

## S. Chand and Company Limited

S.Chand & Company Ltd (SCCL) is a leading text book publisher and operates as an education content provider in India. The company develops and delivers content, solutions, and services in the education K-12, higher education, and early learning segments. It offers 55 consumer brands such as S.Chand, Vikas, Madhuban, Saraswati, Destination Success, etc. and has strong presence in CBSE, ICSE and State Board affiliated schools. SCCL's K-12 segment contributes ~72.5% to the revenue and the balance is from Higher education and others segments.

**Towering position despite competition and fragmented K-12 market:** The education content industry in India is highly competitive and fragmented, and the current market size of education content (CBSE/ICSE) in India is around US\$500mn. However, SCCL has positioned itself as the market leader with a market share of ~13%. The company's closest peers Oxford Publication & Orient Black Swan have a market share of ~6% each. The company is also increasing its presence in State Board affiliated schools in order to further boost its revenue from the school segment.

**Experience coupled with quality authors provides an edge:** SCCL is present in the education industry for more than 7 decades now, and owing to its experience it has been able to create strong brand recall among the students as well as mentors. This strong brand recall is largely due to the company's ability to attract and retain leading authors, leading to better quality of content on a consistent basis. As on March 31, 2016, SCCL had a contractual relationship with at least 1,958 authors. The company has not witnessed any top author loss in the recent times.

**Wide distribution network deepens market reach:** Robust distribution network, pan India sales network and in-house printing capabilities are the growth drivers for company. As on December 31, 2016, SCCL had a distribution and sales network (excluding Chhaya) consisting of 4,932 distributors & dealers and an in-house sales team of 838 professionals working from 52 branches and marketing offices.

**Strategic acquisitions fuel growth:** The acquisitions of SCCL since 2013 have assisted the company in strengthening its product offerings, position and reach. (1) Madhuban and Vikas were acquired in FY2013 to boost the company's offerings in Hindi language titles; (2) NSHPL and Saraswati were acquired in FY2015 for strengthening languages and art & craft; (3) Chhaya Acquisition was done in order to extend the company's presence in Eastern India as well as gain strong content brands.

**Outlook and Valuation:** In terms of valuation, the pre-issue works out to 3.0x of FY2017E P/BV (at the upper end of the issue price band), which is lower compared to its peers (Navneet is trading at 6.3x its FY2017E P/BV). Also, SCCL's EV/sales multiple 3.2x is at a discount to Navneet's 3.7x. On EV/EBITDA front too, SCCL issue appears to be attractive at 13.4x v/s 16.3x of Navneet. However, the return on invested capital for S.Chand and Navneet both is in the range of 28-30%. Hence, considering the company's leadership position in K-12 market, strong brand recall and pan India reach along with higher revenue/PAT growth (revenue/PAT grew at a CAGR of 33%/36% over FY2012-16 v/s 11%/7.5% of Navneet), we believe that SCCL is rightly placed for further growth. **Thus, we recommend a SUBSCRIBE on the issue.**

### Key Financials

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E
<b>Net Sales</b>	<b>279</b>	<b>370</b>	<b>477</b>	<b>538</b>	<b>675</b>
% chg	61.2	32.6	28.8	12.8	25.5
<b>Net Profit</b>	<b>32</b>	<b>42</b>	<b>27</b>	<b>47</b>	<b>63</b>
% chg	-	30.9	(36.6)	73.8	35.1
OPM (%)	20.5	21.3	21.4	23.3	24.2
<b>EPS (₹)</b>	<b>10.8</b>	<b>14.2</b>	<b>9.0</b>	<b>15.6</b>	<b>21.1</b>
P/E (x)	61.8	47.2	74.5	42.9	31.7
P/BV (x)	6.9	5.4	5.1	3.3	3.0
RoE (%)	11.0	11.6	8.7	8.2	10.5
ROIC Pre-Tax (%) (Ex-goodwill)	19.7	22.1	19.0	19.2	27.6
EV/Sales (x)	7.5	5.6	4.6	4.0	3.2
EV/EBITDA (x)	36.4	26.1	21.3	17.0	13.4

