



S Chand And Company Limited

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Date: March 06, 2018

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| 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 Monday, February 12, 2018 at 11:30 a.m. The copy of 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.

For S Chand And Company Limited



Jagdeep Singh
Company Secretary & Compliance Officer
Membership No: A15028
Address: A-27, 2nd Floor,
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Encl: as above





“S. Chand & Company Q3 FY2018 Earnings
Conference Call”

February 12, 2018



ANALYST:

MR. ADITYA BAGUL - AXIS CAPITAL LIMITED

MANAGEMENT:

**MR. HIMANSHU GUPTA – MANAGING DIRECTOR - S.
CHAND & COMPANY**

**MR. SAMIR KHURANA – GROUP HEAD, STRATEGY &
INVESTMENTS - S. CHAND & COMPANY**

**MR. SAURABH MITTAL - CHIEF FINANCIAL OFFICER
- S. CHAND & COMPANY**

Moderator: Ladies and gentlemen, good day and welcome to the S. Chand & Company Q3 FY2018 earnings conference call hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. I would now like to hand the conference over to Mr. Aditya Bagul from Axis Capital Limited. Thank you and over to you Sir!

Aditya Bagul: Thank you Stanford. Good morning ladies and gentlemen. A warm welcome to the Q3 FY2018 conference call for S. Chand & Company Limited. We have the management of S. Chand represented by Mr. Himanshu Gupta, Managing Director, Mr. Samir Khurana, Head Strategy and Investments, and Mr. Saurabh Mittal, CFO. I shall hand over the call to Mr. Himanshu Gupta for a brief discussion on the Q3 numbers post which we will open the floor for Q&A session. Thank you and over to you Sir!

Himanshu Gupta: Thank you Aditya. Good morning ladies and gentlemen. I am Himanshu Gupta, the Managing Director, S. Chand & Company Limited. I would like to welcome you all to our third quarter and nine months result presentation for FY2017-2018 and thank you all for taking the time-out and joining us here today. I had mentioned in previous investor interactions, we are primarily engaged in the K12 content business which constitutes around 80% of our revenues and this is a very seasonal segment linked to the school academic session that starts in April.

The current quarter especially the months of February and March are the main sales periods for us. Our teams are currently focused on meeting schools and channel partners to ensure our books are prescribed and product delivery commitments are met without any delay. The printing press is working at full capacity to make sure that there are no instances of stock out and product is dispatched to the required locations well in time. Large school orders started to flow in from last month and the initial response augurs well for us. We are hopeful of meeting our revenue guidance.

In the last quarterly discussion, we mentioned about various new initiatives being taken up by the group to increase presence in the education content market; significant progress has been made to that end which I would like to highlight:

1 In the early learning segment, we have discussed about venturing into content curriculum of preschools, last month we formalized our arrangement with SIGONG Media for their NORI NORI curriculum product and are now preparing to launch this product in the market in the second quarter of next financial year.

2. Our foray into virtual reality is very much on track. We started distributing books along with curriculum based virtual reality content. This content will be hosted in the website as well as on

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the Google play store. To make sure that the content is accessible to market S Chand has also innovated and created virtual reality headsets at an economical price.

3. Our curriculum product Mylestone is getting a good response. We have signed 120 schools in the current year against a total of 68 schools in the last year. We continue to meet to educate school owners on this product offering and are targeting to sign up around 150 schools before the end of this year. This will take our revenues from Mylestone to around Rs.10 Crores against Rs.3 Crores for last year.

4. With regards to regional markets, we are actively evaluating a few specific opportunities in South and West India and should be able to reach some conclusion by April. As and when we reach a definitive stage, we will approach the board for necessary approvals. Diversifying into these markets will help us reduce excessive dependance on Q4 and result in better utilization of print assets and improve working capital efficiency.

5. Our regional brand Chhaya had its school season commence in December. The business has registered a growth of around 16% Y-o-Y at the end of December and we expect the momentum to continue in this quarter as well.

