



S Chand And Company Limited

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Date: June 17, 2019

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

Re: Transcript of conference call with the Analysts and Investors

The Company had organized a conference call with the Analysts and Investors on Wednesday, May 29, 2019 at 1:00 P.M. to discuss the financial results for the quarter and year ended March 31, 2019. 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 And Company Ltd.
Q4 and Full Year FY-19 Earnings Conference Call

Operator:

Ladies and Gentlemen, good day and welcome to the S. Chand And Company Ltd. Q4 FY19 Earnings Conference Call hosted by Prabhudas Lilladher Pvt. Ltd. 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 * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jinesh Joshi from Prabhudas Lilladher Pvt. Ltd. Thank you and over to you sir.

Mr. Jinesh Joshi - Prabhudas Lilladher Pvt. Ltd.:

Thanks. On behalf of Prabhudas Lilladher Pvt. Ltd, I welcome you all to the FY19 Earnings Call of S. Chand Ltd. We have with us the management represented by Mr. Himanshu Gupta- MD, Mr. Saurabh Mittal – CFO and Mr. Atul Soni – Head of Investor Relations. I would now like to handover the call to the management for opening remarks, after which we can open the floor for Q&A. Thank you and over to you sir.

Mr. Himanshu Gupta – Managing Director, S. Chand And Company Ltd:

Thank you. Good afternoon ladies and gentlemen. I am Himanshu Gupta, the Managing Director of S. Chand & Company Limited. I would like to welcome you all to our fourth quarter and full year result conference call for FY2019 and thank you all for taking the time-out and joining us here today.

I would like to take this opportunity to give some color on the sales season gone by. FY19 was a challenging year for the whole industry on the back of the expectation of the announcement of the New Education Policy (NEP) which has been awaited for the last 4 years.

Despite the sluggish offtake during the season, the company continued on its earlier stated strategy of sales to the preferred channel partners for achieving longer term goals of improved working capital and FCF generation even while taking a short-term impact on sales growth for the current year. We believe that this was a required step towards strengthening the financial DNA of our company.

We also faced external environment headwinds which impacted our revenues during this season. Some of these include circulars from state governments on reducing bag weight for students, pressure for adoption of NCERT books and reduction of certain noncore subjects

in junior classes etc. We have mitigated the threat through introduction of monthly/semester books, digital products and value-added services like workshops and seminars with schools to enhance engagement with schools. In addition, we are also part of the Federation for the Publishing Industry which has represented against these various circulars/practices in the appropriate courts/forums.

Do keep in mind that our reported revenues have been impacted by an incremental one-time provisioning of Rs 74cr and one time higher sales return of Rs50-Rs60 crores on back of the expectation of the New Education Policy. One data point which I would like to share which gives a better indication of our current year sales is the number of Gross dispatches which were down only ~11% in the K-12 Academic season vs. Reported Net sales which was down by 31% for the 4th quarter.

Profitability was adversely impacted by lower Reported Revenues, Higher provisioning and cost levels which were built to cater to the higher level of sales during the year. Our strategy of focusing on the cash flows has started yielding results with the Cash generated from operations for the current year stands at Rs38cr (vs. Rs39cr in FY18 on sales of Rs794cr).

The company has already embarked “S Chand 3.0” Plan which focuses on various cost rationalization measures including improving productivity and gross margins, headcount right sizing, offices/warehouse consolidation on a group level which should lead to annual cost savings to the tune of Rs60cr-Rs80cr. The details on this have been given in our presentation.

I would like to reiterate that we are on the way to a new destination in the journey of S Chand as a company. I see the journey of our company in 3 stages. The 1st phase was the establishment of the 80 year old brand till 2012 followed by the 2nd phase where we saw PE players like Everstone and IFC infuse funds in the company helping us gain scale through acquisitions and completing the spread of our product offerings. Now, we are ready to usher in S Chand 3.0 for the company where we look at improving free cash flows for the group and driving synergies from the acquisitions done in the past 5 years.

On the Digital front, some of our initiatives have gained traction as *Destination Success*, *Mylestone*, *Smart K*, *Test Coach* and *Risekids*, have carved a niche segment in the markets they operate in. We have rolled out the App ***Mystudygear*** which has had approx 1 Mn downloads for ensuring the books of our company offer a blended learning solution. The company recognizes the need of the Gen X student to learn on various media not limiting to printed books, but augmented by Interactive Videos, Test generators, Online assessments and analytics, Virtual Reality and Games. Almost 2/3rd of the titles in the K-12 segment are available online which enable this 360 degree learning. The company is also geared to launch its all-in-one learning platform ***Learnflix*** in FY20. This would enable a larger audience to Learn on the move.

Now in our view, FY19 was an aberration for the industry. We see FY20 bringing back growth with the benefits of improved productivity, lower sales returns, higher FCF generation and lower costs flowing into the bottom line for the company.

I would like to emphasize that the company is well positioned to benefit from the New Education Policy which we expect to be announced immediately post elections, during FY20 which should lead to a period of strong & sustainable growth for the company in the medium term as had been witnessed post the 2005 Education Policy.

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

Operator:

Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question. Ladies and Gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Nisarg Vakkaria from Lucky Investment Managers. Please go ahead.

Mr. Nisarg Vakkaria – Lucky Investment Managers Pvt. Ltd:

Good Afternoon. I wanted to get some clarity on the presentation you have uploaded. I may ask 2-3 questions with your permission. Firstly, you have written higher incremental provisioning of Rs. 74 crores. What does this Rs. 74 crore provisioning stand for?

Management - S. Chand And Company Ltd:

So, in the light of the expected New Education Policy, we have been conservative in terms of recognition of revenue. We've also seen a higher sale return that came in during financial year FY19 vs. the previous year. So, we've taken an incremental provision for sales return and discounts that we might have to offer to the channel partners during FY20. So that we've already provided for in the books of accounts in FY19.

Mr. Nisarg Vakkaria – Lucky Investment Managers Pvt. Ltd:

Is there a cash flow impact as well?

