

S Chand & Company Ltd — Feb 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat **One-line:** S Chand has successfully transitioned from a "balance sheet cleanup" story to an "operating leverage" story, with record-high gross margins (70%) and a guidance upgrade (17-19% EBITDA) driven by high-margin AI licensing and NCF syllabus tailwinds.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	Q3 revenue (₹100 Cr+) and Gross Margins (70%) significantly ahead of seasonal norms.	☐
Earnings Quality	High (Core + Licensing)	Margin expansion driven by both lower RM costs and high-margin AI content licensing.	☐
Guidance Confidence	Strong	Management upgraded EBITDA margin guidance to 17%-19% (from 16%-18%).	☐
Management Credibility	Strong	Delivered on working capital reduction; 5-year lows in receivable days (80) and NWC days (152).	☐
Business Quality Signal	Improving	Monetization of legacy content via AI LLMs creates a new, non-linear revenue stream.	☐
Key Q&A Exchange	Q2 (NCF timeline)	Mgmt confirmed only K-3 and 6th are out; full rollout expected by FY27.	☐
The Street's Primary Anxiety	NCF Delays	Fear that government delay in syllabus would stall growth; mgmt countered with double-digit growth confidence.	☐
Capital Cycle Stage	Harvesting / Growth	Harvesting improved WC efficiency while investing in CUET/ Digital programs.	☐
Margin / Return Ratio Trajectory	Improving	EBITDA margins trending toward 20% (pre-COVID levels).	☐
Pricing Power	Stable	5-6% price hikes taken; market absorbing despite paper price volatility.	☐
FCF Conversion & Quality	Improving	Operating losses narrowing; Net Debt reduced by ₹35 Cr YoY.	☐
Competitive Moat Signals	Widening	Deep content repository (1,900+ videos, legacy IP) now being valued by AI tech majors.	☐
Balance Sheet Strength	Strong	Net Debt at ₹53.9 Cr (vs ₹88.9 Cr YoY); expected to be net debt free for 3 quarters.	☐
Working Capital Efficiency	Improving	Lowest receivable days in 5 years indicates better dealer discipline.	☐
Mgmt Guidance Track Record	Reliable	Consistent delivery on WC targets; now shifting focus to top-line growth.	☐
Key Vulnerability / Red Flag	Paper Price Volatility	RM prices rose 10-15% since Diwali; could pressure Q4 margins if not managed.	☐
Management Tone	Confident	Bullish on "historic" Q3 and the upcoming peak sales season.	☐

