



## S Chand And Company Limited

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Date: December 14, 2018

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

### Re: Transcript of conference call with the Analysts and Investors

The Company had organized a conference call with the Analysts and Investors on Monday, November 12, 2018 at 12:00 p.m. The transcript of the said conference call held with the Analysts and Investors is enclosed herewith.

The Company shall also disseminate the above information on the website of the Company- [www.schandgroup.com](http://www.schandgroup.com).

Request you to kindly take note of the same.

Thanking You.

For S Chand And Company Limited

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“S. Chand & Company Limited  
Q2 FY2019 Results Conference Call”

November 12, 2018

**ANALYST: MR. ADITYA BAGUL - AXIS CAPITAL LIMITED**

**MANAGEMENT: MR. SAURABH MITTAL - CHIEF FINANCIAL OFFICER  
- S. CHAND & COMPANY LIMITED  
MR. ATUL SONI - HEAD - INVESTOR RELATIONS - S.  
CHAND & COMPANY LIMITED**

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**Moderator:** Ladies and gentlemen, good day and welcome to the S. Chand & Company Limited Q2 FY2018 results conference call hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aditya Bagul from Axis Capital Limited. Thank you and over to you Sir!

**Aditya Bagul:** Thank you Aman. Good afternoon ladies and gentlemen. On behalf of Axis Capital, a warm welcome to Q2 FY2019 earnings conference call of S. Chand & Company Limited. The management will be represented by Mr. Saurabh Mittal, Chief Financial Officer and Mr. Atul Soni, Head Investor Relations. I shall hand over the call to Mr. Atul Soni for his opening remarks post which we will open the floor for the Q&A. Over to you Atul!

**Atul Soni:** Thanks. A very good afternoon to all of you. This is Atul this side and I head investor relations at S. Chand. I would like to take this opportunity to welcome you all to our Q2 result conference call of the financial year 2019 and I would like to thank you all for taking time to join us here today.

I hope you had the time to go through our presentation and results. As we have highlighted in our presentation the second quarter is the lowest revenue quarter for us during the year, which normally accounts for less than 5% of annual revenues. Now do keep in mind that we are in a seasonal industry with the first three quarters contributing only 20% of the annual revenues and the fourth quarter contributing almost 80% of the revenues and more than 100% of the annual profits.

The education industry is sunrise sector in a developing economy like India. The end market is a highly fragmented market with low levels of penetration, which is increasing as the number of private schools keeps on increasing in the coming year and decades. We at S. Chand strongly believe that the education sector in India is currently going through a transformative phase and is going to be characterized by an extremely long runway of strong growth over the next few decades. The strength of our brand is backed by over 2400 author relationships, 9500 book titles and more than 6000 distributors across the country.

Just to give a comparison, do have a look at the slide no 13 of our presentation, which gives a comparison of China and India. You would get an idea of how strong the growth can turn out to be in a developing economy in this sector.

As you are aware, our businesses are focused on educational content for children of all ages. The K-12 segment contributes around 80% of the revenues on an annual basis. Within the K-12 segment, we are primarily focused on content for central broad schools affiliated to CBSE, ICSE and Regional State board schools like West Bengal, etc., which follow an academic session beginning April and ending March. So, the second quarter of July to September coincides with the

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academic session of schools already in progress and hence is the lowest revenue quarter for us in the K-12 segment.

During this quarter, the focus of the management team is on finalizing content and catalogue for the next academic session including product revisions, ensuring adequate paper supplies, , formulating sales and distribution strategy for the next academic season. At the same time, we carry out preventive maintenance at our printing facilities and print book specimens for distribution to schools and teachers. We also conduct a lot of teacher training seminars and workshops during this quarter, which target familiarizing them with the education standards and techniques followed globally.

While the second quarter is not significant from a revenue or contribution to bottomline perspective, it is the time when we prepare and strategize for the next academic session and help to create the framework for optimizing the resources and maximizing the opportunity in our hands. I would like to give you an update on the new initiatives that have been taken by the group to increase its presence in the education sector.

As a stated strategy of increasing our digital footprint, we are working on increasing the curriculum and services business of Mylestone, which is our leading digital and services initiative. Mylestone has shown strong traction and interest amongst the target audience of private schools in Tier-2 and Tier-3 towns. We expect Mylestone to show strong growth numbers in the coming year as the penetration story plays out for us.