Source: Company, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

## SUBSCRIBE

Issue Open: April 26, 2017  
 Issue Close: April 28, 2017

### Issue Details

Face Value: ₹5

Present Eq. Paid up Capital: ₹14.9cr

Offer for Sale: \*\*0.60cr Shares

Fresh issue: ₹325 cr

Post Eq. Paid up Capital: ₹17.3cr

Issue size (amount): \*₹723cr - \*\*729 cr

Price Band: ₹660-670

Lot Size: 22 shares and in multiple thereafter

Post-issue implied mkt. cap: \*₹2295cr - \*\*₹2324cr

Promoters holding Pre-Issue: 58.3%

Promoters holding Post-Issue: 46.7%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	47%
Others	53%

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## Company background

S.Chand Group is one of the oldest and largest publishing and education service enterprises of India, founded in 1939 and based in New Delhi. The company delivers content, solutions and services across the education lifecycle. According to Nielsen, in Fiscal 2016, S.Chand was the leading K-12 education content company in terms of revenue from operations, with a strong presence in the CBSE/ICSE affiliated schools and increasing presence in the State Board affiliated schools across India. As of December 31, 2016, it offered 55 consumer brands across knowledge products and services including S.Chand, Vikas, Madhuban, Saraswati, Destination Success and Ignitor among others. Further, in December 2016, company acquired 74% of the outstanding share capital of reference material provider Chhaya Prakashani Private Limited.

In Fiscal 2016, company sold 35.47 million copies of a total of 11,144 titles. Additionally, Chhaya sold 9.88 million copies of 433 titles in Fiscal 2016. S.Chand has a contractual relationship with at least 1,958 authors (including co-authors) for over five years as on March 31, 2016. Additionally, Chhaya has contractual relationships with at least 24 authors (including co-authors) for over five years as on March 31, 2016.

As of December 31, 2016, company's distribution and sales network (ex- Chhaya) consisted of 4,932 distributors and dealers, and in-house sales team of 838 professionals working from 52 branches and marketing offices across India. The Chhaya acquisition has expanded the company's presence in Eastern India to include an additional 771 distributors and dealers as of December 31, 2016. In addition, the company operates K-12 schools under the Indus World School brand name. As on September 30, 2015, they had 146 test-prep centers spread over 86 cities in India, 8 K-12 schools spread across 6 cities & 28 vocational training.

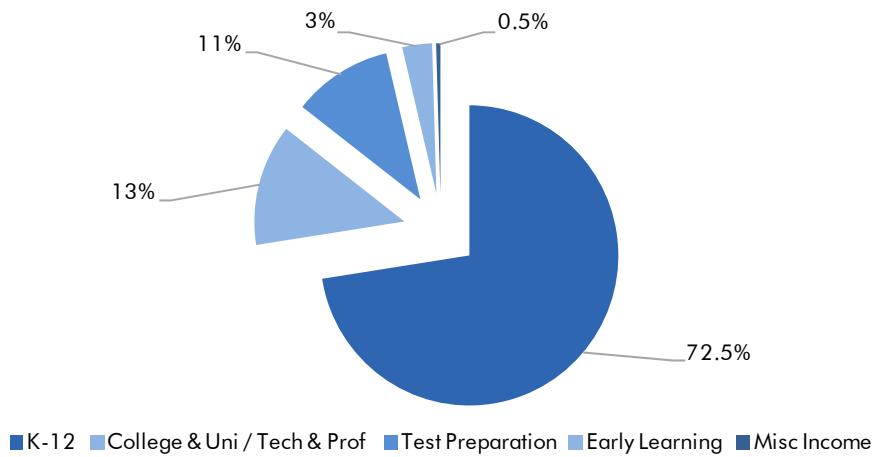
### Exhibit 1: Focused education content provider



Source: Company, Angel Research

The company has developed a strong supply chain by rationalizing and integrating its procurement, manufacturing and 135 logistic capabilities. In Fiscal 2016, over 85% of printing requirements were met by the facilities located in Sahibabad and Rudrapur. Further, the company has 42 warehouses located in 19 Indian states to allow coverage across India.

