

August 28, 2023

## Event Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	338		260	
Sales (Rs. m)	7,195	8,594	7,010	7,783
% Chng.	2.6	10.4		
EBITDA (Rs. m)	1,302	1,685	1,273	1,461
% Chng.	2.3	15.3		
EPS (Rs.)	18.1	26.1	17.9	21.6
% Chng.	1.0	20.8		

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	6,103	7,195	8,594	9,781
EBITDA (Rs. m)	963	1,302	1,685	1,919
Margin (%)	15.8	18.1	19.6	19.6
PAT (Rs. m)	328	635	917	1,056
EPS (Rs.)	9.3	18.1	26.1	30.0
Gr. (%)	166.8	93.6	44.5	15.2
DPS (Rs.)	3.0	3.0	3.0	3.0
Yield (%)	1.2	1.2	1.2	1.2
RoE (%)	3.8	6.9	9.3	9.8
RoCE (%)	4.1	6.5	8.7	9.3
EV/Sales (x)	1.5	1.2	1.0	0.8
EV/EBITDA (x)	9.5	6.7	5.0	4.1
PE (x)	26.7	13.8	9.6	8.3
P/BV (x)	1.0	0.9	0.9	0.8

### Key Data

SCHA.NS | SCHAND IN

52-W High / Low	Rs.257 / Rs.152
Sensex / Nifty	64,997 / 19,306
Market Cap	Rs.9bn/ \$ 106m
Shares Outstanding	35m
3M Avg. Daily Value	Rs.44.86m

### 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	24.1	38.1	42.7
Relative	26.3	25.3	29.2

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# S Chand and Company (SCHAND IN)

Rating: BUY | CMP: Rs249 | TP: Rs338

## Secular growth story begins

### Quick Pointers:

- NCF implementation likely to result in significant volume growth, as 2<sup>nd</sup> hand book market would turn redundant and new SKUs will be launched.

**We increase our FY25E EPS estimates by 21% as NCF implementation would make second hand books market redundant and result-in significant volume delta. Further, given the overhaul in curriculum, we expect new SKUs to get launched providing additional volume kicker. Substantial yield advantage is also expected, as repricing at higher level becomes easier post curriculum revamp.**

**We introduce FY26E projections, as we expect adoption of new curriculum to gather pace in a phased manner. We expect sales/EBITDA CAGR of 17%/26% over FY23-FY26E, as policy change is likely to result in secular growth for next 2-3 years. S Chand has a net cash BS and trades at attractive valuations of 9.5x/8.2x on our FY25E/FY26E EPS. We maintain 'BUY' with a revised TP of Rs338 (earlier Rs260), as we roll forward to Sep-25E (target P/E multiple intact at 12x).**

**NCF revision benefits to accrue over next 2-3 years:** Last NCF revision happened in 2005 and back then new syllabus was rolled out over a period of 3 years. We believe new NCF adoption this time will also be staggered (like last time). Revised NCF for K-2 was already announced in October-22 and the final draft for school education was released on 23<sup>rd</sup> August 2023. With final draft being released, we expect phased NCF implementation over next 2-3 years' period resulting in strong top-line growth for S Chand.

**Second hand books to become redundant post NCF implementation:** Post formal induction of NCF, entire curriculum will get re-designed and new books will be published rendering the second hand books market completely redundant. In addition, new SKUs will also get launched further aiding volume growth. Pricing benefit will also accrue amid flurry of new launches and absence of any previous benchmark. In light of these factors, we have increased our FY25E sales estimate by 10% and expect top-line CAGR of 17% over FY23-FY26E.

**~86% of S Chand's topline is subject to NCF delta:** K-12 revenue (excluding higher education and digital business) formed ~86% of S Chand's top-line in FY23. The K-2 segment forms ~15-20% of school education sales, while remaining 3 segments K3-K5, K6-K8 and K9-K12 constitute ~20-30% each.

**Net debt free with OCF of Rs1bn+ over next 3 years:** Subsequent to improvement in working capital cycle (reduced from 318 days in FY19 to 188 days in FY23) S Chand has turned net debt free (Rs546mn of net cash as of June 2023). We expect working capital cycle to improve from 188 days in FY23 to 170 days in FY26E, led by better inventory management. Improved working capital management is likely to result in operating cash flow of ~Rs1bn/Rs1bn/Rs1.3bn in FY24E/FY25E/FY26E respectively.

