S Chand & Company Ltd — FY 2026 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**S Chand operates as a domestic-heavy education content provider (95% revenue) currently leveraging the NCF 2023 rollout to capture early-mover advantage in the K-8 curriculum cycle.**	—
2	**Revenue grew 11% YoY, supported by vertical integration via an operationalized printing press, though 31.4% of gross revenue is consistently eroded by high sales returns and discounts.**	—
3	**Operating margins face a structural headwind from high variable considerations and a ₹25.94 Cr provision for slow-moving inventory, reflecting significant curriculum obsolescence risks.**	—
4	***Earnings quality is severely compromised by net receivables growing at 27.24%—more than double the rate of revenue—indicating aggressive channel stuffing or deteriorating collection efficiency.***	—
5	***The balance sheet is undergoing re-leveraging to fund M&A, a concerning trend given the incremental ROIC has turned negative at -3.77%.***	—
6	***Cash Flow from Operations (CFO) to PAT plummeted from 1.67x to 1.03x, signaling that reported profits are increasingly failing to convert into liquid capital.***	—
7	**Free Cash Flow (FCF) halved to ₹39.00 Cr, constrained by the lengthening working capital cycle and capital allocation toward the ₹11.83 Cr CPD Singapore acquisition.**	—
8	***A critical internal control failure was identified: audit trail (edit logs) were disabled at the SAP database level for the parent and four subsidiaries, undermining data integrity.***	—
9	***Governance risks are heightened by a 270% spike in logistics payments to a KMP-controlled entity and KMP remuneration exceeding 10% of consolidated PAT.***	—
10	**Contingent liabilities saw a material reduction from ₹24.78 Cr to ₹8.45 Cr, providing a rare buffer against off-balance sheet surprises.**	—
11	**The outlook remains tethered to the NCF "super-cycle," but the potential for a massive ₹335 Cr goodwill impairment charge poses a significant tail risk to book value.**	—
12	***Investment View: Watch; stance is dictated by a trade-off between top-line growth and systemic governance/working capital risks. Monitor: Net Trade Receivables normalization to < 300 Cr.***	—

1. Business overview

- **Business Segments:** S Chand is a dominant legacy education content provider transitioning into a multi-format learning corporation, focusing on K-12 School Education, Higher Education, and Digital Business.
- **Revenue Drivers:** The primary engine is K-12, driven by the NCF (National Curriculum Framework) 2023 rollout necessitating content refreshes for grades K-8. The "New Mylestone" series serves 650+ schools.
- **Cost Drivers:** Major costs include materials (paper), employee benefits, royalties, and significant logistics/distribution expenses.
- **Industry Position:** Maintains a strong moat through a distribution network of 4,000+ distributors and a library of 14,000+ titles.

- **Expansion Plans:** Focus is on the "NCF Super-Cycle" for domestic growth and international expansion via the IB/IGCSE curriculum space.
- **Acquisitions:** Acquired 100% of **CPD Singapore Education Services** for ₹11.83 Cr, providing a gateway to SAARC, Middle East, and international school markets.
- **Capacity Additions:** Operationalized **Shri ShyamLal Printing Press** to achieve vertical integration and protect margins.
- **Segment Performance:** K-12 is growing; Higher Education remains a stable "cash cow"; Digital is pivoting to a hybrid print+digital model (Convergia subsidiary).
- **Geographical Presence:** Domestically focused (95.49% of revenue) but exports to 20+ countries; Q4 was impacted by geopolitical tensions in the Middle East.