We are also working towards launching our product Test Coach and Nuri Nori this fiscal. Just to remind you, Test Coach is a mobile and web based online testing platform for various recruitment exams of our country including banks, railways, SSC and government jobs. There are almost 25 million students who appear for examinations in this market. The company already has bestselling books in this segment and wishes to offer the students access to online test preparation in conjunction with these books. Test Coach has already been tested with over 2000 students in Delhi and will be launched in December.

Nuri Nori is a preschool education content product, which we launched in September in partnership with PDM Inc , which is a subsidiary of Sigong Media from South Korea. The total market is around 60,000 plus pre schools out of which only 20% plus are in the organized segment. The company would target the unorganized segment to drive growth going forward. We are happy to share that the company has already signed its first set of preschools in this product.

The quarter saw the agreement with Chetana Publications, LLP, a leading Maharashtra based State Board company at investment of 585 million for a 51% beneficial interest in the business. The company is working towards closing the transaction by completing all the necessary legal requirements. Now I would like to hand over to Saurabh, our CFO to give a brief of the financials.

**Saurabh Mittal:** Thank you Atul. Good afternoon to all the participants on the call. I am Saurabh Mittal, CFO and I would like to take you through the financials for the quarter. For Q2 our revenues came at Rs106 million versus Rs112 million in the last quarter of the previous year. Our EBITDA loss is about Rs758 million versus Rs652 million last year. Our net loss is Rs571 million versus Rs551 million in the same quarter previous year. I would also highlight that second quarter is lowest revenue for us and which accounts for less than 5% of the annual revenues. In terms of working capital quarter-on-quarter, we improved our net working capital by 33 days to 202 days from 235 days. Our debtor days have also reduced by 53 days from Q1 to 178 days. At present our net debt for the quarter is about Rs1500 million and we expect this to move higher by the end of the year on account of the acquisition of balance share of Chhaya and the investment in Chetana. With this I would like to open the call for questions.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nitin Agarwal from JM financials. Please go ahead.

**Nitin Agarwal:** Thank you for giving opportunity. My first question is, can you give an update on where are we on the digital investment, so how much capital we have pumped in till now and what is the annual loss and when will these investments start giving positive returns?

**Saurabh Mittal:** As of last fiscal, we had invested about Rs130 Crores and during 1HFY19 we have invested another 13 Crores. In terms of initiatives, we have got three large initiatives.

Firstly, DS Digital, which is the Interactive classroom business, which is already EBITDA positive. On a revenue base of Rs20-Rs21 Crores last year, the business did an EBITDA of about Rs3 Crores. . We have already got out of the hardware segment in that business and concentrating only on the large software revenues and thus going forward we expect that to breakeven once we have little more volume in the software segment.

Secondly, -we have the Mylestone business under Safari Digital. Our Mylestone business is already showing strong traction. We signed about 70 schools in the first year, about 170 schools in the second year and this year we are targeting over 300 schools. The investment is about Rs18 Crores in this business and we expect it to breakeven once we reach about 500 plus schools, so we should be breaking even next year in the segment.

In terms of the third investment, it is in S. Chand Edutech, where we are primarily running two initiatives, one is Test Coach, which is the online testing app. The investment is not too large in this at about Rs2 Crores and we should break even in terms of operations once we hit about 5000 users. s. For the other initiative, Nuri Nori, the investment in that is about Rs2.5 Crores where again once we hit about 100 plus schools we expect to operationally breakeven. Net to net last year overall we had about Rs 7 Crores loss on digital side, which is not too large as a number.

