

November 20, 2017

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Rating	BUY
Price	Rs461
Target Price	Rs679
Implied Upside	47.3%
Sensex	33,360
Nifty	10,299

(Prices as on November 20, 2017)

Trading data

Market Cap. (Rs bn)	16.0
Shares o/s (m)	34.7
3M Avg. Daily value (Rs m)	49.8

Major shareholders

Promoters	46.79%
Foreign	26.61%
Domestic Inst.	17.82%
Public & Other	8.78%

Stock Performance

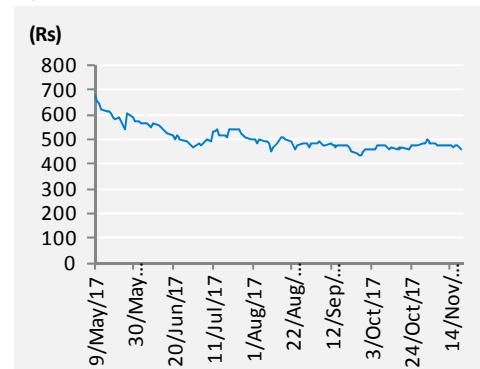
(%)	1M	6M	12M
Absolute	(0.6)	(20.8)	0.0
Relative	(3.6)	(30.3)	0.0

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 Performance (RIC: SCHA.NS, BB: SCHAND

IN)



SCHAND is a CBSE/ICSE focused company deriving more than 80% of business in Q4. 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 quarters hence these results do not extrapolate to annual performance. Management has reiterated its 15% plus revenue growth guidance led by K-12 segment with steady margins & reduction in working capital by 15-20 days (from ~253 days in FY17). Key developments during Q2FY18 were (i) Approval to enter into strategic alliance with PDM Inc (a leading digital education company from South Korea) to provide curriculum management (curriculum, books, activities, app etc) to unbranded pre-schools in India (ii) Proposed merger of few subsidiaries providing digital content & printing; expected to yield one time tax saving of ~Rs70-80m & saving in admin/compliance cost in subsequent years (iii) Company is in discussion with a couple of publishers catering to western region & international curriculum schools and expect to fructify them 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	2.8	2.0	1.8
EV / EBITDA (x)	14.1	11.4	8.2	7.2
PE (x)	34.5	27.5	16.9	13.6
P / BV (x)	2.7	2.4	1.6	1.4
Net dividend yield (%)	—	0.1	0.7	0.9

Source: Company Data; PL Research

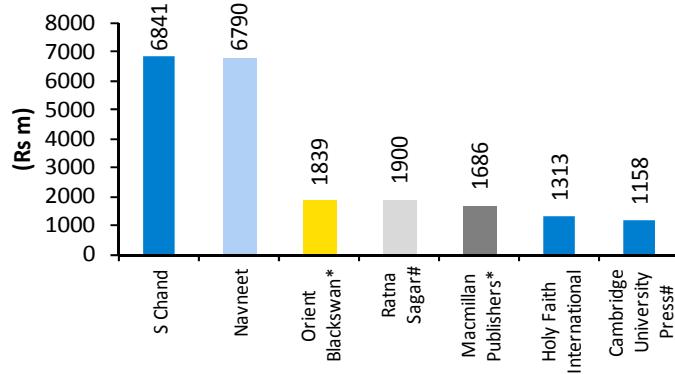
Exhibit 1: Q2FY18 Standalone Result Overview - (Rs m)

Y/e March	Q2FY18	Q2FY17	YoY gr (%)	Q1FY18	H1FY18	H1FY17	YoY gr (%)
Net Sales	174	281	(38.2)	294	467	439	6.5
Expenditure							
Raw Materials	123	189	(34.8)	161	284	277	2.6
% of Net sales	70.8	67.2		55.0	60.9	63.2	
Personnel	125	118	6.1	129	254	218	16.8
% of Net sales	72.1	42.0		44.0	54.5	49.7	
Selling , dist & Other Exp	122	119	2.0	117	239	234	1.8
% of Net sales	70.0	42.4		39.8	51.1	53.4	
Total Expenditure	370	426	(13.2)	408	777	729	6.6
EBITDA	(196)	(145)	NA	(114)	(310)	(291)	NA
Margin (%)	(113.0)	(51.6)		(38.9)	(66.4)	(66.3)	
Depreciation	6	15	(60.8)	11	17	28	(39.6)
EBIT	(202)	(160)	NA	(125)	(327)	(319)	NA
Interest	17	25	(30.7)	40	57	48	18.8
Other Income	59	22	170.7	46	105	45	131.6
PBT	(160)	(163)	NA	(120)	(279)	(322)	NA
Tax	(58)	(48)	NA	(41)	(99)	(99)	NA
Tax Rate (%)	36.3	29.7		33.9	35.3	30.7	
Adjusted PAT	(102)	(114)	NA	(79)	(181)	(223)	NA
Reported PAT	(102)	(114)	NA	(79)	(181)	(223)	NA