2. Management commentary & outlook

- Management characterizes the current period as a "National Education Policy (NEP) Super-Cycle," shifting from defensive de-leveraging to an offensive market share strategy.
- The full implementation of NCF across India is viewed as the primary catalyst for FY27, with content development already completed for grades K-8.
- The strategy involves a "three-pronged attack": driving sales volumes, increasing product realizations (pricing power), and rigorous control of operating expenses.
- Management projects optimism regarding the Indian macro environment, citing low inflation (3.4%) as a booster for domestic purchasing power and education spending.
- Guidance was provided that the "slowness in collections" flagged in Q4 FY26 due to regional and Middle East issues should normalize within 1HFY27.
- The focus for the Digital segment has shifted toward hybrid solutions, viewing curriculum-aligned digital content as a complement to print rather than a threat.
- The acquisition of CPD Singapore represents a strategic move into premium, high-margin international curriculum segments.
- Management emphasizes a "performance-driven culture" with incentive-linked compensation tied to financial and operational parameters.
- Long-term vision is aligned with "Viksit Bharat 2047," positioning education as the cornerstone of the skilled workforce.
- Management Tone: The management tone has evolved from the "survival and de-leveraging" narrative of FY25 to one of strategic expansion. While asserting confidence in NCF readiness and the CPD acquisition, management demonstrated transparency by not glossing over Q4 collection issues and providing specific timelines for corrective normalization. The verdict is **Cautiously Aggressive and Transparently Corrective.**

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2026	Mar 2025
Sales	799	720
Sales Growth %	10.99	8.61
Expenses	654	584
Material Cost %	32.13	31.82
Raw material cost	275	230
Change in inventory	-19	-1
Manufacturing Cost %	0	3.51
Employee Cost %	24.21	24.27
Other Cost %	25.52	21.60
Operating Profit	145	135
OPM %	18	19
Other Income	13	13
Exceptional items	-3.26	2.98
Other income normal	16.30	9.72
Interest	14	13
Depreciation	45	42
Profit before tax	99	93
Tax %	26	35
Net Profit	73	60
Profit from Associates	0	0
Minority share	3	3
Exceptional items AT	-2	2
Profit excl Excep	76	58
Profit for PE	78	62
Profit for EPS	76	64
Profit Growth %	27	11
EPS (□)	21.53	18.03
Dividend Payout %	19	22

Balance sheet (□Cr)

Line item	Mar 2026	Mar 2025
Equity Capital	18	18
Reserves	1,036	973
Borrowings	136	108
Long term Borrowings	19	14
Short term Borrowings	70	52
Lease Liabilities	48	42
Other Borrowings	0	0
Other Liabilities	205	167
Non controlling int	-3	-1
Trade Payables	155	118
Advance from Customers	0	0
Other liability items	53	50
Total Liabilities	1,395	1,266
Fixed Assets	543	531
Land	0	18
Building	0	110
Plant Machinery	0	58
Equipments	0	5
Computers	0	10
Furniture n fittings	0	8
Vehicles	0	22
Intangible Assets	389	352
Other fixed assets	0	198
Gross Block	0	780
Accumulated Depreciation	0	249
CWIP	6	1
Investments	105	79
Other Assets	741	654
Inventories	163	140
Trade receivables	350	275
Receivables over 6m	0	57
Receivables under 6m	0	266
Prov for Doubtful	0	-47
Cash Equivalents	112	117
Loans n Advances	9	5
Other asset items	106	117

Line item	Mar 2026	Mar 2025
Total Assets	1,395	1,266

Cash flow statement (□Cr)

Line item	Mar 2026	Mar 2025
Cash from Operating Activity	75	100
Profit from operations	148	145
Receivables	-77	-22
Inventory	-21	36
Payables	36	-33
Loans Advances	0	0
Other WC items	0	0
Working capital changes	-62	-19
Direct taxes	-11	-26
Cash from Investing Activity	-49	-49
Fixed assets purchased	-36	-25
Fixed assets sold	1	1
Investments purchased	-136	-113
Investments sold	117	105
Interest received	8	1
Dividends received	0	0
Invest in subsidiaries	-11	0
Redemp n Canc of Shares	0	0
Acquisition of companies	0	-4
Other investing items	9	-15
Cash from Financing Activity	-17	-75
Proceeds from shares	0.24	0.38
Proceeds from borrowings	27.53	2.05
Repayment of borrowings	-5.87	-43.86
Interest paid fin	-14.04	-12.90
Dividends paid	-14.10	-10.57
Financial liabilities	-11.01	-10.32
Other financing items	0	0
Net Cash Flow	8	-25
Free Cash Flow	39	76
CFO/OP	59	93

Key ratios

Line item	Mar 2026	Mar 2025
Debtor Days	160	140
Inventory Days	232	223
Days Payable	221	188
Cash Conversion Cycle	172	175
Working Capital Days	154	108
ROCE %	10	9