**Exhibit 2: Consolidated revenue break-up of FY2016**



Source: Company, Angel Research

The company aims to provide comprehensive education content to its customers through print as well as digital media as they evolve.

## Issue details

The company is raising ₹325cr through a fresh issue of equity shares in the price band of ₹660-670. The fresh issue will constitute ~14% of the post-issue paid-up equity share capital of the company, assuming the issue is subscribed at the upper end of the price band. The company is offering 0.60cr shares that are being sold by the promoter group and Everstone capital Partners II LLC

### Exhibit 3: Pre and Post-IPO shareholding pattern

	No. of shares (Pre-issue)	(%)	No. of shares (Post-issue)	(%)
Promoters	1,74,09,240	58.3	1,62,00,740	46.7
Others	1,24,35,256	41.7	1,84,94,502	53.3
	<b>2,98,44,496</b>	<b>100</b>	<b>3,46,95,242</b>	<b>100</b>

Source: RHP, Angel Research; Note: Calculated on upper price band

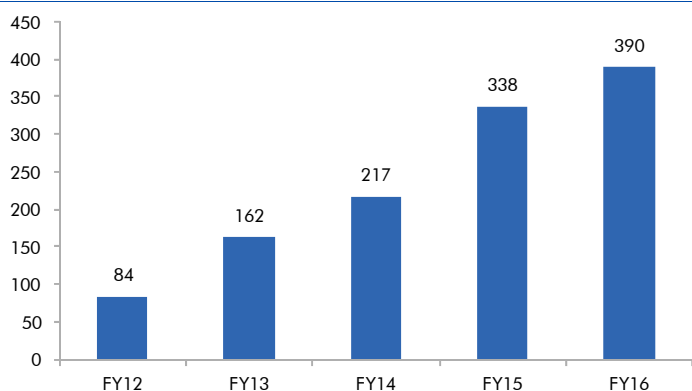
## Objects of the offer

- The Company plans to repay term loan availed earlier by it and its subsidiaries, EPHL, which were utilized towards funding the acquisition of Chhaya (~₹152cr will be utilized).
- Pre-payment/repayment, in full or in part, of certain loans availed by the Company/ Subsidiaries, VPHPL and NSHPL (~₹88cr will be utilized).
- General corporate purpose.

## Investment Rationale

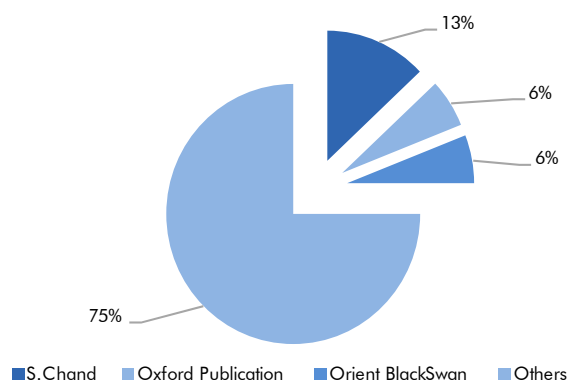
**Towering position despite competition and fragmented K-12 market:** The education content industry in India is highly competitive and fragmented, and the market size of education content (CBSE/ICSE) in India is around US\$500mn. However, SCCL has positioned itself as the market leader with a market share of ~13%. The company's closest peers Oxford Publication & Orient Black Swan have a market share of ~6% each. The company is also increasing its presence in State Board affiliated schools in order to further increase its revenue from the school segment.

**Exhibit 4: K-12 revenue trend (₹ cr)**



Source: Company, Angel Research

**Exhibit 5: Market Share in CBSE/ICSE**



Source: Company, Angel Research

Apart from K-12 content business S.Chand and company generates its remaining revenue from higher education (Test prep for College students & professionals, >18 years & Early learning for children).

