



S Chand And Company Limited

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Date: February 20, 2019

To Listing Department BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai, Maharashtra 400001	To Listing Department, National Stock Exchange of India Limited Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai, Maharashtra 400051
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Dear Sir,

Re: Transcript of conference call with the Analysts and Investors

The Company had organized a conference call with the Analysts and Investors on Friday, February 15, 2019 at 1:00 p.m. The transcript of the said conference call held with the Analysts and Investors is enclosed herewith.

The Company shall also disseminate the above information on the website of the Company- www.schandgroup.com.

Request you to kindly take note of the same.

Thanking You.

For S Chand And Company Limited




Jagdeep Singh
Company Secretary & Compliance Officer
Membership No: A15028
Address: A-27, 2nd Floor,
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New Delhi-110044

Encl: as above

S Chand And Company Limited
Q3 FY19 Results Conference Call
February 15, 2019

Moderator

Ladies and gentlemen, good day and welcome to the S Chand & Company Limited Q3 FY'19 earnings conference call hosted by Prabhudas Lilladher Private Ltd. As a reminder all participant lines will be in listen only mode and there will be an opportunity for you to ask questions after the presentation concludes, should you need any assistance during the conference call please signal an operate by pressing * and then 0 on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jinesh Joshi from Prabhudas Lilladher. Thank you and over to you, sir.

Mr. Jinesh Joshi – Prabhudas Lilladher Private Limited

Hello everyone on behalf of Prabhudas Lilladher I welcome you all Q3 FY 19 earnings call of S Chand and Company Limited. We have with us the management represented by Mr. Himanshu Gupta, MD, Mr. Saurabh Mittal, CFO, and Mr. Atul Soni from investor relations. I would now like to hand over the call to management for the opening remarks after which we can open the floor for Q&A, thank you and over to you, sir.

Mr. Himanshu Gupta – MD, S Chand and Company Ltd.

Thank you so much, Jinesh, my name is Himanshu Gupta, I am the Managing Director of S Chand Company Ltd. A very good afternoon, ladies and gentlemen. I would like to welcome you all to our 3rd quarter and nine months result conference for FY 2019 and thank you all for taking the time out and joining us here today.

We are primarily engaged in the K to 12 content business which is a very seasonal in nature. Since 80% to 85% of the annual revenue comes in the January to March quarter which is linked to the school academic season, which starts from March and April onwards. The current quarter, especially the months of February and March are the main supply period for us.

I would like to take this opportunity to give some colour on the ongoing school season. We have started to see school orders flow since January. This year we have seen paper prices record second consecutive year of price increase of 15% to 16% levels which is something

which we have not seen in a long time in this business. However, this is not going to going to impact us in the same magnitude since our paper contract had been fixed at the start of the year at around 5% escalation. We have taken a mindful call to hold on to our terms of sales and pricing for the season, this has resulted in channel partners delaying certain orders which we were confident of retaining. For this season we had taken a conscious call to work towards improving our cash flow in the following quarters by going after better terms of trade with our channel partners which means increasingly working with partners who work directly with the schools and have more visibility of school adoptions and have timely payment cycles. We are also controlling our discounting structures as we navigate through the sales season. Although this would lead to lower sales, lower levels of sales growth but it would lead to much better cash flows in the coming quarters.

I would like to share S Chand's 3.0 vision for improving cash flows starting from sales for the season. We have identified better management of inventory, channel inventory, collections and internal costs as a fulcrum of increasing our cash flows going ahead. The free cash flows that we generate from the initiatives that we take now would show up in the next 6 to 12 months period. Let me take a minute each to talk about each important parameter.

1. First one is inventory. We have had a hard look at the titles we carry, the print runs we do, the lower selling titles in our catalogue along with the inventory at hand. We are looking to take measures to control inventory at our end to free up our investments in the inventory that we carry.
2. Second, sales returns. We are carefully looking at older data regarding the track record of sales returns of various geographies and customers. We are going into the season keeping these things in focus and look to achieve better visibility of adoptions in schools than last year. This should reduce the channel inventory after the season and give us saving in minimising the printing costs and keeping the inventory both with us and the channel partners by the end of Q2 next year.
3. Third receivables, we looking to achieve lower receivable days from our channel partners by analysing historical data of channel partners and taking strong steps like taking advances and confirmed payment commitments, doing measured sales to these customers etc., to ensure that our sales are done to preferred channel partners only.
4. Fourth costs, we have already identified costs in the system which can be rationalised. We are looking at all parameters, including production cost, operational cost, overhead cost, man power productivity and looking to take steps like

centralising all backend processes like finance, HR, editorial etc to optimise costs at the group level. We are looking to implement this after the current sales season is through and would reflect in lower costs from Q1 next year.

