S. CHAND GROUP

S Chand And Company Limited

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Date: November 21, 2019

To	To
Listing Department BSE Limited 25th Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai, Maharashtra 400001	Listing Department, National Stock Exchange of India Limited Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai, Maharashtra 400051

Dear Sir,

Re: Transcript of conference call for the Analysts and Investors

The Company had organized a conference call for the Analysts and Investors on Wednesday, November 13, 2019 at 12:00 P.M. to discuss the financial results for the quarter and half year ended September 30, 2019. 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.

Request you to kindly take note of the same.

Thanking You.

For S Chand And Company Limited

S Chand and Company Limited New Delhi-44

Jagdeep Singh
Company Secretary & Compliance Officer
Membership No: A15028
Address: A-27, 2nd Floor,
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New Delhi-110044

Encl: as above

S. CHAND AND COMPANY LIMITED

Q2 FY20 EARNINGS CONFERNENCE CALL

13TH NOVEMBER 2019

OPERATOR:

Ladies and gentlemen, good day and welcome to the S. Chand & Company Limited Q2 FY20 earnings conference call hosted by Prabhudas Lilladher. 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, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr Jinesh Joshi from Prabhudas Lilladher. Thank you and over to you Mr Joshi.

MR JINESH JOSHI – PRABHUDAS LILLADHER PRIVATE LIMITED:

Thank you. Good day everyone, on behalf of Prabhudas Lilladher I welcome you all to the Q2 FY20 earnings call of S. Chand Limited. We have with us the management represented by Mr Himanshu Gupta – MD, Mr Saurabh Mittal – CFO, and Mr Atul Soni – Head Investor Relations, Strategy and M&A. I would now like to handover the call to management for opening remarks after which we can open the floor for question and answers.

Thank you and over to you sir.

MR HIMANSHU GUPTA – MANAGING DIRECTOR:

Thank you. Good afternoon ladies and gentlemen. I am Himanshu Gupta, the Managing Director of S. Chand & Company Limited. I would like to welcome you all to our second quarter result conference call for FY2020 and thank you all for taking the time-out and joining us here today.

The S Chand group is primarily engaged in the K to 12 content business which is a very seasonal in nature and 80%-85% of the annual revenues come for us in the Jan-March quarter which is linked to the school academic session which starts from March-April onwards.

While the second quarter is not significant from a revenue or contribution to bottom line perspective, it is a time when we prepare and strategize for the next academic session. We engage with our channel partners to showcase new product offerings, take feedback on products and services, engage with schools leaders and teachers through workshops, conferences and seminars. This helps us improve our products and service offerings to schools for the next academic year.

As you are aware, we had taken a conscious call at the start of the year to work towards improving our cash flows by focusing on better terms of trade with our channel partners, reducing costs, focusing on reducing inventory, improving use of data for business and achieving timely payment cycles. This was implemented though the S Chand 3.0 plan which involved various steps to achieve higher free cash flows going ahead.

I am happy to report that the implementation has yielded results which can be seen in the improved gross margins, reduction in EBITDA & PBT losses as can be seen in the period. Additionally, we are seeing the strongest collection and working capital parameters in the past 4 years. Details of which are shared in the investor presentation across Slide no 12 & 13.

We have completed the planned activities for achieving lower costs with regards to manpower right sizing, product rationalisation, warehouses and office rationalization, vendor negotiation etc during the second quarter. You can see the benefits from these steps flow through in our numbers during this quarter.

We are on the way to a new destination in the journey of S Chand as a company where we are ready to usher in a new focus for the company where we look at improving free cash flows for the groups, driving synergies from the acquisitions done in the past 7 years and increase spread of our digital and services offerings.

In terms of our Digital and Service initiatives, Firstly, we have started gaining traction in our all-in-one Learning App LearnFlix which is available on Android and IOS which was launched during Q1 and has been adopted by schools in Middle East and Eastern India during the quarter. Learnflix is a learning app focused on students from class 6th to 10th for subjects like Maths and Science. This would enable a larger audience to learn on the move. Secondly, post our successful testing of Smart K product, our PreK curriculum offering in the NCR market during Q1, we saw adoptions by 2 schools during the quarter. Thirdly, Mylestone, our curriculum offering for K-12, is implemented in over 300 schools and has already made its presence felt in the International market. We feel that these products and services would be the future growth drivers for the Group.

With that, I would now request our CFO, Mr. Saurabh Mittal to apprise all of us on the financial performance of S. Chand in Q2 of FY2020.

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

Good afternoon everyone and thank you for your time. I am Saurabh Mittal, CFO of S. Chand.

In terms of June to September quarter, our consolidated operating revenues came at Rs266 million versus Rs106 million in the same period last year. Our EBITDA loss reduced sharply by 17% to Rs627 million vs EBITDA loss of Rs758 million in the corresponding period last year. Our net loss increased by 6% to Rs603 million versus net loss of Rs571 million in the same period previous year. The increase in PAT losses during the quarter was on back of reduced tax rates announced in the Finance Act 2019 and subsequent Ordinance impacting both recognition of deferred tax for the period and also adjustment for rate change on the DTA created for the previous period.