- Nitin Agarwal:** Secondly just wanted to check on the consolidated basis, your selling and admin expense and other expenses have increased 20% and 18% year-on-year in first half, so what reason is applicable for?
- Saurabh Mittal:** Selling and?
- Nitin Agarwal:** Selling and admin expense has increased by 20% and other expenses are increased by 18% in first half consolidated.
- Saurabh Mittal:** The increase is largely attributed to our signing of Sourav Ganguly as a brand ambassador to promote our products. Initially we have used him for Chhaya Prakashani since he is one of the biggest brands in West Bengal and Chhaya is a largely consumer based product. So because of these there was increase in selling expenses. However do keep in mind that we expect this expense to give us benefits over the coming years. We have done a two year engagement with him and expect to reap benefits over the next two to three years period.
- Nitin Agarwal:** So this run rate will continue in following quarters also?
- Saurabh Mittal:** Not really, in terms of the television programming, the creation of the video that has already been done, I do not see that recurring too much in the coming quarters.
- Nitin Agarwal:** Okay.
- Saurabh Mittal:** There may be some certain expense in Q4 in terms of increased marketing activity along with him, but not in Q3.
- Nitin Agarwal:** What about other expenses why has that increased 18% year-on-year in first half?
- Saurabh Mittal:** We have been a little bit conservative in terms of provision for receivables and increased the provisioning I think it is about almost 6 Crores, which we have taken in this quarter itself, otherwise expenses are not increasing.
- Nitin Agarwal:** My next question is regarding the Chetana acquisition, so what is the timeline now when can we expect the deal to be closed, when our formalities is over, so if you could give update on that?
- Saurabh Mittal:** Yes. We have been actively working with them on closing the transaction unfortunately we were supposed to close it pre-Diwali, but things have got delayed from both sides. We look forward to closing the transaction within this fiscal.
- Nitin Agarwal:** So assuming that we will get done say in December end and as we know that 80%-85% of Chetana's revenue comes in first quarter, but the cost will be may be distributed in all the four quarters, so is my understanding correct that in this current fiscal year the acquisition will have an adverse impact on the PAT?

- Saurabh Mittal:** Yes. There would be a negative impact of about 3 to 4 Crores incase the transaction closes by December on 4Q costs. However, we should wait and see when the transaction finally closes to account for such impact.
- Nitin Agarwal:** Can you provide us the PAT number for FY2018 of Chetana if that is not confidential?
- Saurabh Mittal:** Unfortunately, we cannot disclose that as of now.
- Nitin Agarwal:** I understand. Thank you so much. That answers all my questions.
- Moderator:** Thank you. The next question is from the line of Nishna Biyani from Prabhudas Lilladher. Please go ahead.
- Nishna Biyani:** Saurabh, just wanted to understand the acquisitions done by your company since 2011, what has been the total amount of acquisitions done by S. Chand?
- Saurabh Mittal:** Total amount you mean the total investment?
- Nishna Biyani:** Yes. In all acquisitions, Vikas, Madhuban and everything, Chhaya put together?
- Saurabh Mittal:** So far we spent about 450 Crores so far.
- Nishna Biyani:** Sure and when you look at the ROCE or the payback of the acquisitions what should that be?
- Saurabh Mittal:** So the payback period for normal acquisition should be about six years and for Chhaya payback was about three years' time.
- Nishna Biyani:** Sure. So average return should be between 15% and 22% that should be the sense of it?
- Saurabh Mittal:** Could you repeat that?
- Nishna Biyani:** Average ROCE when you look at the acquisition part of it should be between, if it is a publication business then it should be 15%, if it is a supplementary book business then it should be 20% or 22%, is that understanding right?
- Saurabh Mittal:** On a standalone basis, it is higher for each of the company; however, considering the kind of money that you have paid it does drag it lower on a consolidated basis. Also on an individual basis if you see the investment it depends upon what you have done post the acquisition has been completed. For example, in Vikas, we have set up this printing press post acquisition. There was immovable property in that acquisition that was paid at that point of time of about Rs30 Crores. So net net, we ended up paying about Rs120 Crores for the acquisition. As far as we are concerned, Vikas would have already paid back over the last six years.

**Nishna Biyani:** Sure. Also, when you do this acquisition what is the good valuation matrix, which you see while acquiring a business?

**Saurabh Mittal:** We have been typically paying around 5x to 5.5x EV/EBITDA multiple for our acquisitions. We do keep in mind certain parameters including size of the business which should be Rs100 crore plus, certain margin profile with EBITDA in excess of 25% etc. Going forward, we are also keeping in mind the working capital position of that business. We have to evaluate how well is the working capital of the target business, if it is a negative or lower working capital business then it makes more sense otherwise if it is a longer working capital business then it really does not make sense for us.