Source: Company Data, PL Research

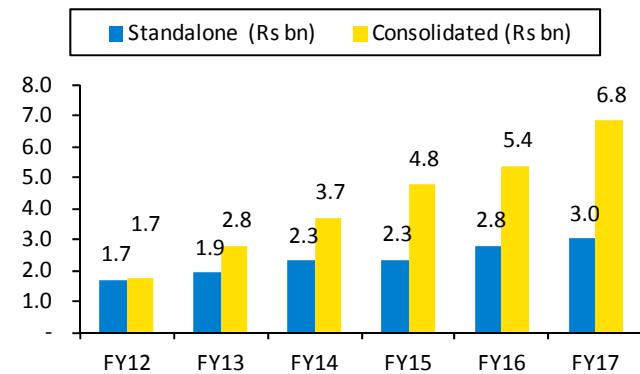
Story in Charts

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



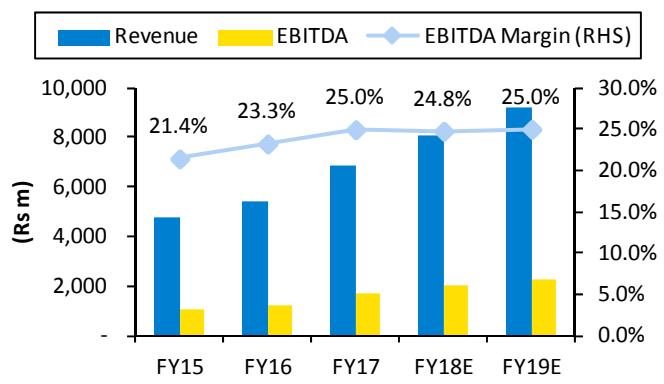
Source: Company Data, PL Research #FY16 nos. , *FY15 nos.