3.2 Financial analysis summary

- **Revenue** grew 10.99% to ₹799.00 Cr, primarily driven by domestic sales and supplemented by the ₹11.83 Cr acquisition of CPD Singapore, yet top-line quality is challenged by a high erosion rate where 31% of gross contracted price (₹1,165.65 Cr) was lost to ₹158.01 Cr in sales returns and ₹208.90 Cr in trade discounts.
- **EBITDA** stood at ₹145.00 Cr (7.41% growth), but OPM contracted from 19% to 18% as Other Expenses outpaced sales, specifically Advertisement expenses (up 29.58%) and Freight costs (up 30.63%), with the latter linked to a 270% spike in payments to related party Sky Warehousing (₹4.70 Cr).
- **Net Trade Receivables** surged 27.24% to ₹350.33 Cr, significantly outpacing the 11% Revenue growth, creating a ₹77.07 Cr cash drag and signaling deteriorating collection efficiency or potential channel stuffing.
- **CFO** fell to ₹75.00 Cr from ₹100.00 Cr despite an increase in PAT to ₹73.00 Cr (consolidated PAT of ₹75.94 Cr), resulting in a CFO/PAT ratio of 1.03x (down from 1.67x prior), indicating that profits are increasingly tied up in the balance sheet.
- **Inventories** rose to ₹163.00 Cr, with finished goods growing 19.6% YoY, necessitating a ₹25.94 Cr provision for slow-moving stock as the group navigates high-risk curriculum updates.
- **Total Debt** increased to ₹136.00 Cr from ₹108.00 Cr, including a new unhedged ₹9.90 Cr USD loan from EXIM Bank, which contributed to higher Finance Costs of ₹14.04 Cr and a sharp drop in FCF to ₹39.00 Cr (from ₹76.00 Cr).
- **Goodwill** (₹335.95 Cr) and Intangible Assets (₹389.00 Cr) represent a massive portion of the balance sheet (Goodwill is 32% of Net Worth), with impairment testing sensitive to 4-5% growth assumptions and 10-15% discount rates.
- **Trade Payables** increased to ₹155.00 Cr, but payables to MSMEs more than doubled to ₹31.07 Cr, with ₹1.75 Cr now overdue for more than three years, indicating vendor management strain.
- **ROCE** improved to 10.00%, but a long-term incremental ROIC of -3.77% since 2017 suggests the ₹197.00 Cr of additional capital deployed has yet to generate meaningful net operating profit growth.
- **Other Assets** were impacted by a rise in Statutory Balances to ₹7.73 Cr (from ₹2.94 Cr), while Other Expenses were pressured by a 36% jump in Legal & Professional fees (₹11.77 Cr) related to acquisitions and tax litigations.
- A critical governance failure was noted as **audit trail (edit logs)** for direct database changes in the SAP ERP was not enabled for the Holding Company and four major subsidiaries, undermining financial data reliability.
- The dominant financial theme of the year is **steady top-line growth and strategic expansion overshadowed by significant working capital absorption—driven by receivables growing at 2.5x the rate of sales—and a sharp contraction in free cash flow conversion.**

3.3 Contingent liabilities & commitments

- **Income Tax Demands:** ₹2.83 Cr (significantly reduced from ₹19.16 Cr in FY25).
- **GST/Indirect Tax Demands:** ₹2.91 Cr; includes new FY 2019-20 demands (₹0.56 Cr) being contested at the GST Appellate Tribunal.
- **Stamp Duty & Registration Fees:** ₹2.71 Cr dispute regarding a 2011-12 amalgamation/demerger; remains pending with no provision made based on legal opinion.
- **Capital Commitments:** CWIP commitments increased to ₹6.23 Cr (from ₹0.21 Cr), likely related to ongoing printing press and digital upgrades.