Coming to the first half of the year, our consolidated operating revenues came at Rs879 million versus Rs683 million in the same period last year. Gross margins have increased by 10% from 32% to 42% on back of reducing paper prices. We expect paper prices to correct further by 5-10% during H2FY20. Our EBITDA loss reduced sharply by 28% to Rs902 million vs EBITDA loss of Rs1246 million in the corresponding period last year. Our net loss also reduced by 8% to Rs981 million versus net loss of Rs1069 million in the same period previous year despite the adjustment in the deferred tax recognised at lower rates as compared to the same period in the previous year.

In terms of working capital, our efforts have been paying off with highest improvement seen in debtors days and Net working capital metrics. Receivable days have reduced by 65 days this quarter to 157 days vs 311 days at the end of Q4FY19. Over the first half of the year, the Receivable days has reduced by 154 days vs previous years when the reduction used to be in the range of 110-120 days.

Our Net Working capital days also decreased by 42 days QoQ to 238 days (vs. 317 days in Q4FY19) which again has been the highest decrease in NWC seen in the past 4 years. Do keep in mind that this improvement is on back of our renewed focus on improving our collection efficiency and focus on effective working capital management. Over the first half of the year, the NWC days has reduced by 79 days vs previous years when the reduction used to be in the range of 45-50 days.

In terms of Cash Flows the Operating Cash Flows are better by Rs. 508 Mn at Rs. (27) Mn vs Rs. (535) Mn in the same period. The focus on Cash Flow efficiency is expected to be maintained in H2.

In terms of debt, we have ended with Gross debt of Rs2,389 million (vs. Rs2,479 million) at the end of last year.

With this, I would like to open the call for your questions. Thank you.

OPERATOR:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may enter '*' and '1' on their touchtone telephone. If your questions have been answered and you wish to withdraw yourself from the queue you may enter '*' and '2'. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

To ask a question you may enter '*' and '1'

We have the first question from the line of Aditya Bagul from Axis Capital. Please go ahead.

MR. ADITYA BAGUL – AXIS CAPITAL

Hi, Himanshu and team. Congratulations on a good set of numbers. So couple of question from my end. Firstly, if we can talk about the growth that you are seeing with our main sales season coming from December onwards. So if you can talk about what kind of growth you are seeing for FY 20 and probably something on a more sustainable basis, that's question number 1. Question number 2, if you can talk a little on our initiatives that we have taken to reduce the inventory, sales returns and receivables going ahead.

MR HIMANSHU GUPTA – MANAGING DIRECTOR:

Thanks, Aditya, so as the school season is approaching, we believe that we have to make sure that we are able to cover more schools and deliver better quality sales through the channel partners and to our end customers. We are all working for the last 4-5 months to do that and as you know that our main sales come from the last quarter only. For FY20, we have already shared reported revenue growth target of over 20% for FY20 which would be constituted of single digit volume growth and rest as value growth. Our focus this year is on old inventory liquidation that we have in our system which would lead to reduction in the new production of the books that we would be doing this year. We are planning to liquidate close to 10 to 15 million units that we have of the old inventory. So that will reduce 10 to 15 million new units that we need to produce. In terms of production we will be producing around 25% less new books than we need to make and try to liquidate the old inventory because we believe that next year there might be a change in the government policy and they can change the curriculum as well so it is better to liquidate the old inventory as much as possible. It will help us improve our cash flows and help reduce old inventory.

MR. ADITYA BAGUL – AXIS CAPITAL

Okay.

MR SAURABH MITTAL CHIEF FINANCIAL OFFICER

Aditya I just want to further clarify on that in terms of normalized growth levels, double digit growth rate is what the business should sustain going ahead. FY19 was an aberration year on back of incremental provisioning of approx. Rs 74 crores which would not be there going ahead.

MR. ADITYA BAGUL – AXIS CAPITAL

Understood, so that is where I was coming from. Great, that's it from my end. Thank you and best of luck for the quarters to come.

OPERATOR:

Participants, if you have A question you may enter star and 1. We have the next question from the line of Mr. Deepan Shankar of Trustline Portfolio Management Services, please go ahead.

MR. DEEPAN SHAH – TRUSTLINE PORTFOLIO MANAGEMENT SERVICES

Good afternoon everyone and thanks a lot for the opportunity. One thing we wanted to understand with reducing this credit cycle for our dealers and distributors and also discounts, so does this anyway impact growth profile for us because competition will take away some of that.

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

So in terms of the discounts I don't think they are changing too much except for maybe certain titles where we are really looking at discounts for business reasons. Rest of the discounts we don't see them changing too much. We are just trying to be more efficient in terms of the quality of customers that we are dealing with so that there should not be an overall impact because the adoption in school is driven by our internal teams that we have. They go to these schools and get books adopted. To service through which channel partners is something that we are trying to take our own preference based on who can pay us within our agreed timeline. So, we are just trying to make it more efficient, I don't see that impacting the revenue too much maybe maximum to the extent of ½ to 1 % but that I think is good in the overall scheme of things. It improves your cash flows, so it is better to have a more efficient channel partner list than before.