**Atul Soni:** There is also a strategic angle to look at any acquisition. We have a look at what are the end markets that the target company is serving, what is the kind of opportunity that the end market has, what is the fit that company has with our existing brands and our existing positioning in that market.

**Nishna Biyani:** Sure. When Rs.100 Crore kind of revenue business is valued at five times EV by EBITDA for you to acquire it of course looking at working capital and the geographies where it operate and the segments it operate, what should be Rs.800 Crore revenue business be valued at, should be lesser than the five times multiple or should be more than five times multiple?

**Atul Soni:** I think this question is better asked to people who are looking to acquire Rs.800 Crore company and not to us.

**Nishna Biyani:** No, just wanted to understand the acquisitions which you are doing at five times multiple is it on the expensive side?

**Atul Soni:** These have been the historical multiples of our acquisitions in the past 5 years. Every opportunity brings with itself a different set of realities and synergies, so I think the multiples tend to vary according to that. One cannot have a single cookie cutter approach for this, so I think once you have a particular target then you can list down what are the advantages, disadvantages, what are the pros and cons of that acquisition for us and then you can evaluate and suggest that this is the valuation that we are comfortable paying for that.

A similar exercise for somebody else for a different size of business will be a different valuation game. So for example if somebody wants to acquire a Rs1000 crores turnover business or a Rs100 crores turnover business, the valuation matrix will be very different. So I hope you understand there is not a single answer that we can give today, it depends on the target company as well as who is acquiring and what synergies acquisition brings.

**Nishna Biyani:** Sure, still unclear, but we can speak it offline. Again there have been two issues which I see when I analyze the financials of S. Chand. The first being the nature of the business, the seasonality in



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the business, which I suppose after acquisition of Chetana should even out to some extent. The second issue has been of cash flow from operations, which due to heavy working capital requirement on the balance sheet gives a very unclear picture whether the business generates significant cash or not. Any thoughts around these would be helpful.

**Saurabh Mittal:** We are aware of the feedback and we are aware of the situation on the ground also. Unfortunately, the cash flow situation post demonetisation and a couple of notifications on the cash collection side has put us back. However, we have been working with our partners to resolve this. . We look forward to these translating into working capital improvement by the end of the year. Presently it is off season so to expect it to improve significantly is not practical; however, getting into the season where the channel partners do have the liquidity, the sales that they make to the schools, we will try to be first in line for the money that they collect and reduce our receivable days.

**Nishna Biyani:** Sure, that helps. Finally, just wanted to take you back a year when IPO came out and we did an IPO of approx. Rs730 crore wherein the existing promoter sold Rs.82 Crores worth of shares. I was there at the IPO meet wherein the conviction in the management was very strong, very upbeat and in terms of growth everything, just wanted to understand at one third the value where the stock is available today what are the management thoughts in terms of the own commitment whether that can go up because management stake is at 47% promoter ownership, so if you could share some lights there, that would be helpful?

**Saurabh Mittal:** Our promoters have bought in two-three tranches in the last few months. Unfortunately considering that the Chetna acquisition was around the corner it was not possible to buy more on back of compliance restrictions since we would not be seen as buying stock just before an acquisition. I do not think that the promoters are shying away from increasing their own stake.

**Nishna Biyani:** Many thanks and all the best to you.

**Moderator:** Thank you. The next question is from the line of Mohit Mehra from Dimensional Securities. Please go ahead.

**Mohit Mehra:** Good afternoon. Thanks for giving me this opportunity. During the last concall it was mentioned that one of the reasons for the decline in sale was because of some sales from the higher education segment being pushed from Q1 to Q2, so in this quarter I was actually expecting the sales to go up, but they are decreased a little why is that?

**Saurabh Mittal:** There is a marginal decline in terms of year-on-year by approximately Rs.2 Crores to Rs.3 Crores in the higher education business where we saw a significant increase last year. Further there were certain titles in terms of translations which we were hoping to release this quarter, which has been pushed back because the translations not coming in time. Mohit, also I would urge you not to miss the trees for the forest. If you look at the revenue in comparison to the annual numbers, it is a very

small percentage. For a company which did Rs 800 cr sales last fiscal, a Rs2-3cr movement in sales is hardly material so I think we should also keep that in mind before trying to read too much into it.