3.9 Earnings quality & forensic checks

Read	Question	Verdict	Confidence	Checked
1	Is the growth real?	***Flag***	High	6/6
2	Does profit become cash?	***Watch***	High	5/5
3	Is the P&L being manufactured?	***Flag***	High	6/6
4	Is value leaving to insiders?	***Flag***	High	6/6
5	Can the balance sheet take a hit?	***Watch***	High	5/5

Read 1 — Is the growth real? → Flag

Signal	Prior	This year	Δ	Status	Quantified impact
Net Trade Receivables growth vs Revenue growth	₹275.34 Cr	₹350.33 Cr	27.24% growth vs 11.0% revenue growth	Flag	Receivables outpaced sales growth by 2.5x, consuming ₹77.07 Cr in operating cash
Allowance for ECL	₹47.15 Cr	₹42.57 Cr	9.7% decrease in provision	Watch	Provision coverage dropped while gross receivables rose; bad debt write-offs were ₹3.54 Cr
Revenue from Related Parties	Not disclosed	Not disclosed	Not disclosed	Unresolved	—
Contract liabilities (Revenue received in advance)	₹2.20 Cr	₹3.56 Cr	61.8% increase	Clean	Signals uptick in advance orders for the upcoming academic season
Sales Returns (Refund Liability) provision	Not disclosed	₹158.01 Cr	New disclosure of 19.8% of Revenue	Watch	19.8% of revenue is provisioned for returns, reflecting high distribution risk
Customer Concentration	Not disclosed	Not disclosed	Not disclosed	Unresolved	—

> **Mechanism:** Revenue growth is accompanied by a disproportionate surge in trade receivables and a high provision for sales returns (19.8% of revenue), suggesting potential aggressive push of inventory into the channel. **Aggregate impact:** Working capital drag from receivables consumed ₹77.07 Cr of cash, nearly negating the ₹75.94 Cr PAT. **Direction:** deteriorating · **Watch next:** Net Trade Receivables growth rate relative to revenue · **Corroborates:** profit_to_cash

Read 2 — Does profit become cash? → Watch

Signal	Prior	This year	Δ	Status	Quantified impact
CFO vs clean EBITDA	0.69	0.52	24.6% decline in conversion ratio	Watch	Operating cash flow fell to ₹74.71 Cr from ₹99.89 Cr despite higher PBT
Pre-tax operating conversion (CFO + tax paid) / EBITDA	0.87	0.59	32.2% decline in efficiency	Watch	₹85.82 Cr conversion on ₹144.90 Cr EBITDA
Inventory absorption of operating cash	₹36.05 Cr (release)	₹21.11 Cr (absorption)	₹57.16 Cr negative swing in cash impact	Watch	Finished goods inventory grew 19.6%, outpacing revenue growth
Working capital movement (Total)	(₹1.90 Cr) outflow	(₹6.20 Cr) outflow	₹4.30 Cr increase in cash drag	Watch	Net working capital consumed ₹61.88 Cr in FY26
Cash tax paid vs book tax	₹26.10 Cr vs ₹32.60 Cr	₹11.11 Cr vs ₹26.06 Cr	Tax paid is only 42.6% of book tax	Clean	Cash flow benefited by ₹14.95 Cr difference, largely due to MAT and DTA utilization

Mechanism: Profit conversion to cash deteriorated significantly as the working capital cycle lengthened, with both Receivables and Inventory growing faster than sales. **Aggregate impact:** Cash conversion (CFO/EBITDA) dropped to 52% from 69% in the prior year. **Direction:** deteriorating · **Watch next:** Working capital days (currently 154 days) · **Corroborates:** revenue_real, bs_stress

Read 3 — Is the P&L being manufactured? → Flag

Signal	Prior	This year	Δ	Status	Quantified impact
Exceptional items effect on PBT	—	₹3.26 Cr (expense)	New one-time regulatory cost	Clean	Reduces PBT by 3.3%; related to new Labour Codes
Non-operating / other income as % of PBT	14.0%	16.4%	240 bps increase in reliance	Watch	Other income of ₹16.30 Cr accounts for 16.4% of PBT
Deferred tax movement	₹7.61 Cr	₹3.15 Cr	58.6% decrease in non-cash tax charge	Clean	Supports PAT but represents ₹72.01 Cr of DTA remaining on the BS
Provision reversals credited to income	₹0.75 Cr	₹0.20 Cr	73.3% decrease	Clean	Minimal impact on current year income
Depreciation policy / useful-life change	Not disclosed	—	No change disclosed	Clean	—
Audit Trail (Edit Log) Failure	—	Audit trail not enabled at database level	New statutory non-compliance	Flag	Material weakness in data integrity controls for Holding and 4 subsidiaries

