



S Chand And Company Limited

Registered Office: A-27, 2nd Floor, Mohan Co-Operative Industrial Estate, New Delhi - 110044, India.

P: +91 11 4973 1800 | F: +91 11 4973 1801 | E: info@schandgroup.com | www.schandgroup.com

Date: August 17, 2023

To Listing Department BSE Limited 25 th Floor, 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 – Q1FY24 - pursuant to Regulation 30 of The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”)

The Company organized a conference call for the Analysts and Investors on Monday, August 14, 2023 at 12:00 P.M. to discuss the financial results for the quarter ended June 30, 2023. 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.

Yours Sincerely,

For S Chand And Company Limited

Jagdeep Singh
Company Secretary
Membership No: A15028
Address: A-27, 2nd Floor,
Mohan Co-operative Industrial Estate,
New Delhi-110044



Encl: as above

S Chand And Company Ltd. Q1-FY24 Earnings Conference Call

August 14th, 2023

Moderator:

Ladies and gentlemen, good day and welcome to S Chand and Company Limited Q1 FY24 earnings conference call hosted by Prabhudas Lilladher Pvt. Ltd. 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 this conference call, please signal an operator by pressing * and then 0 on your touchtone phone. 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 Pvt. Ltd:

Thank Neerav. Good day everyone. On behalf of Prabhudas Lilladher, I welcome you all to the Q1 FY24 earnings call of S Chand Limited. We have with us the management represented by Mr. Saurabh Mittal – CFO and Mr. Atul Soni – Head, Investor Relations. Due to some unforeseen circumstances, Mr. Himanshu Gupta is not there on the call today. I would now like to hand over the mic to the management for their opening remarks, and after that, we can open the floor. Thank you and over to you sir.

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

Good afternoon everyone and thank you for your time. I am Saurabh Mittal, CFO of S Chand. I would like to welcome you all to our first quarter results conference call for FY24 and thank you all for taking the time-out and joining us here today.

I am extremely happy to share that Q1FY24 has been an exceptional quarter for S Chand. We hit the following landmarks during this quarter-:

1. S Chand Group turns Net Debt Free with a quarter ending Net Cash Balance of Rs546 million
2. Best Working Capital Metrics for Receivables and NWC in Q1 in the company's history.
3. Highest ever Q1 Sales
4. Highest ever Q1 Gross margins
5. Highest ever Q1 EBITDA
6. On the Cash flow front, we have maintained strong Operating Cash flows (OCF) vs last year.

As we have now firmly entered FY24, we see that Schools and Colleges are back to their pre covid schedules with regards to admissions, school openings, examinations etc. This has reduced the uncertainty in business which has improved the cash flow cycle of the schools, channel partners and distributors. This is reflected in the improved realisation from the channel during Q4FY23 and Q1FY24.

On the National Curriculum Framework or NCF front, we saw the launch of NCF covering the Foundation Stage (classes Kindergarten to Class 2nd) last year in October 2022. We look forward to more such announcements for the other classes coming through over the next couple of months. The NCF opens up a large opportunity to provide engaging and innovative content to students, teachers and schools, to make learning more experiential. The NCF focusses on activity-based learning and provides for flexibility to students to choose between subjects. This will help the company gain market share with its brands and strong product portfolio. We expect to launch over 500 new SKUs in the school segment this year.

On the Higher Education front, the last three years the academic cycle in various universities which was disrupted during Covid/exam result delays with semesters starting as late as November. This year we have seen Board results being announced as per pre-covid timelines and CUET/JEE/NEET exams also are completed on time. This ensures that the new semester would begin in July/August and normal academic year would return from this year onwards. The NEP has been implemented in a few states where we are seeing strong traction for our products which are based on the NEP.

On the EdTech investments front, we have invested Rs30m for a 4.3% minority stake in iXambee in April, 23. We believe iXambee is well suited to benefit from the rise in the competition segment in the future by helping graduates and undergraduates prepare effectively for Government examinations like banks, insurance companies, Railways etc. S Chand is already partnering iXambee and other Youtubers for examination-oriented products. Our other Investment, Smartivity Labs saw strong results as well.