We are on the way to a new destination in the journey of S Chand as a Company. I see the journey of our company in three stages. The first phase was the establishment of the 80 year old brand till 2012. This was followed by the second phase where we saw PE players like Everstone, IFC infuse funds in the company, helping us gain scales through acquisitions and complete the spread of our product offering. This scale took us from being a Rs200 crore company to a Rs800 crore company last year. Now we are ready to usher in the third phase which we are calling as S Chand 3.0 vision for the company, where we look at improving free cash flows for the group and driving synergies from the acquisitions done in the past five years.

Additionally, I wanted to share update on the Chetna Investment which we had announced earlier in the year. We were waiting for certain conditions precedence to be met to complete the acquisition, but these have not been met despite taking additional time considerations. Considering this, both parties have mutually decided not to proceed ahead with the transaction. Do note that this decision has no impact on our financials. As for Chaya Prakashini, we are on track to pay for the 26% remaining stake in the month of February itself and then completing the 100% acquisition of the company.

In terms of our Digital and Service initiatives, we have been able to further penetrate the market for Mylestone with larger school adoptions including adoptions in the Middle East market. Test Coach, our online testing app has received great response from students who have used it and we are looking at multiple channels to bring students appearing of various recruitment examinations onto our online testing application. Nuri Nori, our PreK product has also seen adoptions in schools and we are further looking to launch the customer product for it. These products and services would be the future growth drivers for the Group.

Keeping in mind, all the discussed parameters to improve our cash flows going ahead, we look to do low single digit revenue growth for this year with improved cash flow performance in the coming quarters. I hope that the investors understand that these steps were required to bring about a new era for the company which focuses on increased free cash flows and generates stronger operating profitability for the company going ahead.

I would now request my colleague our CFO, Mr. Saurabh Mittal to apprise us on the financials performance of S Chand in Q3 and the 9 months of FY 2019, thank you so much.

Mr. Saurabh Mittal – CFO, S Chand and Company Ltd.

Good afternoon everyone and thank you for your time. I am Saurabh Mittal, CFO of S. Chand. I would like to highlight that the third quarter sales comprise primarily of higher education content as the K12 segment majorly contributes in the Jan-March quarter.

For the 3rd quarter, our revenues came at Rs46 million versus Rs680 million in the last quarter of the previous year. This is largely on account of moving certain schemes for our best-selling products to Q4. Our EBITDA loss stood at Rs852 million vs loss of Rs369 million in the same quarter last year. Our net loss is at Rs815 million versus net loss of Rs259 million in the same quarter previous year. This includes extraordinary items of Rs. 226 million.

On a consolidated basis, for the nine months of the year, we have reported revenues of Rs729 million against Rs1398 million last year. Losses after taxation for the nine-month period are Rs1884 million against Net loss of Rs1180 million to the last nine months period last year. Considering there has been a shift in Revenues to Q4, we are confident of recovering it in Q4.

In terms of working capital, our debtors days have reduced by 23 days this quarter to 155 days vs 178 days at the end of Q2FY19. Our Net Working capital days has increased by 22 days QoQ to 224 days (vs. 253 days in Q4FY18, 235 days in Q1FY19 & 202 days in Q2FY19) on back of increase in inventory levels for Q4. Do note that historically Q3 sees an increase in the working capital on back of higher inventory for addressing Q4 sales.

The company has net debt of Rs202cr which comprises of Gross debt of Rs234cr and cash of Rs32 cr.

With this, I would like to open the call for your questions. Thank you.

Moderator

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touch tone phone, if you wish to remove yourself from the question queue you may press * and 2, participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We have the first question from the line of Nitin Agarwal from JM Financial, please go ahead.

Mr. Nitin Agarwal – JM Financial

Thank you for giving me the opportunity. Sir, my first question is can you put some light on what exactly are the terms with the channel partners which you are changing and are we in a bargaining position with regards to the industry norms and are we able to change that and how will you maintain the trade-off between the lost sales with this change in terms versus, you know, better cash flows. So can you put some light on this.

Management S Chand and Company Ltd.

So we would like to highlight that this is not across the board and this is being done for certain OTC products. What we were doing earlier is that we were coming out with schemes at the end of Q3 while this time we have pushed the schemes from Q3 to Q4 and we are taking partially advanced payments against them and partially post-dated commitments from them for these items. For the general K to 8 we have not changed anything much in that, only we are looking at selective supplies to our customers who have greater visibility of school adoptions.

Mr. Nitin Agarwal – JM Financials

So how much of the total sales are attributed to the change in terms. If you're saying its only selective titles so much of this is of total sales.

Management of S Chand and Company Ltd.

