

February 12, 2018

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Rating	<b>BUY</b>
Price	Rs471
Target Price	Rs679
Implied Upside	44.2%
Sensex	34,300
Nifty	10,540

(Prices as on February 12, 2018)

#### Trading data

Market Cap. (Rs bn)	16.3
Shares o/s (m)	34.7
3M Avg. Daily value (Rs m)	37.7

#### Major shareholders

Promoters	46.64%
Foreign	26.61%
Domestic Inst.	17.97%
Public & Other	8.78%

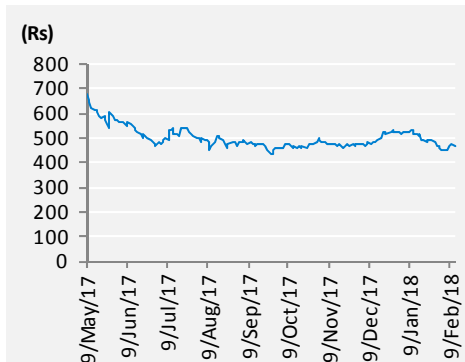
#### Stock Performance

(%)	1M	6M	12M
Absolute	(9.0)	0.5	0.0
Relative	(8.1)	(9.4)	0.0

#### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	27.2	1.0	2624.3
2019	34.0	1.0	3297.6

#### Price Perf. (RIC: SCHA.NS, BB: SCHAND IN)



Source: Bloomberg

**SCHAND is a CBSE/ICSE focused company deriving more than 80% of business in Jan-March quarter. The first nine months of financial year is a period of business planning, sampling, marketing, content revision, inventory build-up etc for next academic year. Normally First 9M remains negative with apportionment of cost across the period and hence these results do not extrapolate to annual performance. Management has reiterated its 14%-15% revenue growth guidance led by K-12 segment with steady margins & reduction in working capital by 15-20 days. Key highlights from Q3FY18 concall: (i) Have increased prices by ~10% YoY to pass on higher paper prices (ii) Aims to launch curriculum management (curriculum, books, activities, app etc) product from next academic year targeted at unbranded pre-schools in India with ticket size of ~Rs500 per month per student (iii) Budget 2018-19 proposal of reducing the corporate tax rate to 25% for companies with <Rs2.5bn revenues will help it save ~Rs30-50m in next fiscal with subsidiaries like Chhaya, New Saraswati (NSHPL) etc having revenues below threshold (iv) SCHAND is in discussion with a couple of publishers catering to western & southern regions for joining hands with them and they expect to see some of these discussion fructifying by end of FY18E**

**While SCHAND has grown its revenue/PAT @32% CAGR each over FY12-FY17 aided by timely tactical acquisitions, it is estimated to grow revenue/PAT at 16%/42% CAGR over FY17-FY19E**

**We feel the aggressive growth strategy is crucial for anyone who wishes to grow in the Indian Publishing market and SCHAND has been able to pull it off in smooth manner till now. Industry-leading position in K-12 publishing space, long standing relation with well-known authors, strong brand equity built over eight decades and pedigree management act as moat which we believe is difficult to break into. Further, we like the publishing business as they generate significant cash. Reducing debt profile post IPO, strong growth visibility and the only pure play on K-12 publishing make SCHAND uniquely placed in education space. We retain BUY with TP of Rs679 (implying PER of 20x FY19E earnings)**

Key financials (Y/e March)	2016	2017	2018E	2019E
Revenues (Rs m)	5,378	6,841	8,079	9,178
Growth (%)	12.8	27.2	18.1	13.6
EBITDA (Rs m)	1,250	1,709	2,003	2,297
PAT (Rs m)	463	582	945	1,179
EPS (Rs)	13.4	16.8	27.2	34.0
Growth (%)	72.6	25.6	62.4	24.7
Net DPS (Rs)	—	0.3	3.0	4.0

Profitability & Valuation	2016	2017	2018E	2019E
EBITDA margin (%)	23.3	25.0	24.8	25.0
RoE (%)	9.3	9.3	11.2	11.0
RoCE (%)	9.3	9.2	10.2	10.8
EV / sales (x)	3.3	2.9	2.1	1.9
EV / EBITDA (x)	14.4	11.6	8.4	7.4
PE (x)	35.2	28.1	17.3	13.9
P / BV (x)	2.7	2.5	1.6	1.5
Net dividend yield (%)	—	0.1	0.6	0.8

Source: Company Data; PL Research

\*Since Q4 contributes ~80% of revenues, we shall consider FY20E roll forward post Q4FY18 results