MR. DEEPAN SHAH – TRUSTLINE PORTFOLIO MANAGEMENT SERVICES:

Okay, and again on working capital front, so we have seen these receivables have come down sharply, but inventory has gone up and payables also has come down.

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

In terms of, inventory we will only liquidate in the second half because that is the business season for us. From the year end, there has been a reduction in inventory by almost Rs12-Rs13 crores and we expect that by the end of this year we should probably look at Rs130-Rs140 crores of inventories including raw materials. In terms of creditors, of course, since we have fixed timelines for payments so that is something that we have not dithered from, we've been paying all our suppliers and vendors on time and that's not been a real problem for us.

MR. DEEPAN SHAH – TRUSTLINE PORTFOLIO MANAGEMENT SERVICES

Okay, and how has been the progress on implementation of NEP so is it on our expected lines or any delay is expected.

MR. HIMANSHU GUPTA – MANAGING DIRECTOR,:

So, the NEP process is still going on and we need to hear about it from the government. Thus no new updates so far which we can share.

MR. DEEPAN SHAH – TRUSTLINE PORTFOLIO MANAGEMENT SERVICES:

Sure, sir, thanks a lot I'll come back.

OPERATOR:

Thank you. Participants if you have a question you may enter star and 1. We have the next question from the line of Rithwik Ambekar from Ever Stone Capital. Please go ahead.

MR. RITHWICK AMBEKAR – EVER STONE CAPITAL:

Good afternoon, sir, my first question is you know largely if you look at the cash flow statement that has been provided for the 6 months, there is a provision of roughly about 17 crores and when one looks at the P &L that provision doesn't appear. So my question to Saurabh is has this provision been taken through the balance sheet than the P & L.

MR. SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

This provision has been taken through the Profit and Loss, it is accounted under Other Expenses. This is why you see the other expenses are slightly higher at Rs415 million versus Rs407 million on a YoY basis. So if the incremental provision had not been there the other expenses would have been much lower. Having said that these provisions are temporary in nature and my belief is that we would be looking at reversal of almost 70% of these provisions in the next 2 quarters because these are some payments that are delayed, but we are 100% sure that these will be recovered in the next 2 quarters.

MR. RITHWIK AMBEKAR – EVER STONE CAPITAL:

So, Saurabh, the number that Rs41 crores approximately that is currently coming in the P&L, one, what I understand from your comment is that Rs8 odd crores will not be recurring in the next 2 quarters but there is going to be a reversal. So in the next 2 quarters these other expense numbers will significantly reduce from what it is in the first 6 months. Is my understanding correct?

MR. SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

Quarter on quarter it will definitely reduce. There will be a reversal in the overall, yes, so it will substantially be lower in the next 2 quarters.

MR. RITHWIK AMBEKAR – EVER STONE CAPITAL:

Thank you. My next question, Saurabh, just to give a sense, given that you guys are now you know preparing for the next 2 quarters, how should one look at the interest numbers which is currently about Rs27crores for the first 6 months. One should kind of annualize this number at roughly interest cost of about 50 odd crores or you think that number would be closer to the number that you guys have for March' 19.

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

Just wanted to correct you that the interest cost for H1 stands at Rs17crores and it was Rs27crores for the whole of FY19. This 17cr of H1 versus 27cr for whole of last year cannot be compared because in the current phase there is also an adjustment for the lease finance as per the IndAS 116 which was not there last year, right. But having said that, from a run rate perspective, the Rs17cr will maximum translate into Rs32cr to Rs34cr bracket for the full year since going into the last quarters, our cash flows should be much better as well.

MR. ATUL SONI – HEAD INVESTOR RELATIONS, STRATEGY and M&A:

The run rate of Rs17cr will be maintained in the second half as well.

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

Also, If you see last year, during the 2nd half of FY19, the conversion of OCF was to the tune of Rs90 crores, from negative Rs53cr in H1FY19 we had gone to positive Rs38cr for FY19 and this year although we are expecting much better even if we have a repeat of last year on the OCF front of Rs90 crores during the H2FY20, then brings me to a very comfortable Rs85cr plus OCF for the whole year. So that should lead me to reduce my debt position going ahead. Plus, there is also the vendor financing which was there for quite a large amount last year in the second quarter. As on date it's very, very limited because our purchases of paper have been very limited in the last 6 months, we've been trying to use the same inventory and the liquidation on our inventory will throw up a lot more cash in this second half.

MR. RITHWIK AMBEKAR – EVER STONE CAPITAL:

Sir, wherein the results that you guys have presented currently this is post the Ind AS and how much would be the Ind AS impact with respect to interest in depreciation.

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

So see in the overall half year's numbers the total impact would not be substantial. I think they are there in the notes, to the amount of about Rs13.44 million in finance cost and Rs27.62 million in depreciation and reduction of Rs33 million in Other Expenses. This is detailed in point no 9 of notes to consolidated financial results.

MR. RITHWIK AMBEKAR – EVER STONE CAPITAL:

I read that and the question, the reason why I asked that is so largely this increase in interest from Rs11 crores to Rs17 crores in this half compared to previous is largely on account of business, correct.

