



S Chand And Company Limited

Registered Office: A-27, 2nd Floor, Mohan Co-Operative Industrial Estate, New Delhi - 110044, India.

P:+91 11 4973 1800 | F:+91 11 4973 1801 | E:info@schandgroup.com | www.schandgroup.com

Date: July 13, 2020

To Listing Department BSE Limited 25 th Floor, 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 for the Analysts and Investors

The Company had organized a conference call for the Analysts and Investors on Wednesday, July 01, 2020 at 2:00 P.M. to discuss the financial results for the quarter and year ended March 31, 2020. 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,
Mohan Co-operative Industrial Estate,
New Delhi-110044

Encl: as above

S. CHAND & Company Limited Q4 FY20 Earnings Conference Call

Moderator

Ladies and gentlemen good day and welcome to S. Chand & Company Limited Q4 FY20 Earnings Conference Call hosted by Prabhudas Lilladher Private 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 star 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 Private Limited. Thank you, and over to you Sir.

Mr. Jinesh Joshi – Research Analyst, Prabhudas Lilladher Private Limited

Good afternoon everyone. On behalf of Prabhudas Lilladher, I welcome you all to the Q4 FY20 Earnings Call of S. Chand Limited. We have with us the management represented by Mr. Himanshu Gupta, MD, Mr. Saurabh Mittal, CFO, and Mr. Atul Soni, Head Investor Relations, Strategy & M&A. I would now like to hand over the call to the management for some opening remarks. And after that we can open the floor for questions. Thank you and over to you sir.

Mr. Himanshu Gupta – MD, S. Chand & Co. Ltd.

Thank you. Good afternoon ladies and gentlemen. I am Himanshu Gupta, the Managing Director of S. Chand and Company Limited. I would like to welcome you all to our fourth quarter and full year results conference call for FY20 and thank you all for taking the time-out and joining us here today. I trust each one of you and your loved ones are safe in these extremely difficult times

As you are aware, the COVID 19 pandemic hit us untimely during March, 2020 which is peak sales season for us impacting the FY20 financials adversely. We estimate that the timing of the epidemic and the lockdown cost us Rs160 crores to Rs180 crores of lower reported sales during FY20. Do keep in mind that our K-12 business is seasonal in nature where Q4 accounts for 75%-80% of annual revenues and the month of March itself accounts for 30%-40% of the annual revenues coinciding with the commencement of the new academic session.

On back of the Covid-19 pandemic, we saw schools and education institutions taking precautions and shutting down from early March itself. We received orders from channel partners till mid-March and our plants and warehouses remained in operations till 21st March, 2020 across the country fulfilling these orders. At the time of the complete lockdown, we still had a strong order book for schools and higher education which could not be fulfilled during the financial year FY20 and we expect a large portion of the unfulfilled orders to shift to H1FY21 .

While schools remained closed we still have been able to recover a large portion of the K-12 sales in Q1, as students have been enabled with book supplies at home by schools and channel partners. However the Higher education segment and Test Preparation segment which accounts for 15-20% of our total annual revenues , the first semester is expected to start atleast 2 months later than normal and competitive examinations also are expected to move 2-3 months from their original schedule, which has impacted revenues in that segment for Q4F20 and Q1FY21.

The silver lining in this cloud was the strong interest that we got in our digital offerings across the group. We had launched our affordable digital learning solution - Learnflix in January which saw strong adoption and interest in these times. I am happy to report that Learnflix has already been downloaded over 70,000 times and we already have over 15,000 paying subscribers. The app has notched up a high review rating of 4.5 on the google play store. We expect the quality content along with the affordability for schools and students will augur well for Learnflix. Currently with content for classes 6-10, in Maths and Science, this will be further upgraded for other classes and subjects during the year.

Mylestone, our school curriculum business has already signed up over 400 schools for the next academic year and we are looking to expand on the strength shown in this vertical. The Schools that have adopted Mylestone were during the lockdown enabled with online teaching tools and content for teachers and students through the App. This enabled the schools to continue the process of learning for students at no additional cost

During the lockdown period, we also focused on working with all the stakeholders including – students, teachers, and schools to ensure that the learning does not stop due to this epidemic. We reached out to over 4,500 schools providing them e-books, digital resources, videos, animations, presentations, teacher resources etc. to ensure teaching continuity during the months of April and May where physical books could not reach students. We conducted more than 60 webinars for teachers and schools to train them on digital learning methods which was attended by over 10,000 participants. These relationship building measures go a long way in deepening our connect with our various stakeholders.

We also saw a larger number of users procure e-books during this period, where e-book sales more than doubled. Our catalogue has more than 4000 e-books across School and Higher Education segment which are currently live across various platforms like Amazon, Google and Kopykitab. We have also seen interest from Higher Education institutes and colleges for subscription of e-books for this academic year.

I am happy to share that we are already working on a new online learning platform which is under development to deliver a holistic array of product features as we strive to Enable the School and Colleges to conduct online classes, Empower the Teacher with tools for teaching, communicating, assessing and analyzing the performance of students and Stimulating the minds of Students with e-books, digital resources, mind maps, practices, revision and assessments. Slide 5 of our investor presentation carries more

details about this new platform. You will hear more about the same in the coming months from our side as we partner the educational institutions in delivering blended learning to the students during these difficult times.

We believe that we have a great opportunity in coming times for digital learning as a medium of education. We are confident of the value add that our digital solutions along with the strong content repository built over 8 decades will provide. We feel that these products and services would be the future growth drivers for the Group in the coming years.

With that, I would now request our CFO, Mr. Saurabh Mittal to apprise all of us on the financial performance of S. Chand.

Mr. Saurabh Mittal – CFO, S. Chand & Co. Ltd.

Good afternoon everyone and thank you for your time. I am Saurabh Mittal, CFO of S. Chand.

I would like to bring your focus on some of the operational highlights which gave us support during these troubled times. Our strong focus on implementing S Chand 3.0 plan led us to reduce our operational expenses including employee expenses, SG&A and other expenses by 24% during FY20 over FY19. Do keep in mind that these expenses were incurred throughout the year keeping in mind a higher level of expected sales.