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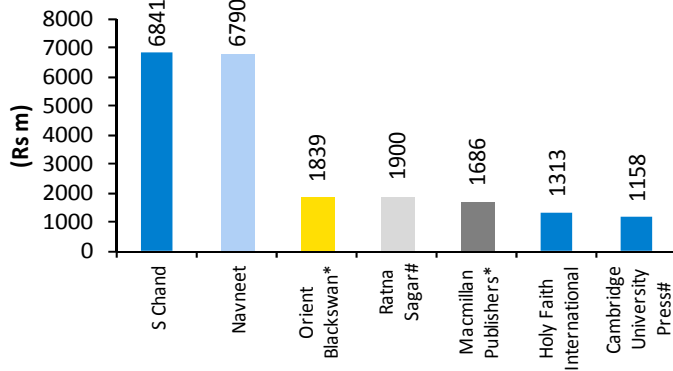
**Exhibit 1: Q3FY18 Standalone Result Overview - (Rs m)**

Y/e March	Q3FY18	Q3FY17	YoY gr (%)	Q2FY18	9MFY18	9MFY17	YoY gr (%)
<b>Net Sales</b>	<b>461</b>	<b>430</b>	<b>7.4</b>	<b>174</b>	<b>928</b>	<b>868</b>	<b>6.9</b>
<b>Expenditure</b>							
Raw Materials	<b>319</b>	<b>280</b>	14.0	<b>123</b>	<b>603</b>	<b>557</b>	8.3
<i>% of Net sales</i>	<i>69.1</i>	<i>65.1</i>		<i>70.8</i>	<i>65.0</i>	<i>64.1</i>	
Personnel	133	117	13.1	125	387	335	15.5
<i>% of Net sales</i>	<i>28.7</i>	<i>27.3</i>		<i>72.1</i>	<i>41.7</i>	<i>38.6</i>	
Selling , dist & Other Exp	134	129	3.4	122	372	364	2.4
<i>% of Net sales</i>	<i>29.0</i>	<i>30.1</i>		<i>70.0</i>	<i>40.1</i>	<i>41.9</i>	
Total Expenditure	585	526	11.2	370	1,362	1,255	8.5
<b>EBITDA</b>	<b>(124)</b>	<b>(96)</b>	NA	<b>(196)</b>	<b>(434)</b>	<b>(387)</b>	NA
<i>Margin (%)</i>	<i>(26.8)</i>	<i>(22.5)</i>		<i>(113.0)</i>	<i>(46.7)</i>	<i>(44.6)</i>	
Depreciation	8	22	(63.3)	6	25	50	(49.9)
<b>EBIT</b>	<b>(132)</b>	<b>(118)</b>	NA	<b>(202)</b>	<b>(459)</b>	<b>(437)</b>	NA
Interest	16	43	(61.6)	17	74	91	(19.1)
Other Income	56	24	135.8	59	161	69	133.1
<b>PBT</b>	<b>(92)</b>	<b>(138)</b>	NA	<b>(160)</b>	<b>(372)</b>	<b>(460)</b>	NA
Tax	(35)	(56)	NA	(58)	(133)	(155)	NA
<i>Tax Rate (%)</i>	<i>37.6</i>	<i>40.7</i>		<i>36.3</i>	<i>35.8</i>	<i>33.7</i>	
<b>Adjusted PAT</b>	<b>(58)</b>	<b>(82)</b>	NA	<b>(102)</b>	<b>(239)</b>	<b>(305)</b>	NA
<b>Reported PAT</b>	<b>(58)</b>	<b>(82)</b>	NA	<b>(102)</b>	<b>(239)</b>	<b>(305)</b>	NA

Source: Company Data, PL Research

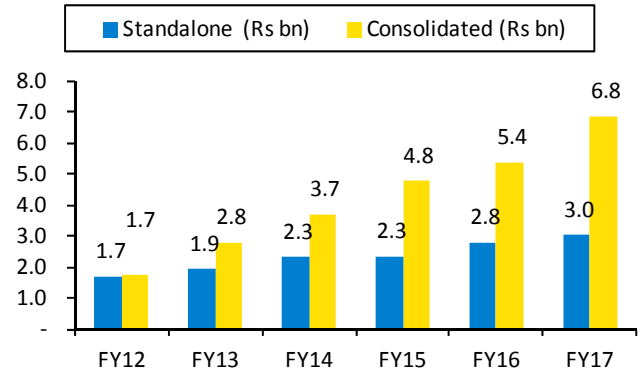
## Story in Charts

**Exhibit 2: S Chand is the largest K-12 publisher in India**



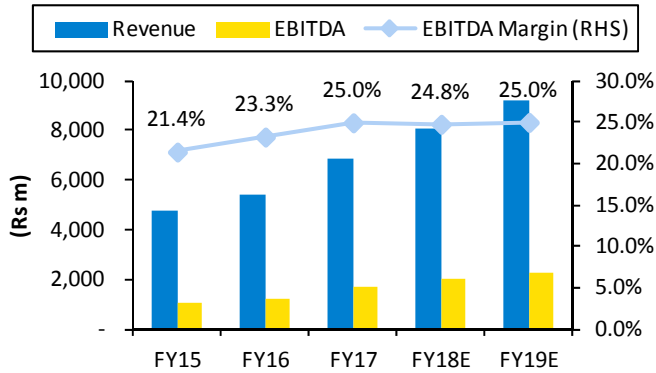
Source: Company Data, PL Research #FY16 nos., \*FY15 nos.