Exhibit 3: Growing through aggregation and making them stronger



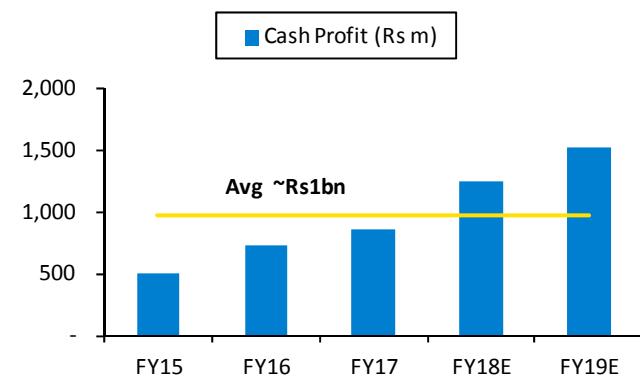
Source: Company Data, PL Research

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



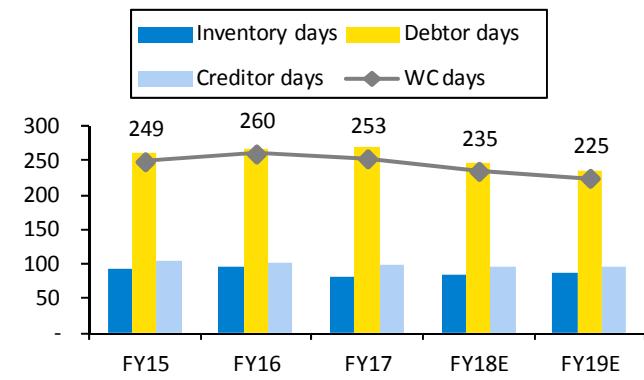
Source: Company Data, PL Research

Exhibit 5: Publishing business generates significant cash



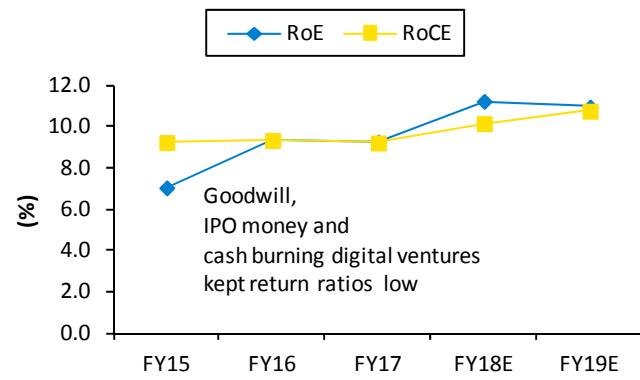
Source: Company Data, PL Research

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
Net Revenue	5,378	6,841	8,079	9,178
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
EBITDA	1,250	1,709	2,003	2,297
Depr. & Amortization	259	282	303	347
Net Interest	306	356	157	136
Other Income	38	20	30	25
Profit before Tax	724	1,091	1,573	1,839
Total Tax	233	436	535	625
Profit after Tax	491	655	1,038	1,214
Ex-Od items / Min. Int.	(27)	36	23	(35)
Adj. PAT	463	582	945	1,179
Avg. Shares O/S (m)	34.7	34.7	34.7	34.7
EPS (Rs.)	13.4	16.8	27.2	34.0

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
Total Liabilities	8,118	10,757	11,686	12,512
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
<i>Cash & Equivalents</i>	<i>408</i>	<i>571</i>	<i>802</i>	<i>473</i>
<i>Other Current Assets</i>	<i>5,536</i>	<i>7,187</i>	<i>7,933</i>	<i>8,689</i>
<i>Current Liabilities</i>	<i>1,817</i>	<i>2,569</i>	<i>2,835</i>	<i>3,164</i>
Other Assets	124	110	140	160
Total Assets	8,118	10,757	11,686	12,512

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)

Quarterly Financials (Rs m) (Standalone)

Y/e March	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Revenue	445	2,102	294	174
EBITDA	(87)	937	(114)	(196)
<i>% of revenue</i>	<i>(19.5)</i>	<i>44.6</i>	<i>(38.9)</i>	<i>(113.0)</i>
Depr. & Amortization	24	17	11	6
Net Interest	43	58	40	17
Other Income	27	27	46	59
Profit before Tax	(127)	890	(120)	(160)
Total Tax	(83)	317	(41)	(58)
Profit after Tax	(44)	573	(79)	(102)
Adj. PAT	(44)	573	(79)	(102)

Source: Company Data, PL Research.

Key Financial Metrics

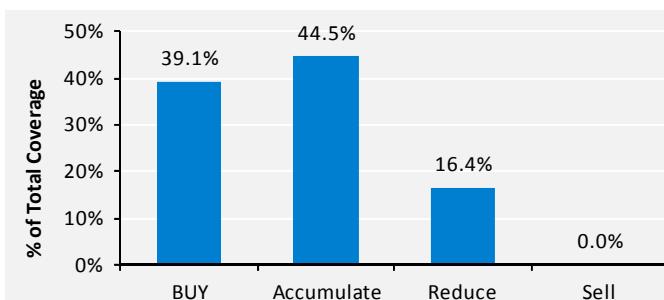
Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	12.8	27.2	18.1	13.6
EBITDA (%)	22.4	36.7	17.2	14.7
PAT (%)	72.6	25.6	62.4	24.7
EPS (%)	72.6	25.6	62.4	24.7
Profitability				
EBITDA Margin (%)	23.3	25.0	24.8	25.0
PAT Margin (%)	8.6	8.5	11.7	12.8
RoCE (%)	9.3	9.2	10.2	10.8
RoE (%)	9.3	9.3	11.2	11.0
Balance Sheet				
Net Debt : Equity	0.3	0.5	—	0.1
Net Wrkng Cap. (days)	260	253	235	225
Valuation				
PER (x)	34.5	27.5	16.9	13.6
P / B (x)	2.7	2.4	1.6	1.4
EV / EBITDA (x)	14.1	11.4	8.2	7.2
EV / Sales (x)	3.3	2.8	2.0	1.8
Earnings Quality				
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.

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Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
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Trading Buy	: Over 10% absolute upside in 1-month
Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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