

Rating: HOLD | CMP: Rs199 | TP: Rs234

February 15, 2019

Q3FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		BUY	
Target Price	234		400	
Sales (Rs. m)	9,110	9,927	10,897	12,210
% Chng.	(16.4)	(18.7)		
EBITDA (Rs. m)	2,029	2,178	2,703	3,015
% Chng.	(24.9)	(27.8)		
EPS (Rs.)	29.2	31.5	40.0	45.1
% Chng.	(27.0)	(30.2)		

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	7,944	8,426	9,110	9,927
EBITDA (Rs. m)	1,927	1,898	2,029	2,178
Margin (%)	24.3	22.5	22.3	21.9
PAT (Rs. m)	1,072	864	1,021	1,101
EPS (Rs.)	30.7	24.7	29.2	31.5
Gr. (%)	64.0	(19.4)	18.2	7.9
DPS (Rs.)	1.5	2.0	2.5	2.5
Yield (%)	0.8	1.0	1.3	1.3
RoE (%)	13.1	8.3	9.1	9.0
RoCE (%)	12.4	10.7	10.7	10.9
EV/Sales (x)	0.9	0.9	0.8	0.7
EV/EBITDA (x)	3.9	4.0	3.7	3.4
PE (x)	6.5	8.1	6.8	6.3
P/BV (x)	0.7	0.6	0.6	0.5

Key Data

SCHA.NS | SCAND IN

52-W High / Low	Rs.523 / Rs.182
Sensex / Nifty	35,809 / 10,724
Market Cap	Rs.7bn/ \$ 97m
Shares Outstanding	35m
3M Avg. Daily Value	Rs.6.9m

Shareholding Pattern (%)

Promoter's	46.68
Foreign	4.24
Domestic Institution	16.32
Public & Others	32.76
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.7)	(41.7)	(58.6)
Relative	(6.4)	(38.4)	(60.4)

Jinesh Joshi

jineshjoshi@plindia.com | 91-22-66322238

Focus on cash flow mars growth

Key highlights

- Focus on cash flow management and tightening credit terms results in exceptional adjustment of Rs227mn on account of sales return.
- Top-line growth guidance has been revised downwards to low single digits from 13-14%. EBITDA margin is likely to compress 100-200 bps in FY19.
- The Chetana acquisition has been terminated with mutual agreement.
- Chhaya Prakashini's Rs640mn payout for the balance 26% stake is expected to be complete by Feb 2019.

S Chand's standalone/consolidated sales declined 94.0% YoY/93.2% YoY to Rs28mn/Rs46mn respectively as the process of improving credit terms with channel partners led to unexpected sales return (Rs350mn) coupled with postponement of certain schemes/discounts to 4QFY19 (partial revenue spillover expected). Standalone/consolidated EBITDA losses stood at Rs277mn/Rs852mn. Locking in paper prices at 5-6% higher vis-à-vis an increase of 15-16% witnessed in the market partially curbed EBITDA losses. However, losses at the bottom line level expanded to Rs320mn/815mn at the standalone/consolidated level.

Downward revision of estimates: We cut our topline estimates by 6.6%/16.4%/18.7% in FY19E/FY20E/21E as renewed focus on cash flow management is expected to result in flattish volumes. Channel cleansing is expected to eliminate dealers/distributors with elongated payment cycle from the system hurting growth in the interim. Further, with Chetana's acquisition being called off (estimates were baked in) we now exclude that from our projections. In line with a cut in our top line estimates, we trim down our EBITDA estimates by 15.2%/24.9%/27.8% for FY19E/FY20E/FY21E.