**Exhibit 3: Growing through aggregation and making them stronger**



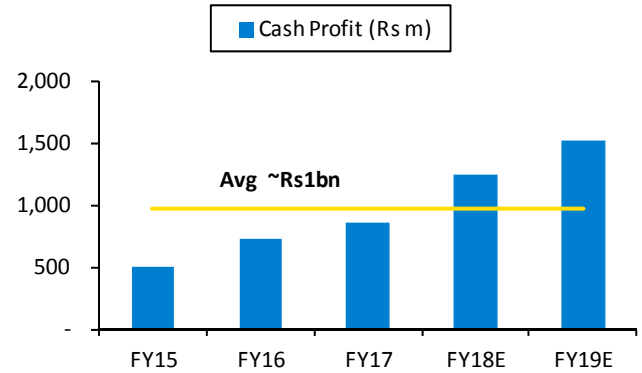
Source: Company Data, PL Research

**Exhibit 4: Margins sustainable @25% as efficiency benefits kick in**



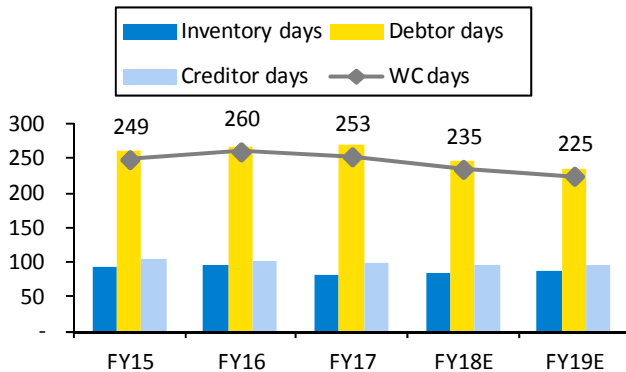
Source: Company Data, PL Research

**Exhibit 5: Publishing business generates significant cash**



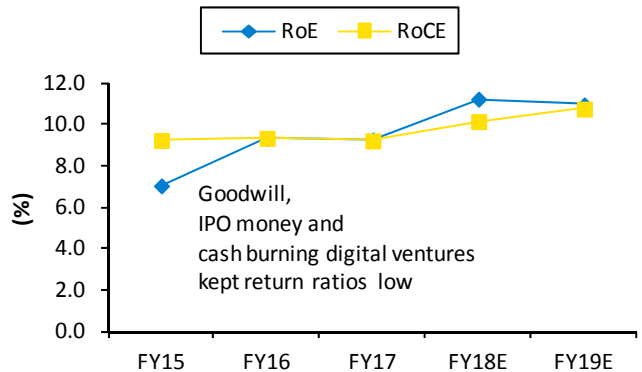
Source: Company Data, PL Research

**Exhibit 6: Working capital looks high on BS date due to seasonality**



Source: Company Data, PL Research

**Exhibit 7: Return ratios to improve gradually**



Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2016	2017	2018E	2019E
<b>Net Revenue</b>	<b>5,378</b>	<b>6,841</b>	<b>8,079</b>	<b>9,178</b>
Raw Material Expenses	2,030	2,689	3,276	3,724
Gross Profit	3,348	4,153	4,803	5,454
Employee Cost	942	1,165	1,281	1,422
Other Expenses	1,155	1,279	1,519	1,735
<b>EBITDA</b>	<b>1,250</b>	<b>1,709</b>	<b>2,003</b>	<b>2,297</b>
Depr. & Amortization	259	282	303	347
Net Interest	306	356	157	136
Other Income	38	20	30	25
<b>Profit before Tax</b>	<b>724</b>	<b>1,091</b>	<b>1,573</b>	<b>1,839</b>
Total Tax	233	436	535	625
<b>Profit after Tax</b>	<b>491</b>	<b>655</b>	<b>1,038</b>	<b>1,214</b>
Ex-Od items / Min. Int.	(27)	36	23	(35)
<b>Adj. PAT</b>	<b>463</b>	<b>582</b>	<b>945</b>	<b>1,179</b>
<b>Avg. Shares O/S (m)</b>	<b>34.7</b>	<b>34.7</b>	<b>34.7</b>	<b>34.7</b>
<b>EPS (Rs.)</b>	<b>13.4</b>	<b>16.8</b>	<b>27.2</b>	<b>34.0</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2016	2017	2018E	2019E
C/F from Operations	378	466	1,139	1,366
C/F from Investing	(1,361)	(1,845)	(500)	(1,250)
C/F from Financing	1,009	1,590	250	(460)
Inc. / Dec. in Cash	26	211	889	(344)
Opening Cash	209	235	368	957
Closing Cash	235	368	957	513
FCFF	69	(138)	468	649
FCFE	352	314	1,114	(185)