Management - S. Chand And Company Ltd:

No, this is not a cash flow impact. This is a provisioning, taking into account conservative accounting so that whatever returns come in due to the impact of the education policy we

have provided for that. Do note that this education policy is coming after almost 14 years since the last one came in 2005. Hence, we've been conservative in terms of provisioning.

Mr. Nisarg Vakkaria – Lucky Investment Managers Pvt. Ltd:

Sir, but if we are in the business of education and we knew this Education Policy is coming, then why do we have to make a provision?

Management - S. Chand And Company Ltd:

Sir, the Education Policy has been under announcement for the last 3-4 years, but the release always got delayed. There was no sure shot way of predicting when it will be released. Under the usual course of business, the channel inventory which is there in the market gets consumed in the next academic year. But, if the policy comes in and there is a change in the curriculum, we expect material would be returned to the company. So, that is why we have taken a provision for that.

Mr. Nisarg Vakkaria – Lucky Investment Managers Pvt. Ltd:

On the balance sheet, we also have a Rs. 200 crore inventory, right? So now, what is this Rs. 200 crore inventory? Is this the new curriculum or the old curriculum?

Management - S. Chand And Company Ltd:

This inventory is a mix of raw material (paper) and current curriculum inventory. Do keep in mind that when the New Education Policy is released, there would be a time lag before the new curriculum is announced. During this period, the current curriculum books would be selling in the market. Additionally, we are also carrying some higher education inventory which is for liquidation in the next 6-9 months. That policy is not changing, so that inventory would continue to be. Plus, there is some inventory from my State Board curriculum player Chhaya Prakashani, which again, there is no change expected right now.

Mr. Nisarg Vakkaria – Lucky Investment Managers Pvt. Ltd:

So this balance sheet improvement or cash flow generation or inventory reduction we have seen, is only because there is an uncertainty in the policy framework as of now, right?

Management - S. Chand And Company Ltd:

So basically, the new Education Policy, as Saurabh was just saying, was hanging on for the last 4 years. But now, from various media sources, we get to know that the policy is going to be announced very soon. Some reports have even said that the policy would be announced by 31st of May. The thing to keep in mind is that when the curriculum change happens, it has an impact of 2 to 3 years. So in some classes, when they do the syllabus change, they do

odd classes one year like Class 1,3,5,7 etc and even classes like Class 2,4,6, 8 etc the next year. Likewise, they also do some subjects this year, some subjects next year. So normally, it takes 2 to 3 years for the complete syllabus to be implemented in all the schools. We believe that the inventory that we currently have, which is of the current curriculum, that would be liquidated and would be utilized before the new syllabus titles hits the market. There may be some inventory which might be left over but we're trying to liquidate most of the inventory of the current curriculum.

Mr. Nisarg Vakkaria – Lucky Investment Managers Pvt. Ltd:

Sir, what is that quantum exactly, of the inventory that you need to liquidate?

Management - S. Chand And Company Ltd:

We would not know that till the time we see what the changes in the policy are.

Mr. Nisarg Vakkaria – Lucky Investment Managers Pvt. Ltd:

Okay. But this Rs. 74 crore incremental sales return provisioning which you have taken, is that an estimate as to how much returns you would have and all that, or can that number increase going ahead?

Management - S. Chand And Company Ltd:

It's an estimate based on past trends.

Mr. Nisarg Vakkaria – Lucky Investment Managers Pvt. Ltd:

It's an estimate based on past trends, okay. As investors, the only thing we want to understand is, where does this number actually stabilize and how much of the inventory will actually come back to us. Is there any way of figuring that out for certainty?

Management - S. Chand And Company Ltd:

No, we are comfortable with the provision that we made. I think it's being very conservative on us this year. And apart from that also, we've been very conservative in terms of supplying to our customers. We looked at what the adoption has been with each and every school that placed orders with us was. We've been very conservative this year so as to ensure that the returns from schools of excessive inventory are less this year. We've looked at that very closely this year considering that there was this policy change that was coming around.

Mr. Nisarg Vakkaria – Lucky Investment Managers Pvt. Ltd:

Sir, this might be a slightly naïve question, but policy change, can it change the way we do business? Can it change the fact that we have receivables of close to 6, 7, 8, 9 months on our balance sheet? Can that structurally change, or that way of doing business will structurally remain the same?

Management - S. Chand And Company Ltd:

In the current shape of things, unless the policy says something drastic like one can only have monthly books etc. which can change the structure of the business. Otherwise structure wise, it should be on existing nature of business. On our part, we are working at our end to optimizing our distribution channel and reduce inventory and receivable levels.

Management - S. Chand And Company Ltd:

Himanshu here, I feel that the structure of the business is not going to be in question here, until and unless the government does a completely different and drastic thing. But normally, the structure of the business will remain the same and only the curriculum and the syllabus will change.

Mr. Nisarg Vakkaria – Lucky Investment Managers Pvt. Ltd:

Sir, from what I understand, the basic is that, if there is a structural change in the policy, then the business which was not growing for so many years, we should see a good growth phase for atleast 2-3 years, if there is a change in policy coming after 15 years or whatever?

Management - S. Chand And Company Ltd:

Yes there would be a strong runway of growth for 3-4 years since the used books in the market or the second-hand books in the market will be completely taken out, and the students will only want new books of the new curriculum. That advantage would be there for a good 3-4 years, I would say.

Management - S. Chand And Company Ltd:

Plus, we know, organized players would be faster to the market in terms of providing curriculum books as compared to others. So you'll have that advantage as well.

Mr. Nisarg Vakkaria – Lucky Investment Managers Pvt. Ltd:

Okay. And this policy is expected to come in the next 1-2 weeks in your opinion, or will it take some time?

Management - S. Chand And Company Ltd:

As per media sources, they are saying it is expected very soon. Maybe in a couple of days also. But do keep in mind that first they would be releasing the draft policy which would be open for consultation with all the stake holders in the education ecosystem. Secondly, after getting all the feedback, they would come out with New Curriculum Framework (NCF) which is where the new syllabus is announced. Post this, the publishers come out with the new syllabus books in the market. So this process can also take couple of quarters.