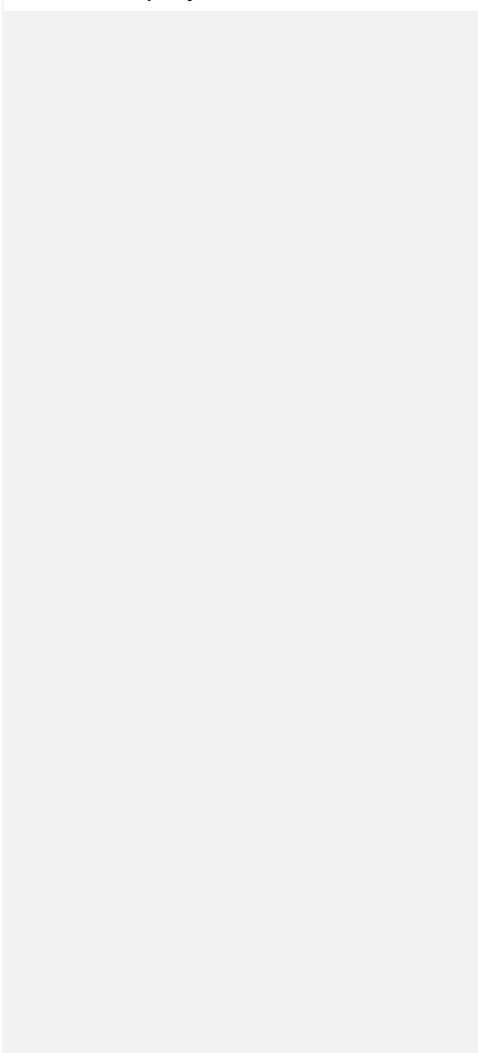
Focus on FCF generation a welcome move but challenges galore: While plan to improve FCFF by focusing on improvement in working capital (S Chand's OCF/EBITDA multiple stood at 0.2x in FY18) is a welcome step we believe it will be challenging to improve CF metrics considering stiff competition and prevalence of push model in the CBSE/ICSE market. Reduction of titles and factoring (still in exploration) are some of the measures the company is evaluating currently. Given the challenges evident in FCFF generation & reduction in estimates we cut our target multiple to 8x (10x earlier) and downgrade our rating to HOLD (BUY earlier) with a TP of Rs234 (Rs400 earlier).

Concall highlights: 1) Volumes are expected to be flattish in FY19, growth will be driven by realization 2) Postponement of certain schemes/discounts is expected to result in spillover in 4QFY19 3) Net working capital stood at 224 days 4) As of Dec net debt is Rs2bn. By end of FY19, the debt level is expected to come down to Rs1.2-1.5bn. 5) There was a sales return of Rs350mn 6) EBITDA margins to compress 100-200bps in FY19E. However, in FY20E margins are expected to show improvement.

Exhibit 1: Q3FY19 Result Overview (Rs m)

Y/e March	Standalone					Consolidated				
	Q3FY19	Q3FY18	YoY gr (%)	Q2FY19	QoQ gr (%)	Q3FY19	Q3FY18	YoY gr (%)	Q2FY19	QoQ gr (%)
Net Sales	28	461	(94.0)	131	(78.7)	46	680	(93.2)	106	(56.5)
Expenditure										
Raw Materials	(52)	319	NM	102	NM	(10)	365	NM	71	NM
<i>% of Net sales</i>	<i>NM</i>	<i>69.1</i>		<i>78.0</i>		<i>(21.7)</i>	<i>53.7</i>		<i>67.3</i>	
Personnel	146	133	9.9	140	3.9	403	362	11.4	367	9.9
<i>% of Net sales</i>	<i>522.8</i>	<i>28.7</i>		<i>107.3</i>		<i>NM</i>	<i>53.2</i>		<i>345.9</i>	
Selling, dist & Other Exp	211	134	58.3	184	14.9	504	320	57.4	443	13.9
<i>% of Net sales</i>	<i>758.6</i>	<i>29.0</i>		<i>140.8</i>		<i>NM</i>	<i>47.1</i>		<i>417.3</i>	
Total Expenditure	305	585	(47.9)	426	(28.4)	898	1,048	(14.3)	881	1.9
EBITDA	(277)	(124)	NM	(295)	NM	(852)	(368)	NM	(775)	NM
<i>Margin (%)</i>	<i>NM</i>	<i>NM</i>		<i>NM</i>		<i>NM</i>	<i>NM</i>		<i>NM</i>	
Depreciation	9	8	15.0	9	1.5	67	47	42.9	55	20.7
EBIT	(286)	(132)	NM	(305)	NM	(918)	(415)	NM	(831)	NM
Interest	25	16	49.3	19	26.8	71	47	50.7	57	23.9
Other Income	37	56	(32.9)	41	(9.3)	32	29	10.5	17	88.0
Exceptional items	226	-	NM	-	NM	226	-	NM	-	NM
PBT	(499)	(92)	NM	(283)	NM	(1,193)	(441)	NM	(875)	NM
Tax	(180)	(35)	NM	(103)	NM	(378)	(259)	NM	304	NM
<i>Tax Rate (%)</i>	<i>NM</i>	<i>NM</i>		<i>NM</i>		<i>31.7</i>	<i>58.6</i>		<i>(34.7)</i>	
Reported PAT	(320)	(58)	NM	(180)	NM	(815)	(259)	NM	(571)	NM

Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	7,944	8,426	9,110	9,927
YoY gr. (%)	20.5	6.1	8.1	9.0
Cost of Goods Sold	3,245	3,325	3,635	3,978
Gross Profit	4,699	5,101	5,475	5,949
Margin (%)	59.2	60.5	60.1	59.9
Employee Cost	1,386	1,552	1,715	1,895
Other Expenses	650	809	865	943
EBITDA	1,927	1,898	2,029	2,178
YoY gr. (%)	16.2	(1.5)	6.9	7.3
Margin (%)	24.3	22.5	22.3	21.9
Depreciation and Amortization	193	229	263	289
EBIT	1,734	1,669	1,767	1,889
Margin (%)	21.8	19.8	19.4	19.0
Net Interest	240	243	262	262
Other Income	127	60	60	60
Profit Before Tax	1,622	1,202	1,564	1,687
Margin (%)	20.4	14.3	17.2	17.0
Total Tax	539	337	532	573
Effective tax rate (%)	33.2	28.0	34.0	34.0
Profit after tax	1,083	865	1,033	1,113
Minority interest	0	(15)	-	-
Share Profit from Associate	(12)	(19)	(12)	(12)
Adjusted PAT	1,072	864	1,021	1,101
YoY gr. (%)	92.2	(19.4)	18.2	7.9
Margin (%)	13.5	10.2	11.2	11.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,072	864	1,021	1,101
YoY gr. (%)	92.2	(19.4)	18.2	7.9
Margin (%)	13.5	10.2	11.2	11.1
Other Comprehensive Income	1	3	-	-
Total Comprehensive Income	1,073	866	1,021	1,101
Equity Shares O/s (m)	35	35	35	35
EPS (Rs)	30.7	24.7	29.2	31.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	2,204	2,554	2,904	3,254
Tangibles	1,307	1,657	2,007	2,357
Intangibles	897	897	897	897
Acc: Dep / Amortization	436	664	927	1,216
Tangibles	233	354	505	681
Intangibles	202	310	422	534
Net fixed assets	1,768	1,890	1,977	2,038
Tangibles	1,074	1,303	1,502	1,675
Intangibles	695	587	475	363
Capital Work In Progress	68	68	68	68
Goodwill	3,374	3,374	3,374	3,374
Non-Current Investments	338	343	348	353
Net Deferred tax assets	220	220	220	220
Other Non-Current Assets	135	135	135	135
Current Assets				
Investments	468	468	468	468
Inventories	1,562	1,662	2,121	2,366
Trade receivables	6,312	6,233	6,614	7,071
Cash & Bank Balance	665	1,337	1,344	1,480
Other Current Assets	134	134	134	134
Total Assets	15,162	15,981	16,920	17,825
Equity				
Equity Share Capital	175	175	175	175
Other Equity	9,822	10,616	11,549	12,563
Total Networkth	9,997	10,791	11,724	12,738
Non-Current Liabilities				
Long Term borrowings	266	936	936	936
Provisions	-	-	-	-
Other non current liabilities	84	88	91	95
Current Liabilities				
ST Debt / Current of LT Debt	1,448	1,448	1,448	1,448
Trade payables	2,110	2,193	2,246	2,176
Other current liabilities	1,211	480	429	387
Total Equity & Liabilities	15,162	15,981	16,920	17,825