**Mohit Mehra:** Sir, I understand that, it was just a direction that I was concerned about and one more thing that you mentioned was the focus on receivable days, but the receivable days have actually increased from 151 days from Q2 FY2018 to this quarter it is 178 why is that?

**Atul Soni:** I think we have already answered this in the previous question that we are working for reducing and improving our receivable days. We have identified couple of accounts where we need to work with our partners and get this down to more reasonable levels.

**Mohit Mehra:** Working capital cycle has actually improved, so is that because of reduction in inventory days or is it because of stretching of the payable days?

**Saurabh Mittal:** We have been able to work with our suppliers on a longer credit cycle without a loss to them as compared to last year since we did launch the vendor financing facilities last year for our suppliers at lower interest rates as compared to what they would get from the general banks and on that account they have been able to give us further credit.

**Mohit Mehra:** And of course, inventory?

**Saurabh Mittal:** Inventory is higher this quarter as compared to last year since we have pre ordered paper on back of the ongoing scarcity in the market so as to ensure that we have adequate supplies during our season.

**Mohit Mehra:** That answers my question. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.

**Utkarsh Maheshwari:** Good afternoon Sir. Can you just throw some light on other expenses? Is there any rise in the royalty which we are paying to the writers?

**Saurabh Mittal:** Royalty comes under publication expenses. The increased other expenses are on account of higher provisions for receivables that we have taken consciously this quarter.

**Utkarsh Maheshwari:** So what could be the amount of provisions as such on the receivables?

**Saurabh Mittal:** We have taken about Rs.6 Crores, last year I think so it is about Rs.3 Crores delta this year.

**Utkarsh Maheshwari:** I just missed on the digital side what you have spoken about regarding the Test Prep, if you can just elaborate on that part because I think that can be something, which can be a bigger mover going forward because that category is expected to grow faster?

**Saurabh Mittal:** We are launching a product called Test Coach which is a mobile web-based online testing platform for various recruitment exams like banking, railways, SSC etc which are related to the vacancy market. We already have books in this segment, which we are already selling in the market. We will promote our testing platform through the books itself and we have already done a test market in this product with about 2000 students in some centers in Delhi and we got a very encouraging response. The total expenditure on this product is about Rs.1.5 Crores and we should launch this product in December itself.

**Utkarsh Maheshwari:** So basically, this is more like vacancy-oriented test?

**Saurabh Mittal:** Yes, so there are about 25 million students appearing for these examinations and we ourselves are selling about 15 to 18 million books in this segment every year.

**Utkarsh Maheshwari:** Any other part of your higher education which are going to become digital apart from this test market what you are looking at?

**Saurabh Mittal:** We already have most of the books having some sort of digital intervention in terms of QR codes and access to content through the app myStudygear. We are looking to extend our digital content to almost 100% of our products in two years' time. Apart from that, we have our app mystudygear where we are going to promote it as a consumer product. We are working on a platform where we would be able to offer most of our content whether it is books, digital, online assessments through that platform directly to the consumer. Byju's has already opened up that market for everybody and considering the kind of strength that we have in terms of the reach of number of books we are selling we are confident of our reach. We would be able to promote our product through our books and instead of spending so much on marketing we should get more traction on that. This ensures that we do not spend much on content development too.

**Utkarsh Maheshwari:** But do you intend to put something like Byju's or you are only going to use a school medium for the K-12 part?

**Saurabh Mittal:** Byju is a post school hours coaching product. We would be having our content in a mobile/web-based medium as a supplement to our books.

**Utkarsh Maheshwari:** But it would not be a subscription model, right?

**Saurabh Mittal:** It will be subscription model, but largely we are trying to do it through the school.

**Utkarsh Maheshwari:** When it is coming via school okay, school will collect the subscription money and probably they will pass on to you is that the kind of mechanism what we are working on?

**Saurabh Mittal:** We are looking at both mechanisms of direct to customers and via schools at present.

**Utkarsh Maheshwari:** Schools have started some sort of digital foray and schools have been pretty aggressive and pushing their own content as well, I have seen it here in Mumbai and a few other cities like Delhi where the schools are having their own cloud based interactive model wherein students are doing assessments and everything. Do you think that the student will have so much of time where he can have one more digital product or platform to work on? Rather than doing something on your own is there a better way to tie-up with the schools, try to beam it at a much bigger larger scale?