Mr. Nisarg Vakkaria – Lucky Investment Managers Pvt. Ltd:

And what if they keep a hanging sword on it forever? Let's say, for 2 more years they keep a hanging sword. Then this provision and all will be reversed?

Management - S. Chand And Company Ltd:

Yes. Then of course, it's good for us also. In case it doesn't come in, then this provision continues to be. In case we get less returns, then we'll have to reverse the provision and that's fine with us.

Mr. Nisarg Vakkaria – Lucky Investment Managers Pvt. Ltd:

I understand. Thank you so much for answering my questions.

Operator:

Thank you. The next question is from the line of Nitin Agarwal from JM Financial. Please go ahead.

Mr. Nitin Agarwal – JM Financial Ltd.

Thank you for the opportunity. Sir, I wanted to ask, if this policy comes in, what are the chances that the new syllabus gets implemented from this year itself? I think, many of the schools have already started, and to change the syllabus in such short notice, is it feasible?

Management - S. Chand And Company Ltd:

No, we do not see it impacting FY20 sales since this would be a time consuming process of Draft Education policy followed by feedback received by the government, based on which the announcement of New Curriculum Framework (NCF) happen post which the publishers come out with books on the new syllabus. In our estimate, best case scenario, it can impact FY21 onwards.

Mr. Nitin Agarwal – JM Financial Ltd.

why?

Management - S. Chand And Company Ltd:

Because the sales happen in January, February and March for the April academic year, for the next year.

Mr. Nitin Agarwal – JM Financial Ltd.

Right.

Mr. Nitin Agarwal – JM Financial Ltd.

So the April 2020 books start getting sold from January to March 2019, one year earlier?

Management - S. Chand And Company Ltd:

Not one year. January to March 2020.

Mr. Nitin Agarwal – JM Financial Ltd.

So exactly that is my point. So, if the syllabus is getting changed from April 2020, then why were our January to March 2019 sales impacted, because this syllabus will remain the same.

Management - S. Chand And Company Ltd:

Basically, why it got impacted was, because we didn't want to do that quantum of sales where we expect there would be high returns. If there is a case of higher returns and the New Education Policy coming in at the same time then our inventory level would be higher and there would be a risk of write off to older syllabus inventory. So, we wanted to make sure that our old stock which we would have to be of low volume. That's why we have been very careful in making sure that we do not do any kind of sales where there are chances of higher returns.

Mr. Nitin Agarwal – JM Financial Ltd.

Okay. So if there are higher returns in next year then there is a risk that you won't be able to sell if the New Education Policy is announced?

Management - S. Chand And Company Ltd:

Yes, It would become difficult to liquidate. I'm not saying it's not possible, but it becomes difficult. So it's better to take a conservative approach. When you know there are headwinds in the front, it's better to take a conservative approach.

Mr. Nitin Agarwal – JM Financial Ltd.

So, this loss of sale in FY19, is permanent loss. So, it cannot be recovered or shifted to the 1st Quarter of FY20, right?

Management - S. Chand And Company Ltd:

So Nitin, the reported revenues have been impacted by a mix of one off items like higher provisioning of Rs74 crores, higher than expected sales returns of Rs50 crores - Rs60 crores and reduction in sales to channel partners which did not adhere to our terms of trade and this would not be a recovered or shifted to another quarter However, if you look at my cash flows, this reduction in reported revenues has not impacted our cash flows at all. In fact, even with lower reported revenues, my cash flows remain exactly what it was last year.

Management - S. Chand And Company Ltd:

If you do the cash flows on a consolidated basis, at Rs. 794 crore revenue in FY18, we had a Rs. 39 crore free cash from operations. At Rs.522 crore reported revenues in FY19, the free cash from operations is around the same number. So there is actually no impact on my cash from operations which is one of the key things that we are driving and this is despite having us paid an extra Rs. 16 crores of advance tax which of course which we will get refund for because we also did not anticipate that our profitability would go down so much. But having said that, if you include those Rs. 16 crore advance taxes, my cash flows from operations this year would have looked like Rs. 54 crores, higher from last year. So what we're seeing is in this business is that too much of inventory into channel partners is not bringing in incremental cash flows to us. So we would rather sell and collect faster and be more working capital efficient and cut our costs in terms of bring down our cost, rationalise them to a level which are sustainable rather than pushing too much into the market.

Mr. Nitin Agarwal – GM Financial:

And sir one more thing, I know it is in such uncertainty and it is difficult to give a revenue guidance but do we have any back of the analogue calculations on different scenarios so if the new policy comes in, you know this is the revenue which we can foresee for in FY20 and if it doesn't come this is what we can see. So do we have any such two scenarios with us handy?

Management – S Chand & Company Limited:

I mean to be honest of course what is there in the policy we will have to wait and see. But if it doesn't come in of course you can look at 20% plus growth coming from what we have done in FY19 with better cash flows.

Mr. Nitin Agarwal – GM Financial:

Okay, yeah. Thank you I will come back in the queue if I have more questions.

Moderator:

Thank you. The next question is from the line of Nagaraj Chandrashekar from Laburnum Capital. Please go ahead.

Mr. Nagaraj Chandrashekar – Laburnum Capital:

Alright, thank you. Just wanted to ask our CBSE book sales, are we skewed to any particular geography more than any other geographies?

Management – S Chand & Company:

Sir basically CBSE schools are all around the country in every part of India but mainly if you see CBSE schools are high number of concentrations in north India. Delhi has the maximum number of CBSE schools approximately around 2200 schools, including the government school.

Mr. Nagaraj Chandrashekar – Laburnum Capital:

Sorry your share would it be higher in the north?

Management – S Chand & Company:

Wherever CBSE schools are there we are present there. If there are more number of schools in CBSE in some state obviously there will be more business. North India would contribute approx. 40% of company revenues.

Mr. Nagaraj Chandrashekar – Laburnum Capital:

What would be your break down of CBSE sales by regions? The reason I am asking is because one of your competitors in the west is also entering CBSE aggressively...

Management – S Chand & Company:

The competitor that you are referring to has already entered.

