

Rating: BUY | CMP: Rs121 | TP: Rs147

Eyeing COVID-free sales season

Quick Pointers:

- Management is eyeing sales of Rs5bn with EBITDA margin in the range of 15-20% in FY22.
- ~5-10% price hike to be implemented across product portfolio.

S Chand's 1Q performance was impacted by delay in the start of academic session amid emergence of 2nd wave. As most states are eyeing a staggered re-opening around August/Sep, some revenue spill-over is expected in subsequent quarters. If the upcoming sales season is not impacted by 3rd wave, revenue can be in the region of Rs5bn in FY22 aided by price hike of ~5-10%. After having managed a successful turnaround in FY21 (break-even achieved after reporting losses in FY19 & FY20), NCF implementation remains a key factor to monitor (announcement expected in FY23) as it would set the growth trajectory for next 2-3 years. We continue to maintain our positive stance on S Chand and retain BUY with a revised TP of Rs147 (Rs146 earlier) valuing the stock at 8.5x (no change) FY23EPS as 1) the upcoming COVID-free sales season would see the company back in black in FY22 after reporting losses in last 3 fiscals 2) strengthening BS (reduction in net debt to Rs1.3bn in 1QFY22 with an aim to be net debt free by 4QFY23) and 3) improved NWC metrics.

Top-line declines 49.8% YoY: Consolidated top-line declined 49.8% YoY to Rs358mn (PLe of Rs393mn) due to 2nd wave related lockdowns across India and extension of school vacations till June end. Furthermore, revenue in 1QFY21 had sales overflow from 4QFY20 (implementation of lockdown in March 2020) and hence YoY figure is not strictly comparable.

Reports losses at EBITDA & PAT level: EBITDA losses came in at Rs205mn (PLe loss of Rs299mn) as against a profit of Rs19mn in 1QFY21. PAT losses stood at Rs314mn (PLe of Rs333mn) versus a loss of Rs105mn in 1QFY21.

Digital business to contribute ~20-25% of sales in 3 years: LearnFlix, S Chand's digital offering, is witnessing strong growth. So far, it has managed 255,000 downloads with 21,100 paid subscribers. The plan is to add English and SST subjects & launch the product for classes 11th & 12th, by 2QFY22. In addition, LearnFlix Bangla is expected to be launched by 2QFY22 in partnership with Chhaya. The digital business is expected to contribute ~20-25% of revenues in next 3 years as e-learning gains traction.

Con call highlights: 1) Revenue spill-over expected in 2Q & 3Q due to gradual re-opening of schools in August & Sep 2) Targets to be net debt free by 4QFY23 3) NCF expected to be announced in FY23 4) Inventory levels targeted to be at Rs800mn- Rs1,000mn by end of FY22 5) Free usage of Ed-tech platform provided during COVID is likely to see a paid conversion rate of ~10-15% 6) Employee cost is down from Rs1.5bn in FY19 to Rs1bn in FY21. Further, reduction is ruled out.

August 14, 2021

Q1FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	147		146	
Sales (Rs. m)	5,009	6,321	5,009	6,321
% Chng.	-	-	-	-
EBITDA (Rs. m)	845	1,446	845	1,446
% Chng.	-	-	-	-
EPS (Rs.)	4.9	17.3	4.5	17.2
% Chng.	8.0	0.7	-	-

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	4,294	4,252	5,009	6,321
EBITDA (Rs. m)	(220)	547	845	1,446
Margin (%)	(5.1)	12.9	16.9	22.9
PAT (Rs. m)	(1,013)	(56)	171	606
EPS (Rs.)	(29.0)	(1.6)	4.9	17.3
Gr. (%)	NA	NA	NA	253.7
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	NA	NA	2.1	7.0
RoCE (%)	NA	1.0	3.4	7.6
EV/Sales (x)	1.4	1.3	1.1	0.9
EV/EBITDA (x)	NA	10.4	6.5	3.9
PE (x)	NA	NA	24.6	7.0
P/BV (x)	0.5	0.5	0.5	0.5