According to Nielsen, India has one of the largest higher education systems in the world. Hence, company would also like to firm his positioning into higher education & test preparation content. S.Chand provides students, instructors and institutions with content for college and university courses, including accounting, economics, physics and medicine, as well as customized content for distance learning. In Fiscal 2016, company sold 2,920 titles and over 2.86 million books in college and university/technical and professional business.

On test preparation front, currently company has strong offerings of subject base test preparation content. However, going forward it intends to provide material in regional language, content for government job and public sector job.

In addition, many examinations are now moving to the online format. The company has planned to build online solutions by investing in education technology companies to leverage their innovative technologies and pair them with their content and industry experience. As part of the company's strategy, it has invested in two companies which own the online test preparation brands, Online Tyari and Testbook.

**Experience coupled with quality authors provides an edge:** SCCL is present in the education industry for more than 7 decades now, and owing to its experience it has been able to create strong brand recall among the students as well as mentors. This strong brand recall is largely due to the company's ability to attract and retain leading authors, which leads to better quality of content on a consistent basis. As on March 31, 2016, S.Chand had a contractual relationship with at least 1,958 authors, and the authors are compensated through royalties of ~7.5%, which is linked to content sales. The company has not witnessed any top author loss in the recent times.

With over 55 consumer brands across knowledge products & services including S.Chand, Vikas, Madhuban, Saraswati, Destination Success & Ignitor, it sold over 35.5mn copies over 11,147 titles in FY2016. The company's top 10 best-selling titles accounted for 3.0 mn copies, with over 15 authors having sold over a million copies each of their titles during the last 5 fiscals.

#### Exhibit 6: Strong content



Source: Company, Angel Research

#### Exhibit 7: Portfolio of brands



Source: Company, Angel Research

**Strategic acquisitions fuel growth:** The acquisitions of SCCL since 2013 have assisted the company in strengthening its product offerings, position and reach. (1) Madhubun and Vikas were acquired in FY2013 to boost the company's offerings in Hindi language titles; (2) NSHPL and Saraswati were acquired in FY2015 for strengthening languages and art & craft; (3) The Chhaya Acquisition was done in order to extend the company's presence in Eastern India as well as gain strong content brands.

On account of aggressive strategic acquisitions, the company has been able to grow remarkably. Combining the company's Organic growth & acquisitions, SCCL's revenue and bottom-line grew at an impressive CAGR of 33% & 36% respectively over FY2012-16. The EBITDA margin also witnessed an improvement of 860bps during the same period.

