030	26
YoY gr. (%)	(17.5)	(42.1)	(19.6)	(191.5)
Margin (%)	(70.5)	(40.1)	26.4	2.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(180)	(261)	1,009	29
YoY gr. (%)	(55.6)	(42.2)	(20.7)	(59.6)
Margin (%)	(38.0)	(40.0)	25.8	2.6
Other Comprehensive Income	(3)	1	(21)	3
Total Comprehensive Income	(201)	(304)	996	13
Avg. Shares O/s (m)	35	35	35	35
EPS (Rs)	(9.5)	(7.5)	29.4	0.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jul-23	BUY	257	191
2	31-May-23	BUY	257	192
3	11-Apr-23	BUY	228	219
4	10-Apr-23	BUY	228	228
5	13-Feb-23	BUY	228	175
6	06-Jan-23	BUY	220	173
7	14-Nov-22	BUY	220	164
8	06-Oct-22	BUY	234	187

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	562	489
2	Entertainment Network (India)	Hold	180	126
3	Indian Railway Catering and Tourism Corporation	Hold	700	646
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	BUY	2,855	2,565
6	Music Broadcast	Hold	18	11
7	Navneet Education	BUY	192	144
8	Nazara Technologies	BUY	834	694
9	PVR Inox	BUY	1,797	1,565
10	S Chand and Company	BUY	257	191
11	Safari Industries (India)	BUY	3,728	3,195
12	V.I.P. Industries	Accumulate	707	598
13	Zee Entertainment Enterprises	BUY	276	242

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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