We are geared up for the sales season and look forward to meeting our guidance. I would now request my colleague, Mr. Saurabh Mittal to apprise all of us on the financial performance of S. Chand in Q3 and nine months of FY2017-2018.

Saurabh Mittal:

Good morning everyone and thank you for your time. I am Saurabh Mittal, CFO of S. Chand. The third quarter sales comprise primarily higher education content. In the segment, we have engaged in two different sub segments, text preparation and technical and professional content.

During the nine months period, this business has registered a 9% growth with total revenue of 891 million. On standalone basis, we reported revenues of Rs.517 million against 453 millions for the quarter and the loss after taxation is lower at 58 million versus 82 million for the quarter.

For the nine months of the year, we have reported revenues of 1,089 million against 937 million, higher by 16%. Losses after taxation for the period is 236 million, lower by 66 million as compared to the last nine months period.

Our interest cost is lower by about 20% year-on-year. Some of the other recent developments of course in the last board meeting, we had taken approvals for filing a restructuring plan where we will be merging four subsidiaries with the holding company that we have already filed with the stock exchanges for approval. Post the approval, we will file the scheme in the NCLT. Further, on the new budget that has come in, we are also likely to benefit from lower corporate taxation as two -three of our key subsidiaries fall below Rs.250 Crores bracket, so we expect to have benefit

about Rs.4 Crores to Rs.5 Crores of taxation in the next fiscal year. We can now progress to take up the questions. Thank you.

Moderator: Thank you. Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Rajesh Shah, an individual Investor. Please go ahead.

Rajesh Shah: Good morning and thanks for taking my question. In the last conference call, you had stated that in the current conference call you would be able to in a better position to revise guidance for the current year. Would you now like to revise your topline and EBITDA guidance for the current year, full year? Thank you.

Samir Khurana : We would not like to revise the guidance but what Himanshu mentioned in the call is that we are looking to meet our guidance, which we had given earlier this year, which was the revenue guidance of around 14% to 15% growth.

Rajesh Shah: I would like to quote what you have stated. With season starting in January, we should give, by late January or mid February, we would be able to estimate better on how we are trending? So in light of basis would you like to revise the guidance for the guidance current year?

Samir Khurana : We are not revising the guidance. Based on the initial response in the beginning of January, the orders that we have gotten from schools, we are hopeful of meeting the guidance that we give at the beginning of the financial year.

Rajesh Shah: Thank you very much. I have another question. Would you like to throw some more light on the preschool business?

Samir Khurana : The preschool business is a curriculum business that we are planning to start from July, August of the coming financial year. It is a business where we have tied up with the South Korean company for their content. The content is a combination of physical and digital. It is a product which is very successful in global markets and we have a 10 year agreement that we have signed up with this company whereby we will be distributing their content, which will be customized based on the Indian curriculum and the target audience for us is the informal preschool segment.

Rajesh Shah: Thank you very much Sir.

Moderator: Thank you. We take the next question from the line of Nitin Agarwal from JM Financial. Please go ahead.