Key Data

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52-W High / Low	Rs.148 / Rs.58
Sensex / Nifty	55,437 / 16,529
Market Cap	Rs.4bn/ \$ 57m
Shares Outstanding	35m
3M Avg. Daily Value	Rs.58.04m

Shareholding Pattern (%)

Promoter's	47.39
Foreign	-
Domestic Institution	9.02
Public & Others	43.59
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.3	74.0	82.2
Relative	(3.5)	61.8	25.9

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Exhibit 1: Q1FY22 Result Overview (Rs mn)

Y/e March	Q1FY22	Q1FY21	YoY gr (%)	Q4FY21	QoQ gr. (%)
Net Sales	358	714	(49.8)	2,827	(87.3)
Expenditure					
Raw Materials	168	266	(36.7)	1,142	(85.3)
<i>% of Net sales</i>	<i>46.9</i>	<i>37.2</i>		<i>40.4</i>	
Personnel	268	219	22.4	271	(1.0)
<i>% of Net sales</i>	<i>74.9</i>	<i>30.7</i>		<i>9.6</i>	
Selling , dist & Other Exp	128	210	(39.4)	170	(25.0)
<i>% of Net sales</i>	<i>35.6</i>	<i>29.4</i>		<i>6.0</i>	
Total Expenditure	564	695	(18.9)	1,583	(64.4)
EBITDA	(205)	19	NM	1,243	NM
<i>Margin (%)</i>	<i>NM</i>	<i>2.7</i>		<i>44.0</i>	
Depreciation	103	96	7.4	129	(20.0)
EBIT	(308)	(76)	NM	1,115	NM
Interest	74	83	(10.9)	80	(7.7)
Other Income	36	68	(47.0)	97	(62.8)
Share of P/L in associates	(2)	(3)	NM	(5)	NM
Exceptional items	-	-		2	NM
PBT	(349)	(95)	NM	1,124	NM
Tax	(35)	10	NM	148	NM
<i>Tax Rate (%)</i>	<i>NM</i>	<i>NM</i>		<i>13.1</i>	
Reported PAT	(314)	(105)	NM	977	NM
Minority interest	(9)	(2)	NM	14	NM
OCI	3	6	(55.0)	2	66.7
Total comprehensive income	(311)	(99)	NM	978	NM
Reported EPS	(9.0)	(3.0)	NM	27.9	NM

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
CY2021/2022	Announcement of draft National Curriculum Framework (NCF) expected
CY2022	Development of books based on the new curriculum
FY23 onwards	Complete impact of NCF to percolate into financials

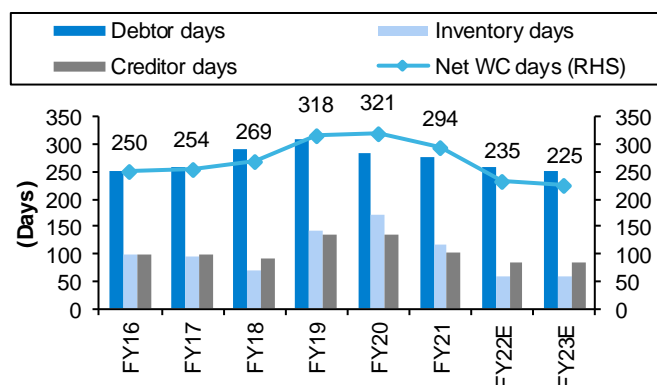
Source: Company, PL

Exhibit 3: OCF/EBITDA to bet at 0.4x in FY23E

Particulars (Rsmn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OCF/EBITDA (x)	0.2	0.2	NM	NM	2.0	1.1	0.4
OCF	324	389	386	484	1,076	948	585
EBITDA	1,658	1,927	(312)	(220)	547	845	1,446