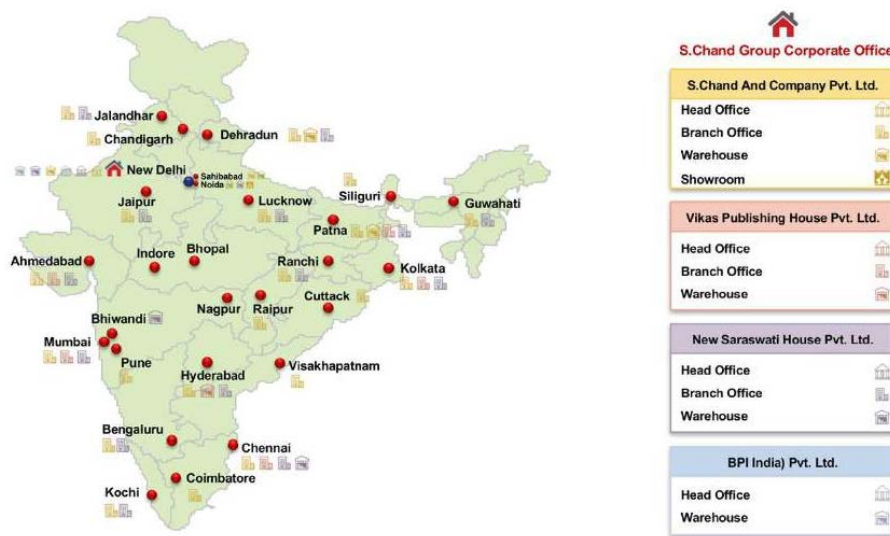
#### Exhibit 8: Strategic Acquisition

Acquisition Year	Company Acquired	Brand	Benefit
FY13	VPHPL	Madhubun and Vikas	1) Added to distribution network in North India 2) Bolstered knowledge products in K-12 business in Hindi language titles
FY15	NSHPL	Saraswati	1) Enhanced distribution network in Southern India 2) K-12 content strength in French, languages and arts & crafts titles
FY16	Chhaya Prakashani	Chhaya	1) Expanded presence in Eastern India (West Bengal) 2) Strong presence in reference book

Source: Company, Angel Research

**Wide distribution network deepens market reach:** Robust distribution network, pan India sales network and in-house printing capabilities are the growth drivers for company. As on December 31, 2016, S.Chand had a distribution and sales network (excluding Chhaya) consisting of 4,932 distributors & dealers and an in-house sales team of 838 professionals working from 52 branches and marketing offices. Further, SCCL's strong logistics network comprised of 44 warehouses located in 19 Indian states.

**Exhibit 9: Pan-India presence in the right markets**

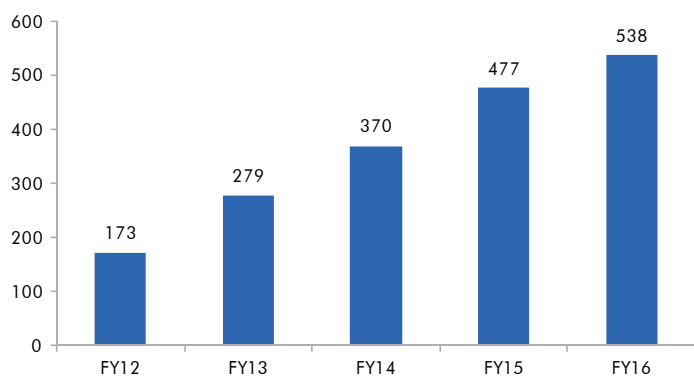


Source: Company, Angel Research

**Track record of healthy financial performance**

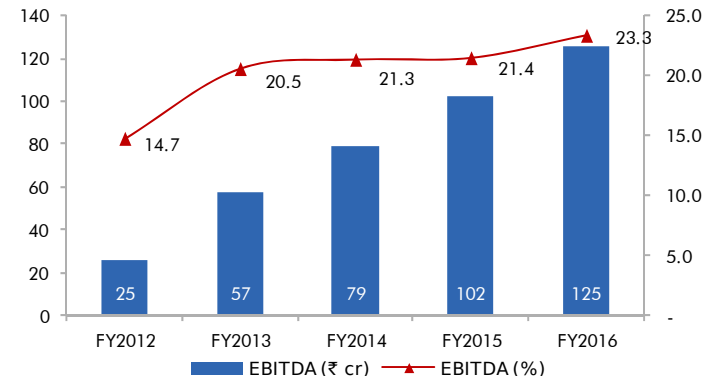
The company has reported revenue CAGR of ~33% over FY2012-16 on the back of consistent organic growth and strategic acquisitions since 2012. It has also managed to improve its EBITDA by 860bps from 14.7 % in FY2012 to 23.3% in FY2016. PAT grew at CAGR of ~36% over FY2012-16, However, margins declined amid rise in depreciation & finance costs on account of the expansion of its printing facilities as well as inorganic expansion.