Mr. Nagaraj Chandrashekar – Laburnum Capital:

So what would you be your split by region of CBSE book sales?

Management – S Chand & Company:

I think approximately 40% would be north, 15% would be east, 20% south and balance 25% in the west.

Mr. Nagaraj Chandrashekar – Laburnum Capital:

And we mentioned a competitor earlier, you have mentioned that they have already entered. Are they focused just on the west where they are traditionally strong in the State Boards or are they present everywhere?

Management – S Chand & Company:

No, So basically the company's CBSE business is headquartered in Delhi and that company does business as we do business all over India.

Mr. Nagaraj Chandrashekar – Laburnum Capital:

I also wanted to ask of your K12 revenues. So you haven't given us a split of K12 versus other revenues. So that split and also what would be your split of K12 between CBSE and non-CBSE now?

Management – S Chand & Company:

K12 split would be 80%, 13% is the high education revenue, 7% is digital. And what was your second question?

Mr. Nagaraj Chandrashekar – Laburnum Capital:

Within the K12 the split between CBSE and non-CBSE?

Management – S Chand & Company:

60% would be CBSE, and 10-15% would be ICSE and then of course we have State Boards which is about 20% odd.

Management – S Chand & Company:

When we say CBSE schools so we have to understand that CBSE schools plus there are some State Board schools in the country which are English medium schools which are also adopting the CBSE curriculum from K to 8. So those schools are also included in that.

Mr. Nagaraj Chandrashekar – Laburnum Capital:

Got it. Just one final question from me, just following up on the previous participant on the provisioning part. So our working cycle is such that if a new school year's curriculum is applicable from the April 20 school year onwards, we start making books right now and start selling them through our channel partners, from say December-January 2019-2020 onwards to March and our working capital builds up. So you would be making new books,

keeping in mind the new curriculum that would be released you know end of this month or next month or whenever so why have you taken a provisioning current inventories because those would be, those that are in the channel and would be sold during the current school year which would have the current curriculum, correct?

Management – S Chand & Company:

No, so what happens is normally the channel would retain certain inventory through the year and these are largely bestselling titles which the channel continues to hold year after year. So let us say around June-July when the schools have already started and new admissions have already come into the school since this is more of a prescription book market plus some of it is over the counter. But students normally get their books in March, April, May and maximum June-July. What happens is there is always this latent inventory which is there in the market and subsequently either it gets sold in the next session or it comes back as sales returns. But having said that because this is an anticipated change we have been slightly conservative in terms of higher provisioning

Mr. Nagaraj Chandrashekar – Laburnum Capital:

Got it, thank you.

Management – S Chand & Company:

See and as far as the printing is concerned, we are also planning to go ahead with much delayed printing timeline than usual this year because we would also not want to be in a situation where let's say we print and then the new education policy comes. So we would want to I mean kind of align the printing to as close as possible to the you know the real season. So this year we will see delayed printing than usual.

Mr. Nagaraj Chandrashekar – Laburnum Capital:

Alright, thank you.

Moderator:

Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Mr. Aditya Bagul – Axis Capital:

Thank you. Just a couple of questions from my end. One is that we have embarked on this restructuring exercise. Can you discuss a little more on what we are doing at the distributor level both in terms of say, margin and inventory along with the number of authors or the number of the titles that are going on record?

Management – S Chand & Company:

Hi, Saurabh here. See in terms of channel partners we have looked at the channel partners, we have seen how they are contributing and helping us and moving along with us so we categorize them into partners who are promoting our products and we continue working with them. There are some who have given us higher sales return, who are simply wholesalers and only playing on discounts, we have cut back on supplies to these partners and in terms of certain products, which are our premium products we have also worked on taking advanced payments in some products and not giving any credit on certain titles which help push the certain revenue from Q4 to Q1 also but when that call we have taken to ensure A) that there is no high discounting of premium products in the market and secondly B) we get our collections faster, so that call we have taken during the current year.

Mr. Aditya Bagul – Axis Capital:

Okay, okay, and just wanted to understand how this would possibly translate into a lower receivable days?

Management – S Chand & Company:

If you look at our absolute receivable number which if you see versus last year is substantially down which is largely a function of sales being lower but also the collections versus the previous year has been higher which can be seen even during the current two months. We have collected about Rs.120 odd crores in the April,19-May,19 period against the opening receivable of about Rs. 440 odd crores. So we are much, much better placed than last year in terms of collections, in terms of cash flows and we are targeting December which is the lowest period of receivables, last year we were about at about Rs 300 odd crores which this year we are targeting to be half of that at about Rs.150 crores, so we see this improvement coming in because we are not pushing too much of inventory into the channel, whatever can get liquidated by the channel is only what we are putting into them. It is easier for them also to pay us and less chance of returns coming in and all. So that is helping us this year, even this current period we have seen that the returns that would come in substantially low in the first two months as compared to last year. So we have seen those matrix changing because of this policy change.

Mr. Aditya Bagul – Axis Capital:

Okay, just a couple of more questions. Himanshu, if we assume that you know excluding this one off we have a steady state revenue of Rs. 650- 700 odd crores, then what is the kind of steady state growth that we would aspire to achieve? Would it be in the high teen kind of a number?

Management – S Chand & Company:

Basically, what we have seen is that when the syllabus change happens the first 2-3 years, there is a high growth then it stabilizes and then you continue on a normal growth path. So in the first 2-3 years when the policy changes comes in there is strong growth in revenues since the second hand book market goes out. But I would say that in the normal circumstances' high teen for the next 2-3 years would be a good estimate.

Mr. Aditya Bagul – Axis Capital:

Great, that is it from my end. Thank you so much and best of luck for the quarters to come.

Moderator:

Thank you. The next is from the line of K.U. Shah from Emkay Global. Please go ahead.

Mr. K.U. Shah – Emkay Global:

Thank you for the opportunity sir. Sir you are saying that this new policy implementation has been delayed since last 4 years and now your media sources suggest that it should be announced very soon, probably in couple of few days. So like what has changed and what has led to this sudden jump of making it happen now?