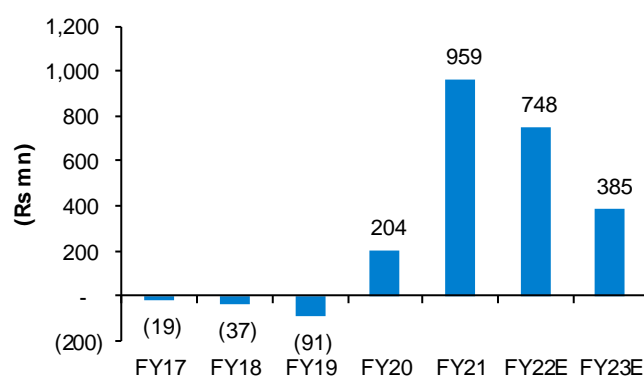
Source: Company, PL

Exhibit 4: NWC of S Chand to be at 225 days in FY23E



Source: Company, PL

Exhibit 5: FCFF yield to be at 9.2% in FY23E



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	4,294	4,252	5,009	6,321
YoY gr. (%)	(17.7)	(1.0)	17.8	26.2
Cost of Goods Sold	2,030	1,929	2,226	2,732
Gross Profit	2,264	2,323	2,783	3,588
Margin (%)	52.7	54.6	55.6	56.8
Employee Cost	1,260	993	1,087	1,182
Other Expenses	632	488	501	537
EBITDA	(220)	547	845	1,446
YoY gr. (%)	NA	NA	54.5	71.1
Margin (%)	NA	12.9	16.9	22.9
Depreciation and Amortization	408	416	427	456
EBIT	(628)	131	418	990
Margin (%)	NA	3.1	8.3	15.7
Net Interest	348	323	327	327
Other Income	94	201	130	150
Profit Before Tax	(881)	9	221	813
Margin (%)	NA	0.2	4.4	12.9
Total Tax	128	65	56	205
Effective tax rate (%)	(14.5)	730.4	25.2	25.2
Profit after tax	(1,009)	(56)	165	608
Minority interest	-	(7)	(9)	-
Share Profit from Associate	(4)	(7)	(2)	(2)
Adjusted PAT	(1,013)	(56)	171	606
YoY gr. (%)	NA	NA	NA	253.7
Margin (%)	NA	NA	3.4	9.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(1,013)	(56)	171	606
YoY gr. (%)	NA	NA	NA	253.7
Margin (%)	NA	NA	3.4	9.6
Other Comprehensive Income	(6)	17	-	-
Total Comprehensive Income	(1,019)	(39)	171	606
Equity Shares O/s (m)	35	35	35	35
EPS (Rs)	(29.0)	(1.6)	4.9	17.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	2,792	3,449	3,849	4,249
Tangibles	1,356	1,490	1,690	1,890
Intangibles	1,436	1,959	2,159	2,359
Acc: Dep / Amortization	915	1,331	1,758	2,213
Tangibles	397	620	840	1,067
Intangibles	518	710	918	1,147
Net fixed assets	2,500	2,599	2,572	2,516
Tangibles	1,583	1,350	1,330	1,303
Intangibles	918	1,249	1,241	1,213
Capital Work In Progress	26	25	25	25
Goodwill	3,383	3,381	3,381	3,381
Non-Current Investments	293	118	120	122
Net Deferred tax assets	541	674	843	969
Other Non-Current Assets	301	76	76	76
Current Assets				
Investments	167	258	258	258
Inventories	2,014	1,377	823	1,039
Trade receivables	3,349	3,221	3,568	4,329
Cash & Bank Balance	98	419	637	493
Other Current Assets	156	99	114	131
Total Assets	12,908	12,359	12,539	13,474
Equity				
Equity Share Capital	175	175	175	175
Other Equity	8,010	8,008	8,179	8,785
Total Network	8,185	8,183	8,354	8,960
Non-Current Liabilities				
Long Term borrowings	974	1,009	1,009	1,009
Provisions	-	-	-	-
Other non current liabilities	69	65	65	65
Current Liabilities				
ST Debt / Current of LT Debt	1,240	1,159	1,159	1,159
Trade payables	1,582	1,179	1,166	1,472
Other current liabilities	829	575	597	621
Total Equity & Liabilities	12,908	12,359	12,539	13,474

