S Chand & Company Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**S Chand is executing a structural turnaround in the K-12 publishing sector, leveraging NEP 2020/NCF tailwinds to drive a 26.91% YoY revenue increase to □610 Cr.**	—
2	**Revenue growth is underpinned by a regulatory-led volume refresh, though net realization is pressured by refund liabilities and discounts totaling 30.94% of revenue.**	—
3	***Gross margins faced significant headwinds as material costs surged 73.69%, vastly outpacing top-line growth due to inflationary pressures in the paper market.***	—
4	**Reported PAT of □58 Cr shows a sharp recovery, yet core profitability is weak with 49.83% of earnings derived from non-core other income and exceptional EdTech exit gains.**	—
5	**The balance sheet has undergone aggressive de-leveraging, with total debt reduced by □30 Cr to □152 Cr and interest coverage improving to a healthy 4.71x.**	—
6	**Cash flow generation is a primary strength, with CFO at □81 Cr (CFO/PAT of 1.4x) driven by a massive reduction in debtor days from 222 to 159.**	—
7	**Capital expenditure remains disciplined at □16 Cr, well-covered by internal accruals, supporting a transition toward a blended learning model.**	—
8	***Earnings quality is compromised by aggressive accounting, including extended depreciation cycles for IT assets (6 years) and content (10 years) versus industry norms.***	—
9	***Governance is mixed; while promoter pledging is zero, board independence is below 50% and loans to loss-making subsidiaries consume 45% of consolidated CFO.***	—
10	***Asset quality risk is concentrated in Goodwill of 335.72 Cr (38% of Equity), which remains vulnerable to impairments if digital subsidiary performance lags.***	—
11	**The outlook is bullish with management targeting □750 Cr revenue for FY24, supported by the NCF rollout which effectively neutralizes the second-hand book market.**	—
12	**Investment View: ACCUMULATE; monitor the sustainability of core margins and ensure net debt trends toward the <□50 Cr target by FY25.**	—

1. Business overview (In Bullet Points)

- **Business Segments & Brands:** S Chand is a leading player in the Indian K-12 education content market, transitioning from a traditional publisher to an "integrated learning solutions" provider. Key brands include S Chand, Vikas, and Madhubun (Core K-12), Chhaya Prakashani (Regional West Bengal leader), Mylestone/ Educate 360 (Blended Learning), and SmartK (Early Childhood).
- **Revenue Drivers:** The primary driver is the rollout of the National Curriculum Framework (NCF) under NEP 2020. This 18-year hiatus update effectively "kills" the second-hand book market, forcing a 100% volume refresh.
- **Pricing Power:** Demonstrated through a planned 6% to 8% price hike for FY24 to offset inflationary pressures, supported by strong B2B relationships with private schools.

- **Cost Drivers:** Heavily sensitive to paper prices (primary raw material). The business exhibits high operating leverage, where volume scaling from NCF is expected to optimize fixed employee and administrative costs.
- **Industry Position:** Dominant position in the private school K-12 segment with a growing presence in early childhood and digital-physical integrated learning.
- **Expansion & Capacity:** Focus is on "Early Years" (SmartK) and digital bundling (Educate 360) to increase school account "stickiness." Minimal **CWIP** of □2.00 Cr indicates a focus on asset sweating rather than heavy new capacity additions.
- **Acquisitions & Divestments:** Following a "Venture Studio" approach, the company successfully exited EdTech stakes in Testbook (7.8x exit) and iNeuron (2.1x exit), using proceeds for de-leveraging.
- **Geographical Presence:** Strong pan-India presence in domestic K-12, with a localized moat in West Bengal through Chhaya Prakashani. Domestic sales account for 99.77% of revenue.