- Nitin Agarwal:** Thank you for giving the opportunity. I was looking at the other income and standalone nine months which has increased more than 2x year-on-year and if you could also tell what will be the other income for the consolidated entity for nine months?
- Saurabh Mittal :** On the consolidated basis because, as we know, we are not disclosing consolidated numbers , hence we will not be able to comment on that, specifically for Nine months ,its largely interest income. We also have a few subsidiaries like Saraswati, which are have taken a loan from S Chand and as a part of that are paying interest.
- Nitin Agarwal:** Okay that is the reason it gets knocked out because if we see the nine month FY2017 is 52 million versus a full year consolidated of this 30 million, so I think this other income in the standalone entity gets knocked off by consolidation?
- Himanshu Gupta:** Not all of it, very small proportion of it because a large part of the interest income would be from the money which would be parked through banks.
- Nitin Agarwal:** My second question is regarding the two subsidiaries which will be benefit from the new corporate taxation structure, so can you name those two entities and what is their PBT contribution, what percentage?
- Saurabh Mittal :** Chhaya and Saraswati would definitely fall within this threshold and there are few subsidiaries in printing like Nirja may fall. I think cumulatively the profit before tax for these three subsidiaries would be in the range of Rs.55 to Rs.60 Crores.
- Nitin Agarwal:** Thank you. That is it from my side.
- Moderator:** Thank you. We will take the next question from the line of Keyur Pandya from Prabhudas Lilladher. Please go ahead.
- Keyur Pandya:** Thank you for the opportunity. Sir one question is on working capital that you mentioned earlier. You mentioned that you will reduce the working capital by around 15 to 20 days at the end of FY2018, so sir is it on track?
- Samir Khurana :** I think the last quarter is when the working capital actually comes into play, because that is when the credit limit starts being given and right now the current working capital year-on-year is down and we are very much targeting to bring it down by the margin that we mentioned in our last call.
- Keyur Pandya:** Sir from the peak debt in Q4FY2017 what is the percentage of receivables already realized till December and till February?
- Himanshu Gupta:** Most of the receivables of last season sales are being now realized and, if there are any left those are at the fag end because there is some reconciliation left; that is the only reason why anything is

outstanding, but most of them have already been bought to zero. Otherwise we will not be able to commence sales for this season; we will not be able to give a distributor new products unless and until the account becomes zero.

- Keyur Pandya:** Thank you. I will get back into the queue if I have some other questions. Thank you.
- Moderator:** Thank you. We will take the question from the line of Shivani Vishwanathan from Way2Wealth. Please go ahead.
- Shivani Vishwanathan:** I just wanted your comments on how the paper prices have been moving and how do we see that affecting margins going forward?
- Saurabh Mittal:** Paper prices. We do an annual contract on the paper prices starting in the financial year and we have already done that and paper prices we have accounted for when we are making the budget, we will have the quantum of paper prices. This year has been exceptionally higher than the last year, normally paper prices increases 4% to 5% on an annual basis, but this year has been much higher 12% to 14%, close to 15% paper prices have increased this year and we have accounted that in our sales budget and including in the prices as well, so it will not have a material impact in terms of the EBITDA margins.
- Shivani Vishwanathan:** Okay Sir that was helpful and Sir Chhaya gives a positive EBITDA in Q3 though you have yet not declared the consolidated, but is Chhaya a positive EBITDA of Q3?
- Himanshu Gupta:** Yes it is positive.
- Shivani Vishwanathan:** That is all from my side Sir.
- Moderator:** Thank you. We will take the next question from the line of Dimple Kotak from SKS Capital & Research. Please go ahead.
- Dimple Kotak:** Sir just wanted to understand that what would be the benefits of restructuring flowing through P&L. Will we be benefiting in terms of savings on tax or any other benefits?
- Saurabh Mittal:** There will be a one time of course because there is cumulative loss. We have almost Rs.35 to Rs.38 Crores of accumulated losses in the businesses that we are consolidating, so there will be a one time tax benefit also plus on an ongoing basis since the digital subsidiary is really not making money right now they are EBITDA positive, but on a net basis they have losses, though marginal it is about Rs.8, Rs.9 Crores. So we will have an ongoing Rs.3 or Rs.4 Crores of tax benefit.
- Dimple Kotak:** Okay, Rs.3 or Rs.4 Crores of tax benefit and Sir also wanted to know about digital business how is that doing?