On account of the disruptions, we finished the year with operating revenues of Rs429 crores, down 18% over last year. We estimate that the timing of the epidemic and the lockdown costed us Rs160-Rs180cr of lower sales during FY20.

As for FY21, we are already working on keeping costs in check. We expect paper prices to be lower than last year by 5%-10% giving us support on the gross margins this year. Incremental sales of e-books will also help in improving Gross margins. On the operating expenses front, we expect employee costs, SG&A and other expenses to be lower by 10%-20% for this year. This should result in improved levels of profitability for FY21 on back of operating leverage and strong cost control going ahead. Do keep in mind that we do not anticipate any cost item to be higher than FY20 for the current financial year. The details of these can be found in Slide no 9 and 10 of our investor presentation.

On our investee company front, I am happy to share that 2 of our investee companies raised capital during Q4FY20 (details are on Slide 7 of the Investor Presentation).

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 please press star then 1 on their touch tone telephone. If you wish to remove yourself from the question queue, you may press star then 2. Participants are requested to use handsets while asking a question. Anyone who wishes to ask questions please press star then 1. Participants who would like to ask questions, please press star then 1.

The first question is from the line of Deepan Shankar from Trustline PMS. Please go ahead.

Mr. Deepan Shankar – Trustline PMS

Good afternoon everyone. Thanks a lot for the opportunity. So first of all I wanted to understand what is our expectation on FY21 sales number considering Rs160-Rs180 crores of FY20 numbers are also coming back to FY21. So how do we consider FY21 sales?

Management – S. Chand & Co. Ltd.

Thank you Deepan. So in terms of giving a guidance, I am not sure we can give a full year guidance in terms of revenue on back on the ongoing pandemic. There is no visibility as of now on when schools and colleges will open up this year because as we see there is continuous delays in terms of opening of schools and colleges. Having said that, we have recovered quite a bit of the lost revenues in Q1. However, at the same time whatever we used to do in Q1 has also shifted to Q2. So my sense is whatever we have done last year is of course the base but we expect definitely to do substantially better this year. But to give an exact number at this point of time would be difficult considering the uncertainty around educational institutions opening.

Mr. Deepan Shankar – Trustline PMS

Okay, okay. So we are not foreseeing any loss of revenues from FY21 sales season?

Management – S. Chand & Co. Ltd.

As of now, we are expecting a normal kind of a FY21 sales season from January, 2021 to March, 2021 as of now. That is built into what we said. But this is an ongoing epidemic, so we need to see how it impacts sales. But our base assumption is that this year Q4 sales season will be a normal one.

Mr. Deepan Shankar – Trustline PMS

Okay, okay. So we are not expecting any loss of revenues due to the pandemic in FY21. So as and when the schools reopen then the schools will start ordering on the original date.

Mr. Himanshu Gupta – MD, S. Chand & Co. Ltd.

No sir, there will be some loss of sales ultimately. We will not be able to recover 100% of sales which we lost in the month of March and April. But we are hopeful that a majority of the sales we might be able to recover. That also depends on when the schools open and what is the situation. But fortunately for us, we see the online learning for most of the schools will start in the first week of July. And the children would start studying online. And when you study online, the students also need some support material with that. So that support material is required for the students to learn through the online method also. So, we believe that the majority of the sales we will be able to recover. But I will not say 100% of the sales will be recovered.

Mr. Deepan Shankar – Trustline PMS

Okay, okay. So as and when schools open, we will be able to recover lost sales. And also during Q4 of '21 the next year sales will also come up during the Jan to March of '21 right? So, there will not be any impact expected.

Management – S. Chand & Co. Ltd.

We are again hopeful that the normalcy should come in by that time but again that depends on how this COVID situation is working out. Because the COVID situation hangs around much longer, then the situation might be difficult to say. But if the COVID situation normalizes let's say even by September or October, then we are hopeful that next year should be a normal year.

Mr. Deepan Shankar – Trustline PMS

Okay. Because of these scenarios are we expecting some receivables to increase because schools are getting fees also slower. So that impact are we estimating?

Management – S. Chand & Co. Ltd.

Yes, there would be a shift in terms of receivables towards 2nd half of the year. But to give you some color on the receivables we have been very, very careful in terms of the supplies that we have made and are currently making. And only after ensuring that it is going to get liquidated in the market, that supplies are going. So that way we have been very careful with the kind of inventory that we are moving to the dealer network.

Mr. Deepan Shankar – Trustline PMS

Okay. Thanks a lot and all the best.

Management – S. Chand & Co. Ltd.

Thank you sir.

Moderator

Thank you. Participants who would like to ask questions, please press * then 1. The next question is from the line of Rishabh Chudgar from Enam Holdings. Please go ahead.

Mr. Rishabh Chudgar – Enam Holdings

Thanks for giving me this opportunity. I hope everyone is safe. Sir I just had a quick question regarding the inventory. So now in FY20 if I look at the absolute inventory for us it is around Rs200 crores. So, what are you planning to do for FY21? Because as you are uncertain regarding schools reopening and all, do you want to build up our inventory? Or whatever existing inventory is there you want to liquidate that first? And a follow up to that would be is this inventory would still be relevant. Like there will be some kind of inventory which might not remain relevant.

Management – S. Chand & Co. Ltd.

Yeah so Rishabh the finished goods inventory as of March is around Rs168 odd crores which is I think lower by at least Rs15-16 crores despite not having made the full sales for the previous quarter. Also, to add to that a fourth of it has already been liquidated in the first quarter. So we were targeting about Rs120 crore of inventory at the end of FY20. So by the middle of July we should be around that number. Going into the next season also we will be very, very light on inventory and we will first look at what we have got in terms of returns and then we will produce for the next sales season. So what we did last year we will continue this year, because again the new education policy is supposed to come by next year which means that the new curriculum books should be sold in January, 2022 to March, 2022 quarter. As of now, the same set of books would be prescribed by the schools in the next academic session also. This year also we expect the inventory to be much lower at year end.

Management – S. Chand & Co. Ltd.