Management – S Chand & Company:

Because of the elections the policy was delayed till the elections got over and we all know now that the elections are over and Mr. Modi will be taking the oath of the Cabinet tomorrow and as per media reports they are saying immediate announcement because the policy is already ready, it just had to be released and that was delayed because of the elections but now it is all over and we expect that the policy would be released very soon.

Mr. K.U. Shah – Emkay Global:

Okay so you are saying the policy was not fully prepared until recently and they just wanted to wait for the election to get over right?

Management – S Chand & Company:

The policy was ready but they didn't release it.

Mr. K.U. Shah – Emkay Global:

Okay, fine that is it. Thank you.

Moderator:

Thank you. The next question is from the line of Govind Sahu from India Nivesh. Please go ahead.

Mr. Govind Sahu – India Nivesh:

Good afternoon, sir. Sir just couple of fundamental questions I just wanted to ask. So, if I have to reconcile your yearly growth in sale so your incremental or decremental sale comes from three sources one is consumption in your existing schools where you are supplying books. Second, the new schools which you add plus the incremental inventory, which gets developed in the channel. So, these are the, I mean, if I have to recall the sale of two years, the difference should categorize into this, these three, these three broad categories. So, our drop in sales has been around 300 crores from 800 to 500 crores. So, how do I understand this drop in sale?

Management, S. Chand & Company Limited

So, from Rs.800 crores, the drop is because of about Rs70 odd crores on back of incremental provision, one time higher sales returns of approx. Rs 50 crores-Rs.60crores than last year then the balance is on back of conservative sales to channel partners, pressure from NCERT and other factors.

Mr. Govind Sahu – India Nivesh:

So you are saying that, the decrease in channel inventory via sales returns of Rs50-Rs60 crores and lower consumption in the schools as NCERT books are being promoted in the schools and Rs.74 crores is actually the provision which you have reduced from your sales.

Management, S. Chand & Company Limited

Yeah see there would also be some impact of us having not supplied to certain channel partners, because we chose not to supply because of liquidity issues with those channel partners having not made payments/or delayed for the earlier supply. So those are also issues so I would not say it's a complete impact of NCERT or the other factors but it's a mixed impact of both. So there are certain partners we have blocked accounts of almost 150 odd channel partners where we have not supplied incremental this season.

Mr. Govind Sahu – India Nivesh:

So the channel partners which we chose not to supply, that market share is lost to some other publisher.

Management, S. Chand & Company Limited

Very difficult to say.

Management, S. Chand & Company Limited

But yes there might be obviously, some other person who must have supplied but ultimately, we wanted to supply to those people who have good track record when it comes to sales returns and timely payments. So we have been very careful in supplying and we believe that the supplies that we had made this year, the returns would be lower by around 35% to 40% from the last year so, that is why we expect lower return from last year.

Mr. Govind Sahu – India Nivesh:

Oh that is very good because the quality of revenue is actually increased because earlier the quality was inferior to what we are doing and now we are choosing our channel partners in a more qualitative format. But okay, so this is one thing.

Management, S. Chand & Company Limited

Ultimately we have to understand that if there are, let's say 10 orders in the market, we cannot accept all the 10 orders. And we are not going to refuse all the 10 orders. Normally company earlier used to accept maybe eight or nine orders out of the 10 while this year out of the 10 orders, we have been very selective in choosing we have selected out six or seven orders so that's the only difference and that is why we are improving the quality of the sales and this will also help us in improving our free cash flows. Our gross dispatches are down only 11% vs. last year.

Mr. Govind Sahu – India Nivesh:

Sir second question is what is the accounting treatment of the provision so is it added in the COGS or it is reduced from revenue?

Management, S. Chand & Company Limited

It's reduced from revenues and reduced from receivables.

Mr. Govind Sahu – India Nivesh:

Reduced from revenues and reduced from receivables okay, so but added to inventory?

Management, S. Chand & Company Limited

Only the cost is added to inventory.

Mr. Govind Sahu – India Nivesh:

Okay, so what would be the gross up sir so what I'm saying is let's say 100 is received from sales and revenue and let's say 80 is added to inventory so 20 is a provision actual provision is my understanding correct so that Rs.74 crore represents 20?

Management, S. Chand & Company Limited

No, so on the 100 provision of sales return provision I would only add about 30 to inventory. So, the impact on our financials will be 70.

Mr. Govind Sahu – India Nivesh:

Okay, okay,

Management, S. Chand & Company Limited

For this 74 the impact on my EBITDA is about Rs.48 crores.

Mr. Govind Sahu – India Nivesh:

Oh, that's okay. That's helpful

Management, S. Chand & Company Limited

Yeah see incrementally we have also taken a higher provision for late receivables about Rs.12 to Rs.14 crores as compared to previous year so that is coming under "Other expenses" in the P&L, which is again being very conservative in terms of provisions, we don't normally have bad debts from our customers which is around maximum 0.5% but we have taken a provision, because there have been some delays from the market and we under Ind AS we have been asked to provide for expected credit loss as per the model. So we have taken an additional provision there also.

Mr. Govind Sahu – India Nivesh:

Sir my last question is what has been our school reach in FY19 so has it increased has it decreased?

Management, S. Chand & Company Limited

We increased our school's reach by around normally 6 to 7% every year. So this year also we have tried to do that, but ultimately, it's 6 to 7% when you increase the school, all the schools won't become your customer, but you go and reach out to more customers, but we expect our customer base might have slightly increased by 3 to 4% in terms of the number of customers, but it might have also reduced because we have not dealt with those customers which basically have been not having the right creditworthiness with the company. So, overall I would say the customer base net customer base would be almost the same.

Mr. Govind Sahu – India Nivesh:

Okay. And sir my last question is regarding the new education policy which is slated to come. So, what is the other than change in curriculum what are the other major aspects which can impact our business?

Management, S. Chand & Company Limited

Basically, it is about the change in curriculum and mainly the books might change. Now how much books change and what changes they bring in it's very difficult to say as of now until we see the education policy followed by the New Curriculum Framework (NCF) which is basically the curriculum that will come in that comes after the NEP.