- Samir Khurana:** Digital side there are two businesses one is the smart class where we are looking to grow at around 25% to 30% and second combination of digital and physical, which is the curriculum business Mylestone, which as Himanshu mentioned we are looking to grow that 3x this year, so last year we did Rs.3 Crores and this year targeting Rs.10 Crores.
- Dimple Kotak:** So the losses continue, have the losses narrowed then?
- Samir Khurana :** Mylestone we will see loses narrowed down next year because of its higher scale and digital is EBITDA breakeven slightly positive, but at the PBT level both are the in the red with higher losses because of depreciation and finance cost.
- Dimple Kotak:** Sir, finally since you have given your guidance of 14% to 15% growth in the topline, on a consolidated basis where do you think the year will stand in terms of margins?
- Samir Khurana :** We are targeting similar EBITDA profile as last year, which is around 25% and that is because we were targeting initially a higher margin but because of the GST there was increase in certain expenses; hence, we are looking at a similar margin profile as last year.
- Dimple Kotak:** Because of the tax savings from your restructuring do we see any improvement in the net profit margins?
- Himanshu Gupta:** We should.
- Saurabh Mittal:** We should, but we had not taken that into consideration because the restructuring – while you are proposing a restructuring with effect from April 1, 2017 we can only take that into account once we have the final approvals.
- Dimple Kotak:** So that is expected by when? any timeframe?
- Saurabh Mittal:** Expected by July I would say, but dependent on the process.
- Dimple Kotak:** Okay Sir that is all from my side. Thank you so much.
- Moderator:** Thank you. We will take the next question from the line of Aditya Bagul from Axis Capital Limited.
- Aditya Bagul:** Just three questions from my end. First on a data point, what would be the gross and net debt levels that we are standing on currently and when do we plan to be debt-free that is question one. Question two is GST-related expenses. You said that there is some increase because of that. Was that predominantly in royalty or was it some other head as well?
- Himanshu Gupta:** First question is gross debt, right?

- Saurabh Mittal:** Gross debt on a consolidated basis about Rs.193 Crores, net debt is about 137 largely working capital debt, which was last year December was about Rs.420 Crores and Rs.395 Crores, so we were down almost Rs.250 Crores odd, which we repaid from the proceeds.
- Samir Khurana:** Aditya on the debt-free side, as you know right now working capital will increase and by the first half of next year it will reduce, so we are looking to bring the working capital utilization significantly down by Q2, as you also aware we are looking at various inorganic opportunities, if any of them materialize then there might be a certain debt on the books, but without any acquisition we would not expect there to be any long-term debt only, just we will have a working capital debt.
- Aditya Bagul:** This would be by H2FY2019 that is September 2018?
- Himanshu Gupta:** Yes by F2019 it should be significantly lower than today's levels.
- Aditya Bagul:** Great. Sir secondly on the GST, wanted to know if you had impact other than royalty, so that was my understanding.
- Saurabh Mittal:** Not very significant. However Prices have gone up by about 3% odd on all the services, so while initially because of the reverse charges the royalty has been slightly higher, but since then this was rollback, since all the other services, which included our professional fees and editorial expenses where there has been about 3% increase in cost, but that is not very significant.
- Aditya Bagul:** You mentioned that the royalty got rolled back, I am not aware of that, what was?
- Saurabh Mittal:** No the royalty reverse charge was not rolled back.
- Himanshu Gupta:** Reverse charge.
- Saurabh Mittal:** The charge of royalty did not got rolled back, it is the reverse charge on unregistered dealers that got rolled back, for people who are not registered so.
- Aditya Bagul:** The impact of the royalty would remain.
- Saurabh Mittal:** Yes.
- Aditya Bagul:** The last question from my end; you talked about several initiatives to bring your working capital down, just wanted to understand what you have you done on the inventory and the debtor levels, if you could just talk on some softer aspect?
- Saurabh Mittal:** So inventory levels, Aditya, last year's inventories and this year's inventories have largely been same despite our sales growing, so there we be able to control inventory and on the receivables

we have grown this by year end; we will be looking at there is lower receivables in terms of number of days.

Aditya Bagul: What I wanted to understand is what have we done in terms of probably making our distribution chain a little more stricter, controlling our inventory, so what are the steps, the softer aspect that, we have done to curb the working capital?