2. Management commentary & outlook

- **NCF Catalyst:** Management is exceptionally bullish on the New Education Policy (NEP) and NCF, describing it as a "strong runway of growth for at least 2 to 3 years," drawing parallels to the high-growth 2005 NCF rollout.
- **Growth Guidance:** A clear revenue target of **□750 Cr** has been set for FY24 (up from □610 Cr in FY23).
- **Strategy Shift:** The focus has moved from "survival/recovery" to "quality of growth," prioritizing cash flow generation and working capital optimization over aggressive credit-led sales.
- **Digital Integration:** Digital offerings are now viewed as "differentiators and tools for product retention" rather than standalone disruptors, bundled with physical books to increase competitive moats.
- **Competitive Intensity:** Leveraging the "S Chand Academy" YouTube channel (15m+ views) to reduce customer acquisition costs (CAC) in the Higher Education and Test Prep segments.
- **Corporate Simplification:** The "Composite Scheme of Arrangement" is underway to amalgamate subsidiaries (Nirja, Blackie, Eurasia), reducing administrative overhead and tax leakages.
- **New Launches:** Intent to capture the fragmented "Early Years" segment through SmartK, which offers high lifetime value.
- **Management Tone:** The management tone has transitioned from "survival/recovery" (post-COVID) to "aggressive expansion." There is a high degree of transparency regarding the NCF timelines and a disciplined approach to the EdTech portfolio (exiting at high multiples rather than doubling down on loss-making ventures). The focus on "Sustainable Emergence" is backed by concrete actions: simplifying the subsidiary structure and prioritizing cash flow over vanity metrics. The decision to recommend a dividend of □3 per share after a period of losses is a strong signal of management's confidence in the stability of future cash flows and the completion of the "turnaround" phase.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Sales	610	481
Sales Growth %	26.91	13.10
Expenses	513	419
Material Cost %	36.16	35.94
Raw material cost	234	149
Change in inventory	-14	24
Manufacturing Cost %	3.78	9.77
Employee Cost %	22.39	24.44
Other Cost %	21.78	16.94
Operating Profit	97	62
OPM %	16	13
Other Income	48	12
Exceptional items	35.76	-0.13
Other income normal	12.02	12.02
Interest	21	27
Depreciation	46	42
Profit before tax	78	5
Tax %	26	-76
Net Profit	58	8
Profit from Associates	0	0
Minority share	0	3
Exceptional items AT	22	0
Profit excl Excep	35	8
Profit for PE	35	11
Profit for EPS	58	11
Profit Growth %	223	138
EPS (□)	16.38	3.19
Dividend Payout %	18	0

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	18	18
Reserves	878	814
Borrowings	152	182
Long term Borrowings	26	67
Short term Borrowings	101	90
Lease Liabilities	25	25
Other Borrowings	0	0
Other Liabilities	173	180
Non controlling int	8	16
Trade Payables	108	122
Advance from Customers	4	3
Other liability items	53	39
Total Liabilities	1,220	1,193
Fixed Assets	546	569
Land	18	18
Building	87	81
Plant Machinery	56	56
Equipments	7	7
Computers	20	19
Furniture n fittings	9	9
Vehicles	14	10
Intangible Assets	352	354
Other fixed assets	192	188
Gross Block	756	742
Accumulated Depreciation	210	173
CWIP	2	1
Investments	50	24
Other Assets	623	599
Inventories	156	128
Trade receivables	265	292
Receivables over 6m	56	59
Receivables under 6m	246	274
Prov for Doubtful	-37	-41
Cash Equivalents	81	68
Loans n Advances	3	4
Other asset items	117	107

Line item	Mar 2023	Mar 2022
Total Assets	1,220	1,193

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	81	107
Profit from operations	111	85
Receivables	24	18
Inventory	-29	10
Payables	-11	4
Loans Advances	0	2
Other WC items	5	0
Working capital changes	-11	33
Direct taxes	-18	-12
Cash from Investing Activity	-4	-3
Fixed assets purchased	-16	-16
Fixed assets sold	0	3
Investments purchased	-58	-19
Investments sold	71	26
Interest received	1	3
Dividends received	0	0
Invest in subsidiaries	0	0
Redemp n Canc of Shares	0	0
Acquisition of companies	0	0
Other investing items	-3	0
Cash from Financing Activity	-61	-85
Proceeds from shares	0.91	0.55
Proceeds from borrowings	12.72	20.35
Repayment of borrowings	-43.09	-66.30
Interest paid fin	-18.16	-23.81
Dividends paid	0	0
Financial liabilities	-13.07	-15.60
Other financing items	0	0
Net Cash Flow	16	19
Free Cash Flow	65	93
CFO/OP	103	190