**Exhibit 1: Key timelines of National Education Policy (NEP) implementation**

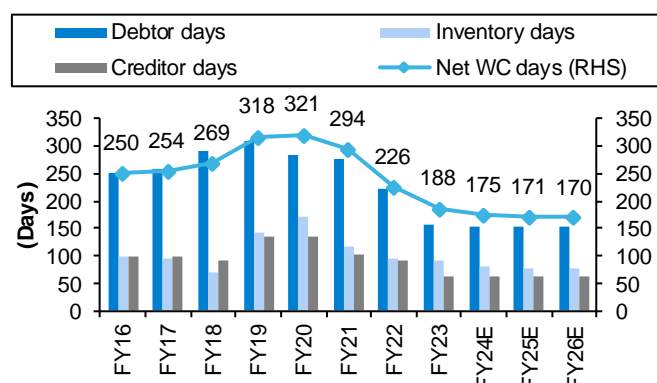
Dates	Event
May-19	Announcement of draft NEP
Jul-20	Adoption of NEP
CY22	Announcement of (NCF) for K-2 in Oct,22.
CY23E	NCF for school education announced. Development of books based on the new curriculum.
FY24-FY26	Complete impact of NCF to percolate into financials

Source: Company, PL

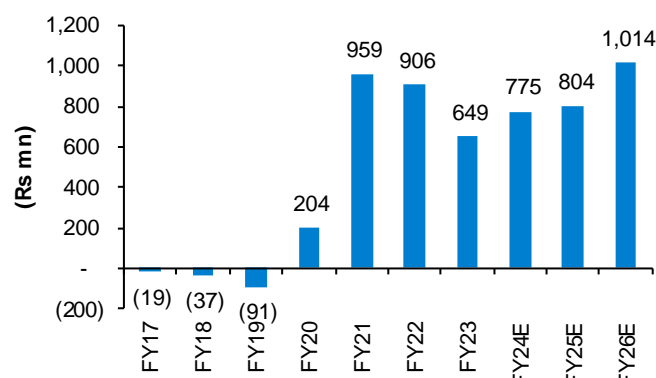
**Exhibit 2: OCF/EBITDA to be at 0.7x in FY26E**

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OCF/EBITDA (x)	0.2	NM	NM	2.0	1.7	0.8	0.8	0.6	0.7
OCF	389	386	484	1,076	1,066	811	1,025	1,074	1,314
EBITDA	1,927	(312)	(220)	547	614	963	1,302	1,685	1,919