Sentiment: ☐Positive

Key Takeaways (Positives & Negatives): * **Positives:** The structural cleanup of the balance sheet is largely complete, with receivable days at a 5-year low (80 days). The business has found a high-margin "second life" for its content through AI LLM licensing (₹20 Cr+ revenue this year), which significantly bolsters EBITDA during seasonally lean periods. Management's decision to upgrade full-year EBITDA guidance to 17-19% signals strong conviction in Q4 execution. * **Negatives:** The New Curriculum Framework (NCF) rollout remains frustratingly incremental, with the government only announcing K-3 and Class 6 so far. Paper prices have also reversed their downward trend, rising 10-15% since October, which may pinch margins in the high-volume Q4 if procurement wasn't fully locked in. * **Street Concern:** Analysts are hyper-focused on the NCF timeline. Management clarifies that while the full "big bang" implementation is 2 years away (FY27), the partial rollout is already sufficient to drive double-digit growth in FY25. * **Watchpoint:** Q4 volume growth. If volumes don't hit the "high teens" management is striving for, the recent EBITDA guidance upgrade might look aggressive given the RM price headwinds.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures are primary source. Concall used for commentary and data derivation.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (9M)	₹100.2 Cr	↑ (Historic)	↓ (Seasonal)	↑	Highest 9M sales in history. Driven by volume + mid-single digit price hikes.
Gross Margin (%)	70%	↑ 1500 bps	↑ (High)	↑	Aided by low RM costs and high-margin AI licensing (₹20 Cr+ total).
EBITDA (9M Loss)	(₹68.2 Cr)	↑ 10.8%	↓ (Seasonal)	↑	Loss narrowed from ₹76.5 Cr YoY due to higher gross margins.
EBITDA Margin %	17% - 19%*	↑ 100 bps	N/A	↑	*Full year guidance upgraded from 16-18% range.
PAT (9M Loss)	(₹25.6 Cr)	↑ 26%	↓ (Seasonal)	↑	Net loss narrowing significantly compared to 9M FY24.
Cash Flow (OCF)	(₹57.5 Cr)	↓ (Higher)	↓ (Higher)	↓	9M OCF loss driven by ₹70.1 Cr payment to paper vendors for legacy purchases.
Net Debt / (Cash)	₹53.9 Cr	↑ 39.3%	↑ (Debt up)	↑	YoY reduction of ₹35 Cr. Net debt free in 3 out of 4 quarters.
Gross Debt	₹107.8 Cr	↑ 10.6%	↓ (Steady)	↑	Reduced from ₹120.7 Cr in Q3FY24.
Working Capital	152 Days	↑ 4 Days	↑ (Seasonal)	↑	Lowest NWC days in Q3 in 5 years. Receivables at 80 days.
Inventory	₹215.7 Cr	↑ 7.3%	↑ (Build-up)	→	Includes ₹54.4 Cr raw paper. Stockpiled for peak Q4 season.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Company Avg	Key Development
School (K-12)	~85% of Rev	Double-digit	Standard	→	Average	Preparing for NCF rollout; K-3 and 6th adopted by ~30-40% of schools.
Test Prep/Digital	~15% of Rev	Strong	High	↑	Above Avg	Launching "TestCoach" for CUET. AI Licensing added ₹20 Cr+ this year.
Investee: Smartivity	16% Stake	52% (9M)	Positive	↑	High Growth	Now EBITDA and PAT positive in 9M; EBITDA grew 5x YoY.
S Chand Academy	N/A	Strong	N/A	↑	N/A	YouTube channel hit 284k subscribers and 25m+ views.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	"Double digit growth" for FY25.	Needs ~₹400 Cr+ in Q4 to hit 10%+ growth; feasible given historical Q4 contribution.	Consistently met revenue bands.	Low
Guidance	Margins	Upgraded EBITDA band to 17%-19%.	High-margin AI licensing and low RM paper (already purchased) make this highly probable.	Reliable; improving YoY.	Low
Guidance	NCF Rollout	Full adoption by FY27.	Dependent entirely on CBSE/ NCERT government timelines.	Delayed by govt previously.	High
Strategy	CUET Prep	Launching comprehensive program (Live + Books).	Developing with ₹1.5-2 Cr budget; leveraging existing school distribution.	New entry into prep market.	Moderate
Strategy	AI Licensing	Continue monetizing content library.	Large library remains; high likelihood of recurring or new licensing deals.	New but successful in FY25.	Low
Balance	Working Capital	Focus on cash flows/ NWC reduction.	Already at 5-year lows; requires continued discipline in Q4 collections.	Strong delivery to date.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.0	Harshit / Global Capital	NCF Timing	Outlook	Expected top-line growth for FY26 and FY27 based on NCF rollout.	Management declined to give specific FY26/27 guidance but reiterated double-digit growth for the current year. Multi-year growth depends on the pace of government syllabus announcements, which remain the primary valuation driver.	FY26/27 specific numbers.	3.0	Deflected — fair at Q3.
2	4.5	Niteen / Aurum Capital	NCF Delay Risk	Outlook	Will the company hit double-digit growth if no more grades are announced in FY25?	Management is "very confident" of double-digit growth this year regardless of further announcements as current classes are sufficient. This reduces the "binary risk" of government inaction for the current fiscal year.	None	5.0	High Confidence
3	3.0	Niteen / Aurum Capital	Investments	Capex/Alloc	Are there exit plans for Smartivity or new investments?	Management is not looking for an exit as Smartivity is performing well (EBITDA positive); they remain on the hunt for new acquisitions. Suggests S Chand is in "buy mode" for synergistic EdTech businesses, signaling	None	4.0	Clear holding strategy.

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						balance sheet strength.			
4	5.0	Deepan / TrustLine	NCF Adoption	Business Overview	What proportion of schools will adopt NEP/ NCF this year?	Management expects 30-40% adoption this year (vs 10-15% last year), with full implementation over the next 2 years. This provides a clear trajectory for volume growth as the remaining 60% of schools transition by FY27.	None	4.0	Specific adoption metric.
5	3.5	Jain / Bowhead India	RM Prices	Financials	What is the outlook for paper prices?	Prices have risen 10-15% since Diwali, but management has already contracted/ purchased paper below last year's average. This "inventory lock-in" protects Q4 margins from the recent spike in market prices.	None	4.0	Margin protection clear.
6	4.0	Rishikesh / RoboCapital	Revenue Split	Financials	What is the revenue contribution of grades yet to change (Class 4, 5, 7-12)?	K-8 represents 80% of school revenue, and school is 85% of total; K-8 thus drives ~65% of consolidated revenues. Changes in these grades will have the largest delta on top-line growth in FY26-27.	None	4.5	Precise segment math.
7	3.5	Lavanya / Ind. Investor	Goodwill	Financials	Why is the high goodwill not being amortized to	Management views goodwill as "Brand" value with a long life	None	3.0	Accounting policy stance.