Mr. Govind Sahu – India Nivesh:

Sir just last thing so if I add the receivables and inventory it comes to around 650 odd crores. So this is actually the channel stock or channel exposure which we have as a company overall. So are we confident of recovering the 650 crores and there would be no other no more provision on this 650 crore what is your sense?

Management, S. Chand & Company Limited

Could you repeat that?

Mr. Govind Sahu – India Nivesh:

So if I add receivables and inventory our total exposure to channel is about 650 crores.

Management, S. Chand & Company Limited

No the inventory is lying with me, inventory is not there.

Mr. Govind Sahu – India Nivesh:

Yeah. So basically I have to sell it through the channel. So it's ultimately my exposure. So are we confident of turning the 650 crores into cash next year?

Management, S. Chand & Company Limited

From that I think we've already collected about Rs130 odd crores, in the first two months and our target is to liquidate in terms of receivables bring it down to about Rs150 crores by the end of December. Channel inventory is a mix of both CBSE, K12 and ICSE and higher education and test preparation and West Bengal State Board. There is also some paper inventory which is not being used for printing yet so which is raw material so of the Rs.200 crores I would say about 30 odd crores is raw material. Out of Rs170 crores, I think the total exposure in terms of school books for which they are impacted by the curriculum policy should be about Rs100 crores.

Mr. Govind Sahu – India Nivesh:

Okay, so I mean it's fair to assume that there would be no more this entire 650 crores.

Operator

Sorry to interrupt, sir ...

Mr. Govind Sahu – India Nivesh:

No, I'm just finishing so it is fair to assume that this 650 crores would be converted into cash by December or so?

Management, S. Chand & Company Limited

The receivables yes, but the inventory would get sold only in the next year. There would be some part of the higher education inventory which would get sold in the next coming quarters and the school inventory would be sold in the fourth quarter season from Jan to March 20.

Mr. Govind Sahu – India Nivesh:

Okay. Okay. Got it. Thank you so much.

Management, S. Chand & Company Limited

Thank you.

Operator

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

Aasim Bharde, IDFC Securities

Yeah, hi good afternoon team. Sir first question in case the new education policy comes, say delayed, say maybe by November or December. So would it impact the coming academic year and if yes, then what happens to the books that you may have already printed?

Management, S. Chand & Company Limited

So basically, as I said that the NEP is expected anytime soon. So if NEP comes in then the national curriculum framework should come in couple of months after that . But if it does not come in and it gets delayed, we will still be very cautious in printing our books for FY20 season. And we will probably delay the printing of the books till the point till we feel that we cannot delay it further but yes, and what happens is if the curriculum comes late so some of the schools do not implement the curriculum immediately. Some do some don't. The curriculum might get delayed, for some of the schools for the another next academic year. In that case, we will be able to liquidate our old stock as well.

Aasim Bharde, IDFC Securities

Okay. You mentioned to a previous participant that if the policy is implemented, you would expect high teens growth. Leaving FY19 aside in our past interactions you have mentioned that 15% growth was a sustainable sales growth figure. So with the new policy coming in, is the incremental benefit just a couple of percentage points better or is the high teen growth in addition to the sustainable number, where you would be targeting say adding new schools or basic school by share?

Management, S. Chand & Company Limited

So see that the New Education Policy should impact only the K12 CBSE segment. It would not impact the state board segment or the higher education segment. We have seen the higher education segment actually do flat to de-growth over the last two, three years. So there again, we have to reboot that model in terms of looking at working with certain universities and ramping that up also, which we are doing in the current year..

Aasim Bharde, IDFC Securities

Okay. Sir would there be a rough number, how much of your K12 revenue is coming just from CBSE?

Management, S. Chand & Company Limited

We shared that I think this is around...

Management, S. Chand & Company Limited

60-65%.

Aasim Bharde, IDFC Securities

Okay, so, okay, fine. Sir. I would also like to know that, how would you manage growth post the new policy coming in, if you have, if you're working with a reduced number of distributors, currently, would you have to again add new distributors or perhaps return back to older ones that you have let go, sir how would the distribution strategy be in the future?

Management, S. Chand & Company Limited

Basically, we have been pruning and weeding out those channel partners which do not have the right credit worthiness, that is the reason and increasing accounts or increasing those things is not very difficult for the company of our size. But we want to be very careful in the quality of the sales that we do. And which should not impact our margins, and which should not impact in higher returns or non-payments. So those things the company would be more careful in the future ahead. But we will definitely want to do business with as many accounts as we can and continue on our growth path.

Aasim Bharde, IDFC Securities

So the existing distributor network would be good enough to manage your future growth, whichever?

Management, S. Chand & Company Limited

Yeah, we have close to 6000 distributors.

Aasim Bharde, IDFC Securities

Okay sir and finally, I believe a majority of your CBSE K12 revenue involves book sales to schools through distributors. So now I am under the impression that these schools purchase books, each year so I would assume that a second hand book sales would anyway be on the lower front. So in this case, would the new policy impact growth in a very big way? Because anyway, every year new book sales have been happening, right?

Management, S. Chand & Company Limited

Yeah, but there are a lot of times when there are left over inventory in the market along with the second hand books in the market. So the market does not have zero inventories at any point in time. The market has leftovers, and that is the way the market has been running. And when the new curriculum or the new syllabus comes in it completely wipes out the leftovers or used books in the market. So that advantage would come in. Secondly, it will also help us organized players like us are able to get out the books on time and with good quality content. We will definitely have an edge over the grown up players in the market. And we will be able to garner a bigger market share that will also help us in increasing our sales.

Management, S. Chand & Company Limited

But so having our own...

Aasim Bharde, IDFC Securities

Okay there is a... yes sir go ahead.

Management, S. Chand & Company Limited

Yeah I will just complete that, also having our own printing facility gives us the benefit of delaying printing and then getting our products within our control in time so others I mean

there are very few publishers who have that kind of facility and capacity to turnaround. So that is an added advantage that we have.

Aasim Bharde, IDFC Securities

Okay sir so...

Operator

Mr. Bharde sorry to interrupt, sir, I request you to rejoin the queue, please because we have other participants waiting.