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	(987)	0	221	813
Add. Depreciation	408	416	427	456
Add. Interest	338	313	327	327
Less Financial Other Income	94	201	130	150
Add. Other	207	13	(177)	(146)
Op. profit before WC changes	(34)	742	798	1,450
Net Changes-WC	648	236	206	(660)
Direct tax	(129)	99	(56)	(205)
Net cash from Op. activities	484	1,076	948	585
Capital expenditures	(259)	(108)	(200)	(200)
Interest / Dividend Income	-	-	-	-
Others	82	(68)	(202)	(202)
Net Cash from Inv. activities	(177)	(176)	(402)	(402)
Issue of share cap. / premium	-	-	-	-
Debt changes	(327)	(156)	-	-
Dividend paid	-	-	-	-
Interest paid	(347)	(266)	(327)	(327)
Others	(141)	(157)	-	-
Net cash from Fin. activities	(815)	(579)	(327)	(327)
Net change in cash	(506)	321	218	(145)
Free Cash Flow	204	959	748	385

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	(29.0)	(1.6)	4.9	17.3
CEPS	(17.3)	10.3	17.1	30.3
BVPS	234.0	234.0	238.9	256.2
FCF	5.8	27.4	21.4	11.0
DPS	-	-	-	-
Return Ratio(%)				
RoCE	NA	1.0	3.4	7.6
ROIC	NA	NA	2.7	6.0
RoE	NA	NA	2.1	7.0
Balance Sheet				
Net Debt : Equity (x)	0.2	0.2	0.2	0.2
Net Working Capital (Days)	150	175	175	165
Valuation(x)				
PER	NA	NA	24.6	7.0
P/B	0.5	0.5	0.5	0.5
P/CEPS	NA	11.7	7.0	4.0
EV/EBITDA	NA	10.4	6.5	3.9
EV/Sales	1.4	1.3	1.1	0.9
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	365	346	2,827	358
YoY gr. (%)	37.3	259.1	(14.8)	(49.8)
Raw Material Expenses	253	268	1,142	168
Gross Profit	112	78	1,684	190
Margin (%)	30.6	22.6	59.6	53.1
EBITDA	(363)	(352)	1,243	(205)
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	NA	NA	44.0	NA
Depreciation / Depletion	97	95	129	103
EBIT	(461)	(447)	1,115	(308)
Margin (%)	NA	NA	39.4	NA
Net Interest	81	78	80	74
Other Income	14	22	97	36
Profit before Tax	(528)	(503)	1,129	(346)
Margin (%)	NA	NA	39.9	NA
Total Tax	(54)	(39)	148	(35)
Effective tax rate (%)	10.2	7.8	13.1	10.1
Profit after Tax	(474)	(464)	981	(311)
Minority interest	(4)	(14)	14	(9)
Share Profit from Associates	1	-	(5)	(2)
Adjusted PAT	(469)	(450)	962	(305)
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	NA	NA	34.0	NA
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(469)	(450)	962	(305)
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	NA	NA	34.0	NA
Other Comprehensive Income	6	4	2	3
Total Comprehensive Income	(463)	(445)	964	(303)
Avg. Shares O/s (m)	35	35	35	35
EPS (Rs)	(13.4)	(12.9)	27.5	(8.7)

Source: Company Data, PL Research

Price Chart		Recommendation History			
No.	Date	Rating	TP (Rs.)	Share Price (Rs.)	
1	07-Jul-21	BUY	146	113	
2	23-Jun-21	BUY	146	122	
3	07-Apr-21	BUY	127	109	
4	16-Feb-21	BUY	89	68	
5	11-Jan-21	BUY	86	70	
6	12-Nov-20	BUY	86	65	
7	09-Oct-20	BUY	89	66	
8	17-Aug-20	BUY	87	70	

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	193	183
3	Indian Railway Catering and Tourism Corporation	Hold	2,654	2,661
4	Inox Leisure	BUY	380	316
5	Music Broadcast	Hold	24	25
6	Navneet Education	Accumulate	111	102
7	PVR	BUY	1,625	1,400
8	S Chand and Company	BUY	146	113
9	V.I.P. Industries	BUY	457	386
10	Zee Entertainment Enterprises	BUY	253	197

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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