And Rishabh to add to what Saurabh said, the closing year end inventory which you see, the Rs200 crores, would have been much lighter in case the sales would have continued as normal. But unfortunately during the last 10-15 days of March, we couldn't do sales and those are the most important days for a company like ours which is a very seasonal business because as you understand our peak business of 70%-80% of annual revenues happens during 60-70 days and we lost 15 days out of those days, that matters. We lost around 20-25% of the business. So going forward also we will be keeping ourselves very light on the inventory and as per requirement of the customer and the market. And we will continue to monitor the market very carefully both the primary sales and secondary sales this year.

Mr. Rishabh Chudgar – Enam Holdings

Sir on this Rs168crore finished goods inventory is it fair enough to say that as the season comes up and all, you will be able to liquidate all of that and then based on whatever is the demand you will make additional inventory? So that will be possible right?

Management – S. Chand & Co. Ltd.

So Rishabh we have already taken a provision of about Rs10 crores in our books in March itself for the inventory that we could not liquidate because there are certain titles that go out only during a certain period. So being conservative we have already taken that kind of provision and even going into next year we will be very, very careful on what we are printing and supplying to the market.

Mr. Rishabh Chudgar – Enam Holdings

And also since you mentioned about the e-books, have schools even though they may not start physical classes, I am sure schools will start certain classes with online classes. So what kind of demand do we anticipate from the e-book segment and what kind of margins are there in this kind of e-book segment?

Management – S. Chand & Co. Ltd.

So I will break it up into two. So as far as schools are concerned, while e-books can start, we still feel that physical books would be required by children of at least till class 8th or 9th which are a large part of our K-12 sales. And for higher education we of course feel that e-books would definitely be a better way for students to pick up books. And since most of them already have laptops, we are seeing e-books subscription even coming as early as this quarter. Also, the margins there are definitely higher because there are no costs around paper, supplies and transportation. So I think overall cost in terms of e-books, there is no physical cost there. So that is more of a technology cost which is again in-house largely. So there I feel the gross margins are slightly higher. Gross margins I expect on e-books will be more like 60-65%.

Mr. Rishabh Chudgar – Enam Holdings

Okay. And sir the average selling price (ASP) of an e-book and a physical book will be similar or an e-book will be slightly cheaper than a physical book?

Management – S. Chand & Co. Ltd.

See currently, our e-book prices and physical book prices are largely the same. Sometimes the discounts vary. But again, that depends on the volume of sales and at present the volume of e-books is not that high. As volumes begin to pick up, of course definitely the pricing of e-books can be lower.

Mr. Rishabh Chudgar – Enam Holdings

Okay. And sir can you give some details on how Learnflix platform is tracking out. I know Himanshu mentioned that we have more than 15,000 paid accounts, but how do you see this platform in FY21?

Management – S. Chand & Co. Ltd.

So I will Rishabh tell you what is the background of this platform. As we know that there are much bigger and well-funded companies in the competition, who are there already in the field. So we are not competing in the same space actually with those companies because the difference between us and them is first the price point which is very different. So our price point of the product is Rs. 2,000-Rs2,500 per subscription per annum. Their price point is Rs.30,000-Rs40,000 annually. So basically, there is a difference of 10X-12X of pricing.

Second of all, we are mainly focusing our energies towards B2B platforms. So, we are selling these solutions to the schools and the school is selling it to the students. And there the student is paying to the schools and the school is paying us the money. This is the same way we sell books and we are predominantly keeping the same platform because the problem is that going the B2C way, we need to have a very high level of cash burn in terms of marketing, in terms of customer acquisition, in terms of all the other efforts. And we unfortunately as a company we are not willing to spend that kind of money on marketing and customer acquisition. So basically, our idea is to become a very affordable, branded product company which is already very well-known in the education market. The schools and teachers know about our products, use our products. Plus, you are getting a lot of e-books free in that platform. So, if you are buying 6th to 10th any class, you are getting books like Lakhmir Singh which is very popular book, SC Gupta books which is very popular in math as an add on. So, these kind of books you are already getting in the e-books platform free in the app. So, the value of the app becomes almost free for the child because we are giving books worth more than Rs. 2000 free in the platform itself. And we feel the traction of this platform has been good over the last 3-4 months. Just the schools right now are in a flux because the problem is that the schools are not able to recover the fees from the students. So that is becoming a little matter of flux for us because the schools are right now looking at a way of first to collect the fees which I think will be cleared in a month or so when the schools would definitely ask for the fees from parents for them to continue their operations. So I think there is a lot of good traction and good reviews that we are getting from the market.

Mr. Rishabh Chudgar – Enam Holdings

And sir because of this crisis, you rightly said a lot of parents might not be paying fees to the schools. Right now, we have around Rs300 odd crores of receivables. Do you feel that some of the receivables might go bad or something? Or we are going to be on top of it and make sure 100% of the receivables are collected?

Management – S. Chand & Co. Ltd.

Yeah so Rishabh the gross receivables are much higher. The gross receivables are around Rs400 plus crores and we have already taken a cumulative provision in the books for about Rs40 crores to Rs45 crores in terms of delayed receivables which I feel is already higher than it should be. Having said that, during this period of April to June we have already collected about Rs100 crores. And daily we are getting good collections. So in terms of cash flows, I see a regular cash flow coming in because a large portion of what gets sold does not get sold by the school. It is largely by the channel partner who delivery directly to the student or he is setting up his own bookstore or selling from the bookstore. So the school involvement in terms of adoption of the books is there, but in terms of selling books, typically schools are not allowed to sell books to students as per the CBSE guidelines. So we are getting money from our channel partners on a regular basis. The delay seen in April was largely on account of supplies not going to the students. But now since students have started to purchase the books from mid-May onwards, we are getting regular cash flows. I mean it is slow as compared to normal but it is a very regular flow of collections that are coming in. and so far no liquidity concerns as far as we are concerned. We have a robust cash flow for now. Operating expenses are also low so no complaints.

Mr. Rishabh Chudgar – Enam Holdings

Okay. So you said Rs100 odd crores have been collected. So I think as of now you will be having receivables of Rs240 odd crores.

Management – S. Chand & Co. Ltd.

No, we have also made sales during this period of approx. Rs90-Rs95 crores as well which gets added to the receivables balance.