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

Please note that we had taken additional Rs65 crore debt in February-March, 2019 for completing the payout for the Chaaya acquisition. So that incremental interest cost is also not present in H1 of last year.

MR. RITHWIK AMBEKAR – EVER STONE CAPITAL:

It is okay. So structurally going forward I should look at a 34 – 35 crore kind of an interest cost for the full year.

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

For FY20, yes, which should reduce going into next year as we start to reduce debt from free cash generated from business.

MR. RITHWIK AMBEKAR – EVER STONE CAPITAL:

No, no, for this year. Okay. And would it be the same for depreciation as well. And your depreciation would have gone up because of your investment in digital?

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

Not really, that is not substantially higher. Again depreciation has also gone up because of the Ind AS116 by amount of 27.62 million.

MR. RITHWIK AMBEKAR – EVER STONE CAPITAL:

So for one full year one should look at Rs35 crore number for depreciation?

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER

Yeah, that is fine.

MR. RITHWIK AMBEKAR – EVER STONE CAPITAL:

Fair enough. Another question I had in the last quarter you know the team mentioned about, roughly about Rs40 – 45 crore reduction in cost, would you say that you are on track to achieve that. And the next question is a follow up to this is how much of that do you think would have been achieved in the first 6 months.

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER

We have achieved about Rs26 odd crores in the first 6 months. It is not looking completely flowing through because it is there in the employee cost as well as the selling and distribution cost. The other expenses on account of the provision for ECL have not represented a normalised figure, but we think going ahead the full year should be more like Rs50 crores to Rs55 crores.

MR. RITHWIK AMBEKAR – EVER STONE CAPITAL:

And my last question, sorry to ask one more question. If one goes through your presentation you are saying your quarter 2 roughly constitutes say about 5% of your revenue. And if I look at a 27 crore Q2 number, annualize it, it looks like your March full year number should be closer to about Rs540 crores, whereas you know on the question asked by the Axis Capital gentleman you said that one should look at roughly Rs640-Rs650 crores kind of a number for FY20.

MR ATUL SONI – HEAD INVESTOR RELATIONS, STRATEGY and M&A:

See the presentation slide talks about the second quarter being less than 5% of the annual number. In the larger scheme of things it is a very small number to extrapolate so would request you to not look at it in this manner for the whole year revenue number.

MR. RITHWIK AMBEKAR – EVER STONE CAPITAL

Which is fair.

MR ATUL SONI – HEAD INVESTOR RELATIONS, STRATEGY and M&A:

We would tend to think that your calculations with regards to 5% and extrapolation to the annual number is not a fair assessment. In the last quarter as well, we had shared growth target of around 20% plus from last year, so, we are talking about Rs630 crore- Rs.650 crores kind of a top line, which is what consistently we have been talking for the past two quarters now

MR. RITHWIK AMBEKAR – EVER STONE CAPITAL:

Excellent. In the last quarter you guys mentioned that your EBIDTA margin should be in the range of 20-22% for this year, you guys are somewhere on the same horizon in terms of given you are now in mid-November, we should look at that kind of a number?

MR. SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

Yes, that should translate because whatever we are seeing some benefit coming in from the gross margin side because of the lower paper prices and we are seeing full effect of the cost reduction already flowing in, so we do see that happening in the full year.

MR. RITHWIK AMBEKAR – EVER STONE CAPITAL:

Perfect, thank you so much, that's it from my side.

OPERATOR:

Thank you. We have the next question from the line of Aditi Agarwal from Kotak Mahindra Bank, please go ahead. There is no response we will move to the next question. The next question is from the line of Aman Gupta from Infra Double Advisory, please go ahead.

MR. AMAN GUPTA – INFRA DOUBLE ADVISORY:

Hi, my question is considering the market cap to net worth matrix in your stock, I mean your stock price is about Rs75-76 and as per the net worth the book value is Rs. 240, so has the company considered buying back the stock or at the lower level there has been no interest from the promoters also. So, I just wanted your comments on that. Thanks.

MR. ATUL SONI – HEAD INVESTOR RELATIONS, STRATEGY and M&A:

So, I just want to make some initial comments here. See, the promoters have been buying in the window available in the last 3-4 odd months, the number of stock purchases have been duly reported to the exchanges. With regards to the buyback, I think because we made a loss last year we by law cannot go for a buyback till the time we return to profitability which obviously will happen by year-end, so there is a technicality there in terms of going after the buyback.

MR. AMAN GUPTA – INFRA DOUBLE ADVISORY:

So, does that mean when the window will open you may consider buying back stocks if it is based at lower level?

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

Yeah, that's definitely a possibility.

OPERATOR:

Mr Gupta does that answer your questions.

MR. AMAN GUPTA – INFRA DOUBLE ADVISORY:

Yes.

OPERATOR:

Thank you. We have the next question from the line of Rohan Pinto an investor. Please go ahead.

ROHAN PINTO – INVESTOR:

Hi Sir, thank you for the opportunity. I had one question with regards to your comments on liquidation of inventory. So, you mentioned that we plan to reduce 10 to 15 million units of old inventory. So, if there is any syllabus change which does come up, we would have to take a write-off on this inventory, so just wanted to understand what is the expected impact of this old inventory that we have sitting.