Key ratios

Line item	Mar 2023	Mar 2022
Debtor Days	159	222
Inventory Days	258	269
Days Payable	178	257
Cash Conversion Cycle	239	234
Working Capital Days	104	134
ROCE %	6	3

3.2 Financial analysis summary

- **Revenue** grew by 26.91% to □610.00 Cr, yet Trade Receivables on the Balance Sheet decreased by 9.18% to □265.28 Cr, indicating a significant decoupling and improved collection efficiency; however, Discounts surged 63.34% to □177.98 Cr, suggesting growth was partially driven by aggressive pricing to capture market share.
- **Operating Profit** margin improved to 16.00% from 13.00%, but Cost of Materials Consumed increased by 73.69% to □233.15 Cr, significantly outpacing Revenue growth due to paper cost inflation, which was offset by a reduction in Employee Cost % from 24.44% to 22.39%.
- **Net Profit** of □58.00 Cr was heavily supported by Other Income and exceptional items totaling □48.00 Cr, including one-time gains of □15.63 Cr (Testbook) and □7.22 Cr (iNeuron), meaning nearly 50% of PAT is derived from non-core investment gains.
- **Cash from Operating Activity (CFO)** remained healthy at □81.00 Cr, providing a strong CFO/PAT ratio of 1.40x, aided by a □24.00 Cr release from Trade Receivables, though partially offset by a □29.00 Cr absorption into Inventory as the company increased raw material stocks by 56.85% to hedge against paper price volatility.
- **Total Debt** decreased from □182.00 Cr to □152.00 Cr, with a net Repayment of borrowings of □43.09 Cr, reducing Finance Cost by 24.45% to □20.67 Cr and improving Interest Coverage from 1.18 to 4.71.
- **Intangible Assets** stand at □352.00 Cr (39.2% of Net Worth), with a □2.38 Cr impairment of Goodwill; the 10-year amortization policy for content remains an aggressive accounting choice given rapid curriculum changes under NEP 2020.
- **Fixed Assets** increased slightly to □756.00 Cr (Gross Block) with Capex of □16.00 Cr focused on maintenance, allowing for a positive Free Cash Flow of □65.00 Cr used for debt reduction and an 18% Dividend Payout.
- **Working Capital** efficiency improved as Debtor Days dropped from 222 to 159 days, yet the Cash Conversion Cycle remained high at 239 days due to Inventory Days of 258.
- **ROCE** improved from 3.00% to 6.00%, reflecting better operational sweating of the Total Assets base of □1,220.00 Cr, though returns are diluted by high Goodwill and reliance on personal Guarantees by Directors.
- **Other Assets** include a MAT Credit Entitlement of □11.63 Cr, which supported Net Profit but did not result in immediate cash inflow, highlighting a divergence between reported earnings and cash tax outflows.
- **Other Expenses** and Other Income analysis: Other Income contributed 49.83% of Consolidated PAT, driven by Fair Value Gains of □12.69 Cr and Liability Write-backs of □2.92 Cr. While these support the bottom line, they are non-operational and non-recurring.
- The dominant financial theme of the year is a successful operational recovery and aggressive de-leveraging fueled by non-core asset divestments and improved collection cycles, though core publishing profitability remains sensitive to paper inflation and high sales returns.

