S Chand & Company Ltd — FY 2026 Annual Report Analysis

Annual Report Analysis (Consolidated)

Source: CRORES. All figures Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.

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

Source: Screener.in — all monetary values in Crores. Use these numbers directly.

Basis: CONSOLIDATED.

P&L Statement (Crores)

Line Item	Mar 2026	Mar 2025
Sales -	799.00	720.00
Sales Growth %	10.99	8.61
Expenses -	654.00	584.00
Material Cost % -	32.13	31.82
Raw material cost	275.00	230.00
Change in inventory	-19.00	-1.00
Manufacturing Cost %	0.00	3.51
Employee Cost %	24.21	24.27
Other Cost %	25.52	21.60
Operating Profit	145.00	135.00
OPM %	18.00	19.00
Other Income -	13.00	13.00
Exceptional items	-3.26	2.98
Other income normal	16.30	9.72
Interest	14.00	13.00
Depreciation	45.00	42.00
Profit before tax	99.00	93.00
Tax %	26.00	35.00
Net Profit -	73.00	60.00
Profit from Associates	0.00	0.00
Minority share	3.00	3.00
Exceptional items AT	-2.00	2.00
Profit excl Excep	76.00	58.00
Profit for PE	78.00	62.00
Profit for EPS	76.00	64.00
Profit Growth %	27.00	11.00
EPS in Rs	21.53	18.03
Dividend Payout %	19.00	22.00

Balance Sheet (Crores)

Line Item	Mar 2026	Mar 2025
Equity Capital	18.00	18.00
Reserves	1,036.00	973.00
Borrowings -	136.00	108.00
Long term Borrowings	19.00	14.00
Short term Borrowings	70.00	52.00
Lease Liabilities	48.00	42.00
Other Borrowings	0.00	0.00
Other Liabilities -	205.00	167.00
Non controlling int	-3.00	-1.00
Trade Payables	155.00	118.00
Advance from Customers	0.00	0.00
Other liability items	53.00	50.00
Total Liabilities	1,395.00	1,266.00
Fixed Assets -	543.00	531.00
Land	0.00	18.00
Building	0.00	110.00
Plant Machinery	0.00	58.00
Equipments	0.00	5.00
Computers	0.00	10.00
Furniture n fittings	0.00	8.00
Vehicles	0.00	22.00
Intangible Assets	389.00	352.00
Other fixed assets	0.00	198.00
Gross Block	0.00	780.00
Accumulated Depreciation	0.00	249.00
CWIP	6.00	1.00
Investments	105.00	79.00
Other Assets -	741.00	654.00
Inventories	163.00	140.00
Trade receivables -	350.00	275.00
Receivables over 6m	0.00	57.00
Receivables under 6m	0.00	266.00
Prov for Doubtful	0.00	-47.00
Cash Equivalents	112.00	117.00
Loans n Advances	9.00	5.00
Other asset items	106.00	117.00

Line Item	Mar 2026	Mar 2025
Total Assets	1,395.00	1,266.00

Cash Flow Statement (□Crores)

Line Item	Mar 2026	Mar 2025
Cash from Operating Activity -	75.00	100.00
Profit from operations	148.00	145.00
Receivables	-77.00	-22.00
Inventory	-21.00	36.00
Payables	36.00	-33.00
Loans Advances	0.00	0.00
Other WC items	0.00	0.00
Working capital changes	-62.00	-19.00
Direct taxes	-11.00	-26.00
Cash from Investing Activity -	-49.00	-49.00
Fixed assets purchased	-36.00	-25.00
Fixed assets sold	1.00	1.00
Investments purchased	-136.00	-113.00
Investments sold	117.00	105.00
Interest received	8.00	1.00
Dividends received	0.00	0.00
Invest in subsidiaries	-11.00	0.00
Redemp n Canc of Shares	0.00	0.00
Acquisition of companies	0.00	-4.00
Other investing items	9.00	-15.00
Cash from Financing Activity -	-17.00	-75.00
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	0.00	0.00
Net Cash Flow	8.00	-25.00
Free Cash Flow	39.00	76.00
CFO/OP	59.00	93.00

Key Ratios (□Crores)

Line Item	Mar 2026	Mar 2025
Debtor Days	160.00	140.00
Inventory Days	232.00	223.00
Days Payable	221.00	188.00
Cash Conversion Cycle	172.00	175.00
Working Capital Days	154.00	108.00
ROCE %	10.00	9.00