It's close to about 100 crores.

Mr. Nitin Agarwal – JM Financials

Okay, so it's only 100 crores worth of sales which is you know undergoing the change in terms, is that understanding correct.

Management of S Chand and Company Ltd.

These are the items which normally got sold in the Q3 of the previous two years. Last year we did move these materials to our channel partners in December itself but collections only come in Q4 and Q1. We deferred this to Q4 so that our working capital cycle remains better and we don't get a push back on the discount structures.

Mr. Nitin Agarwal – JM Financials

So if these things are just shifted from 3Q to 4Q then why has our revenue guidance reduced from 13% to a low single digit?

Management of S Chand and Company Ltd.

We feel that the market right now is in a position where we do not want to push sales in the market in a way there one sees higher levels of sales returns. Basically we believe that to control the returns and to improve the cash flows, we are going in a very selective order processing system where we are telling our channel partners, our schools that you take the product as per your requirement and as per your need but do not take anything extra which is not required which in all likelihood you will send us back as sales returns. Also, we believe that some of the sale will happen in Q1 as well. So that is one advantage to us. So we basically are telling our customers to be very careful in ordering because ultimately we don't want to have a bigger level of inventory tomorrow when the returns come back, and which is the normal practice in this industry. So, we are being very proactive in printing less, using the existing inventory that we have. All this would lead to lower levels of sales returns so that our inventory is more controlled and our cash flow is much better.

In a nutshell, what we are trying to do in the overall picture is reduce the period between what I supply and when I get my collection from the market because there is where my inventory, all my receivables are increasing year on year, so we are trying to reduce that. So, there is a limited time between my supply and what gets liquidated in the market and what comes back and when I get my payment from the market.

Mr. Nitin Agarwal – JM Financials

Okay, and, sir, if you could just break this low single digit into volume and realisation.

Management of S Chand and Company Ltd.

There would be negligible volume growth I would say.

Mr. Nitin Agarwal – JM Financials

Okay, so whatever growth you're getting would be in realisation.

Management of S Chand and Company Ltd.

Yes.

Mr. Nitin Agarwal - JM Financials

And, sir, with this low revenue growth and our cost increasing, you know, at a higher rate can we expect margin significant margin compression in FY19?

Management of S Chand and Company Ltd.

There will be a margin compression this year in terms of you EBITDA margin not so much on the gross margin.

Mr. Nitin Agarwal – JM Financials

I am talking about the EBITDA margin only.

Management of S Chand and Company Ltd.

If you see our investor presentation, we are running a large exercise in terms of reducing our cost and for next year we are looking at improving our EBITDA and gross margins by quite a bit. By the end of this year once we have worked out what we want to do for FY20 in terms of our cost reduction we will be able to give a more visible guidance in terms of margins but definitely for FY '20 our margins should be higher both on gross and EBITDA side with better receivables.

Mr. Nitin Agarwal – JM Financials

Sir, can you quantify the FY'19 EBITDA margin compression? Is there any estimate you have put in that? .

Management of S Chand and Company Ltd.

It would be between 100 to 200 bps.

Mr. Nitin Agarwal - JM Financials

Okay, thank you. I have a few more questions I will come back in the queue.

Moderator

Thank you, sir. Participants who wish to ask a question may press * and 1 on their touch tone phone now. We have the next question from the line of Sunil Kothari from Unique Investments please go ahead.

Mr. Sunil Kothari – Unique Investments

Thank you very much, sir. Sir, In the first 9 months of the current year, our sales has reduced to almost 72-73 crores. Is there any major I mean shift in some pattern or some demand, what type of change are you observing or this is some change in your style of business which is hurting and creating de-growth.

Management of S Chand and Company Ltd.

If you look at my first 9 months, it typically contributes only about 15%-20% of my revenues. so to that extent it is a small percentage of the whole year. And further, we saw a shift from Q3 to Q4 in sales largely because when you're tightening terms with the market to improve the working capital levels for the company there would be some push back from the channel which we have to see for this year. Hopefully by next year things would be much, much better. But then it's a call which we have to take at that point of time.

Mr. Sunil Kothari – Unique Investments

And we are guiding for single digit growth year on year for whole year, right.

Management of S Chand and Company Ltd.

Yes.

Mr. Sunil Kothari – Unique Investments

So last year we have done say 800 crores if we take flat to 5% growth it roughly comes to 800-850crores so last quarter we are supposed to do 730-770 crores. In terms of guidance whatever you are guiding during mid-February you must be sure about whatever you are guiding for.

Management of S Chand and Company Ltd.