3.3 Contingent liabilities & commitments

- **Provision for Contingencies: ₹3.35 Cr** (static YoY), suggesting ongoing legal or tax disputes that have not been resolved or escalated.
- **Capital Commitments: ₹1.01 Cr** (CWIP), indicating minimal ongoing heavy capex projects.
- **Statutory Dues Payable: ₹9.45 Cr** (up from ₹8.60 Cr in FY22).
- **Guarantees:** Directors have provided personal guarantees for almost all major bank facilities (SBI, HDFC, RBL, Indian Bank).

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; □32.91 Cr non-cash other income inflates PAT.	—	Note 30: Other income includes □15.63 Cr and □7.22 Cr one-time investment gains.
2	Receivables & channel-stuffing signal	Revenue ↑ — improved collections; receivables fell 9% while revenue grew 27% YoY.	—	Note 15: Positive decoupling of revenue and receivables indicates better collection efficiency.
3	Revenue timing (refund liabilities)	Revenue ↑↓ — high reversal risk; refund liabilities represent 31% of net revenue.	—	Note 2.6 & 29: Significant judgment in variable consideration for returns and discounts.
4	Revenue from related parties %	Neutral — low direct revenue risk; transactions primarily involve promoter debt guarantees.	—	Note 25: Directors provide personal guarantees for major bank facilities, showing credit reliance.
5	Inventory vs revenue growth	Profit ↓ — margin pressure; raw material inventory spiked 57% vs 27% sales.	—	Note 13: Strategic hedging against paper price inflation or anticipation of academic cycles.
6	Inventory valuation method change	Neutral — consistent policy; valuation at lower of cost or net realizable value.	—	Note 2.10: Standard cost method used for valuation; no policy change reported.
7	Exceptional items in operating profit	Profit ↑ — non-core boost; □35.76 Cr exceptional gain significantly inflates reported PBT.	—	Note 30: Gains from disposal of Testbook and iNeuron investments are non-recurring.
8	Depreciation rate vs useful life policy	Profit ↑ — aggressive accounting; 6-year computer life doubles statutory 3-year minimum.	—	Note 2.8: Longer useful lives for computers and content (10 years) smooths expenses.
9	Provision reversals boosting PAT	Profit ↑ — non-cash gain; liability write-backs of □2.92 Cr support the bottom line.	—	Note 30: Other income includes write-backs which are non-operational in nature.
10	Tax rate consistency + cash tax vs P&L	Profit ↑ — non-cash tax benefit; MAT credit entitlement of □11.63 Cr recognized.	—	Note 11: Recognition of MAT credit depends on probability of future taxable profits.
11	CWIP age and stalling projects	Neutral — low capital risk; minimal CWIP indicates no major stalled projects.	—	Note 5: Minimal capital work-in-progress suggests no heavy ongoing capital expenditure.
12	Deferred tax asset recognition adequacy	Profit ↑ — asset-backed earnings; MAT credit asset increased by 74% year-on-year.	—	Note 11: Asset recognition supports PAT but does not provide immediate cash flow.
13	RPT quantum and trend	Neutral — stable promoter support; unsecured director loans remain static at □0.83 Cr.	—	Note 25: Unsecured interest-free loan from directors in BPI (India) remains outstanding.
14	Dividend paid vs FCF adequacy	Neutral — sustainable payout; □10.4 Cr dividend well covered by □65 Cr FCF.	—	P&L Table: Reintroduction of dividends after zero payout in the previous year.
15	Goodwill Impairment Risk	Profit ↓ — non-cash P&L hit; Goodwill is 38% of Equity; 2.38 Cr already impaired.	—	Note 6: Remaining balance relies on 4-5% growth assumptions; sensitive to subsidiary performance.
16	Aggressive Content Amortization	Profit ↑ — deferred expense; 10-year life for content despite rapid NEP changes.	—	Note 2.9: 10-year amortization may lead to future lumpy write-downs if content becomes obsolete.
17			—	

#	Check	Impact	Status	Notes detail
	Cash Leakage to Subsidiaries	Neutral — internal funding; loans to digital arms consume 45% of consolidated CFO.		Worker 1B: Continuous funding of loss-making digital ventures (Convergia/DS Digital).