Saurabh Mittal: Inventories, of course, we are looking at less number of titles, we are not doing titles which are not selling higher quantity; so that has been cut away, so inventories is largely been in control. Receivables are not so much, but again we have taken certain initiatives, we will just see how they pan out because it is Q4 and we are looking to grow our sales also, we cannot push too much down the certain level.

Himanshu Gupta: But at the same time we are also focused more on large schools and, I think the idea there is when you get orders from larger schools your ability to control the credit period with distributor improves, so basically trying to get more leverage on the distribution channel by improving relationship with schools, but again that is an ongoing exercise. It is something that we have now been doing for the past few years. We are seeing large schools sign up for our content, which is a very good sign, but I think a lot of these benefits will probably start showing in next couple of years. Having said that, we are still looking to reduce the working capital and the receivable period as we mentioned earlier.

Aditya Bagul: That is quite helpful Sir. Stanford, can we go back to the queue please?

Moderator: Sure. We take the next question from the line of Rajesh Shah, an Individual Investor. Please go ahead.

Rajesh Shah: Thank you again for taking my question. I would like to know the total opportunity in K12 segment CBSE, ICSE segment and your share in this segment and who are the next two competitors?

Himanshu Gupta: Basically, we work a lot on the CBSE and ICSE segment. We also work in the state board market primarily in English medium school market; so, totally the CBSE and ICSE itself is around 22,000 schools; out of that 19,000 schools are privately owned and 3,000 schools of Kendriya Vidyalayas and Navodaya Vidyalayas. In 19,000 schools we believe today our market share as a group level is close to 12% to 13% currently and we believe that the market share will improve. The second part of your question was who are the other players? The other players in this segment are Oxford University Press, Cambridge University Press, Macmillan, Pearson, Ratna Sagar, Viva, Cordova, Evergreen and some other players.

Samir Khurana : So many players, but again the second largest would probably be Oxford.

- Rajesh Shah:** Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Dimple Kotak from SKS Capital & Research. Please go ahead.
- Dimple Kotak:** Sir just wanted to understand as you mentioned that there is a 15% increase in paper prices then what would be hitting your margins?
- Himanshu Gupta:** Because we have already increased our product prices. Normally, we increase our product prices at 7% to 8%, this year we are increasing it by close to 10%.
- Saurabh Mittal:** Paper as an overall cost is around 22%.
- Dimple Kotak:** Second is that I just missed on gross debt and net debt number, if you can please share?
- Saurabh Mittal:** Rs. 193 Crores in the gross debt, net debt is Rs.137 Crores. This is group as a whole.
- Dimple Kotak:** Yes on a consolidated basis.
- Saurabh Mittal:** Yes.
- Dimple Kotak:** If you can just give me some colour on what kind of inorganic acquisitions you are looking at?
- Samir Khurana:** We are looking at regional players who function in the state board market similar to company like Chhaya and, currently the focus is on certain players in the south and the west market; we are in a slightly more advanced stage of conversation with a few specific identified targets and by April we will be able to conclude something.
- Dimple Kotak:** What kind of money you are planning to invest, what is the fund level which you have?
- Himanshu Gupta:** Madam it is very early for me to give a sense of how much money we are looking to doing that.
- Dimple Kotak:** Ballpark Rs.200 to Rs.500 Crores number or at what valuations may be you are looking at?
- Samir Khurana:** These are all companies which are in the revenue size somewhere around Rs.60 to Rs.80 Crores and these are companies which are either market leaders or number two, number three players in the market and, we are looking to value them on a similar basis as we have been done in our past acquisitions; something similar to what we paid for Chhaya.
- Dimple Kotak:** Okay fine. That is all from my side. Thank you so much.