We are getting good traction from the January month and we believe that the numbers that we are talking about are achievable. Even if you see last year we had done approximately 660 crores in the last year same quarter approximately? And this year we are talking about 70-100 crores gap, and that gap basically is from a lot of those products which are shifted from Q3 to Q4. In addition, I would say that we should see improvement in terms of the volume of the current quarter with some price benefit. So we are quite hopeful that in the

next 45 days because we are getting good chunk of sales happening every day so we believe we should be able to come close to that number.

Mr. Sunil Kothari – Unique Investments

And sir, EBITDA we are guiding for 200 basis point lower so average EBITDA upto now we are doing around 24% approx. so this year we should hope for 22% approx. for whole year.

Management of S Chand and Company Ltd.

Yes.

Management of S Chand and Company Ltd.

But you see that is the consolidated numbers. I would like to break it up into publishing and digital. I would say publishing would remain largely the same as last year, there would be a dip because we have invested into a couple of digital businesses which is pulling it down separately. At the end of the year we will give you a break up of digital and publishing both in our financial results also where we can specify how it has moved in both the segments. Because digital we are still investing and there, of course, we are continuing to have initial losses but there, of course, in 2-3 years time we expect to break at least at the EBITDA level.

Mr. Sunil Kothari – Unique Investments

Sir, when we have done analysts meet, I think we are hoping for a two year break even in this digital format, so are we seeing any delay in the realization of those effort, are we investing more. I mean if you can give little bit detail about your digital effort and how things are happening.

Management of S Chand and Company Ltd.

As Mr. Gupta specified in his opening remarks, we have got three major initiatives, Mylestone, Nuri Nori and Test Coach. In Mylestone, we are looking at almost 100% revenue growth from last year, because we already got adoptions in quite a number of schools and we have almost reached our target of what we have set out for this year.

In terms of Test Coach, which is a new initiative, we have got very good response from students and now we are marketing our products through various channels. So, we hope to get traction this year on that and build onwards for next year. Mylestone, of course, we hope to breakeven next year. Tech Coach it will take another two years time because this is

the first-year launch. As for Nuri Nori, we have got the initial adoptions from pre-schools and we are also looking at launching the consumer product. So there again because the investment is not too high, I would see breaking EBITDA level on within two years.

Mr. Sunil Kothari – Unique Investments

So, sir, again I am clarifying is the EBITDA margin of publishing business will be lower, by maybe 200 basis points, right.

Management of S Chand and Company Ltd.

The EBITDA margin of the consolidated business would be 200 bps lower this year.

Mr. Sunil Kothari – Unique Investments

And last, sir, as a suggestion, we are trying to buy out other publishing houses at say 5-6 times EBITDA and if you take S Chand's number, last year we have done 200 crore EBITDA and market cap of S Chand is 700 crores and promoter holding is also 46-47%. Why is management is not thinking about buying out itself S Chand business which you know very well, and you are running since last 80 years. Why are we trying to go for growth, because ultimately market is not giving you recognition and value for your outside effort, so if you feel the business is valuable then why you should not think about this. Kindly share your thoughts around this. Thanks

Management of S Chand and Company Ltd.

Okay, sir, in terms of acquisitions we have already informed the exchange the Chetna transaction as it stands today has been mutually called off. So that's one answer to your question. In terms of the other acquisition by the promoters, till the time there was a announced acquisition in the market the promoters could not have gone ahead and increased their stake since that would amount to insider knowledge of potential acquisitions in the company. We did not want to have any insider trading issues there. Having said that, of course, the promoters have complete confidence in the business, and we have been in discussions around the same. We will come back incase there is a change in the position here.

Management - S. Chand And Company Ltd:

Normally, acquisitions take anywhere between 12-18 months or even more to get consummated. The Chetna discussion, as a matter of fact, was started even before the time of the IPO. So these discussion do take time. Sometimes they happen, sometimes they

don't. But our primary objective of this discussion is that we need to make sure that we are present in those regional markets or those markets and those product categories, which the company is not there or company does not have a strong footed portfolio. So that is why is it important to look at these acquisitions. And they are acquisitions where we feel if they are financially viable and mutually benefits to the buyer and seller, then we only consummate that acquisition, otherwise not.

Mr. Sunil Kothari – Unique Investments:

Sir, my point of view is that S Chand, the listed company is available at Rs. 700 crores market cap and if you are confident about generating Rs. 200 crores plus minus EBITDA then why should the management or promoters not think about buying it out? Everyday you will find promoters acquiring or increasing their stake if there is a good opportunity.

Management - S. Chand And Company Ltd:

I think we can have a separate conversation on this, because for the sake of the participants in this call, this question is slightly out of purview. I think Himanshu has already answered and given his view point. Your points are well taken. Let's see what the future holds on this particular aspect.

Mr. Sunil Kothari – Unique Investments:

Thank you very much.