Mr. Rishabh Chudgar – Enam Holdings

Okay, okay, got it, got it. Okay.

Management – S. Chand & Co. Ltd.

It basically means that opening receivables are lower by 100 crores.

Mr. Rishabh Chudgar – Enam Holdings

Okay. And sir in FY20 our total operating costs, and here I am saying the cost below the cost of production, was approx Rs250 crores. I think you have cut costs as per your strategy 3.0. I just want to know is there any way to reduce the cost and how much reduction can we expect?

Management – S. Chand & Co. Ltd.

So two things in that. One is some of the cost reduction action items that we did last year were finally affected by August-September. So the full effect 12 month will start coming during this year. That is one. Second, there is further cost reduction of 10% odd across all heads that we have already planned and already actioned in the first quarter. And finally, third, see a lot of the costs that we used to incur would go away this year because I mean travel costs would be lower this year. Your dealer engagements costs would be lower this year. Your workshop expense which used to be very high amount, all have shifted to webinars. So a lot of these costs which were physically there would be reduced this year. Apart from this specimen distribution would also be on lower levels this year since most of the schools would go with older lists for next academic session as well. We expect the schools to continue with the same book list that they have done the last year. So they will not change the book list. Anyway, the school syllabus is not changing, and the books will be continued of last year only so there will be less distribution of specimen also. All this would lead to tight control and reduction in overall costs.

Management – S. Chand & Co. Ltd.

To summarize, rentals have been reduced, operational costs have been reduced, employee costs have been reduced and overall paper prices are also going down this year. We expect that the paper prices will be around 8-10% lower in terms of the rate of the paper, plus we will be using less paper in terms of consumption. So that will help us in the cash flows. Overall, I think all these things have some kind of a silver lining. Obviously COVID is bad only. But this is a silver lining there.

Management – S. Chand & Co. Ltd.

So Rishabh overall I think in terms of below the line, we expect our operating costs to be lower by at least 15% and max 20%.

Mr. Rishabh Chudgar – Enam Holdings

Okay. Yeah because I am just seeing that on Q4 we are running at a Rs55 crore kind of run rate of operational expenses and with the savings we are talking about we are looking at FY21 annual spend of approx. Rs220 crores. Okay. Great! Thanks sir. If I have more questions, I will come up later. Thank you.

Moderator

Thank you. Participants who would like to ask questions, please press * then 1. The next question is from the line of Prashant Desai from Everstone Capital. Please go ahead.

Mr. Prashant Desai – Everstone Capital

Hi. Thanks Himanshu and Saurabh for this opportunity. What I wanted to understand, you guys are guiding in terms of your digital revenue being almost 25-30% of your revenue in 3 years. If you could help us understand of the current year sales of Rs429 crores, how much of this was digital in terms of rupees crores?

Management – S. Chand & Co. Ltd.

Around 9% was digital. About Rs.40 odd crores.

Mr. Prashant Desai – Everstone Capital

Okay. Second, what was it last year

Management – S. Chand & Co. Ltd.

It was around 7% of sales last year.

Management – S. Chand & Co. Ltd.

This year it is around Rs40 crores in revenues. These revenues got truncated in March because a lot of the things that we used to do could not be shipped in March otherwise it could have been about Rs47 crores this year. But yeah, over the next 3 years definitely this will be higher.

Mr. Prashant Desai – Everstone Capital

Okay. And just to kind of understand this Rs40 crores of digital revenues. What would be the revenue contribution of Learnflix and e-books be in this number?

Management – S. Chand & Co. Ltd.

See out of Rs40 crores, Learnflix is only about I think a crore because we launched Learnflix in January end and we were starting to get traction as March year end was coming up. We have for obvious reason got more traction during lockdown months.

Mr. Prashant Desai – Everstone Capital

Hello?

Moderator

Excuse me this is the operator. We will just check the management's line. Participants we request you all to please stay connected while we check the management's line. Ladies and gentlemen thank you for patiently waiting. The line is reconnected. Sir we have Prashant Desai from Everstone Capital on the line. You may go ahead.

Management – S. Chand & Co. Ltd.

Yeah, sorry, Saurabh was updating you.

Management – S. Chand & Co. Ltd.

Yeah, we have major contributions from Mylestone - our curriculum product and Destination session - our classroom learning solution in digital revenues. Mylestone has of course gone completely digital during this lockdown period. Last year we did about Rs15 odd crores. And apart from that we have the classroom solutions which again we are transitioning onto the completely online platform. So we had about almost 600 schools on Destination Success, including schools in the Middle East. Now those are also transitioning either onto Learnflix, or they are transitioning onto Destination Success online platform. So that is about Rs16 odd crores.

Mr. Prashant Desai – Everstone Capital

Yeah. I got it. So in terms of the breakup, roughly about Rs32-33 crores came from here.

Management – S. Chand & Co. Ltd.

Yeah.

Mr. Prashant Desai – Everstone Capital

I have a question. You guys spoke about one-fourth of your inventory getting sold in the first quarter and that is roughly about Rs40-45 crores assuming you have a gross margin of about 54-55%. That would translate into Rs85-90 crore kind of a sales and you had a Rs100 crore receivable which you collected. So your working capital basically inventory plus data would more or less remain at your March number as on June. Is my understanding correct?

Management – S. Chand & Co. Ltd.

My inventory would be lower. My receivables will also be lower than March.

Mr. Prashant Desai – Everstone Capital

Okay.

Management – S. Chand & Co. Ltd.

I think our working capital will be much better because my cash flows have improved.

Management – S. Chand & Co. Ltd.

The inventory will be lower. Receivables will also be lower but obviously receivables with you will also add current sales.

Mr. Prashant Desai – Everstone Capital

This is what I did right? From Rs334 crores of receivables, I added about Rs80-85 crores and from Rs200 crores of inventory you deduct Rs45 crores.

Management – S. Chand & Co. Ltd.

Yeah so it will be about Rs50-60 crores lower.