MR HIMANSHU GUPTA – MANAGING DIRECTOR:

So, what I'm telling you is that we want to liquidate old inventory by 10 to 15 million units in a year, which is the coming academic session. The syllabus change, if it happens going to come into effect from the next academic session that is FY21 at the earliest. So, the academic session will be 21-22, but the books will come in FY21. What I meant was that we will try to reduce the old inventory in FY20 itself.

ROHAN PINTO – INVESTOR:

Sure, okay, that's very helpful, thank you.

MR. ATUL SONI – HEAD INVESTOR RELATIONS, STRATEGY and M&A:

Also Rohan I want to give you some clarity on this and to all the participants as well on the call. The last time when NEP happened the rollout happened over a period of three years, so please be careful in thinking that it is not as if today the NEP comes and then from tomorrow onwards I can't sell my old books, so in the last example when it happened in 2005-2006, they did odd number of classes in one year, even number of classes in one year and two classes in the third year, so at best what happens is that you have to work towards a much smaller targeted number of classes as far as the inventory is concerned. So, if I am publishing books for let's say K to 12 then it doesn't mean that from next day onwards all my existing inventory becomes redundant, there is still a huge chunk of the market which continues to use older books. So, there is a selling potential there as well, I mean it's not a 0 or 1 game that is just the clarity which I want to give.

ROHAN PINTO – INVESTOR:

Sure, that’s helpful. Thank you so much.

OPERATOR:

Thank you. Sir please go ahead.

MR ATUL SONI – HEAD INVESTOR RELATIONS, STRATEGY and M&A:

Also, when the NEP policy came earlier in the year, we had released a press release in June where we have given more details with regards to this. So, it will be well advised to read that 2-3 pager press release and it will really clarify all your doubts with regards to how our behaviour will be when the new policy comes.

OPERATOR:

Thank you. We have the next question from the line of Aasim Bharde from IDFC, please go ahead.

MR. AASIM BHARDE – IDFC:

Hi, thanks for the opportunity, I had a question of the number of schools that you cover currently, what is this figure right now?

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

In terms of promotion we go to about 40,000-45,000 schools. Our user schools will be about 70% of that, round about 26, 000 - 27,000 schools.

MR. AASIM BHARDE – IDFC:

With this new focus on working with higher quality distributors with lower credit period, do you anticipate losing any schools with whom we did business with earlier and if yes what are we doing to get them back on?

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

Not really. I mean see, again as I explained earlier also, the promotion and adoption is done by our team in schools and it's only the servicing of the product which is done through dealer network because practically servicing all 27,000 odd schools directly is practically not possible. Also, it is done through channel partners and in each location, we would have multiple partners. So, some of them we would not work with and some of them we would work with. So, the existing partners would take up that other role, so we're not working with any additional partners, we would work with the same partners and some of the good ones will take more business than the others which works for us, so, I don't see that as a potential loss for us in terms of revenue because a lot of the distributors do not generate a revenue business for us, they only help us service the schools.

MR. AASIM BHARDE – IDFC:

But then again, could you just explain why would a particular distributor have a much better credit period with you and another distributor have a weaker period if they are both dealing with the same school? I would assume that the school could keep its credit period with distributors at an equal level, so what defines this?

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

Not really. Everybody has a different relationship with schools. So, I don't see each of them having the same level of relationship with the schools. Because see, a lot of them would not be working with certain publishers, would not have books of certain premium publishers, so some of the smaller ones may not have those kind of relationships as the slightly larger ones and its more of an individual business in terms of the school relationships that they would have. And it depends on the quality of service also they deliver. A larger one would have more bandwidth to provide all the books to the school in terms of the number of specs required, number of manpower required at the end of the period to sell those books to the students from the counters within the school or outside the school. So, all those things come into play and we have to ensure that we are working on the ones who really can service the schools better.

MR ATUL SONI – HEAD INVESTOR RELATIONS, STRATEGY and M&A:

And just to add to that Aasim, obviously there can be some distributors who are also not being fair to us. So, there is always that angle where you want to weed out people who are not working properly with you. So, all of these angles need to be looked at.

MR. AASIM BHARDE – IDFC:

Yeah, that is understandable. Okay, that helps. Secondly, you mentioned in your presentation that you are looking to enter the new season with controlled levels of inventory. So, how do you plan for something like this on the finished goods side? I think with K-12 schools I suppose this could be predicted to a good extent but on the on-the-counter side how do we predict optimal inventory?

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

Over the counter we continue to print minimum size every month and that we can turn around. See, the benefit that we have is that we have our own printing facilities inhouse. So, we are able to churn out faster than instead of waiting for somebody else to churn out. So, wherever we have a larger demand for the OTC, we maintain a minimum level and there even if we are slightly higher on the inventory side we really don't have a worry because that would get liquidated if not this month then maybe in a couple of months' time. So, that's not a worry since lot size is fixed for that and we have a better sense in terms of OTC, where it is going to come from.