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	Evidence
Net Trade Receivables growth vs Revenue growth	Rs 275.34 Cr	Rs 350.33 Cr	27.24% growth vs 11.0% revenue growth	□FLAG	Receivables outpaced sales growth by 2.5x, consuming Rs 77.07 Cr in operating cash	Note 15, p.224
Allowance for ECL	Rs 47.15 Cr	Rs 42.57 Cr	9.7% decrease in provision	□WATCH	Provision coverage dropped while gross receivables rose; bad debt write-offs were Rs 3.54 Cr (Note 36)	Note 15, p.224
Revenue from Related Parties	not disclosed	not disclosed	not disclosed	□ UNRESOLVED	n/a	Note 45, p.247
Contract liabilities (Revenue received in advance)	Rs 2.20 Cr	Rs 3.56 Cr	61.8% increase	□CLEAN	Signals uptick in advance orders for the upcoming academic season	Note 28, p.235
Sales Returns (Refund Liability) provision	not disclosed	Rs 158.01 Cr	New disclosure of 19.8% of Revenue	□WATCH	19.8% of revenue is provisioned for returns, reflecting high distribution risk	Note 2.6 & 28, p.235
Customer Concentration	not disclosed	not disclosed	not disclosed	□ UNRESOLVED	n/a	Note not disclosed

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 Rs 77.07 Cr of cash, nearly negating the Rs 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	Evidence
CFO vs clean EBITDA	0.69	0.52	24.6% decline in conversion ratio	□ WATCH	Operating cash flow fell to Rs 74.71 Cr from Rs 99.89 Cr despite higher PBT	Note Cash Flow Statement, p.190
Pre-tax operating conversion (CFO + tax paid) / EBITDA	0.87	0.59	32.2% decline in efficiency	□ WATCH	Rs 85.82 Cr conversion on Rs 144.90 Cr EBITDA	Note Cash Flow Statement, p.190
Inventory absorption of operating cash	Rs 36.05 Cr (release)	Rs 21.11 Cr (absorption)	Rs 57.16 Cr negative swing in cash impact	□ WATCH	Finished goods inventory grew 19.6%, outpacing revenue growth	Note 13, p.222
Working capital movement (Total)	(Rs 1.90 Cr) outflow	(Rs 6.20 Cr) outflow	Rs 4.30 Cr increase in cash drag	□ WATCH	Net working capital consumed Rs 61.88 Cr in FY26	Note Cash Flow Statement, p.190
Cash tax paid vs book tax	Rs 26.10 Cr vs Rs 32.60 Cr	Rs 11.11 Cr vs Rs 26.06 Cr	Tax paid is only 42.6% of book tax	□ CLEAN	Cash flow benefited by Rs 14.95 Cr difference, largely due to MAT and DTA utilization	Note Cash Flow Statement, p.190

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	Evidence
Exceptional items effect on PBT	none	Rs 3.26 Cr (expense)	New one-time regulatory cost	□ CLEAN	Reduces PBT by 3.3%; related to new Labour Codes	Note 37, p.238
Non-operating / other income as % of PBT	14.0%	16.4%	240 bps increase in reliance	□ WATCH	Other income of Rs 16.30 Cr accounts for 16.4% of PBT	Note 29, p.235
Deferred tax movement	Rs 7.61 Cr	Rs 3.15 Cr	58.6% decrease in non-cash tax charge	□ CLEAN	Supports PAT but represents Rs 72.01 Cr of DTA remaining on the BS	Note 8, p.220
Provision reversals credited to income	Rs 0.75 Cr	Rs 0.20 Cr	73.3% decrease	□ CLEAN	Minimal impact on current year income	Note 29, p.235
Depreciation policy / useful-life change	not disclosed	none	No change disclosed	□ CLEAN	n/a	Note 2.9, p.218
Audit Trail (Edit Log) Failure	none	Audit trail not enabled at database level	New statutory non-compliance	□FLAG	Material weakness in data integrity controls for Holding and 4 subsidiaries	Note 54, p.260