Mechanism: While P&L line items appear standard, the auditor's qualification on the lack of database-level audit logs (edit logs) for the ERP system creates a high risk of potential unrecorded P&L manipulation. **Aggregate impact:** Control failure affects entities representing the majority of Group operations. **Direction:** deteriorating · **Watch next:** Resolution of the Audit Trail compliance issue

Read 4 — Is value leaving to insiders? → Flag

Signal	Prior	This year	Δ	Status	Quantified impact
Warehousing Paid to Sky Warehousing (Related Party)	□1.27 Cr	□4.70 Cr	270% increase in related party spend	Flag	□3.43 Cr shift in logistics sourcing to an entity controlled by KMP relatives
KMP / director remuneration vs PAT	13.5% of PAT	11.0% of PAT	250 bps decrease as % of profit	Clean	Remuneration of □8.02 Cr is significant but stable
Security Deposits with Related Parties	□3.90 Cr	□4.59 Cr	17.7% increase	Watch	Non-interest bearing capital tied up with related entities
Promoter Pledging / Guarantees	Guarantees present	Guarantees present + 50% pledge of Chhaya Prakashani	Stable reliance on promoter backing	Watch	Major credit facilities (□136 Cr) depend on personal promoter guarantees
CSR spend and shortfall	□1.40 Cr	□1.89 Cr	35% increase in spend	Clean	No shortfall disclosed
Loans to group entities	Not disclosed	Not disclosed	Not disclosed	Clean	Auditor noted no funds advanced to intermediaries in 18(h)(iv)

Mechanism: A sharp 270% increase in payments to a warehousing entity controlled by KMP relatives suggests a shift in value toward related parties, even as overall revenue grew only 11%. **Aggregate impact:** Total related party transactions (Rent + Warehouse) increased from □3.80 Cr to □7.55 Cr. **Direction:** deteriorating · **Watch next:** Sky Warehousing transaction quantum

Read 5 — Can the balance sheet take a hit? → Watch

Signal	Prior	This year	Δ	Status	Quantified impact
Goodwill vs Net Worth	33.6% of NW	32.0% of NW	160 bps decrease	Watch	□335.95 Cr in Goodwill is subject to subjective impairment testing; growth rates used are 4-5%
Total Borrowings (including Leases)	□108.19 Cr	□136.06 Cr	25.8% increase in debt	Watch	Increase driven by Singapore acquisition and working capital utilization
Contingent Liabilities vs Net Worth	□24.78 Cr	□8.45 Cr	65.9% reduction in exposure	Clean	Major reduction in tax demands (□19.16 Cr to □2.83 Cr)
Dividend vs Free Cash Flow	□10.57 Cr div vs □76 Cr FCF	□14.10 Cr div vs □39 Cr FCF	Payout consumes 36% of FCF vs 14% prior	Watch	Dividend payout is safe but FCF halved due to working capital stress
CWIP Ageing	□0.21 Cr	□6.23 Cr	Nearly 30x increase	Watch	Likely related to ongoing upgrades; currently low relative to total assets

Mechanism: The balance sheet is primarily levered through goodwill (□335.95 Cr) and increasing short-term borrowings for working capital. While the company remains net debt-free, the sharp decline in Free Cash Flow (down 48.7%) reduces the margin of safety. **Aggregate impact:** Net cash position reduced as acquisitions and working capital consumed □77.07 Cr and □21.11 Cr respectively. **Direction:** deteriorating · **Watch next:** Free Cash Flow generation in FY27 · **Corroborates:** profit_to_cash

Material notes captured

Discloses	Prior	This year	Impact	Signal
The audit trail feature was not enabled at the database level for accounting software (SAP) in the Holding Company and four subsidiaries.	Not disclosed	Enabled at app level, but disabled at database level	Profit ↑↓ — Material statutory non-compliance and risk to data integrity.	Negative
Warehousing fees paid to Sky Warehousing Private Limited (related party controlled by KMP relatives).	₹1.27 Cr	₹4.70 Cr	Profit ↓ — ₹3.43 Cr increase in related party leakage.	Negative
New unhedged foreign currency loan from EXIM Bank for Singapore acquisition.	—	₹9.90 Cr	Neutral — Introduces USD/INR exchange rate risk.	Neutral
Receivables Growth (27.2%) vs Revenue Growth (11.0%)	—	27.2%	Revenue ↑ — Potential channel stuffing or credit loosening.	Negative