- Moderator:** Thank you. We will take the next question from the line of Manish Poddar from Renaissance Investments. Please go ahead.
- Manish Poddar:** Can you just call out how much, let us say, the nine month revenue EBITDA and PAT for Chhaya, this year versus the base year?
- Samir Khurana :** I cannot give you specific numbers, but Chhaya is 16% higher than last year on the revenue side and the EBITDA margins are pretty much in line with last year, which is around 33%.
- Manish Poddar:** In terms of skew Chhaya how is this skew across quarters?
- Samir Khurana:** The skew for fourth quarter for Chhaya should be approximately - last year was around Rs.50 Crores plus that is around 50% of sale.
- Manish Poddar:** 50% odd, last year. Okay fine. Thanks.
- Samir Khurana:** 45% to 50% of sales are in Q4 for Chhaya.
- Manish Poddar:** Fine. Thank you so much.
- Moderator:** Thank you. We will take the next question from the line of Keyur Pandya from Prabhudas Lilladher. Please go ahead.
- Keyur Pandya:** Thanks for the opportunity. Sir that curriculum management business for preschools can you throw some more light on what kind of investment we might be requiring or any guidance on revenue of ticket size or something on that front?
- Saurabh Mittal:** We lost the conversation can you please repeat?
- Keyur Pandya:** Can you throw some more light on curriculum management business for preschools, any ticket size in mind or target audience, size of the target audience or something of that sort?
- Himanshu Gupta:** Preschools, basically if you look there a lot of preschools which are not branded and as the target audience; so, we are looking to basically provide curriculum to these preschools at a price of about Rs.500 per month per child and we are looking to sign up initially with at least 100 schools initially and we are going to take this to a much larger scale over the years.
- Keyur Pandya:** What kind of additional investment we would require or margin profile of the business?
- Himanshu Gupta:** What kind of what we require?
- Keyur Pandya:** Additional investment and margin profile on that Rs.500 of ticket size?

- Himanshu Gupta:** Basically on the investment side, there is no investment that we are doing when it comes to acquiring the content. So we have a tie up with this Korean company, which is on a revenue share basis. It is a licensed agreement and for us the investment that has been done is on synchronizing their products with our curriculum with our content, so which is more of an editorial or a content team cost and beyond that we will look at selling this at say Rs.500 and that Rs.500 should take care of our cost plus yields adequate margins for us. So, I think this business the total investment that is current earmarked is around Rs.3 Crores to Rs.4 Crores, but that is over the next 18 months and that is largely to get the business rolling and for the losses that we will incur from now till the business becomes commercially viable.
- Keyur Pandya:** Thank you. Sir, last question that is more on the longer term side -- any specific milestone or revenue in mind before stopping the inorganic route for our business?
- Samir Khurana:** The inorganic is not to achieve a certain revenue figure. It is basically to increase our presence in markets where we believe there is potential for growth. So, the overall private school market is approximately 350,000 schools and is an attractive market. CBSE, I think, it is only 22,000 schools; so, we believe that there is enough value add for us to try and become a larger player in the K-12 content market and these acquisitions need to fit in the scheme of things and align with our growth strategy. So, I do not think we have a firm timeline that we will on a certain revenue threshold stop acquiring. I think the idea is that we will look to grow inorganically as and when we find the right opportunity at the right price.
- Keyur Pandya:** Thank you and all the best.
- Moderator:** Thank you. We will take the next question from the line of Mithun Soni from GeeCee Investments. Please go ahead.
- Mithun Soni:** Hello sir, one or two questions; the acquisitions when we are targeting what is the normal payback period that we are looking at?
- Himanshu Gupta:** The company that we are looking to acquire?
- Mithun Soni:** Yes on an average whether it is this one or anyone, the acquisition, what is the value ad, which they are come at in terms of payback period?
- Himanshu Gupta:** Five to six years is the target of payback period and the valuations that we have historically paid are somewhere between 5 and 5.5 to the EBITDA.
- Mithun Soni:** Now my question is, today if we see if we are factoring into our core capital employed, return on capital employed is in the range of about 14% to 16% and when we do an acquisition again in the same range, the ROCEs continue to remain there. Now, when we do these acquisitions in terms

of the synergy, complete synergy for the organization, what are the synergies we get which can help us reduce the internal payback period to less than five years, say four years or something? That is one. Second is there anyway we can look at crossing 20% or 24% or 22% ROCE over a medium term like over two years?