MR ATUL SONI – HEAD INVESTOR RELATIONS, STRATEGY and M&A:

See, I think the lot sizes that you go in into this season that is where I think the big difference will come in maintaining the optimum level of inventory. So, if earlier let's say we were publishing let's say 10,000 books as the minimum, now we are looking at much smaller batches. So, we are going on a granular level in terms of figuring out which books need to be printed in what batch sizes. So, there is a constant feedback mechanism which happens which basically leads you to a much better and a much-controlled inventory level.

MR. AASIM BHARDE – IDFC:

But this is not a new thing, right? You would be getting such market level feedback earlier as well. What is the difference now versus earlier? Why is inventory being looked at much more sharply right now versus earlier?

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

Just two things, so taking a step back, there are two things what we found out. We've looked at a lot of data for the last three years. We have looked at parameters like what quantity returns are coming, in which locations are returns coming in from the highest etc. Secondly, we have looked at our product portfolio and anything below a certain limit we have decided not to go ahead with the print this year, so that again reduces my print runs. Thirdly, of course, whatever the front list that I used to do which were the new titles, earlier I was doing may be 400-500 new SKUs per year, that we have reduced to about 150 to 200 this year and we have seen incrementally that has not in the last 2-3 years given too much of incremental revenue. So, there we are taking a step back and saying we will not do too many SKUs and we will focus on the SKUs that we have come out with and that should definitely help us reduce inventory. Because we don't have visibility on new SKUs because it's a new title and how it gets promoted, a lot of the inventory pileup happens on the new SKUs, not in the running SKUs. So, that is what we are actually targeting this year.

MR. AASIM BHARDE – IDFC:

Okay understood. Sir, just one clarification. On the opening remarks Mr. Himanshu mentioned that there is something going to happen on the NEP side, so you will be looking to liquidate your old stock inventory this year. So, could you just throw some more light on what exactly you are expecting? Would the NEP be implemented as early as next year?

MR SAURABH MITTAL – CHIEF FINANCIAL OFFICER:

The NEP is yet to be announced formally plus then after that there is the whole national curriculum framework that is to be completed. Then NCERT would also revise the books, private publishers would also revise books. And then it will be rolled out in a 2-3-year period as per the previous experience that we have had for 2005 onwards. And again, having said that, it is not that every book that is there in the system would get revised. And there may be certain books that may not go under more revision, there may be lot other books which may undergo a revision. They may be certain more subjects that they may want schools to teach. So, that is an ongoing process and with the process of evolving new titles will keep going, largely the content in most of the maths books, science books remains the same. This would be better known with the NEP being formally announced.

OPERATOR

This is the operator. I am sorry we have lost the line for the management team. We will reconnect.

MR HIMANSHU GUPTA – MANAGING DIRECTOR:

Yeah, I am here.

OPERATOR

Sure sir, please go ahead.

MR. AASIM BHARDE – IDFC:

Yes sir, maybe you could go ahead.

MR HIMANSHU GUPTA – MANAGING DIRECTOR:

We expect that National Curriculum Framework could be finalised by FY21. As per the government, they have told that by December 2020 the National Curriculum Framework would be there, so if we have the National Curriculum Framework ready by 2020 or before 2020 of December, then we'll come out with the new books for the new academic session. So, the sales will come in FY21 hopefully and the new academic session will begin from FY21-22 from April of 21. So that is why we want to liquidate the old inventory, because we want to carry forward the least amount of old inventory by FY21. So the syllable change happened, then we want to liquidate the inventory beforehand only. That is a basic idea. Are you getting my point?

MR. AASIM BHARDE – IDFC:

But won't most of your inventory on hand right now or the one that you print in the next three months, won't most of it get liquidated by say April?

MR HIMANSHU GUPTA – MANAGING DIRECTOR.

Yeah, I'm talking about the old inventory, which is an inventory which we already have in stock, which has been produced earlier year that we want to liquidate and plus, we will obviously bring the new inventory because we have to sell approximately 50 to 55 million books. So we will not be able to only sell the old inventory so old inventory plus the new inventory we will be able to do 55 million books that we are going to sell for this year out of that 10 to 15 million books would be the old ones.

Mr. Atul Soni, Head of Investor Relations, Strategy and M&A

But just to clarify we are not talking of the new policy coming through in the next six months, we are saying the curriculum framework by December 2020 If that happens by that time, then you can see new books coming through in let's say Jan, Feb, March of ‘21.

MR. AASIM BHARDE – IDFC:

Yeah, yes sir. I understand.

Mr. Atul Soni, Head of Investor Relations, Strategy and M&A

And that again in the phased manner, yeah so it's still some time away. It's still some time away. And, you know, we need to really see what the government comes out with.

MR HIMANSHU GUPTA – MANAGING DIRECTOR.

But we are taking our own precaution so that, you know, tomorrow if the government changes the curriculum, in let's say by 2020 December, and the new curriculum comes in and you have to make the new books, so we shouldn't be left over with a high level of inventory. So our endeavour is to have old inventory which maybe not being able to fully be reused for the new curriculum because as Atul also said they do it in the phase manner but our endeavour is we should be sitting on as least old inventory as possible, this is what our endeavour is.