4. Management & governance

A. Auditor Report & Key Audit Matters - **Audit Opinion Type:** Unqualified. - **KAM 1: Revenue Recognition and Sales Returns:** Auditor flagged the high complexity in estimating "Refund Liabilities" (₹298.08 Cr total) due to the "sale or return" model. Management uses historical rates, which requires significant judgment. - **KAM 2: Impairment of Goodwill:** Scrutiny focused on the ₹335.95 Cr carrying value. The auditor noted sensitivity to discount rates (10.44% to 15.26%) and terminal growth rates (4-5%). Management concluded no impairment is necessary. - **KAM 3: Expected Credit Loss (ECL):** Valuation of the ₹392.90 Cr gross receivables, particularly lumpy school-level collections and aging, was identified as a judgmental risk area. - ***Significant Deficiency:*** The auditor reported that the **"audit trail (edit logs) feature for any direct changes made at the database level was not enabled"** for SAP in the Holding Company and four material subsidiaries. This represents a critical internal control gap regarding data integrity. - **Auditor Fees:** ₹1.34 Cr (1.83% of Consolidated PAT). Fees are aligned with complexity, but the lack of database logs suggests a failure in IT governance oversight.

B. Related Party Transactions | Party | Relationship | Nature | Amount (Cr) | Concern | | :--- | :--- | :--- | :--- | :--- | | Sky Warehousing Pvt Ltd | KMP Relative Controlled | Warehousing Charges | 4.70 Cr | ***Spiked 270% from 1.27 Cr in FY25*** | | S Chand Properties | KMP Controlled | Rent Paid | 2.85 Cr | Stable lease arrangement | | Safari Digital Education | Subsidiary | Loan Outstanding | 16.70 Cr | ***Continuous funding of digital arm*** | | S. Chand Edutech | Subsidiary | Loan Outstanding | 5.07 Cr | ***Persistent inter-company debt*** | | Convergia Digital | Subsidiary | Loan Outstanding | 2.37 Cr | ***Cash diversion to digital ventures*** | | Himanshu Gupta | Managing Director | Personal Guarantee | Extensive | **Personal credit risk tied to corporate debt** | | D.K. Jhunjhnuwala | Whole Time Director | Personal Guarantee | Extensive | **Personal credit risk tied to corporate debt** | | Security Deposits | Related Parties | Security Deposits | 4.59 Cr | Non-interest-bearing capital outlays |

- ***% of Revenue:*** RPT Loans (₹26.07 Cr) / Revenue (₹799.00 Cr) = 3.26%.
- ***% of CFO:*** RPT Loans (₹26.07 Cr) / CFO (₹75.00 Cr) = 34.76%. - **RPT Verdict:** Monitor (While RPT loans decreased, the 270% jump in warehousing payments to KMP-linked entities and the 34.7% CFO-to-Loan leakage ratio remain forensic concerns).

C. Shareholding | Holder category | Mar 2026 | Mar 2025 | | :--- | ---: | ---: | | Promoters | 43.91% | 43.91% | | FIIs | 6.50% | 6.13% | | DIIs | 2.60% | 2.53% | | Public | 46.99% | 47.43% | | Pledged Shares | 0.00% | 0.00% |

D. Board Composition + KMP Compensation - **Total Directors:** 8 | **Independent %:** 50.00% — SEBI Compliant. - **Women Directors:** 2 (Ms. Archana Capoor, Ms. Savita Gupta). - **KMP Compensation:** Total (₹8.02 Cr) grew slower than EBITDA (7.41%). - **Family Relations:** Mr. Himanshu Gupta (MD) is the son of Ms. Savita Gupta

(Director); Mr. Gaurav Kumar Jhunjhnuwala (Director) is the son of Mr. D.K. Jhunjhnuwala (WTD). **Aggregate family-linked compensation exceeds ₹4.78 Cr.**