**Exhibit 10: Historical revenue trend (₹ in cr)**



Source: Company, Angel Research

**Exhibit 11: EBITDA & EBITDA margin trend**



Source: Company, Angel Research

## Outlook and Valuation

Outlook and Valuation: In terms of valuation, the pre-issue works out to 3.0x of FY2017E Price to Book value (at the upper end of the issue price band), which is lower compared to its peers (Navneet is trading at 6.3x its FY2017E P/BV). Also, SCCL's EV/sales multiple 3.2x is at a discount to Navneet's 3.7x. On EV/EBITDA front too, SCCL issue appears to be attractive at 13.4x v/s 16.3x of Navneet. However, the return on invested capital for S.Chand and Navneet both is in the range of 28-30%. Hence, considering the company's leadership position in K-12 market, strong brand recall and pan India reach along with higher revenue/PAT growth (revenue/PAT grew at a CAGR of 33%/36% over FY2012-16 v/s 11%/7.5% of Navneet), we believe that SCCL is rightly placed for further growth. **Thus, we recommend a SUBSCRIBE on the issue.**

## Key risks

### **NCERT (National Council of educational Research and Training) force to use NCERT print content book**

For the past two years, CBSE has issued an advisory circular advising CBSE schools to use only NCERT print content for all classes and may issue similar advisory circulars in the future. These circulars may reduce demand for the company's educational content amongst the CBSE affiliated schools and, accordingly, it may adversely affect S.Chand's business as it generates ~72.5% (FY2016) of the business from K-12 books.

### **Loss of any top author**

The company's significant portion of revenue is derived from the top twenty authors. The loss of any such authors could adversely affect the business of SCCL, however the company has been able to retain top authors and has an in-house content development team.

### **Fragmented market**

The Indian market for education content is highly competitive and fragmented, and any existing or new product launches could increase competition that could impact the company's revenue growth.



**Consolidated Income Statement**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
<b>Total operating income</b>	<b>279</b>	<b>370</b>	<b>477</b>	<b>538</b>	<b>150</b>
% chg	61.2	32.6	28.8	12.8	-
<b>Total Expenditure</b>	<b>222</b>	<b>291</b>	<b>374</b>	<b>412</b>	<b>234</b>
Raw Material	109	136	156	153	34
Publicatoin Exp	30	42	48	50	22
Selling and distribution exp.	22	34	46	53	41
Personnel	35	53	80	94	84
Others Expenses	25	26	45	63	54
<b>EBITDA</b>	<b>57</b>	<b>79</b>	<b>102</b>	<b>125</b>	<b>(85)</b>
% chg	124.9	37.5	29.6	22.6	
(% of Net Sales)	20.5	21.3	21.4	23.3	-
Depreciation & Amortisation	8	12	23	26	20
<b>EBIT</b>	<b>50</b>	<b>67</b>	<b>80</b>	<b>99.4</b>	<b>(105)</b>
% chg	130.3	33.7	19.7	24.8	
(% of Net Sales)	17.8	18.0	16.7	18.5	-
Interest & other Charges	8	9	28	30	22
Other Income	3	1	2	3	1
(% of PBT)	5.8	1.6	3.4	4.0	(1.0)
Exceptional Items	-	-	-	-	-
<b>Recurring PBT</b>	<b>44</b>	<b>59</b>	<b>54</b>	<b>73</b>	<b>(126)</b>
% chg	151	33.6	(8.4)	35.4	
Tax	12	16	20	23	(40)
(% of PBT)	27.1	27.3	36.4	32.1	31.3
<b>ADJ. PAT</b>	<b>32</b>	<b>42</b>	<b>27</b>	<b>47</b>	<b>(87)</b>
% chg	(72.9)	30.9	(36.6)	73.8	
(% of Net Sales)	11.6	11.4	5.6	8.7	(58.1)
<b>Basic &amp; Fully Diluted EPS (₹)</b>	<b>10.8</b>	<b>14.2</b>	<b>9.0</b>	<b>15.6</b>	<b>(29.7)</b>
% chg	120	30.9	(36.6)	73.8	-