MR. AASIM BHARDE – IDFC:

Okay, okay, sure sir. Thanks a lot for answering my questions and wish you all the best.

MR HIMANSHU GUPTA – MANAGING DIRECTOR.

Sure, thanks.

Operator

Thank you. We have the next question from the line of Aditi Agrawal from Kotak Mahindra Bank. Please go ahead.

Ms. Aditi Agrawal, Kotak Mahindra Bank

Good afternoon, everyone and thanks for the opportunity and really sorry for the technical issue previously. Sir, my question is regarding the intangible assets, so, we see a significant increase in the intangible assets. So, any specific reason for the same apart from the new digital launches that has been done?

Mr. Saurabh Mittal, Chief Financial Officer.

Aditi thank you, if you see point number nine of our notes to financials, there is a approx. Rs516 million recognition of Right of Use (ROU) assets which are leased assets which have been capitalized under the new IND AS 116 during this period, so the large amount of the increases on account of the ROU.

Ms. Aditi Agrawal, Kotak Mahindra Bank

Okay.

Mr. Saurabh Mittal, Chief Financial Officer.

So these are these lease assets that have been capitalized.

Ms. Aditi Agrawal, Kotak Mahindra Bank

Okay and also sir if I've understood correctly, in other question you mentioned that EBITDA margins are expected to be in the range of around 18% for this fiscal

Mr. Atul Soni, Head of Investor Relations, Strategy and M&A

So we had said 20 to 22% for FY20.

Mr. Saurabh Mittal, Chief Financial Officer.

It's 20 to 22%.

Ms. Aditi Agrawal, Kotak Mahindra Bank

20 to 22% okay I'm sorry. And so considering that currently, the EBITDA is you know, consolidated EBITDA is negative of around say 120 crores approximately and I understand we do see a lot of reduction in our expenses where various measures taken off now say Rs50- Rs55 crores, as you mentioned, and also a lower provisions that have been taken, but still considering all these factors also do we see such a vast improvements say from a negative Rs120 crores approximately to a positive 20 to 22% EBITDA margin mentioned so any further specific thing that you're looking at in terms of improvement in margins?

Mr. Saurabh Mittal, Chief Financial Officer.

See Aditi, see what happens like if you see Q4 of FY18 or Q4 FY19, our EBITDA margin percentage for the last quarter used to be between 40-50%. So that takes care of the losses accrued in the first three quarters. You see we get 80% - 85% of our annual revenues in the fourth quarter So the margins will only come when you're able to liquidate and considering that you have a gross margin profile of about 60% as and when the revenue kicks in the whole metrics changes for us. We spend all the money up front in terms of production of books, the creation of those books, marketing of those books so everything is spent up front and then the realization in terms of revenue happens in the last quarter. So, when that happens, the whole metrics changes so then that can be seen every quarter last year also, despite the incremental additional provision, we still had EBITDA margin of almost 41% in the last quarter. So I feel that would take care of the losses in the first three quarters that we have.

Ms. Aditi Agrawal, Kotak Mahindra Bank

Sir I understand that you know, that majority of the sales are booked in the last quarter and our expenses are already paid upfront. However, like you know, that is the nature of the business that we are into, still like considering that currently the EBITDA level in the current six months is close to minus 120 crores and we do see improvement on the paper prices as well, but still to go from this level to a positive 20%, 22% so that would say on a sale level of say around Rs630- Rs650 crore that we are looking at. That means a positive around 120 crores of EBITDA so do we see this much improvement in the next two quarters or to say specifically in Q4 that it would cover up that these many losses as well and still will be able to book EBITDA of around 22%?

Mr. Saurabh Mittal, Chief Financial Officer.

Yes, yes. If you see from last year only there is a delta of almost 34 crores from last year. So definitely we will see that once the revenue comes in the fourth quarter, we would look at probably EBITDA levels of anything between 48% to 50% in the last quarter.

Ms. Aditi Agrawal, Kotak Mahindra Bank

Okay, specifically for the last quarter you mentioned 48 to 50%?

Mr. Saurabh Mittal, Chief Financial Officer.

Yeah. We see that for the last quarter.

Ms. Aditi Agrawal, Kotak Mahindra Bank

Okay, and sir the last question. In the provisions have you already factored in any sort of sales return?

Mr. Saurabh Mittal, Chief Financial Officer.

The sale return has been accounted for whether you talk about March 19, June 19, September 19, as a policy we will continue to provide based on the last three years, an average of about 12 to 14% of sales return across various group companies. So that has already been factored provision for sale return and provision for discounts and in addition on top of that, we have also taken higher provision for expected credit losses which we feel will get reversed in the next two quarters. So we are adequately provided for in terms of any returns that is coming. And this year, we will not see the incremental sale return provision that we had last year.

Ms. Aditi Agrawal, Kotak Mahindra Bank

Yes okay, okay. Thank you sir.

Operator

Thank you, ladies and gentlemen to ask a question you may enter star and one. We have the next question from the line of Ritwik Ambekar from Everstone Capital. Please go ahead.