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	1,622	1,202	1,564	1,687
Add. Depreciation	193	229	263	289
Add. Interest	225	243	262	262
Less Financial Other Income	127	60	60	60
Add. Other	(30)	2	(8)	(8)
Op. profit before WC changes	2,009	1,675	2,081	2,229
Net Changes-WC	(1,117)	(669)	(838)	(815)
Direct tax	(502)	(337)	(532)	(573)
Net cash from Op. activities	389	670	711	841
Capital expenditures	(397)	(350)	(350)	(350)
Interest / Dividend Income	-	-	-	-
Others	(214)	(5)	(5)	(5)
Net Cash from Inv. activities	(610)	(355)	(355)	(355)
Issue of share cap. / premium	3,318	-	-	-
Debt changes	(2,235)	670	-	-
Dividend paid	(44)	(70)	(87)	(87)
Interest paid	(225)	(243)	(262)	(262)
Others	(264)	-	-	-
Net cash from Fin. activities	551	357	(350)	(350)
Net change in cash	329	672	7	137
Free Cash Flow	(37)	320	361	491

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	2,511	189	131	28
YoY gr. (%)	22.0	(35.8)	(24.7)	(94.0)
Raw Material Expenses	1,111	169	102	(52)
Gross Profit	1,401	20	29	80
Margin (%)	55.8	10.5	22.0	286.9
EBITDA	1,084	(226)	(295)	(277)
YoY gr. (%)	(977.2)	(120.8)	-	-
Margin (%)	43.2	(119.7)	(226.1)	(994.4)
Depreciation / Depletion	8	9	9	9
EBIT	1,076	(235)	(305)	(286)
Margin (%)	42.8	(124.6)	(233.1)	(1,027.7)
Net Interest	24	21	19	25
Other Income	109	46	41	37
Profit before Tax	1,162	(209)	(283)	(274)
Margin (%)	46.3	(111.0)	(216.4)	(981.8)
Total Tax	415	(69)	(103)	(180)
Effective tax rate (%)	35.8	32.8	36.5	65.7
Profit after Tax	746	(141)	(180)	(94)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	746	(141)	(180)	(94)
YoY gr. (%)	29.4	78.0	76.2	62.9
Margin (%)	29.7	(74.6)	(137.4)	(337.1)
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	746	(141)	(180)	(94)
YoY gr. (%)	29.4	78.0	76.2	62.9
Margin (%)	29.7	(74.6)	(137.4)	(337.1)
Other Comprehensive Income	1	-	2	(2)
Total Comprehensive Income	747	(140)	(178)	(96)
Avg. Shares O/s (m)	35	35	35	35
EPS (Rs)	21.4	(4.0)	(5.1)	(2.7)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	30.7	24.7	29.2	31.5
CEPS	36.2	31.2	36.7	39.7
BVPS	285.8	308.5	335.2	364.2
FCF	(1.1)	9.1	10.3	14.0
DPS	1.5	2.0	2.5	2.5
Return Ratio(%)				
RoCE	12.4	10.7	10.7	10.9
ROIC	9.0	8.7	8.0	8.1
RoE	13.1	8.3	9.1	9.0
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.0	0.0
Net Working Capital (Days)	193	175	175	180
Valuation(x)				
PER	6.5	8.1	6.8	6.3
P/B	0.7	0.6	0.6	0.5
P/CEPS	5.5	6.4	5.4	5.0
EV/EBITDA	3.9	4.0	3.7	3.4
EV/Sales	0.9	0.9	0.8	0.7
Dividend Yield (%)	0.8	1.0	1.3	1.3

Source: Company Data, PL Research

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Dec-18	BUY	400	221
2	7-Jan-19	BUY	400	214

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	BUY	776	548
3	Music Broadcast	BUY	405	288
4	Navneet Education	BUY	157	106
5	S Chand and Company	BUY	400	214
6	Zee Media Corporation	BUY	38	22

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



ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Jinesh Joshi- MS(Finance) and CFA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Jinesh Joshi- MS(Finance) and CFA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

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

www.plindia.com | Bloomberg Research Page: PRLD <GO>