Mr. Prashant Desai – Everstone Capital

Okay fair enough. Sir I have a question on this, and when I read your presentation, you said about Rs30 crores is there as your raw material paper inventory. What I had learned from you guys was the fact that sometime around October-November is when you guys will decide to get into the production of new books. Given where we stand with respect to the numbers on the COVID side in terms of the rising number of cases, given the government is absolutely kind of very careful when it comes to mass gathering whether it is in religious places, schools etc. If this situation doesn't change for example from a school perspective, or a mass gathering perspective, significantly around September-October, given where we are, let's assume the situation is where we are today, in September-October, would you guys then go ahead with incremental inventory buildup or you guys will be cautious? Just wanted to understand your mindset.

Management – S. Chand & Co. Ltd.

So Prashant we will be very, very cautious and we will focus on working on very light inventory model. And we will be monitoring the primary and secondary inventory that is there in the market, with our channel partners, our customers, and how the market is responding towards the requirement. But we will be looking at a very light inventory model for this whole complete year. We will not be looking at heavy inventory and we will be printing very, very cautiously. Every book, everything will be printed very cautiously. And we will be making sure that wastages are less, efficiencies are improved, and thankfully the paper prices have softened up. So that advantage will also be there with us. So overall our production will be very nimble on our feet is what I want to say on that part.

Mr. Prashant Desai – Everstone Capital

So one would probably want to take away from that conversation that you just shared with us is that you will be on the risk averse side. It is not that you unlike in the past you ended up building inventory in the hope to do sales, assuming the situation is where it is today, you will probably play on the defenses.

Management – S. Chand & Co. Ltd.

Very cautious. Very, very cautious. Very, very careful.

Mr. Prashant Desai – Everstone Capital

Excellent thank you. Now one more question. About Rs25 crores is what we have taken as provision on slow moving, bad debts, etc. I wanted to understand from Saurabh, should we sitting as investors look at a Rs20-25 crore number as a recurring number, given the size of your balance sheet in terms of inventory debtors as something as a recurring theme? Because that is precisely what the experience has been. Through that I wanted to understand, of that Rs300 odd crores of debtors that you have now with the incremental sales that you have done, how much of this is actual sales and how much of this is on a sale on return basis? So tomorrow if the inventory doesn't get sold, can the dealer give it back to you and therefore convert that debtor into inventory? What does the contract say?

Management – S. Chand & Co. Ltd.

Yeah so of course he can return back the unsold books. But this year we have already informed our dealers that they cannot return back more than 10%. Having said that we have already provisioned in the financials, an average return of about 17%.

Management – S. Chand & Co. Ltd.

We have already taken a Rs100 crore sales return provision this year also. Last year also it was around Rs100 crores albeit on a higher base. And this year also we have taken a closing provision in books of Rs100 crores. That is why my net revenue is lower. If you look at my net revenue it is about Rs429 crores whereas if you look at the kind of collections that I have made, actual money received during FY20 is about Rs520 crores. Similar thing happened one year back. So I think a lot of the aggressive sales that we probably did in earlier years, we have corrected most of that and we focus completely on liquidating the channel inventory in the last year and half, and that is what you can see in our cash flows. If you see at Rs795 crores, operating cash flows of Rs38 crores, at Rs429 crores the operating cash flows are at Rs49 crores and this could have been at least Rs120 odd crores if we had got the full collections. So we are completely working on getting the cash in faster, ensuring we are light on debtor and inventory. So in terms of your provision for doubtful debt, it is about Rs45 crores cumulatively that is already there in books which I feel is a very, very high amount as far as I am concerned. We have taken that provision just to ensure that we do not have any further issues in terms of write-offs. I would say our average write off for any year has not been more than Rs7-8 crores. So comfortably placed as far as trade receivables are concerned. I think that the amount to be collected maybe slightly higher than what is there in the books. But we have been very conservative.

Mr. Prashant Desai – Everstone Capital

So it would be fair to say that next year if we are sitting at the same time and one were to look at your cash flow statement, things for provision for your slow moving inventories and impairment of investment etc. will not appear. Would it be fair assumption? Or is it going to be a very small number.

Management – S. Chand & Co. Ltd.

So the provisions for – as the total investments outside the group is only about Rs20-22 crores and the value of these investments is far higher. All three of the entities including TestBook is about I think around 8X of what we have invested. Smartivity is I think 6-7X of what we have invested. And Edutor is probably started doing very well in the last year. So in terms of investments I don't see any provision for the investments outside the group. In terms of inventory, because there is the upcoming new education policy there may be a provision in the next year. We will only know once the new education policy comes and we see what it contains in terms of how much changes are there in that policy from the current syllabus. But we have been conservative and we have made certain provisions already. Receivables, I do not see any incremental provision at all. Whatever normally is there about Rs8-10 crores, will continue next year. But it will not be very, very high.

Mr. Prashant Desai – Everstone Capital

Now my last question for Saurabh. Saurabh you said our liquidity situation seems to be in control given that you have collected about 100 crores. What would be our cash today in our hand? What would be our gross debt?

Management – S. Chand & Co. Ltd.

As on March end, it was Rs215 crores. So my sense is that my gross debt as on today would be slightly lower around Rs205 odd crores or so. And in terms of cash we have about Rs30 crores liquidity. So net debt would be around Rs175 crores at this point of time.

Mr. Prashant Desai – Everstone Capital

And the balance Rs70 crores would have gone towards expenses and payables, right?

Management – S. Chand & Co. Ltd.

Yes. So in fact we have barely taken any moratorium from any of the banks. Our total moratorium amount is about Rs3-5 odd crores which included just two instalments of certain term loans. So and in terms of the payments, yes we have paid our paper suppliers on time, all of them. And our operating expenses during this quarter have been far lower because the other costs apart from salary costs have been very, very low because again we have got rental waivers in most of the cases, at least to the extent of

50%. There was not traveling in between. And in terms of employee costs also we have taken cuts as high as 60%, as low as 15%. So across we have been very, very conservative as far as cash is concerned, seeing that there is – the visibility is low but we'd like to be sitting with cash for any eventuality coming in the next 3-4 months.

Moderator

Excuse me, this is the operator. Participants, the line for the management has dropped. Please stay connected while we reconnect them. Ladies and gentlemen, thank you for patiently waiting. The line is reconnected. Sir you may go ahead.