**Consolidated Balance Sheet**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	0.2	0.2	0.2	0.2	14.9
Reserves & Surplus	291	368	394	599	494
<b>Shareholders' Funds</b>	<b>291</b>	<b>368</b>	<b>394</b>	<b>599</b>	<b>509</b>
Minority Interest	3	3	22	3	9
Total Loans	110	85	215	194	243
Deferred Tax Liability	18	22	59	46	238
<b>Total Liabilities</b>	<b>423</b>	<b>478</b>	<b>690</b>	<b>842</b>	<b>998</b>
<b>APPLICATION OF FUNDS</b>					
<b>Net Block</b>	<b>170</b>	<b>186</b>	<b>274</b>	<b>331</b>	<b>482</b>
Capital Work-in-Progress	2	10	1	3	1
Investments	8	8	18	42	30
Goodwill	1	1	4	3	10
Current Assets	305	366	519	602	561
Inventories	60	84	120	140	251
Sundry Debtors	174	231	343	398	196
Cash	14	18	21	24	24
Loans & Advances	56	32	32	36	88
Other Assets	1	2	3	3	2
Current liabilities	67	99	136	152	141
<b>Net Current Assets</b>	<b>238</b>	<b>267</b>	<b>383</b>	<b>450</b>	<b>420</b>
Deferred Tax Asset	4	5	10	12	56
Mis. Exp. not written off	-	-	-	-	-
<b>Total Assets</b>	<b>423</b>	<b>478</b>	<b>690</b>	<b>842</b>	<b>998</b>

Note – Net block includes consolidation of goodwill

### Consolidated Cash Flow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
Profit before tax	44	59	54	73	(126)
Depreciation	8	12	23	26	20
Change in Working Capital	(116)	(19)	(95)	(80)	71
Interest / Dividend (Net)	8	12	23	26	20
Direct taxes paid	(12)	(20)	(29)	(18)	(28)
Others	1	(2)	8	12	29
<b>Cash Flow from Operations</b>	<b>(67)</b>	<b>43</b>	<b>(18)</b>	<b>38</b>	<b>(34)</b>
(Inc.)/ Dec. in Fixed Assets	(137)	(41)	(105)	(94)	(24)
(Inc.)/ Dec. in Investments	3	1	3	(42)	(135)
<b>Cash Flow from Investing</b>	<b>(135)</b>	<b>(40)</b>	<b>(102)</b>	<b>(136)</b>	<b>(159)</b>
Issue of Equity	(149)	(41)	(105)	(94)	(24)
Inc./(Dec.) in loans	(55)	63	10	150	(39)
Others	417	(22)	217	45	254
<b>Cash Flow from Financing</b>	<b>213</b>	<b>1</b>	<b>123</b>	<b>101</b>	<b>191</b>
Inc./(Dec.) in Cash	11	4	4	3	(3)
<b>Opening Cash balances</b>	<b>2</b>	<b>14</b>	<b>17</b>	<b>21</b>	<b>24</b>
<b>Closing Cash balances</b>	<b>14</b>	<b>17</b>	<b>21</b>	<b>24</b>	<b>21</b>

### Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	61.8	47.2	74.5	42.9
P/CEPS	50.6	36.4	35.3	26.6
P/BV	6.9	5.4	5.1	3.3
EV/Sales	7.5	5.6	4.6	4.0
EV/EBITDA	36.4	26.1	21.3	17.0
EV / Total Assets	4.9	4.3	3.2	2.5
<b>Per Share Data (₹)</b>				
EPS (Basic)	10.8	14.2	9.0	15.6
EPS (fully diluted)	10.8	14.2	9.0	15.6
Cash EPS	13.3	18.4	19.0	25.2
Book Value	97.5	123.2	132.1	200.8
<b>Returns (%)</b>				
ROCE	12.4	14.7	13.1	12.5
Angel ROIC (Pre-tax) (Ex-goodwill)	19.7	22.1	19.0	19.2
ROE	11.0	11.6	8.7	8.2
<b>Turnover ratios (x)</b>				
Inventory / Sales (days)	78	83	92	95
Receivables (days)	227	228	263	270
Payables (days)	87	98	104	103
WC cycle (ex-cash) (days)	218	213	250	262

Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

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