Moderator:

Thank you very much. The next question is from the line of Pratik Kothari from Unique Asset Management. Please go ahead.

Mr. Pratik Kothari - Unique Asset Management:

Good afternoon Sir and thank you for the opportunity. You just mentioned that you mutually called off the Chetna deal that you were going to do. Can we throw some light on what went wrong or why are we not going ahead with this?

Management - S. Chand And Company Ltd:

There was a discussion between both parties however, there is a non-disclosure clause in our agreement thus we would not want to make public the discussion that we had for the interest of both the parties.

Mr. Pratik Kothari - Unique Asset Management:

Okay, fair enough sir. My second question is, you mentioned that there was a shift of approx. Rs. 100 crores of sales from quarter 3 to quarter 4. Is this mainly in the higher education space?

Management - S. Chand And Company Ltd:

These are 2 segments basically. One is your school segment, which is class 9 to 12, and the other one is in the Test Prep segment, which is in the higher education space. And these are our bestselling titles where we would like to hold on and let the market demand products and then pay us accordingly.

Mr. Pratik Kothari - Unique Asset Management:

Okay. What surprises me is, we had the quarter 2 concall in the middle of November and half of quarter 3 was already done, and there was no mention about this. It's only when the results have come out for quarter 3, that we see that we have this change in strategy, because our 3rd quarter revenue has gone down from Rs. 70 odd crores to Rs. 5 odd crores. It's a major jump, and I think in the middle of quarter 3, I'm sure you would have an idea about this whole change in strategy and why you could see almost Rs. 5 crores of revenue. So, why was this not mentioned in our quarter 2 call or in the presentation or any kind of communication that we had with the shareholders in the past?

Management - S. Chand And Company Ltd:

So, what happens in these products is, in terms of the K12 products, most of it gets only shipped in December end, the last 15 days because the channel would always want this material closer to the season. Nobody would want to pick up this material in November. There was a scheme that we had launched last year in December 2017, which had good adoptions for this product. However, come March, people were able to garner higher discounts, which did not work with some of our key distributors. So this year, we have lowered discount structures going ahead. We did launch the scheme in December but there were few takers for that since the market was apprehensive that we would give a higher discount in the next quarter. However, we have lowered the discount for that product currently, and now people are coming back and buying at a lower discount right now in Q4. So, it has actually worked for us. Of course, for the 3rd quarter it didn't work, but that was a call that we consciously took.

Mr. Pratik Kothari - Unique Asset Management:

Fair enough. And so, sir, on part of this strategy, are we discontinuing any titles or author relations for the number of distributors that we had? Will there be a material change in that number?

Management - S. Chand And Company Ltd:

There is no discontinuance on any authors. I'll be very upfront about it. All our authors continue to be key to us and we would work with them in the future also. We have perpetual agreements with them. In terms of distributors, there would be changes. There are certain smaller percentage of distributors who have lower visibility with school adoptions and where the payment terms also were not very conducive for us. So in certain cases, about 4-5% of these cases, we have taken a call not to work with certain distributors. But then again do keep in mind that the volume of that area would move to a larger distributor.

Mr. Pratik Kothari - Unique Asset Management:

Fair enough. And sir, my last question is regarding this unexpected return that we got of Rs. 23 odd crores in 9 months. In what segment was this, and what went wrong that this time we had this unexpected return of sales?

Management - S. Chand And Company Ltd:

This was in the school segment, these were certain products which we had shipped to distributors. Again, we had given these distributors an option of paying us before the start of the season. They did not want to move that way. So we told them that they could return inventory back to us to close the pending balance from last season. I would like to highlight that we have already shipped that inventory to other distributors in Q4.

Mr. Pratik Kothari - Unique Asset Management:

So is that thing getting liquidated now?

Management - S. Chand And Company Ltd:

It is already liquidated.

Mr. Pratik Kothari - Unique Asset Management:

Okay. Thank you, sir and all the best.

Moderator:

Thank you very much. The next question is from the line of Aasim Barde from IDFC Securities. Please go ahead.

Mr. Aasim Barde - IDFC Securities:

Hi! Could you please help me reconcile why are you still guiding for a low single digit revenue guidance? It was 14-15% earlier. You said that just Rs. 100 crores of revenue has been hit, and you feel confident of recovering most of it in Q4. If it is just a shift from Q3 to Q4, then why the sudden cut in revenue guidance?

Management - S. Chand And Company Ltd:

What I had also said previously was that we are trying to do is reduction of the working capital days from the time the product is in inventory with us to the time we make sales and till the time we collect our receivables. We want to reduce this period. A lot of revenue that has come for last year, is in the same manner, which moved to Q1. So that is the reason why we are trying to move that period so that we can reduce our working capital requirements in the business which are at elevated levels.