**Saurabh Mittal:** I would like to elaborate here that the schools that you are talking about in then major metros of Delhi and Mumbai are a small number in the large universe of schools in India. One should look at the opportunity present in the tier 2 and tier 3 schools which form a large part of the universe of our business.

**Utkarsh Maheshwari:** You are mentioning that CBSE and ICSE is there right, target market 20000 school is mentioned right?2

**Saurabh Mittal:** 20000 schools is not Delhi, Mumbai itself.

**Utkarsh Maheshwari:** This is pan India number, but I have seen schools in Mumbai and Delhi, they are doing their own some sort of interactive version on a web-based learning so I want to understand rather than you pushing something on your own and burning money, is the board better off if you are getting tie up because you have tied up with the schools there right, they are using your books and everything, so can you now explain that relationship into just expanding your digital footprint via their own because when it is coming via school probably you will have a much more sustainable subscription model because parents will also be looking from the school kind of people will go for it?

**Saurabh Mittal:** That is what I am saying, we are targeting to distribute this through school itself and not directly as of now; however, if we get success in terms of distribution through the schools it also opens up a direct to consumer market. While we are talking about only the CBSE and ICSE schools let us also be they are school children outside that who are in the unaffiliated schools, who are in the government schools who do not have access to all this.

**Utkarsh Maheshwari:** Will it be a threat for us as a business, in Tamil Nadu where they have already given some sort of approval for private people to gain education and appear for exams . Would not that be a big threat in that category and can it percolate to other categories?

**Saurabh Mittal:** I am not clear what you are trying to say.

**Utkarsh Maheshwari:** There has been a few states that are pushing as a government education initiative, is right to education privately you just do the learning and appear for the exams. What I mean to say is that there are schools, which are of unaided school categories and in the government aided schools where a number of students are less and those people are not in our category right now who are coming directly becoming students?

**Saurabh Mittal:** There you are talking about students appearing for the examination in the Class 9 to 12 segment. In this segment, most of the books that we sell are already reference books which are sold over-the-counter. They may not be sold through the school so that category would stay even even if the student appears for the exam on a private basis. I would think that the student would go out and look for the best book that is available to study from and that he or she would choose all the books that are best sellers in each of the segment. Now whether it is our book or publisher X's book, the student would always look for the best book that is there in the segment. Whether going to the school regularly or not does not really make a difference to the business that we are in because Class 9 to 12 anyway most of the books that are prescribed in CBSE schools are CBSE or NCERT books. The books that we distribute like Lakhmir Singh etc are all mostly taken as reference books and these books are known by the brands which are bought directly by the student from stores and not through the school.

**Utkarsh Maheshwari:** You mentioned about the closure of transaction of Chetana this fiscal so is it fair to say that FY19 consolidated balance sheet should see all reorganizations come through?

**Saurabh Mittal:** We are still awaiting the approvals of NSE and BSE on the restructuring. We have had a discussion with them it is almost at closure with them, so we hope to conclude the restructuring by the end of March.

**Utkarsh Maheshwari:** I think last time when Mr. Gupta was there in TV he mentioned about some 14%, 15% target revenue growth for this year are we looking same number or have we changed our estimates for the growth rates for this year?

**Saurabh Mittal:** No, guidance remains the same about 13% to 14% for this year.

**Utkarsh Maheshwari:** And EBITDA of same 25% kind of thing?

**Saurabh Mittal:** Yes, we would maintain our margin this year.

**Utkarsh Maheshwari:** Fair enough. Thanks a lot.

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

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**Aditya Bagul:** Thank you. Saurabh and Atul can you share a little more in terms of your working capital management, what are the things that we are doing especially on a receivables front to reduce that number going forward and what do you think you will end up with by the end of FY2019?

**Saurabh Mittal:** There are couple of initiatives that we are working on right now. One is in terms of our best sellers where we are communicating the terms of receivables and we would not be supplying anyone if those terms are not met.. Second, in terms of other products, we are working on a dealer finance program where we are getting the dealers certain facilities where they will be able to pay us in February and March itself and there again they would be eligible for higher cash discounts. So here we would be first in line in terms of the money that they pickup from schools. Third, we are also working on checks and balances in the system itself in terms of supplying only to dealers and giving preference to dealers who have a good payment cycle and we have started a dealer loyalty program this year where we are awarding certain points especially on faster payments, so these are few of the initiatives that we have taken this year and we hope that things will improve.