**Key Financial Metrics**

Y/e March	2016	2017	2018E	2019E
<b>Growth</b>				
Revenue (%)	12.8	27.2	18.1	13.6
EBITDA (%)	22.4	36.7	17.2	14.7
PAT (%)	72.6	25.6	62.4	24.7
EPS (%)	72.6	25.6	62.4	24.7
<b>Profitability</b>				
EBITDA Margin (%)	23.3	25.0	24.8	25.0
PAT Margin (%)	8.6	8.5	11.7	12.8
RoCE (%)	9.3	9.2	10.2	10.8
RoE (%)	9.3	9.3	11.2	11.0
<b>Balance Sheet</b>				
Net Debt : Equity	0.3	0.5	—	0.1
Net Wrkng Cap. (days)	260	253	235	225
<b>Valuation</b>				
PER (x)	35.2	28.1	17.3	13.9
P / B (x)	2.7	2.5	1.6	1.5
EV / EBITDA (x)	14.4	11.6	8.4	7.4
EV / Sales (x)	3.3	2.9	2.1	1.9
<b>Earnings Quality</b>				
Eff. Tax Rate	32.2	40.0	34.0	34.0
Other Inc / PBT	5.3	1.8	1.9	1.4
Eff. Depr. Rate (%)	15.3	15.7	14.5	13.6
FCFE / PAT	76.0	54.0	117.8	(15.7)

Source: Company Data, PL Research. \*Since Q4 contributes ~80% of revenues, we shall consider FY20E roll forward post Q4FY18 results

**Balance Sheet Abstract (Rs m)**

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	5,992	6,574	10,250	11,262
Total Debt	2,035	3,986	1,286	1,122
Other Liabilities	92	197	150	128
<b>Total Liabilities</b>	<b>8,118</b>	<b>10,757</b>	<b>11,686</b>	<b>12,512</b>
Net Fixed Assets	1,656	1,691	1,766	1,919
Goodwill	1,718	3,291	3,291	3,791
Investments	493	477	590	645
Net Current Assets	4,127	5,188	5,900	5,998
Cash & Equivalents	408	571	802	473
Other Current Assets	5,536	7,187	7,933	8,689
Current Liabilities	1,817	2,569	2,835	3,164
Other Assets	124	110	140	160
<b>Total Assets</b>	<b>8,118</b>	<b>10,757</b>	<b>11,686</b>	<b>12,512</b>

**Quarterly Financials (Rs m) (Standalone)**

Y/e March	Q4FY17	Q1FY18	Q2FY18	Q3FY18
<b>Net Revenue</b>	<b>2,102</b>	<b>294</b>	<b>174</b>	<b>461</b>
<b>EBITDA</b>	<b>937</b>	<b>(114)</b>	<b>(196)</b>	<b>(124)</b>
% of revenue	44.6	(38.9)	(113.0)	(26.8)
Depr. & Amortization	17	11	6	8
Net Interest	58	40	17	16
Other Income	27	46	59	56
<b>Profit before Tax</b>	<b>890</b>	<b>(120)</b>	<b>(160)</b>	<b>(92)</b>
Total Tax	317	(41)	(58)	(35)
<b>Profit after Tax</b>	<b>573</b>	<b>(79)</b>	<b>(102)</b>	<b>(58)</b>
<b>Adj. PAT</b>	<b>573</b>	<b>(79)</b>	<b>(102)</b>	<b>(58)</b>

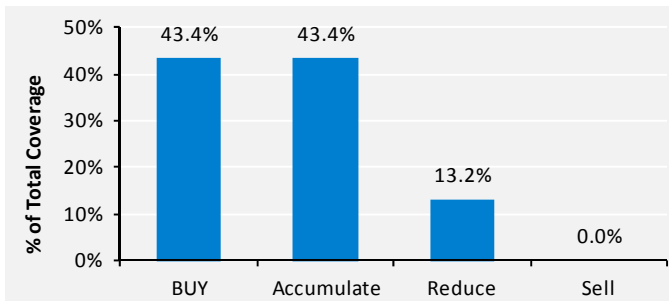
Source: Company Data, PL Research.

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