4. Management & governance

A. Auditor report & key audit matters

- **Audit Opinion Type:** Unqualified
- **Key Audit Matters (KAMs):**
  - **Goodwill Impairment:** Goodwill stands at □**335.72 Cr** (38% of Equity). The auditor focused on the recoverable value of CGUs (Chhaya Prakashani and Vikas Publishing). A □2.38 Cr impairment was recognized due to obsolescence, but the remaining balance relies on a 4-5% growth assumption.
  - **Trade Receivables Recoverability:** Long credit cycles (180-270 days) are systemic. Management judged □**37.74 Cr** as having a "significant increase in credit risk." Auditor concern involves the subjectivity of the ECL model in a sector with high returns.
- **Auditor Fees:** Total remuneration of □**0.99 Cr** (1.7% of Net Profit), aligned with the complexity of 12 subsidiaries.

B. Related party transactions

Party	Relationship	Nature	Amount (□ Cr)	Concern
DS Digital Pvt Ltd	Subsidiary	Loan Outstanding	16.36 Cr	***Continuous funding of loss-making entity***
Convergia Digital Education	Subsidiary	Loan Granted	10.00 Cr	***High-risk digital venture funding***
Safari Digital Education	Subsidiary	Loan Outstanding	5.30 Cr	***Inter-company debt dependency***
Himanshu Gupta	Managing Director	Personal Guarantee	Disclosed	**Promoter skin-in-the-game for bank debt**
D.K. Jhunjhnuwala	Executive Director	Personal Guarantee	Disclosed	**Promoter skin-in-the-game for bank debt**
Directors	KMP	Unsecured Loan	0.83 Cr	Interest-free support

- **RPT Risk:** Loans to subsidiaries (□**36.71 Cr**) represent 45.32% of CFO, indicating high cash leakage to struggling digital arms.

C. Shareholding

- **Promoters:** 43.91% (down from 46.91% in Mar 2022).
- **FIIs:** 4.45% | **DIIs:** 2.53% | **Public:** 49.11%.
- **Pledged Shares:** 0.00%.

D. Board composition + KMP compensation

- **Board:** 7 Directors; 42.85% Independent; 2 Women Directors.

- **Family Relations: Himanshu Gupta** (MD) is the son of Savita Gupta (Director). Gaurav Kumar Jhunjhnuwala (Director) is the son of Dinesh Kumar Jhunjhnuwala (Director).
- **Compensation:**
  - **Himanshu Gupta (MD):** □2.39 Cr (+27.8% YoY; 2.46% of EBITDA).
  - **D.K. Jhunjhnuwala (WTD):** □1.82 Cr (+23.8% YoY; 1.87% of EBITDA).
  - **Saurabh Mittal (CFO):** □1.54 Cr (+37.5% YoY).
  - Aggregate KMP pay growth is largely in line with the 56.45% EBITDA growth.

F. Capital allocation & capex

Action	FY current (□Cr)	FY prior (□Cr)	% of CFO	Signal
Dividends	10.55 Cr	0.00 Cr	13.02%	**Positive return to shareholders**
Capex	16.00 Cr	16.00 Cr	19.75%	***Maintenance heavy, low growth capex***
Net Debt Change	-30.00 Cr	-45.95 Cr	-37.03%	**Aggressive de-leveraging**
Investments (Financial)	58.00 Cr	19.00 Cr	71.60%	***High cash diversion to non-core assets***
Asset Sales	71.00 Cr	26.00 Cr	87.65%	**Successful exit from EdTech stakes**

CAPEX Analytical Notes: * **CFO Coverage of Capex**: CFO of □**81.00 Cr** provides 5.06x coverage of the □16.00 Cr capex. * **Nature of Capex**: Primarily maintenance; **CWIP is minimal at □1.01 Cr**, signaling no major capacity expansion. * **Deployment Efficiency**: Revenue grew **26.91%** while fixed assets decreased, suggesting improved asset sweating.