Management - S. Chand And Company Ltd:

Also, this help us reduce the amount of returns that come next year. Essentially we are trying to guide and tell our customers that please order things which are required by the final customer. Do not over order, because tomorrow if you over order, then you will send the goods back to us, which we don't want. The goods get damaged on the way, there's freight cost, there's warehousing cost, there's handling cost, there's printing and paper production cost and all those costs associated. So we are trying to also reduce the next year returns that we get from the goods that we sell this year which should lead to improved quarterly sales that what has been shown historically since returns tend to lower sales on a quarterly basis.

Mr. Aasim Barde - IDFC Securities:

Okay. So, if for FY-19 you're expecting low single digit revenue growth, what kind of expectation are you seeing for FY20, now that the base would also be lower? Would it still be 14-15% or would it be a bit higher?

Management - S. Chand And Company Ltd:

I think we are just in the middle of our current season. Let the season get over and I think then we'll have a better handle about what to guide for FY20.

Management - S. Chand And Company Ltd:

Also one more thing. This year we have the elections coming in April-May period. There is the new education policy which might also come. We're not very sure what it will be. So, these are factors which would impact FY20. While of course, in terms of market, our strategy remains the same. However, considering these factors, FY20 revenue guidance is a bit far off, right?

Mr. Aasim Barde - IDFC Securities:

When are you expecting this education policy?

Management - S. Chand And Company Ltd:

It is difficult to say with regards to time line of government action on the Education Policy. We've been expecting it for the last 5 years. The Honourable Education Minister was supposed to announce it this year but it has been delayed. Let's see the results of the upcoming national elections and then there might be action on this policy front.

Mr. Aasim Barde - IDFC Securities:

Okay. And my final question is, your net debt seems to be a bit on the higher side. Last quarter it was Rs. 150 crores and you were expecting to close the year at about Rs. 200 crores. But that included payments made for Chetna and the additional debt you would be taking for Chhaya. So, right now, why is this at Rs. 202 crores? Inventory has gone up, but your sales outstanding has also come off. Could you just throw some light on that?

Management - S. Chand And Company Ltd:

So in Q3, traditionally, your net debt is always higher. By the end of Q4, we are still targeting that 120-150 crores range.

Mr. Aasim Barde - IDFC Securities:

Okay, thanks a lot sir.

Moderator:

Thank you very much. The next question is from the line of Anuj Sharma from M3 Investments. Please go ahead.

Mr. Anuj Sharma - M3 Investments:

With the Chetna acquisition not going through, now how does your Maharashtra strategy pan out? Would you remain silent for some time or are you looking at some acquisition in Maharashtra?

Management - S. Chand And Company Ltd:

Right now, there is currently no other deal on the cards for Maharashtra particularly. But we'll always look out for good and better deals. If and when they come, we will let the market know about it.

Mr. Anuj Sharma - M3 Investments:

Okay. And, just on the exceptional item, in continuation to the previous question, this Rs. 22.6 crores pertain to the turnover element or the profit element of the goods?

Management - S. Chand And Company Ltd:

It's the profit element. It can't be turnover element.

Mr. Anuj Sharma - M3 Investments:

Okay. So what was the turnover of goods which were returned to us?

Management - S. Chand And Company Ltd:

It would have been in the range of Rs35 odd crores, I think.

Mr. Anuj Sharma - M3 Investments:

Sorry, Rs. 35 crores turnover would have a profit margin to the extent of Rs. 22.6 crores?

Management - S. Chand And Company Ltd:

We have a gross margin of 60%.

Mr. Anuj Sharma - M3 Investments:

Alright. And you believe that you have already seeded this back to the channels, right?

Management - S. Chand And Company Ltd:

Yes, it has already gone back to the channels.

Mr. Anuj Sharma - M3 Investments:

Okay sure. Thank you.

Moderator:

Thank you sir. Participants who wish to ask a question at this time, press * and 1 on your touchtone phone now. We have the next question from the line of Nitin Agarwal from JM Financial. Please go ahead.

Mr. Nitin Agarwal - JM Financial:

Thanks once again. Sir, I just wanted to understand that sales return for this quarter which has been recorded as an exceptional item. What does it mean by 'not in ordinary course'? Can you explain that?

Management - S. Chand And Company Ltd:

What we have done is, this year there were certain channel partners whom we had given an option to pay for the inventory that they were holding, because that is the policy of the company. Where they were not willing to pay for that, we picked up the inventory and closed their accounts.

Mr. Nitin Agarwal - JM Financial:

So currently, if you say that we have redistributed this, so will this be reversed from extraordinary in Q4?