F. Capital Allocation & Capex | Action | FY 2026 (Cr) | FY 2025 (Cr) | % of CFO | Signal | | :--- | ---: | ---: | ---: | :--- | | Dividends | 14.10 Cr | 10.57 Cr | 18.80% | **Increased Payout** | | Capex | 36.00 Cr | 25.00 Cr | 48.00% | ***High asset intensity*** | | Net Debt Change | 28.00 Cr | -25.00 Cr | 37.33% | ***Re-leveraging for acquisition*** | | Investments (Financial) | 136.00 Cr | 113.00 Cr | 181.33% | ***Aggressive cash diversion*** |

CAPEX Analytical Notes: - **CFO Coverage of Capex:** 2.08x. **CFO (₹75 Cr)** covers capex (₹36 Cr), but financial investments consume the surplus, requiring ₹28 Cr new debt. - **Nature of Capex:** Focused on digital printing machinery and NCF content refresh. - **Deployment Efficiency:** Revenue grew 11% while Net Fixed Assets grew 2.26%, showing asset sweating, but the Singapore acquisition adds risk. - **Key Takeaway:** Re-leveraging for acquisitions contradicts prior deleveraging success.

H. Risks 1. ***Inventory Obsolescence:*** **₹25.94 Cr provision** due to NCF content changes hitting margins. 2. ***Audit Trail Failure:*** **Disabled database logs** create risk of untraceable data manipulation. 3. ***Receivable Quality:*** **Net receivables grew 27.2% vs 11% revenue**; ₹29.45 Cr overdue >3 years. 4. ***Goodwill Impairment:*** **₹335.95 Cr** carrying value (24% of assets) is sensitive to WACC. 5. ***Forex Risk:*** Unhedged **USD 1.25m** loan introduces currency volatility. 6. **Seasonality:** K-12 focus concentrates revenue in Q4/Q1, causing cyclical cash stress.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	3	→	95% domestic, 31% sales erosion	Moderate moat with high seasonal returns risk.
Financial health	3	↓	D/E < 0.5x, CFO/PAT 1.03x	Re-leveraging and CFO drop from 1.67x to 1.03x.
Earnings quality	2	↓	Receivables 2.5x Sales; Audit trail disabled	High working capital drag and material IT control gaps.
Management & governance	2	↓	270% RPT spike; ERP logs disabled	Significant RPT concerns and lack of database-level logs.
Capital allocation	3	↓	Incremental ROIC -3.77%; Debt-funded M&A	Re-leveraging for M&A while prior capital deployment lags.

Business positives (for this company this year) * **Revenue Growth:** Achieved **11% growth** driven by the NCF 2023 rollout. * **Strategic Acquisition:** Entry into international curricula via **₹11.83 Cr CPD Singapore** acquisition. * **Vertical Integration:** Operationalized printing press to protect margins against paper cost volatility. * **Market Positioning:** Completed content development for **grades K-8**, becoming an early mover in the NEP cycle. * **De-risking:** Total contingent liabilities decreased from **₹24.78 Cr to ₹8.45 Cr**.

Business negatives / concerns (for this company this year) * **Working Capital Stress:** Net receivables grew **27.24%**, far outpacing 11% revenue growth. * **Governance Red Flag: Audit trail (edit logs)** disabled at the SAP database level for the parent and 4 subsidiaries. * **Related Party Leakage:** Logistics payments to KMP-controlled Sky Warehousing spiked **270% YoY to ₹4.70 Cr**. * **Cash Flow Contraction: FCF halved** to ₹39.00 Cr; CFO/PAT dropped to 1.03x from 1.67x. * **High Variable Consideration:** Sales returns and discounts absorb **31.4% of gross revenue**. * **Inventory Risk: ₹25.94 Cr** provision for slow-moving stock reflects high curriculum obsolescence risk.

Overall scorecard summary S Chand is navigating a strategic pivot toward the NEP 2023 cycle with steady revenue growth, but its financial strength is being compromised by a significant lengthening of the working capital cycle. The sharp drop in CFO conversion and the 2.5x faster growth of receivables relative to sales suggest aggressive channel management or collection deterioration. Governance posture is currently a major concern due to the material internal control failure regarding ERP audit trails and a dramatic spike in related party warehousing costs. Consequently, the company is on a **stable-to-deteriorating** trajectory as it trades balance sheet quality for debt-funded international expansion.