Mr. Ritwik Ambekar, Everstone Capital

Sir just one small thought, how should one look at the tax number for the full year?

Mr. Atul Soni, Head of Investor Relations, Strategy and M&A

See the tax number currently looks a bit different because what has happened is that we recognized deferred tax on our losses of last year at a higher percentage and that for the first six months it is getting reversed to an extent because the tax percentages have been reduced , but since it's on the negative side, the impact is looking larger once we go into the positive it will benefit us in the overall picture because two of our main subsidiary companies will move to a 22% bracket and couple of them will remain at the 25% bracket. So for the full year, I am assuming there may be a reversal of about Rs5 to Rs6 crores for last year beyond that it should remain in the 25% to 26% bracket.

Mr. Ritwik Ambekar, Everstone Capital

Okay, thank you.

Operator

Thank you. We have the next question from the line of Deepan Shankar from Trust Line Portfolio Management Services. Please go ahead.

Mr. Deepan Shankar, Trust Line Portfolio Management Services

Yeah, thanks a lot for the opportunity again. Sir, can you please give us an update for performance of this acquired companies so, how are they been doing, how is the growth profile looking like what are the changes we are implementing and cost and efficiency front so, how is that working so, any update sir?

Mr. Atul Soni, Head of Investor Relations, Strategy and M&A

All the cost initiatives that we have taken have basically been covered across the group so the policies with regard to manpower right sizing, warehouse consolidation, offices consolidation whether it is in terms of employee policies of travel, freight, these have been extended to all the group companies.

Mr. Deepan Shankar, Trust Line Portfolio Management Services

Okay, okay, on performance front on top line, so, how is the growth profile looking like so here we have state board syllabus, so any state they are changing, so any growth profile looking better?

Mr. Atul Soni, Head of Investor Relations, Strategy and M&A

So see we are, I think it's better to see us on a consolidated growth number perspective which we have already guided for the consolidated entity and I think that will be suffice for the time being. We do not give subsidiary level kind of growth targets out.

Mr. Deepan Shankar, Trust Line Portfolio Management Services

No, I'm not looking for any targets sir. I just wanted to understand how is this performance of these subsidiaries doing that’s all?

Mr. Saurabh Mittal, Chief Financial Officer.

The 3 acquired companies have been acquired in 2012, ‘14 and ‘16. So all of them have been part of the group and integrated over the years and while there have had their ups and downs and I think most of them are back to where they should be in the current period. All of them are performing to the level expected during the current period.

Mr. Deepan Shankar, Trust Line Portfolio Management Services

Okay, okay. Okay. And also, can you give us some update on this curriculum business, so how is that doing and what is the scaling potential for us?

Mr. Saurabh Mittal, Chief Financial Officer.

That's been working well for us, Mylestone as a curriculum business the first year we did about 70 schools, second year we did about 150 schools, last year it was about 300 schools. So this has been growing fast for us, and we have also signed up our first school outside India for this business. This is a fast-growing business and we see a lot of tier two and tier three schools plus some other schools also adopting this. This definitely will see a higher growth but of course, the base revenue is very low. I mean, last year, we probably did about Rs15 crore on this, so we expected to grow higher than the average publishing business.

Mr. Deepan Shankar, Trust Line Portfolio Management Services

Okay, okay. So if we are doing the curriculum business with a particular school, so that exclusivity of S Chand books in that school business will be higher than our normal other schools, right sir?

Mr. Atul Soni, Head of Investor Relations, Strategy and M&A

Yes, if you do the curriculum business then basically if you see, you get the books adopted in that school and the school uses mostly that curriculum books only, so that ways your business per school increases substantially. But you have to provide them also services and other things as well. So it is not a product business only it is product plus service model business.

Mr. Deepan Shankar, Trust Line Portfolio Management Services

Okay, so the stickiness of schools would lead to increasing more wallet share, so that will be more helpful in future?

Mr. Atul Soni, Head of Investor Relations, Strategy and M&A

Yeah, that is there. But obviously we have to understand that when we are finding other schools, we have to provide them good after sale service and make sure the schools you know, renew the contract with us. And that is what we're trying to do. So make sure the stickiness improves in the schools.

Mr. Deepan Shankar, Trust Line Portfolio Management Services

Okay, okay. Sure. Thanks a lot and all the best.

Mr. Atul Soni, Head of Investor Relations, Strategy and M&A

Thank you. Thank you.

Operator

Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor back to the management for closing comments. Please go ahead.

MR HIMANSHU GUPTA – MANAGING DIRECTOR.

I think thanks a lot, everyone for giving your time and we appreciate, and we are hopeful that the next couple of quarters and especially the quarter four, we will yield in results that we have already spoken about. And the company is on the mode of improving profitability, improving cash flows and on the digital front we believe the Learnflix model that we have just recently launched. We believe that should do well in the market. Thank you all for listening and taking out your time.

Operator

Thank you, gentlemen.

Mr. Atul Soni, Head of Investor Relations, Strategy and M&A

Thank you.

Mr. Saurabh Mittal, Chief Financial Officer.

Thank you.

Operator

Ladies and gentlemen, on behalf of Prabhudas Lilladher, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.

End of Transcript