Management - S. Chand And Company Ltd:

I'm not 100% sure, but I think I would have a look at how the auditors would like to treat it. But, I'd be happy to take it off exceptional.

Mr. Nitin Agarwal - JM Financial:

Okay. And sir my second question is, how confident are we to get the balance realization from Waldorf? Around Rs. 3.5 crores plus?

Management - S. Chand And Company Ltd:

Rs. 3.5 crores is already being banked. There are cheques of the balance Rs. 3.75 which will be cleared shortly.

Management - S. Chand And Company Ltd:

One is getting cleared on the 18th Feb and the balance comes on the 7th of April.

Mr. Nitin Agarwal - JM Financial:

Okay thank you sir. That answers my question.

Moderator:

Thank you sir. Participants who wish to ask a question at this time, press * and 1 on your touchtone phone now. We have the next question from the line of Ajay Bodke from Prabhudas Lilladher. Please go ahead.

Mr. Ajay Bodke - Prabhudas Lilladher:

Good afternoon sir. I have 2 suggestions. You mentioned in the presentation that the aim basically is to improve the free cash flows, going ahead. I think, if you could sort of indicate for FY20, what is the free cash generation that you expect? Because currently, I think only 20% of your EBITDA gets converted into operating cash flows. So, what is the level that you are targeting? Secondly, you also mentioned that you are looking to improve your return ratios. So, if the investors get an idea about the targeted ROEs and ROCEs over the medium term over the next 2 years and how you intend to achieve that, I think that sort of, would send a strong signal. As one of the participants mentioned, I think there is a consensus view that the franchise that you have built has a tremendously high fair value vis-à-vis what the market is ascribing to it right now. And, it is important that this kind of clear signalling is sent to the market. Because then, the market will be able to ascribe a proper value to the franchise. Thank you very much sir.

Management - S. Chand And Company Ltd:

So, we would have greater visibility in terms of this once we give the Q4 numbers. Right now, it's a bit premature. We would like to see how this year plays out, and by Q4 we would have a larger idea. So in terms of your first question, which was on free cash flows, currently if it's at 25%, we're looking at a target in excess of 50% of EBITDA to free cash flows for the publishing business. You also have to see that a part of this will get allocated towards the digital business, which will continue to have investments over the next 2-3 years

Mr. Ajay Bodke - Prabhudas Lilladher:

Sir if I'm right, what you're saying is, from 25% of EBITDA in your publishing business, conversion, you are looking at 50% by FY20. Am I right?

Management - S. Chand And Company Ltd:

I would say between FY20 and FY-21, because it's not a process which would exactly take one year to complete, considering there are seasonal aspects to business. I would say, it would take about 1-2 sales cycles to come to that level.

Management - S. Chand And Company Ltd:

Primarily, our goal is that we want to make sure that business is self-sufficient, business is free cash flow positive and the overall business is a growing concern. For the last 5-6 years, we have been on a complete growth and acquisition path. And now we believe that the time has come where we need to make sure that we're looking at basically improving our cash flows in this business. That's very important, I feel.

Mr. Ajay Bodke - Prabhudas Lilladher:

And if you give your views on the return ratios front, how do you intend to sort of...

Management - S. Chand And Company Ltd:

I think Q4 results would probably be the right time to discuss these in more detail.

Mr. Ajay Bodke - Prabhudas Lilladher:

Okay. In the 'notes to account', there is diminishing value of investment that you mentioned; 13B in the standalone financial results. Could you throw some light on this DS Digital Printing? What exactly does this pertain to?

Management - S. Chand And Company Ltd:

If you see on a consolidated level, this is not there because we have already been consolidating the losses for that business. It's only an item which appears on the standalone financials. On the consolidated, it has no impact.

Mr. Ajay Bodke - Prabhudas Lilladher:

Okay. Thank you very much sir.

Moderator:

Thank you. Anyone who wishes to ask a question may press * and 1 on your touchtone phone now. The next question is from the line of Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.

Mr. Utkarsh Maheshwari - Reliance General Insurance:

Good afternoon sir. Sir I joined in late. I believe you have guided for a guidance cut. It's a low single digit revenue guidance that you're expecting for FY-19, right?

Management - S. Chand And Company Ltd:

Yes.

Mr. Utkarsh Maheshwari - Reliance General Insurance:

And I want to understand one thing. This entire revenue that we have lost, is majorly because of the Rs. 35 crores of revenue which has got sales return? Is that why the revenue for operation reflected at 46 million?

Management - S. Chand And Company Ltd:

Partially on account of that, partially on account of shifting certain sales from Q3 to Q4.

Mr. Utkarsh Maheshwari - Reliance General Insurance:

Then how can we compare that Rs. 68 crores versus Rs. 4 crores revenues?