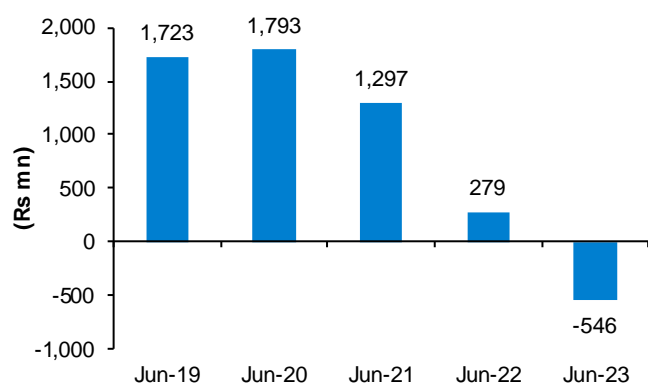
Source: Company, PL

**Exhibit 3: NWC of S Chand to be at 170 days in FY26E**


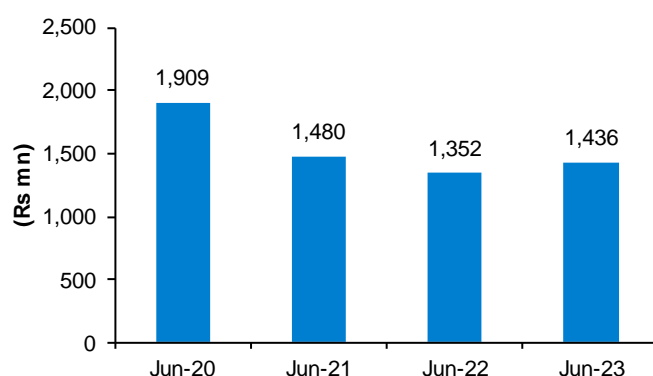
Source: Company, PL

**Exhibit 4: FCFF to be at Rs1,014mn in FY26E**


Source: Company, PL

**Exhibit 5: Schand had a net cash balance of Rs546mn at the end of Q1FY24**


Source: Company, PL

**Exhibit 6: Schand's total inventory for Q1FY24 stood at Rs1,436mn**


Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>6,103</b>	<b>7,195</b>	<b>8,594</b>	<b>9,781</b>
YoY gr. (%)	26.9	17.9	19.4	13.8
Cost of Goods Sold	2,207	2,519	2,964	3,373
Gross Profit	3,896	4,677	5,630	6,409
Margin (%)	63.8	65.0	65.5	65.5
Employee Cost	1,364	1,561	1,779	2,025
Other Expenses	1,569	1,813	2,166	2,465
<b>EBITDA</b>	<b>963</b>	<b>1,302</b>	<b>1,685</b>	<b>1,919</b>
YoY gr. (%)	56.9	35.3	29.4	13.9
Margin (%)	15.8	18.1	19.6	19.6
Depreciation and Amortization	464	487	513	560
<b>EBIT</b>	<b>499</b>	<b>815</b>	<b>1,173</b>	<b>1,359</b>
Margin (%)	8.2	11.3	13.6	13.9
Net Interest	207	127	127	127
Other Income	329	160	180	180
<b>Profit Before Tax</b>	<b>778</b>	<b>849</b>	<b>1,226</b>	<b>1,412</b>
Margin (%)	12.7	11.8	14.3	14.4
Total Tax	201	214	309	356
Effective tax rate (%)	25.8	25.2	25.2	25.2
<b>Profit after tax</b>	<b>577</b>	<b>635</b>	<b>917</b>	<b>1,056</b>
Minority interest	(83)	-	-	-
Share Profit from Associate	(1)	-	-	-
<b>Adjusted PAT</b>	<b>328</b>	<b>635</b>	<b>917</b>	<b>1,056</b>
YoY gr. (%)	167.6	93.6	44.5	15.2
Margin (%)	5.4	8.8	10.7	10.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>638</b>	<b>635</b>	<b>917</b>	<b>1,056</b>
YoY gr. (%)	443.8	(0.5)	44.5	15.2
Margin (%)	10.5	8.8	10.7	10.8
Other Comprehensive Income	(21)	-	-	-
Total Comprehensive Income	555	635	917	1,056
<b>Equity Shares O/s (m)</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>35</b>
<b>EPS (Rs)</b>	<b>9.3</b>	<b>18.1</b>	<b>26.1</b>	<b>30.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>3,596</b>	<b>4,046</b>	<b>4,516</b>	<b>5,016</b>
Tangibles	1,574	1,824	2,094	2,394
Intangibles	2,022	2,222	2,422	2,622
<b>Acc: Dep / Amortization</b>	<b>1,881</b>	<b>2,368</b>	<b>2,880</b>	<b>3,441</b>
Tangibles	764	1,029	1,311	1,623
Intangibles	1,116	1,339	1,569	1,818
<b>Net fixed assets</b>	<b>2,101</b>	<b>2,064</b>	<b>2,021</b>	<b>1,961</b>
Tangibles	1,195	1,181	1,168	1,157
Intangibles	906	883	853	804
Capital Work In Progress	20	20	20	20
Goodwill	3,357	3,357	3,357	3,357
Non-Current Investments	236	236	236	236
Net Deferred tax assets	914	868	825	784
Other Non-Current Assets	46	46	46	46
<b>Current Assets</b>				
Investments	345	345	345	345
Inventories	1,562	1,616	1,837	2,063
Trade receivables	2,653	3,056	3,650	4,154
Cash & Bank Balance	807	1,151	1,523	2,105
Other Current Assets	119	125	131	138
<b>Total Assets</b>	<b>12,201</b>	<b>12,927</b>	<b>14,037</b>	<b>15,257</b>
<b>Equity</b>				
Equity Share Capital	176	176	176	176
Other Equity	8,780	9,310	10,122	11,074
<b>Total Network</b>	<b>8,956</b>	<b>9,486</b>	<b>10,298</b>	<b>11,249</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	422	422	422	422
Provisions	-	-	-	-
Other non current liabilities	94	94	94	94
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,093	1,093	1,093	1,093
Trade payables	1,078	1,222	1,460	1,662
Other current liabilities	473	526	585	653
<b>Total Equity &amp; Liabilities</b>	<b>12,201</b>	<b>12,928</b>	<b>14,037</b>	<b>15,257</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	777	849	1,226	1,412
Add. Depreciation	464	487	513	560
Add. Interest	207	127	127	127
Less Financial Other Income	329	160	180	180
Add. Other	(342)	40	37	35
Op. profit before WC changes	1,105	1,502	1,903	2,134
Net Changes-WC	(112)	(263)	(519)	(464)
Direct tax	(183)	(214)	(309)	(356)
<b>Net cash from Op. activities</b>	<b>811</b>	<b>1,025</b>	<b>1,074</b>	<b>1,314</b>
Capital expenditures	(158)	(250)	(270)	(300)
Interest / Dividend Income	-	-	-	-
Others	114	(200)	(200)	(200)
<b>Net Cash from Invt. activities</b>	<b>(44)</b>	<b>(450)</b>	<b>(470)</b>	<b>(500)</b>
Issue of share cap. / premium	9	-	-	-
Debt changes	(304)	-	-	-
Dividend paid	-	(105)	(105)	(105)
Interest paid	(182)	(127)	(127)	(127)
Others	(131)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(607)</b>	<b>(232)</b>	<b>(232)</b>	<b>(232)</b>
<b>Net change in cash</b>	<b>160</b>	<b>344</b>	<b>373</b>	<b>582</b>
Free Cash Flow	649	775	804	1,014