Aasim Bharde, IDFC Securities

Sure, sure okay, thanks very much.

Operator

Thank you. The next question is from the line of Ravindra Bhandari from Dimensional Securities. Please go ahead.

Ravindra Bhandari, Dimensional Securities

Hello. Good afternoon. My question is regarding free cash flow, like this year we are talking about is Rs.38 crore free cash flow is being generated, but that is mostly because the revenue has come down and as a result of that, the receivables has come down by about Rs.200 crores. But next year if we ramp up our revenue again back to Rs.750 crore, then significant amount of working capital will be stuck. So how we are planning to like how would be the receivables collected over June quarter what would be the percentage of sales which has been made in March will be collected in September, June September quarter going forward from here?

Management, S. Chand & Company Limited

So we are looking at the December number of receivables of about Rs.150 crores as against Rs.300 crores last year. We are very clear that we will work with partners who have a timely payment obligation, and we will incentivize the partners who would and who are paying on time and settling their accounts. And that is why we expect our cash flow from operations even incremental revenues to improve over the next one year. What we are also looking at is whatever inventory we have, we will first liquidate that and then get into further printing of books. So once we liquidate the inventory, which is for which we've already paid out, the

cash flow from operations will improve. On top of that, we are also looking at the substantial cost rationalization, which we've identified and largely implemented, which is around Rs.60 to Rs.80 crores which is one of the larger impacts of this whole exercise that we've undertaken, by taking a one year step back, we have been able to focus on the excessive cost that we have in the system and been able to rationalize that from the starting of this year itself so most of those actions have already been taken. And so those impacts will be start flowing in from Q2FY20 onwards. So that is why we will get incremental cash flows.

Ravindra Bhandari, Dimensional Securities

If we try to put a number to it, say our working capital, which is something Rs.500 or Rs.600 crore in our business at the end of March, how much it will be released by September in percentage terms?

Management, S. Chand & Company Limited

So I mean for the FCF target we've taken a 50% conversion from EBITDA for the year. So that's what we are targeting for our FY20 to put a number to it. Also, we are targeting receivables of Rs 150 crore by December quarter which would mean reduction of almost Rs. 300 crores in receivables from March ending number of Rs 445 crores. Once the education policy is announced we will have a better sense on the number at the end of this year.

Ravindra Bhandari, Dimensional Securities

Okay the other thing...

Operator

Mr. Bhandari.

Ravindra Bhandari, Dimensional Securities

Yeah.

Operator

Sorry to interrupt sir. But if you have more questions, I request you to rejoin the queue, please.

Ravindra Bhandari, Dimensional Securities

Sure.

Operator

Thank you. A reminder to the participants, please limit your questions to two per participants. If you have a follow up we may request you to rejoin the queue, please. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari, Unique Investment

Yeah, thank you very much sir. Sir my question is to Mr. Guptaji. Sir broadly two year back, we came with IPO and unfortunately, everything gone wrong, maybe related to business economy, whatever I mean and you were seeing the erosion of the valuation of the stock. So broadly, what is your feel, what's your thought process, and how you want to, I mean, do something which enhance maybe value of all the stakeholders, any of your qualitative thoughts on this?

Management, S. Chand & Company Limited

I'm also very saddened that the shareholder value has been eroded. And as we all know that ours is a very old company, we are almost 80 year old company started by my grandfather, and I am the third generation. And S. Chand has a very good brand name in the market of education. And if you ask anybody, most of the people have read S. Chand books in their lives so obviously we didn't want that the shareholder value would have been eroded. But there were some reasons which were beyond our control. There were some reasons also I would say that, we have also made mistakes and learning from those mistakes. We were very new in the share market and in the IPO market, we didn't have much experience earlier for that. We believe that the worst is behind us. And now with the new S. Chand 3.0 plan, we want to sustain and grow strongly. And as I said in my earlier comment, we are reducing costs of Rs.60 to Rs.80 crores annually and focusing more our energies on improving the free cash flows that the company has. And hopefully there will be a turnaround even in the stock price. And I would always want that our shareholders create more wealth from our stock, but unfortunately it has not happened till now. And we are hoping for all the best in the future.

Sunil Kothari, Unique Investment

Yeah, we are also wishing you best. And sir my second question is this policy which you are anticipating this is something a very sudden this thing or you are sure this within some few days or weeks that will be announced?

Management, S. Chand & Company Limited

This has been going on and normally the education policy, has a 10 year life cycle so the last NCF came in 2005 so it should have been changed by 2015 as the Modi government had come in. But unfortunately for the first 4-4.5 years it didn't happen and when the policy was ready the elections came up so they waited for the elections to get over. But what media reports we are hearing that they're saying the policy would be announced very soon.

Sunil Kothari, Unique Investment

Okay, thank you very much. Wish you good luck.

Operator

Thank you. The next question is from the line of Mehul Bhatt from Oyster Rock Capital. Please go ahead.

Mehul Bhatt, Oyster Rock Capital

Yeah. Hi. Sir I want to understand what catalyzed the enlightenment to readjust revenues and, you know, the changes to better distributors etc? And at what point in time did this recognition come in, and it couldn't have been in one quarter, so I'd like to understand a little more on that?

Management, S. Chand & Company Limited

So to be honest, we started relooking at it around in the end of third quarter, when we saw that the despite our revenue growth in the previous year, the cash flow from our distributors was slow, the payments were slow. There were higher returns coming in. And so...

Mehul Bhatt, Oyster Rock Capital

Sorry to interrupt sir but you know this seems deeper than that. So that's why I'm trying to understand this a little better.

Management, S. Chand & Company Limited

We saw the higher returns coming in Q3 when we started settling accounts with our distributors and that is the time that we took a call and plus we were also seeing certain distributors looking for higher discounts on the inventory that they were holding.

Management, S. Chand & Company Limited

Also, the news around the education policy which in first week of December Mr. Javadekar announced that this is going to be done after the elections so then, we relooked at it, and then we relooked at our costs also. And then we started speaking to our channel partners, these are some of the channel partners who are not adhering to the payment timelines we started blocking their accounts. And hence, we've taken that call, of course, we didn't know the impact would be so high. However, having said that, it's past us now and we are looking forward to working with some of the better channel partners and better cash flows.