Mr. Prashant Desai – Everstone Capital

Yeah, no. I got it Saurabh. If I have anything, I will join back in the queue.

Management – S. Chand & Co. Ltd.

Thank you.

Moderator

Thank you. The next question is from the line of Aditi Agarwal from Kotak Mahindra Bank. Please go ahead.

Ms. Aditi Agarwal – Kotak Mahindra Bank

A very good afternoon sir. Sir I have one query regarding the sales. So I think I probably missed that part. How much of the sales have you booked till date in current fiscal?

Management – S. Chand & Co. Ltd.

I can give you the billing number which is not an audited number as of now. It is around Rs90-95 crores for Q1 quarter as on date.

Ms. Aditi Agarwal – Kotak Mahindra Bank

Okay, okay. And how much of this Rs95 crores would be on back of digital products? Like Learnflix or other apps? Mylestone and other digital applications?

Management – S. Chand & Co. Ltd.

Out of the Rs95 crores, I think around Rs6 crores would be that.

Ms. Aditi Agarwal – Kotak Mahindra Bank

Okay only Rs6 crores would be on digital.

Management – S. Chand & Co. Ltd.

Yeah.

Ms. Aditi Agarwal – Kotak Mahindra Bank

Okay, okay. And also last point regarding the debtors. So as you mentioned that roughly we can expect around Rs350 crores of debtors as on June end.

Management – S. Chand & Co. Ltd.

Receivables as on March is Rs334crores and it should be lower by about 10 crores to around Rs320 crores. Give and take Rs5-10 crores, it will be around that

Ms. Aditi Agarwal – Kotak Mahindra Bank

Okay. So the amount of receivables is mainly because the collections would have of course been low due to COVID. That is the major reason or year on year since March is of course the peak season. The debtors around Q1 end are of this value only?

Management – S. Chand & Co. Ltd.

There has been a delay of approx. 45 days during this quarter where there was low collections till early May. And only after that the book shops started opening and then the collections started moving. Having said that, even during the lockdown we were fortunate enough to get around Rs25 crores collections from our channel partners, which is very encouraging for us. But despite the lockdown people were honoring their commitments. And that is what we are seeing right now also. So I mean of course till the time they liquidate inventory, they will also not be in a position to pay us completely but fortunately things are improving quite a bit and we are seeing a lot of liquidity flow come in, in the last 4-5 days.

Ms. Aditi Agarwal – Kotak Mahindra Bank

Okay. That's it sir. And sir on the inventory front, how much of inventory would you be having by the end of June?

Management – S. Chand & Co. Ltd.

Very difficult to say off hand but I would in my best estimate say that we would be lower by about Rs35-40 crores.

Ms. Aditi Agarwal – Kotak Mahindra Bank

So roughly I would say Rs150-Rs160 crores is what you would be having. And any time frame by when we expect to liquidate this inventory?

Management – S. Chand & Co. Ltd.

See our base inventory should be around, what we have guided for the end of the season at about Rs120 crores last year. And if we factor in sales coming in by September, I think we should be hitting that number. Of course there will be a base inventory of Rs80 crores to Rs100 crores at any point of time in this business.

Ms. Aditi Agarwal – Kotak Mahindra Bank

Great! Got it sir. And any specific order that has been canceled due to the fact that there were no shipments during the lockdown? Or are most of them have just been delayed and not canceled?

Management – S. Chand & Co. Ltd.

To be honest there would be some cancelation where supplies could not happen but still no large order was canceled because of supplies. We would say that there have been delays but not cancellations. There is time being taken right now because lot of schools are not opening and a lot of areas are under containment where supplies cannot go. So those kinds of challenges are there. But any large order being canceled I don't think so. Anyway, no single school accounts for more than I think 1% to 2% of my revenues. So no single customer is large enough to impact sales.

Ms. Aditi Agarwal – Kotak Mahindra Bank

Yeah. Great sir! Thank you. Thanks for the opportunity.

Moderator

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

Mr. Anuj Sharma – M3 Investments

Yeah hi, thank you. My first question is if I go back to FY19, we had roughly a difference of approx. Rs270 crores of sales versus FY18. That was due to multiple reasons including lower sales, higher sales returns etc. And there was an expectation that some of these was flow through during the year. But if I see they didn't flow through. So how does the business work? If the March sales does not happen, the sales are lost forever or you know does somebody else claim that share?

Management – S. Chand & Co. Ltd.

You are talking about what? FY20 or FY19?

Mr. Anuj Sharma – M3 Investments

FY19.

Management – S. Chand & Co. Ltd.

FY19 reported sales was lower on back of higher sales return, higher provisioning etc. In terms of gross sales, we were almost at the same level as FY18. But FY20 of course we have been impacted by this pandemic and some of the sales then got shifted to H1.

Mr. Anuj Sharma – M3 Investments

No, my question is you know there was a shortfall from FY18 to FY19 because of multiple factors which impacted as you explained last time. So you know did this sales flow through in June or September because the numbers did not seem to reflect any of these sales which were not completed in FY19. So they did not flow through. I am just trying to understand if the sales does not happen in March, why does it not follow up in June or September quarter. Because it didn't flow through the last year. So did we lose market share? And so my next question is, the shortfall which is happening during this time, how likely are we to get that sales flowing through in the year?

Management – S. Chand & Co. Ltd.

Under normal circumstances, in terms of school sales your academic session normally starts in March-April. So most of what you would supply to the K-12 market would finish by end of April and after that it should start and very little supplies would go from May onwards to December, because that's once the session starts, then only supplementary books are purchased by students. So in terms of flow over to the next academic year, maximum to the extent of April in a normal circumstance it would happen. This year of course since schools have not opened and there was a lockdown and supplies could not go, so it would stretch up to maybe July-August this year. Or even September.

Management – S. Chand & Co. Ltd.

Also, 100% of the sales will not be recovered that we have lost in March. We have said in the last conversation to one of the persons who was asking questions as well in the call that the majority of the sales we are hopeful that we will be able to recover in that time. How much we will be able to recover is very difficult to say at this point of time, but yes, students are willing to buy books because they are sitting at home even they are doing online learning, they still need support material, they still need text books to refer from. And that is already happening and we have seen the collection in the sales happening. But I am sure that we will not be able to recover 100% of the lost sales of March. But majority of the sales we are hopeful that we will be able to recover hopefully till December.