H. Risks

- **Inventory Obsolescence (High):** NEP 2020 curriculum changes put □**156 Cr** of old syllabus inventory at risk of write-down.
- **Paper Cost Inflation (High): 73.69%** increase in material costs; material cost % rose to 38.20%, compressing core margins.
- **High Sales Returns (High):** Returns/Discounts are **30.94% of revenue**, creating high cash flow volatility.
- **Goodwill Impairment (Medium):** □**335.72 Cr** on balance sheet; non-cash P&L hit if subsidiary growth < 4%.
- **Credit Risk (Medium): 159 debtor days**; □37.74 Cr classified as high-risk.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	NCF catalyst; 27% Rev growth	Strong brand and regulatory tailwinds offset by high returns.
Financial health	4	↑	D/E 0.17x; CFO/PAT 1.4x	Significant de-leveraging and healthy cash generation.
Earnings quality	2	↓	Other Income 50% of PAT; 31% Refund Liab	Headline profits heavily reliant on one-offs and aggressive accounting.
Management & governance	3	→	Zero pledge; High RPT loans	Good transparency and de-leveraging, but high cash drain to subsidiaries.
Capital allocation & earnings visibility	4	↑	Div payout 18%; NCF runway	Disciplined EdTech exits and clear growth visibility from NEP 2020.

Business positives * **Strong Revenue Growth:** Net revenue increased by **26.91%** to ₹610.00 Cr driven by NEP 2020 tailwinds. * **De-leveraging:** Total debt reduced from ₹**182.00 Cr** to ₹152.00 Cr, with interest coverage improving to 4.71x. * **Collection Efficiency:** Trade receivables fell **9.18%** despite revenue growth, with debtor days dropping from 222 to 159. * **Profitable EdTech Exits:** Realized ₹**22.85 Cr** in one-time gains from exiting Testbook and iNeuron. * **Shareholder Returns:** Reintroduced dividends with a payout of ₹**3 per share** (₹10.55 Cr total).

Business negatives / concerns * **Low Core Earnings Quality: 49.83%** of Consolidated PAT is derived from non-core Other Income and exceptional gains. * **High Revenue Reversal Risk:** Refund liabilities and discounts represent **30.94% of net revenue**, indicating high volatility. * **Material Cost Pressure:** Cost of materials consumed surged **73.69%**, significantly outpacing revenue growth. * **Intangible Asset Risk: Goodwill** of ₹335.72 Cr represents 38% of Equity, with a ₹2.38 Cr impairment already recorded. * **Aggressive Accounting:** Use of **6-year life** for computers (vs 3-year norm) and 10-year life for content development inflates current profits.

Overall scorecard summary S Chand is in a strong recovery phase, characterized by robust balance sheet strengthening and a clear regulatory growth catalyst (NCF). While financial health has improved significantly through de-leveraging and better collections, the quality of reported earnings remains low due to heavy reliance on one-time investment gains and aggressive depreciation policies. Governance is stable with zero promoter pledging, but the high volume of loans to loss-making digital subsidiaries remains a monitorable cash drain. Overall, the business is on an **improving trajectory** operationally, though investors must look past headline PAT to assess core publishing profitability.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 7/10 — Governance Rating: 3

Part c: investor verdict

Thesis: A turnaround play on the Indian K-12 sector, leveraging the NCF-led volume refresh to de-leverage and transition toward a blended learning model. **Overall stance:** ACCUMULATE **Rationale:** Strong regulatory tailwinds and a repaired balance sheet provide a margin of safety, despite low core earnings quality. **Re-evaluate when:** Sales returns and discounts exceed 35% of gross revenue or if Goodwill impairment exceeds □20 Cr in a single year. **BULL CASE:** NCF rollout for Grades 3-12 drives revenue above □900 Cr with OPM expanding to 20% as paper prices cool. **BEAR CASE:** Prolonged delay in NCF implementation or a massive □50 Cr+ inventory write-down of old syllabus books. **Key monitorable:** Net Debt: □152 Cr → Target: <□50 Cr by FY25.