Samir Khurana : The ROCEs impact is largely because of two things. One is definitely because of the acquisition and the second is on account of digital investment. From a digital side in our curriculum business that we are doing, all of these businesses have certain capital deployed. They are growing significantly faster than the publishing business, but they continue to lose some money at the EBITDA level, some of them at the PAT level, which has hampered our return ratios.

Mithun Soni: How much you would have invested in digital?

Samir Khurana : The digital currently we are probably be around Rs.125 Crores.

Mithun Soni: How much loss we are doing altogether there?

Samir Khurana : Loss last year was around Rs.5, Rs.6 Crores, for this year we will give the numbers at the end of next quarter, but it should be in a same way, may be slightly higher because we have started with curriculum business for early learning and Mylestone is also growing much faster, while it is still a single digit losses and not double-digit.

Himanshu Gupta : If we are investing in digital, it is because the market is also graduating from being purely physical to being a combination of physical and digital and service oriented. If you look at the business segments that we are present, these are largely in line with customer demand and whether it is a Mylestone or a smart class business each of these investments have enough opportunity to scale. While we were cost conservative, we try to reduce loses, we try to monitor expenses, it will still take some time for the investments to start throwing in a lot of profits and a lot of free cash and I think this is very much in line with our strategy because if you look at S. Chand has a business for eight decades , the objective is to continue becoming a very relevant player for the content market; so it takes time to scale, not one or two or three years. That is very much in line with the long-term strategy.

Mithun Soni: But what I am saying is when we will do these acquisitions? Does it anyway help us get more synergy in terms of more pricing power or reduction?

Mithun Soni: Can our EBITDA margin go from 25% to say 30%? is it possible in the near future?

Himanshu Gupta: On the acquisition side, a lot of synergies are coming from the fact that there are lot of companies to acquire. They get to buy paper at a better price because of larger volumes. Then there is local content synergy. On a sales side, there is very limited distribution synergy because

the distributor channel that they follow and what we follow are very different, if you look at the overall business of the group, our EBITDA margin is around 25% but it will be much higher EBITDA margin business for K-12. The reason why the figure is 25% because of high education having a lower margin and because of digital having lower margins right now. So, as we become more relevant player or larger player in the K-12 business, our margin will go up. We do target to improve margins up from 25% to 27.5%. I think that is the numbers that we target to achieve and we are quite hopeful that we will achieve over the next two to three years.

Mithun Soni: Okay all right. Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Aditya Bagul from Axis Capital Limited. Please go ahead.

Aditya Bagul: Thank you for the follow-up opportunity. You have seen that Q4 is quite heavier quarter for us; is there chance you can probably share some qualitative comments on how December, January and half of February has panned out?

Himanshu Gupta: Basically if you see this school business especially in CBSE and ICSE, the schools get normally closed for winter vacation and start opening on second week of January. So, from the second week of January, we have started getting good orders and as mentioned also in my notes we are getting good orders from large institutions and we are getting good deals from the market. So, I think largely what we have budgeted, we should be on track and right now the market response looks okay.

Aditya Bagul: Okay, that is great encouraging. Secondly, from strategic point of view, our school business is currently about 20%, which is predominantly the Chhaya business, over the next three to four years did you expect?

Himanshu Gupta: That is 80%.

Aditya Bagul: No the state board business I am sorry, I mean the state board business is about 20% of your K-12 business so and that is predominantly Chhaya. Over the next three to four years, do we expect this to be organically or inorganically more like 35%, 36% or do you expect it to be probably lower?

Himanshu Gupta: School business, primarily if you see vernacular business is 20%, but we also do business in the state board English medium school market where we sell existing books and that business is also there for us. But, you talked about vernacular business and vernacular business is very dependent on acquisitions strategy that we have or the kind of acquisition we will get because to start your own vernacular business at a local level, it takes lot of time effort and resources and right now we

do not want to start, all depending on how many acquisitions what acquisition we able to get so that number cannot be defined as of now.