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: 2

Part c: investor verdict

Thesis: S Chand is a legacy market leader betting on the NCF "super-cycle" and international expansion to drive growth, but is currently plagued by poor earnings quality and governance red flags. **Overall stance:** Watch **Rationale:** Steady top-line growth and strategic M&A are offset by severe working capital stress, a halving of FCF, and material internal control weaknesses regarding ERP data integrity. **Re-evaluate when:** Net Trade Receivables growth aligns with Revenue growth (<1.1x) and management enables database-level audit logs. **BULL CASE:** NCF cycle leads to >20% volume growth with normalized collections, driving ROCE above 15% and FCF expansion. **BEAR CASE:** Stagnant collections lead to significant bad debt write-offs or a massive goodwill impairment charge (□335 Cr at risk). **Key monitorable:** Net Trade Receivables: □350 Cr → Watch for normalization to <□300 Cr or alignment with sales.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status	Summary b status	Forensic takeaway
Capital Allocation	Aggressive de-leveraging (Borrowings down 37.8%) and balance sheet repair.	Re-leveraging (Borrowings up 25.8%) to fund M&A and working capital.	The company has pivoted from debt reduction to a debt-funded expansion strategy, increasing financial risk.
Receivable Quality	High-risk receivables stabilized at 14.6% of gross; growth was pausing.	Receivables grew 27.2% (2.5x the rate of revenue growth), hitting ₹350 Cr.	The surge in receivables relative to sales suggests aggressive channel stuffing or a breakdown in collection discipline to meet growth targets.
Cash Conversion	High CFO/PAT (1.67x) and robust Free Cash Flow (₹76 Cr).	CFO/PAT dropped to 1.03x and Free Cash Flow halved to ₹39 Cr.	Operational profits are increasingly trapped in the balance sheet, significantly reducing the company's margin of safety.
IT Governance	No reported issues with audit trails or database logs.	Audit trail (edit logs) disabled at the SAP database level for parent and 4 subsidiaries.	The failure to maintain database-level audit trails represents a critical breakdown in internal controls over financial reporting and data integrity.
RPT Expense Trend	Stable; focus was on reducing director loans.	270% spike in warehousing payments (₹4.70 Cr) to KMP-controlled entity.	Value is increasingly being diverted to insiders through operational expenses, offsetting the benefits of top-line growth.
Management Tone	Defensive; focused on financial survival and de-leveraging.	"Cautiously Aggressive"; focused on offensive market share capture via the NCF "Super-Cycle."	Management has shifted to an expansionary offensive, prioritizing volume growth and international acquisitions over balance sheet hygiene.

7.2 Persistent patterns

- **Structural Revenue Erosion:** The company consistently loses **30-31% of gross revenue** to sales returns and trade discounts, highlighting a structurally volatile "sale-or-return" business model.
- **Significant Subsidiary Cash Leakage:** A massive portion of Operating Cash Flow (**34% to 36%**) is chronically diverted to fund loss-making digital subsidiaries or inter-company loans.
- **Intangible Asset Overhang: Goodwill and Intangibles** consistently represent a dominant portion of the balance sheet, leaving the company highly vulnerable to lumpy, non-cash impairment charges.
- **Inventory Obsolescence Risk:** Recurring provisions for slow-moving stock (**₹24-26 Cr annually**) highlight the constant risk of curriculum changes rendering the backlist irrelevant.
- **Aggressive Tax Asset Accounting:** The balance sheet continues to rely on a **substantial Net Deferred Tax Asset (₹56-72 Cr)** to support Net Worth, predicated on optimistic future taxable profit assumptions.
- **Promoter Credit Dependency:** The company remains unable to secure credit on its own merit, requiring **extensive personal guarantees from promoters** to back all major bank facilities in both periods.
- **Weak Incremental ROIC:** Despite revenue growth, the company exhibits a **sustained inability to generate high returns on new capital**, with incremental ROIC remaining near zero or negative.