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	Evidence
Warehousing Paid to Sky Warehousing (Related Party)	Rs 1.27 Cr	Rs 4.70 Cr	270% increase in related party spend	□FLAG	Rs 3.43 Cr shift in logistics sourcing to an entity controlled by KMP relatives	Note 45, p.247
KMP / director remuneration vs PAT	13.5% of PAT	11.0% of PAT	250 bps decrease as % of profit	□ CLEAN	Remuneration of Rs 8.02 Cr is significant but stable	Note 45, p.247
Security Deposits with Related Parties	Rs 3.90 Cr	Rs 4.59 Cr	17.7% increase	□ WATCH	Non-interest bearing capital tied up with related entities	Note 45, p.247
Promoter Pledging / Guarantees	Guarantees present	Guarantees present + 50% pledge of Chhaya Prakashani	Stable reliance on promoter backing	□ WATCH	Major credit facilities (Rs 136 Cr) depend on personal promoter guarantees	Note 20, p.229
CSR spend and shortfall	Rs 1.40 Cr	Rs 1.89 Cr	35% increase in spend	□ CLEAN	No shortfall disclosed	Note 36, p.237
Loans to group entities	not disclosed	not disclosed	not disclosed	□ CLEAN	Auditor noted no funds advanced to intermediaries in 18(h)(iv)	Note 18(h)(iv), p.183

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 Rs 3.80 Cr to Rs 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	Evidence
Goodwill vs Net Worth	33.6% of NW	32.0% of NW	160 bps decrease	□ WATCH	Rs 335.95 Cr in Goodwill is subject to subjective impairment testing; growth rates used are 4-5%	Note 2.12 & KAM, p.217
Total Borrowings (including Leases)	Rs 108.19 Cr	Rs 136.06 Cr	25.8% increase in debt	□ WATCH	Increase driven by Singapore acquisition and working capital utilization	Note 20 & 24, p.229
Contingent Liabilities vs Net Worth	Rs 24.78 Cr	Rs 8.45 Cr	65.9% reduction in exposure	□ CLEAN	Major reduction in tax demands (Rs 19.16 Cr to Rs 2.83 Cr)	Note 46, p.248
Dividend vs Free Cash Flow	Rs 10.57 Cr div vs Rs 76 Cr FCF	Rs 14.10 Cr div vs Rs 39 Cr FCF	Payout consumes 36% of FCF vs 14% prior	□ WATCH	Dividend payout is safe but FCF halved due to working capital stress	Note Cash Flow Statement, p.190
CWIP Ageing	Rs 0.21 Cr	Rs 6.23 Cr	Nearly 30x increase	□ WATCH	Likely related to ongoing upgrades; currently low relative to total assets	Note 46, p.248

Mechanism: The balance sheet is primarily levered through goodwill (Rs 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 Rs 77.07 Cr and Rs 21.11 Cr respectively. **Direction:** deteriorating · **Watch next:** Free Cash Flow generation in FY27 · **Corroborates:** profit_to_cash

Material notes captured

Note	Discloses	Prior	This year	Impact	Signal
54 (p.260)	***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
45 (p.247)	***Warehousing fees paid to Sky Warehousing Private Limited (related party controlled by KMP relatives).***	Rs 1.27 Cr	Rs 4.70 Cr	Profit ↓ — Rs 3.43 Cr increase in related party leakage.	negative
20 (p.229)	**New unhedged foreign currency loan from EXIM Bank for Singapore acquisition.**	none	Rs 9.90 Cr	Neutral — Introduces USD/INR exchange rate risk.	neutral
15 (p.224)	***Receivables Growth (27.2%) vs Revenue Growth (11.0%)***	N/A	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 (Note 54):*** 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 (p.247)*** | | **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 (p.65)*** | | ***S. Chand Edutech*** | Subsidiary | Loan Outstanding | 5.07 Cr | ***Persistent inter-company debt (p.65)*** | | ***Convergia Digital*** | Subsidiary | Loan Outstanding | 2.37 Cr | ***Cash diversion to digital ventures (p.65)*** | | **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% (4/8) — 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	Evidence
1	Audit opinion clean?	□	Unqualified opinion provided.
2	Promoter pledge = 0?	□	0.00% pledged shares.
3	KMP pay < 5% of PAT?	□	Total KMP pay (□8.02 Cr) is ~10.5% of Consolidated PAT.
4	RPT quantum < 5% of revenue?	□	RPT Loans + OpEx is ~4.2% of revenue.
5	Board > 50% independent?	□	50.00% (4/8) Independent.
6	At least 1 woman director?	□	2 Women Directors present.
7	No statutory dues outstanding?	□	Overdue MSME payables of □1.75 Cr (>3 years).
8	No fraud reported?	□	No fraud reported by auditors.
9	Audit trail enabled?	□	Disabled at database level (Note 54).
10	Frequent Auditor change	□	No frequent change noted.
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.

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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.

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