Source: Company Data, PL Research

## Key Financial Metrics

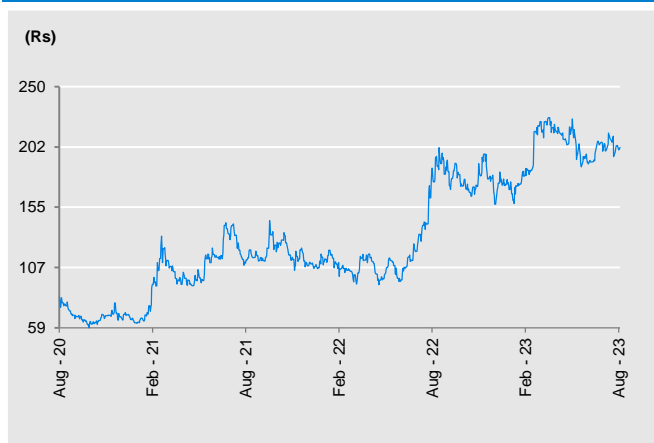
Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	9.3	18.1	26.1	30.0
CEPS	22.5	31.9	40.7	46.0
BVPS	254.8	269.8	292.9	320.0
FCF	18.5	22.1	22.9	28.8
DPS	3.0	3.0	3.0	3.0
<b>Return Ratio(%)</b>				
RoCE	4.1	6.5	8.7	9.3
ROIC	3.4	5.5	7.6	8.3
RoE	3.8	6.9	9.3	9.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	-	0.0	(0.1)
Net Working Capital (Days)	94	93	93	93
<b>Valuation(x)</b>				
PER	26.7	13.8	9.6	8.3
P/B	1.0	0.9	0.9	0.8
P/CEPS	11.1	7.8	6.1	5.4
EV/EBITDA	9.5	6.7	5.0	4.1
EV/Sales	1.5	1.2	1.0	0.8
Dividend Yield (%)	1.2	1.2	1.2	1.2

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Net Revenue</b>	<b>473</b>	<b>652</b>	<b>3,905</b>	<b>1,111</b>
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
<b>EBITDA</b>	<b>(294)</b>	<b>(329)</b>	<b>1,466</b>	<b>135</b>
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
<b>EBIT</b>	<b>(403)</b>	<b>(438)</b>	<b>1,331</b>	<b>27</b>
Margin (%)	(85.3)	(67.2)	34.1	2.4
Net Interest	41	56	68	28
Other Income	2	104	81	28
<b>Profit before Tax</b>	<b>(286)</b>	<b>(391)</b>	<b>1,344</b>	<b>27</b>
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
<b>Profit after Tax</b>	<b>(199)</b>	<b>(305)</b>	<b>1,017</b>	<b>11</b>
Minority interest	(21)	(43)	(13)	(15)
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>(333)</b>	<b>(262)</b>	<b>1,030</b>	<b>26</b>
YoY gr. (%)	(17.5)	(42.1)	(19.6)	(191.5)
Margin (%)	(70.5)	(40.1)	26.4	2.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(180)</b>	<b>(261)</b>	<b>1,009</b>	<b>29</b>
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
<b>Total Comprehensive Income</b>	<b>(201)</b>	<b>(304)</b>	<b>996</b>	<b>13</b>
Avg. Shares O/s (m)	35	35	35	35
<b>EPS (Rs)</b>	<b>(9.5)</b>	<b>(7.5)</b>	<b>29.4</b>	<b>0.7</b>

Source: Company Data, PL Research

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


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	14-Aug-23	BUY	260	198
2	05-Jul-23	BUY	257	191
3	31-May-23	BUY	257	192
4	11-Apr-23	BUY	228	219
5	10-Apr-23	BUY	228	228
6	13-Feb-23	BUY	228	175
7	06-Jan-23	BUY	220	173
8	14-Nov-22	BUY	220	164
9	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	260	198
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)**

<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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