Mehul Bhatt, Oyster Rock Capital

So if you aggregate the total write downs that you've done, you know, both the 74 crores plus the 100 odd crores of revenues plus incremental wherever there is how much would you ascribe that to the 2018 revenues and how much would be for the years before that?

Management, S. Chand & Company Limited

There is no write down as such. The Rs74 crores is a provision for sales returns to be received in FY20 against FY19 sales.

Mehul Bhatt, Oyster Rock Capital

Sure, so let's say provision. So the provision that you are talking about how much would relate to the year 2018 and how much would be for the previous year?

Management, S. Chand & Company Limited

So the Rs74 crore provision is completely for FY20 revenues. This is against the dispatches, which I have done in FY19. This has got nothing to do with FY18 or FY17. As far as FY17 or 18 is concerned there is a small provision for late receivables of about Rs.15 to Rs.18 crores, which I provided for, that is a maximum exposure that I would have in terms of the old accounts.

Mehul Bhatt, Oyster Rock Capital

Right.

Mehul Bhatt, Oyster Rock Capital

Okay, thanks.

Operator

Thank you. We will take the next question, which is from the line of Ashok Shah from LFC Securities. Please go ahead.

Ashok Shah, LFC Securities

Thanks for taking my questions. Sir I just heard about from the promoter side about they are facing for the erosion of the value has taken place over last two years. So would the promoter would find it so attractive to invest at a current price?

Management, S. Chand & Company Limited

So as a promoter, I had also acquired shares in the month of March when I had acquired close to 75,000 shares. I feel that you should know that there is huge potential in the education business and there is huge potential in the company. But I'm quite hopeful that, you know, we will be able to come out of the situation. And as I said earlier, the worst is behind us and let's look forward for a better future ahead.

Ashok Shah, LFC Securities

So 75,000 shares purchase is a minor amount, you can take at least 5%, which is allowed in the creep in acquisition when I was going through our stake has come down from 53% to 46% as a promoter share only?

Management, S. Chand & Company Limited

No sir, promoter holding was never 53%. After the IPO my shareholding was always as a promoter group was always in the range of 46-47%, it was never in the range of 53% sir.

Ashok Shah, LFC Securities

Okay, okay and secondly, at the time of IPO this change of the syllabus was actually known to the management or it is abruptly after the change of current government?

Management, S. Chand & Company Limited

So basically the change of curriculum and that policy, as I said, was supposed to be coming in the Modi government, but it got delayed because of whatever reason in the government and it got delayed for close to 4.5-5 years and now we are expecting the education policy to come in very soon.

Ashok Shah, LFC Securities

Was it mentioned as a risk factor in the RFP at the time of the IPO?

Management, S. Chand & Company Limited

So as far as the risk factors the fact that there are risks associated with change in policies of the government that has been captured in the prospectus, while that was not the intent and not something we would obviously like to you know see impacted in our results but it is well captured from a perspective of the prospectus.

Ashok Shah, LFC Securities

Thank you. Thank you.

Operator

Thank you. We will take the next question, which is from the line of Shreyans Jain from Renaissance Investment. Please go ahead.

Shreyans Jain, Renaissance Investment

Hello. Hello.

Management, S. Chand & Company Limited

Yeah go ahead.

Shreyans Jain, Renaissance Investment

Sir just wanted to understand with our previous interactions, you had told us, no distributor is more than 5% of your business right. So then like what have you done right like, how much of that has gone out because you were pretty diversified in that case, right?

Management, S. Chand & Company Limited

Yes. No single, school is a chunky customer from revenues point of view. I mean no single school can contribute a large portion of my revenues because again every school has got its limitations in terms of how many numbers of students it can have and each distributor, even in the school cannot cater to significant portion of my revenues. Apart from of course, what we are selling online we do have a couple of accounts, which cater to Amazon and Flipkart so those accounts were slightly larger accounts.

Shreyans Jain, Renaissance Investment

Okay, so if in percentage terms, out of the total distributors that you would have, how much would have gone out because of this new extra increase policy that we are coming out with? And how are you getting the new distributors how are you adding them?

Management, S. Chand & Company Limited

There are not many new distributors in this. We are in the publishing field so we don't have exclusive distributors. These are distributors, who work with all publishers. Having said that we've categorized our channel partners into some who are preferred partners for us, who promote our products in schools, apart from our sales team, and those who do not promote so the ones who do not promote and whose sales returns are higher those are the accounts that we have relooked at what we're supplying to them, and in some cases, blocked accounts, in some cases, given lower stock against their orders, in case they have ordered a certain quantity we have even supplied them a much lower quantity, considering the kind of area that they're working in.

Shreyans Jain, Renaissance Investment

Okay, and sir another question was, like, this quarter our sales were pretty down, right? So what has led to the other expenses being so high?

Management, S. Chand & Company Limited

So that's an incremental provision for receivables that we have had to make at the end of the year but having said that we don't see the delinquencies more than 0.5% of what we do,

there is a delay, but we don't see delinquencies. So that's just a provision that is there it's not a cash out item for us. And we will recover most of that during this year as there were some liquidity issues pre-elections with the channel also and so that we have to collect it later.

Management, S. Chand & Company Limited

So Rs.16 crores is because of the provisions to give a short answer there.

Shreyans Jain, Renaissance Investment

Okay. Okay. Thank you.

Operator

Thank you, ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to management for closing comments.

Management, S. Chand & Company Limited

Thank you. Thank you all for joining us. In our view, as I said FY19 was an aberration for the industry, we see FY20 bringing back growth and the benefits of improved productivity, higher free cash flow generation and lower costs flowing into the bottom line of the company. The company is well positioned to benefit from the new education policy which we expect to be announced immediately post-election during FY20 which should lead to a period of strong and sustainable growth for the company in the medium term as we had witnessed post the 2005 education policy. So thank you all for joining us and thank you so much.

Operator

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