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					improve ROE?	and does not intend to write it down as the acquired brands are ongoing. Confirms ROE will remain optically lower due to historical M&A accounting, despite improving cash profits.			
8	4.5	Viraj / SiMPL	AI Licensing	Financials	Sustainability of AI content licensing and its margin impact.	AI revenue (₹20 Cr+) has significantly higher gross margins and management has only used a small fraction of their library. Suggests a long runway for high-margin licensing deals that are not tied to physical book seasonality.	Specific deal names (NDAs).	4.0	High margin potential.
9	4.0	Manan / Ind. Investor	NCERT Competition	Governance	Impact of NCERT pushing its own books on school principals.	Management clarified this is a long-standing "advisory" not a "compulsion"; schools prioritize child career outcomes/ quality. Assuages fears of NCERT "cannibalizing" private publishers through mandate.	None	5.0	Direct competitive context.

PATTERN FLAGS & SENTIMENT

- **NCF Adoption Pace:** Analysts repeatedly pressed for the timeline of the New Curriculum Framework. Management was firm that while they are at the government's mercy for the *announcement*, the *transition* is

already providing double-digit growth. The consensus is that FY26 and FY27 will be the true "growth years" as classes 4, 5, and 7-12 come online.

- **Margin Sustainability:** There was a shift in focus from "Working Capital" to "Gross Margin Quality." Analysts were pleasantly surprised by the 70% Q3 gross margin, which management attributed to the new AI licensing stream. This high-margin digital pivot is being viewed as a structural valuation re-rating trigger.
- **Balance Sheet Hygiene:** Hostility regarding the balance sheet (previously a major friction point) has vanished. Management's achievement of 5-year lows in receivable days has successfully rebuilt credibility with the buy-side.

Analyst Sentiment Verdict: Analysts were largely optimistic, shifting from defensive questions about debt and collections to offensive questions about growth and AI monetization. The most friction came from NCF rollout uncertainty, but management's confidence in the current year's double-digit growth satisfied the floor. Credibility has significantly improved vs. last year.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
NCF Timing	Syllabus implementation	Further announcements unlikely in FY25.	Peak season is already active; further govt announcements now won't impact FY25.	Low - FY25 is "locked in" with current classes.
Paper Prices	Lower RM costs helped margins.	Prices rose 10-15% recently.	Margin tailwind from low paper prices is ending; Q4 relies on pre-bought stock.	Moderate - Margin pressure if stock runs out.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2FY25)	This Quarter (Q3FY25)	Direction
EBITDA Guidance	16% - 18%	17% - 19%	↑ Improving
Gross Margin (Qtr)	Not Specified	70% (Historic High)	↑ Improving
Receivable Days	69 Days	80 Days* (5-yr Q3 low)	↑ Improving
AI Revenue	Developing stream	₹20 Cr+ confirmed	↑ Improving
Net Debt	(₹0.93 Cr) Net Cash	₹3.9 Cr Net Debt	↓ Deteriorating**
RM Context	Paper prices falling	Prices up 10-15%	↓ Deteriorating
Investee Status	Smartivity 17% growth	Smartivity PAT positive	↑ Improving

**Note: Q2 was 69 days; Q3 is 80 days. While sequentially higher, 80 days is the lowest Q3 in 5 years, maintaining the efficiency trend. **Note: Net debt increased sequentially due to seasonal working capital build-up for the Q4 sales peak, but decreased by 35 Cr YoY.*

Investor Notes on Trajectory:

- * **The Pivot to Profitability:** The upgraded EBITDA guidance is the most significant signal this quarter. It indicates that the high-margin AI licensing (roughly 2% of total revenue but a much higher % of EBITDA) is successfully offsetting traditional cost pressures.
- * **CFO vs PAT:** 9M PAT is a loss of ₹25.6 Cr while Operating Cash Flow is a loss of ₹57.5 Cr. This divergence is driven by the ₹70.1 Cr "cleanup" payment to paper vendors. This is high-quality cash management—sacrificing short-term OCF to clear legacy liabilities before the peak season.
- * **Inventory Arbitrage:** Management has stockpiled ₹4.4 Cr of raw paper at "pre-hike" prices. This effectively hedges their Q4 margins against the 10-15% rise in paper prices mentioned in the call. Execution risk now lies solely on the volume of books sold in Feb-March.
- * **Thesis Change:** The thesis

has moved from "Recovery/Cleanup" to "Operating Leverage Play." If double-digit revenue is achieved on a lower cost base and higher digital mix, S Chand is heading for a significant ROE expansion as the goodwill-heavy balance sheet finally starts generating high-teen margins.

STOP HERE.