Mr. Anuj Sharma – M3 Investments

Okay. Would that be a 75-80% range which you think you will be able to recover?

Management – S. Chand & Co. Ltd.

It is difficult to say sir. Difficult to say at this point of time because the situation is very, very fluid. As you know Bombay is also under Section 144 and these kinds of situations where lockdown is extended for couple more days in many cities across the country like Guwahati is under lockdown right now, what will happen to Delhi, where we are heading we also don't know. Very fluid. So all these situations are very, very fluid. And to give you any kind of a solid number at this point of time is very difficult.

Mr. Anuj Sharma – M3 Investments

Okay, okay. And of the many companies that you have like New Saraswati House, Madhuban etc which of these have been the most impacted?

Management – S. Chand & Co. Ltd.

Basically our bigger companies in the group include S. Chand, Madhuban and Saraswati which have the CBSE/ICSE focus, and Chhaya which focuses on the West Bengal state board. So these are primarily four large companies that we have in the group. All these three companies except Chhaya have been impacted since they have a similar customer base which you have focused on CBSE and ICSE schools. Chhaya works primarily in West Bengal state board which has a different kind of a sales cycle and therefore the impact has been less because of the different sales cycle.

Mr. Anuj Sharma – M3 Investments

Okay. And could you also explain the competitive environment as to how your competition is behaving. Is everyone suffering or how do you see your market share shaping up in the past 2-3 years and how do you see it going forward?

Management – S. Chand & Co. Ltd.

See market share I will not say has shrunk but we have been very careful in dealing with those customers who have not been paying us on time or who we feel could have defaulted on their payments. Plus we were very careful in making sure that the return that we take next year on the sales are reduced so that the inventory is reduced, so that the sales is not done in the market will come back to us. So all those things if you see the net market share of the group has not shrunk. And we believe that going forward education is a primary objective of any family. Any parent will want to give their child the best they can. And printed material, plus digital material, both would be given simultaneously to the child. So the child will not only study with print, and will not only study with digital. The child requires both. And we already have solutions, we are giving blended learning solutions. We are offering a new solution which we will be launching

soon as I said in my opening comments as well. And we are offering all kinds of solutions, that the customer demands today in the market. So we believe education as a sector is bullish and we will continue to work in that sector. We have been working for the last 8 decades and hopefully we will continue to do the same.

Mr. Anuj Sharma – M3 Investments

And one question on your provisioning, you said you have done a provisioning of Rs45 crores, that is roughly 10% of your sales. Now this is on back of you have been saying that you have been tightening your distributors, you have been eliminating and that exercise has been happening for over a year. Even then why do you require such high provisioning? S. Chand is a very old brand. A very strong brand. So where are these defaults or estimated defaults coming from?

Management – S. Chand & Co. Ltd.

No, incremental provisions will be about Rs11 crores this year. Rs45 crores is the cumulative provision that is there over the last 3-4 years.

Mr. Anuj Sharma – M3 Investments

Okay, okay. So the eventual loss is much lower as you said.

Management – S. Chand & Co. Ltd.

Yeah, yeah eventual loss is much lower. If you look at our average write-off, this year the write-off is about Rs5 crores and last year the write-off was about Rs9 crores So there is an improvement of about Rs4 crores in the actual write-off. In terms of provisioning last year we made a provision of about Rs10 crores, this year it is about Rs16 crores. So there we have been a bit careful in terms of you know especially where the schools directly have to pay, there we have taken a slightly higher provision because schools are not getting fees and all that. So that is a bit of a challenge. That is why we thought we will take a slightly higher provision this year. But eventually that converting into actual write-offs is less. Actual trajectory of write-offs is much lower and has actually gone down by almost Rs4 crores.

Mr. Anuj Sharma – M3 Investments

And one last question. You said the provision estimated billing for Q1 is approximately Rs95 crores. Now is that gross or net? And how do I connect the billing with revenue?

Management – S. Chand & Co. Ltd.

That is gross. That will convert into around Rs80 crores net, give or take a few.

Mr. Anuj Sharma – M3 Investments

Alright. Sir that's just 20 crores more than your last year number. Also, out of your Rs160 to Rs180 crores sales loss during Q4FY20, do you expect the bulk of that to come by the September quarter? Roughly even if it is an 80% number.

Management – S. Chand & Co. Ltd.

So let me explain. Optically it looks like only Rs20 crore or so higher but you have to look at the breakup of sales between K-12 and Higher education segment to understand the story. So last year a lot of what we did in Q1 was higher education sales. This year it looks like Higher education sales has shifted from Q1 to Q2. This year Q1 reflects mostly K-12. So higher education sales is insignificant during this quarter as far as we are concerned. As of now, there is no visibility on when the new semester will open for colleges. Admissions are also not starting at a good pace – that is why the channel is also not picking up too much. We are also not keen to supply because till the time there is visibility, we don't want to produce and supply. And we are getting a lot of enquiries as far as e-books is concerned. So their inventory risk is much, much lower. I mean there is no risk in inventory as far as e-books is concerned. So we prefer that route but we will see how it plays out.

Mr. Anuj Sharma – M3 Investments

Alright.

Moderator

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

Mr. Aasim Bharde – IDFC Securities

Hi good afternoon. Sir I have a question on your FY20 revenue. Just to dial back first. Sir you were expecting a top line of about Rs650 to Rs700 crores in FY20, prior to the problem that happened in Q4. For the FY21 sales period assuming a normal business period then, can we expect at least a Rs650 crores odd revenue for the full year?

Management – S. Chand & Co. Ltd.

Assuming everything goes back to normal and schools and colleges start opening up, yes.

Mr. Aasim Bharde – IDFC Securities

So Rs650 odd crores assume for the year and any shift of revenue from FY20 would be over and above that.

Management – S. Chand & Co. Ltd.

Yes.