Management - S. Chand And Company Ltd:

Largely on account of revenues of our product which we've moved from Q3 to Q4.

Mr. Utkarsh Maheshwari - Reliance General Insurance:

Okay. So basically, at the end to end basis, it would be moving in intact, right?

Management - S. Chand And Company Ltd:

Yes. Part of it has already happened in January. The item has shifted from Q3 to Q4.

Mr. Utkarsh Maheshwari - Reliance General Insurance:

You mentioned about the new education policy which has been delayed and considering it doesn't come, then do you see any kind of change in your thought process? Then do you see any numbers for FY20 as a growth rate, considering the status quo goes on?

Management - S. Chand And Company Ltd:

Then we will look at whatever we've been doing in the last 4-5 years. We would continue to work around those numbers.

Mr. Utkarsh Maheshwari - Reliance General Insurance:

So basically, if there is no aberration on the part of this education policy, then the normal course of business will happen?

Management - S. Chand And Company Ltd:

It can be positive result side once the policy comes. Since if there is a change in syllabus, that is always good for business in terms of all trade. All the old books go out of print, and for every business there are new adoptions. So, if it happens to come this year, it will give more clarity. The country does need a new education policy in terms of the future requirements of this country. So, once it comes, we would work around that.

Mr. Utkarsh Maheshwari - Reliance General Insurance:

No sir. If the policy doesn't come, then there probably will be no change in syllabus. Is that the right understanding then?

Management - S. Chand And Company Ltd:

Basically, if the new education policy of the government comes in, then there will basically be a new curriculum framework. After the curriculum framework is made, then the NCERT starts meeting and then the changes start coming in.

Mr. Utkarsh Maheshwari - Reliance General Insurance:

Okay. So probably, even if they come with a policy in 2019, considering it happens, then also the bigger part of change will happen in 2020. Basically, for the next season only and not for this season.

Management - S. Chand And Company Ltd:

I don't think it would even be possible in 2020. I think the minimum would be 2021.

Mr. Utkarsh Maheshwari - Reliance General Insurance:

Yes, because it will happen only in the next season, if at all the syllabus upliftment happens then.

Management - S. Chand And Company Ltd:

Yes.

Mr. Utkarsh Maheshwari - Reliance General Insurance:

You spoke about the net debt part, and probably Rs. 50 crores has come in because of Chetna. So only after that comes off, would you be seeing Rs. 150 or some bigger targeting is there in terms of raising the debt? You mentioned about the net debt at Rs. 200 odd crores right now and you're targeting Rs. 120-150 by the end of FY-19.

Management - S. Chand And Company Ltd:

So there's an additional debt of Rs. 65 crores that we've taken for the remaining payment for 26% stake in Chhaya. In the normal course of business, we would receive about 15-20% of our receivable for the current year sales also by 31st of March. We are trying to see if we can increase that and improve the net debt position by year end.

Mr. Utkarsh Maheshwari - Reliance General Insurance:

When we have mutually terminated this agreement with Chetna, have you paid anything to them and are we going to get back some money?

Management - S. Chand And Company Ltd:

No, nothing has been paid to them. We were faced with some diligence cost that we've already written off.

Mr. Utkarsh Maheshwari - Reliance General Insurance:

That is also written off I think. So you have not paid them anything, right?

Management - S. Chand And Company Ltd:

Just to clarify, we have not paid anything to Chetna. And in the net debt-gross debt number that you see, there is no payment to Chetna as of now.

Mr. Utkarsh Maheshwari - Reliance General Insurance:

And how much money is to be paid to Chhaya in the final tranche, which you are expecting to happen by February?

Management - S. Chand And Company Ltd:

About Rs. 64.2 crores.

Mr. Utkarsh Maheshwari - Reliance General Insurance:

So that part would be paid to Chhaya.

Management - S. Chand And Company Ltd:

It's already appearing as a financial liability of Rs. 65.7 crores in March. The amount is lower by about Rs. 1.3 crores.

Mr. Utkarsh Maheshwari - Reliance General Insurance:

Okay, fair enough. All the best.

Moderator:

Thank you very much sir. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments. Sir, over to you.

Management - S. Chand And Company Ltd:

So, thanks a lot for your time. We have already outlined the prospect that we have for this year, and what we are looking to achieve by our Vision 3.0. We will be getting more colour

on this on the next quarter call, when we'll be able to come with our annual results. And I look forward to interacting with all of you in that conference call.

Moderator:

Thank you very much sir. Ladies and gentlemen, on behalf of Prabhudas Lilladher Pvt. Ltd., that concludes this conference call. Thank you for joining us. You may now disconnect your lines.