**Aditya Bagul:** Sure, so by the end of the year you are looking for a lower working capital cycle compared to the previous year?

**Saurabh Mittal:** We are working towards that in all earnest.

**Aditya Bagul:** Saurabh, can you also share a little bit on our net debt situation, I think you talked that our total net debt as of now would be about Rs.150 Crores, what will that number look like probably by the end of the year and including the payments to Chhaya and any incremental payouts for Chetana?

**Saurabh Mittal:** Currently the net debt is at Rs150 crores which is also on account of some purchases of paper that we have preponed this year considering there has been an issue in terms of availability of paper to the industry and there are a couple of mills who are planning shutdowns in October and November. So our net debt is slightly higher by about Rs.30 odd Crores largely on account of some preponed production that we had to do because we did not want supplies of paper to get affected for us. By the end of the year we expect this to be in over Rs.200 Crores including the payout to Chhaya and Chetana.

**Aditya Bagul:** Saurabh is there a way you can quantify both of these or you will probably do that in Q4?

**Saurabh Mittal:** Quantify in terms of?

**Aditya Bagul:** The amount of payout that needs to happen for Chhaya and Chetana?

**Saurabh Mittal:** The total payout is about Rs120 odd Crores.

**Aditya Bagul:** Excluding that you would have an Rs.80 Crores odd debt on your balance sheet?

- Saurabh Mittal:** Yes.
- Aditya Bagul:** Sure, that is quite helpful. Just two data points Saurabh, one is what would be tax rate for the full year given the merger of a few subsidiaries?
- Saurabh Mittal:** I expect our average tax rate to be in the range of 33.5% to 34%.
- Aditya Bagul:** Vis-à-vis 37%, 38% last year?
- Saurabh Mittal:** Yes.
- Aditya Bagul:** Alright that is helpful and just one last question, can you share the cash flow from operations for the half year?
- Saurabh Mittal:** We had a positive cash flow from working capital, the cash flow in was about Rs.120 odd Crores, which has got used up in the losses that we have in the first half, so net of that it is nil actually.
- Aditya Bagul:** Alright. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Aasim Bharde from IDFC Securities. Please go ahead.
- Aasim Bharde:** Good afternoon gentlemen. Just first question, assuming Chetana acquisition is concluded in Q3 how much it would impact your consolidated EBITDA margin. You mentioned there would be Rs.3 Crores to Rs.4 Crores impact on consolidated PAT, but on the EBITDA margin front what kind of impact we are looking there?
- Saurabh Mittal:** Again on the consolidated level because they do not have any major capital expenditure there should not be too much of a gap from that so it would be about Rs.7 crores. But I would like to qualify that with the thought that we need to see when the Chetna acquisition gets completed.
- Aasim Bharde:** On the EBITDA front?
- Saurabh Mittal:** Yes.
- Aasim Bharde:** Due to the various subsidiary mergers that you are conducting would that be impacting any of your expenses for the year?
- Saurabh Mittal:** We are already consolidating all those subsidiaries.
- Aasim Bharde:** So, no additional impact due to the restructuring that you are doing barring the tax?