Mr. Aasim Bharde – IDFC Securities

Okay. And second question, sir in FY20 your gross margin at a consolidated level has dipped by around 400 odd bps was mainly because of raw material and publication expenses. So could you help us understand what happened here?

Management – S. Chand & Co. Ltd.

No so in terms of the raw material cost I would say our paper purchase were much lower. Because of the volumes being lower, the production cost is slightly higher because we had smaller print lots this year. So, they were slightly higher cost of production. But then the benefit that you get is in terms of not having extra inventory. And secondly, we have taken a slightly higher provision for discounts at the end of the year as compared to the previous year. So that has had a direct impact on the margins. So I would say that, there is a 4% delta around gross margins – 2% would be on the production cost and another 2% would be on account of incremental discounts which we anticipate we will give to the market because again to be sure that the actual liquidation of inventory happens by a dealer.

Mr. Aasim Bharde – IDFC Securities

Okay. Okay just last question. Sir when we talk about e-books, I would assume e-books would have a lower working capital requirement versus a normal printed book right at the school level?

Management – S. Chand & Co. Ltd.

In terms of e-books there is no working capital requirement. It is just the cost of the platform that is there.

Mr. Aasim Bharde – IDFC Securities

Even at the K-12 level?

Management – S. Chand & Co. Ltd.

Yes. There is no production cost in an e-book. It is just a onetime digital cost creation that happens which we already have. We already have over 4,000 titles in digital form out of the total 7,000 plus titles that are available for sale on various sites. So that incremental cost in terms of converting to digital is not there. Currently they are in PDF form but if you convert it to e-pub or some other html, that may have a onetime cost but that would not be very significant.

Mr. Aasim Bharde – IDFC Securities

But then theoretically if your e-books as a percentage of overall revenue or say rather digital and e-books both as a particular revenue increases, will your overall working capital start to come down from the current level? Is that a fair understanding?

Management – S. Chand & Co. Ltd.

It will definitely come down. Definitely. That is an ideal situation. If you sell only e-books, there is no working capital requirement as far as I am concerned.

Mr. Aasim Bharde – IDFC Securities

Right, right. But the schools will not really create a problem over here is what I am assuming from what you have said.

Management – S. Chand & Co. Ltd.

Problems in terms of?

Mr. Aasim Bharde – IDFC Securities

So what my understanding is, in the printed book portion, what happens is you sell to distributors, distributors sell to schools right? And that is where the whole working capital problem arises. If you move the platform, this entire chain gets side stepped. So your working capital improvement should be better. That is what my understanding was. That is correct right? That is what you just said.

Management – S. Chand & Co. Ltd.

Are you trying to say the channel network goes away? I don't think that is a real scenario. We would continue to need support of our channel partners. We were talking about deployment in about – we reach out to about almost 15000-16000 schools. Doing implementation, doing providing all of this for each of the schools, we will need channel partners. So it is not that we can do without channel partners. Yes, the cost involved in keeping inventory on our part and their part would not be there. That portion would go away. But I think there would be a no credit period issues, I don't think that is a feasible scenario. The inefficiencies of physical book distribution, the returns will not be there in an ideal scenario. But yeah I would say there would be about 40-50% improvement but the credit cycle in terms of payment I don't think so will be so much. Cost cycle – the production cost cycle would definitely be better. But again I don't see that happening in a 100% case where everyone needs only digital.

Management – S. Chand & Co. Ltd.

I think this is a very theoretical scenario. At best, it can be a blended solution which would be both physical and digital.

Mr. Aasim Bharde – IDFC Securities

Right sure. Thanks sir.

Moderator

Thank you. Ladies and gentlemen, we take the last question from the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

Mr. Jinesh Joshi – Prabhudas Lilladher

Yeah just one question. On slide 5 you have stated that we are developing a new online learning platform. So if you can just talk a bit about it what are the cost dynamics, what is the investment that is required and what is the revenue potential of this platform.

Management – S. Chand & Co. Ltd.

Yeah. See in terms of the cost dynamics it is not very large. Maximum cost involved in this is about Rs1.5 Crores and that is again over the next 12 months. It will be the complete suite. And the features are already there in the presentation so I will not get into that. We will test market it in August-September, we will do a pilot with a few schools, understand – see ultimately it has to be a solution which solves the problems for schools to deliver educational content in a 50/50 kind of physical/digital teaching scenario post covid where half the children are coming to school and half the children are not coming or maybe completely children staying at home. So that is the kind of solutions to enable the school to deliver teaching. I don't see substantial revenue coming this year because most of the schools have already been supplied But this will surely become something that will help us get better traction with schools in the next financial year. And maybe increase our penetration in terms of the number of books in schools. Because if you give all the books in a platform or you give all group books in a single platform to the school, it will work much better. So we are launching it to enable schools and increase our engagement with schools, make it more sticky. So exact in terms of revenue we are not yet targeting too much of numbers at this point of time. We will take it as it goes. And once we do a few pilots we will understand if we are actually solving the problems for the school or not. So that we feel at this point of time where a lot of schools are facing these challenges, we have taken a feedback and we try to work around what their issues are. And that is why we are coming up with this platform.

Mr. Jinesh Joshi – Prabhudas Lilladher

Yeah. Just one follow up. Will it require any kind of investment in hardware?

Management – S. Chand & Co. Ltd.

Not at all, not at all, not at all. We are absolutely not getting into any hardware deployment in any other schools. But everybody has got devices. Everybody has got

tablets. Teachers have their own devices. Schools have their own devices. We are a complete cloud-based solution and we will not be setting up any hardware in any system.

Mr. Jinesh Joshi – Prabhudas Lilladher

Fair enough. Thank you so much.

Management – S. Chand & Co. Ltd.

Thank you.

Moderator

Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.

Management – S. Chand & Co. Ltd.

So thanks a lot everyone for sparing your time. And we hope that everybody and their families be safe and take care of yourselves. And hopefully we should be coming out of this COVID situation soon. And let's hope all the best for this year, coming year. Thanks so much for giving the time.

Management – S. Chand & Co. Ltd.

Thank you so much. Thank you.

Moderator

Thank you very much sir. Ladies and gentlemen, on behalf of Prabhudas Lilladher Private Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.