Samir Khurana : Yes definitely we will look at building up presence in south and west, again right opportunity at the right price will make sense. We will look at it.

Aditya Bagul: Sure, but purely through an organic route you wouldnt like to press the pedal too hard on the state board syllabus, is my understanding correct?

Samir Khurana: Yes you are right.

Aditya Bagul: Okay that is it. Thank you. Stanford, can you please go back to the queue?

Moderator: We take the next question from the line of Keyur Pandya from Prabhudas Lilladher. Please go ahead.

Keyur Pandya: Sir in the presentation you have mentioned that royalty as a percentage of sales is around 6% and that has come down and it is structural so can you throw some more light I mean as it has come down and why it will remain at lower level going ahead as well?

Saurabh Mittal : What has also happened over past few years, we have been developing more in-house titles, all the new contracts are on the basis of net selling price and at a lower percentage. Hence going forward it will remain the same or will be largely lower.

Keyur Pandya: Okay and second is on paper prices. So, do we have annual contract for paper price so at the start of season do we know what would be cost for us for paper or it can vary going forward?

Saurabh Mittal: For full year, we have price contracts for the full quantity that we require for the year plus with a variation of 20%. So, we are locked in for the price for the full year that we enter into at the start of the financial year based on which we do product pricing.

Keyur Pandya: Okay, thereafter any change in paper price would not affect either side or us?

Himanshu Gupta: That is what fixed price contract sir.

Keyur Pandya: Thank you.

Moderator: Thank you. We take the next question from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Thank you very much Sir. Sir if I am repeating, as I joined late. If you can throw some light on consolidated performance may not be numbers but qualitative -- how things are moving?

- Samir Khurana :** On consolidated basis, revenues are higher by around 8%, but again 80% of the business is school business that largely kicks in the fourth quarter. So, it does not really imply much in terms of performance. I think for the only company where the business cycle has started that is Chhaya where the revenues are up 16% year-on-year. On the losses, they are pretty much in line with last year on an absolute basis. One thing you have to remember is that all costs incurred from April onwards are impacted because of inflation for example salaries get impacted because of increments whereas the higher prices that we charge for books, the revised prices that effect is mainly kicking in Q4 because most of the books are only sold in Q4. So, first three quarters of the year and nine months losses, they look significantly large; they turnaround very quickly into profitability in the fourth quarter once sales comes in.
- Sunil Kothari:** So sir your guidance of where you have given initially starting of the year for consolidated topline approximate range of revenue growth and EBITDA margin remains or you see any major change?
- Himanshu Gupta:** No we are guiding for similar revenue growth of 14% to 15%.
- Sunil Kothari:** Okay and margin also maintaining?
- Himanshu Gupta:** Yes.
- Sunil Kothari:** Okay and sir last point is our standalone numbers are 45% of revenue. When should we expect your consolidated numbers on a quarterly basis?
- Samir Khurana :** So, we will try and give it from next year onwards basically whatever options we select in the first quarter we have to maintain them , because in the first quarter we had to move by standalone simply because there was a lot of impact due to Ind-AS, we choose that option and now as per law we cannot change the option during the year. So from next financial year onwards we have the option of giving consolidated.
- Sunil Kothari:** So, first quarter of next year should we be hopeful of the consolidated number?
- Samir Khurana :** Most likely, yes.
- Sunil Kothari:** Thank you. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen as there are no further questions from the participants I would now like to hand the conference over to the management for closing comments.
- Samir Khurana :** Thank you for taking time and if there are any further questions or if you have clarification please feel free to either call me or Saurabh or write to us on the number and the e-mail coordinates mentioned in the presentation. Thank you once again for your time. Thank you.



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Moderator:

Thank you very much sir. Ladies and gentlemen on behalf of Axis Capital Limited we conclude this conference. Thank you for joining us. You may now disconnect your lines.