- Saurabh Mittal:** Yes, no major impact except for the tax.
- Aasim Bharde:** Just finally on the digital front on the consolidated level we had posted a positive EBITDA for your digital business in FY2018, but a loss of 34 million on the EBIT front, do we expect to break even on the digital piece this year or is this still a few years ahead given new initiatives like Test Coach and Nuri Nori?
- Atul Soni:** So I think we are still in a phase of kind of ramping up these businesses, so would not be able to give exact number guidance there.
- Aasim Bharde:** But I just wanted to know that would this be like a prolonged period of EBIT losses coming from this business?
- Atul Soni:** We expect most of these businesses to be EBITDA positive by 2020, so our target is to make the digital business positive by FY21.
- Aasim Bharde:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investment Consultancy. Please go ahead.
- Sunil Kothari:** My congratulations to promoter for acquiring at least a little stake from the market and I think that is the only way they can enhance the confidence of other investor community. Sir my broad question is during the last six to seven to 10 years we have seen a compounded growth rate at a very high rate, we came for market listing with right valuation and with the advice of so many investors and banker may be right valuation and after that what market is trying to give a message is that your acquisition strategy or maybe this working capital, these intangible assets worth Rs.400 Crores, which is sitting in the balance sheet, something is not giving comfort to investors, so what is our thought process going on, when you listed you thought you are planning to create a long term value, which you are already trying with improving working capital with growth, but with organic 13% to 15% growth or maybe the consolidated S. Chand, which including Chetana we take numbers, which will be Rs.1000 Crores topline and may be Rs.250 Crores EBITDA with just Rs.700 Crores market cap, so why you should not give a thought on increasing the stake in S. Chand itself by may be buyback rather than buying something, your thoughts on this acquisition strategy and creating a long term zero less value something if you can give your thoughts?
- Atul Soni:** Let me address some of the points that you have raised. Number one, when the IPO came last year and what state of the market that is there today are two completely different states of mind for the market. Our IPOs was oversubscribed approx 60 times at that point of time so that tells you something about what the investor was thinking about our business at that point of time.



**Sunil Kothari:** Sorry to interrupt, but my question is do you have any concern about market valuation or you will just talk about market thought process and mood and all?

**Atul Soni:** Sure, I was coming to that. The current market cap which the market is ascribing to our business is under valuing our business on all reasonable financial parameters. On a book value comparison, we are at a massive discount to our book value on current stock prices. Now markets can under value and over value stocks at any point of time. We would like to believe that the current prices hugely under value the strength of the business that we have built.

However, we are concentrating on the businesses that we are running and we can concentrate on how our acquisitions or whatever other things that we are trying to do how they add value to the business. Now we can control this aspect of our business. If you look at the acquisitions, acquisitions are targeted with a particular strategy in mind in terms of what they will contribute to the company in a three-year, five-year, and 10-year period. In terms of market from a six-month, three-month and three-day period, it is very difficult for us to give you a view there.

At the same time, we feel that our stock price itself if you look at in terms of the book value, PE multiples etc are at a massive discount today. We cannot comment about the future in terms of the promoter's purchase patterns, so that is something what we will see in the future. Saurabh you have anything to add here.

**Saurabh Mittal:** Apart from that in terms of we have been actively meeting investors every quarter and even in between pre and post our earnings we have taken regular feedback from the investors and wherever we have seen their concerns we have tried to resolve their concerns. In terms of the strategy, we are also looking at our digital strategy very actively and the initiatives that we have already invested in, we hope will create a lot of value going forward. We also do understand that the print publishing business may be perceived as a traditional business and going forward considering the kind of traction that we get in digital, which we are already seeing in a couple of initiatives we hope the perception of the market will change post that.

**Sunil Kothari:** Thank you and Sir your target of achieving 25% ROCE by another four to five years, which you have given at analysts, meet what will be the component of those numbers, will we write off this Rs.400 Crores intangible assets, which is sitting in the balance sheet and it is in both the side of the balance sheet or it will not be done like that?

**Saurabh Mittal:** In terms of the goodwill that is sitting in my balance sheet, we have had a discussion with the auditors and various other people, so it is goodwill on consolidation, which lies as an investment in my standalone financials. Until the time I impair my investment in any other subsidiaries if it is doing really badly only that point of time I will be able to write it off, otherwise till such a time unless there is a change in the accounting standards there is not much I can do in terms of removing that block from my books.

- Sunil Kothari:** ROCE is of this 25% that will be based on the actual numbers balance sheet number EBITDA improvement and capital employed matching?
- Saurabh Mittal:** Yes, considering that we are not looking at very large ticket future acquisitions going ahead, the present acquisitions will continue to grow in itself. So, we expect that we should improve the ROCE metric considering that the investment remains the same, but with future growth the profits would increase going forward, so only that way the ROCE will improve and of course once our net working capital also reduces that will definitely help the ROCE also.
- Sunil Kothari:** Great. Thank you. Wish you good luck.
- Moderator:** Thank you. Ladies and gentlemen that would be the last question. I would now like to hand the conference over to the management for their closing comments. Thank you and over to you.
- Saurabh Mittal:** We thank everybody for joining us for Q2 conference and we look forward to again engaging with you on the next call in February. Thank you very much.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.