On the Ed-Tech front, "S Chand Academy" continues to have phenomenal success. We have now launched over 1400 videos focused on Higher Education topics covering Science, Engineering and Test Preparation so far and the channel has already notched up approx. 15 million views and approx. 170k subscribers. This further enables the promotion of our content, further spurring demand in that segment with the blended offering. This channel enables students to learn critical areas through top notch educationists which may not be available in Tier 2 and Tier 3 colleges. We expect to add another 600 videos for both the School and College segment this year.

TestCoach, our test Prep app is seeing strong traction to cover over 50+ government vacancy tests which is a huge market. We are adding additional features apart from Mock Tests, there will be Concept Videos, Doubt clearing sessions etc. We expect increase in government vacancies now that things are normalised post Covid and with the elections due in 2024 which would further spur demand.

SmartK our pre-school curriculum which Activity based and is mapped to the NCF continues to gain traction across schools in India. Mylestone, our K-8 curriculum solution also continued to provide holistic learning to schools both in India and the Middle East.

Now coming to numbers for the quarter, our consolidated operating revenues came at Rs 1,111 million versus Rs 1,073 million during the same time last year. We improved our gross margins to 69% vs 67% in spite of the sharp increase in paper prices as we did better planning of print batches and reduced wastage. This is the highest Q1 revenues and Gross margins in the company's history.

We reported EBITDA profits of Rs 136 million vs Rs 119 million in the corresponding period last year which is the highest Q1 EBITDA in the company's history.

Happy to share that this quarter we continued with PAT profitability in Q1 with profits of Rs 11 million versus Rs 62 million in the same period last year. Lower profitability on a YOY basis is driven by other income which had an one-time gain on account of fair valuation of our Investments in Smartivity of Rs105 million in the same period last year.

I would like to bring your attention to Slide no 6 to slide no 9 which showcases the results of the steps taken during the past three years towards building a cost effective and lower working capital organisation with focus on positive cash flows.

Trade Receivables reduced to Rs1,732m during Q1FY24 vs. Rs2,109m during Q1FY23. This is a Rs377m decrease in receivables YoY. In terms of receivable days, it stood at 103 days (vs. 139 days in Q1FY23), a reduction of 36 days over the previous year. This is the lowest receivable days in Q1 in the company's history.

Inventory increased slightly to Rs1,436m (vs Q1FY23: Rs1,352m) on back of higher level of raw paper inventory. This increase in inventory is due to the unprecedented price hike seen in the raw paper prices during the year. This inventory level includes raw material paper inventory of Rs371m (vs. Q1FY23: Rs301m). In terms of inventory days, we improved over last year at 193 days (vs. 202 days in Q1FY23), a reduction of 9 days over the previous year.

Net Working Capital reduced to 143 days (vs. 162 days in Q1FY23) which is a reduction of 19 days over the previous year. This is the lowest net working capital days in Q1 in the company's history.

In terms of Debt, we ended the quarter with a Net Cash balance of Rs546m (vs. Net Debt of Rs279m in Q1FY23) and Gross Debt of Rs906m (vs. Rs1,145m in Q1FY23).

In terms of Cash Flows, our strategy of focusing on the cash flows has yielded results where we ended the quarter with OCF of Rs691m in the current quarter (vs. Rs633m in the same time last year).

As we continue into FY24, I would like to reiterate for this year-:

- Firstly, we are looking to do annual revenues between Rs 7,200 million and Rs 7,500 million which translates into a 18%-22% growth for the year.
- Secondly, we would be taking a single digit price hike across our product portfolio.
- Thirdly, Gross margins can increase in case paper prices stabilise/decline during the year.
- Fourthly, we are targeting EBITDA margin band of 16%-18%.
- Fifth, we look forward to the announcement of the NCF for more classes in CY23 which will help in volume expansion. This should lead to strong volume, revenue and profitability growth for the next 2-3 years period.

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

Moderator:

Thank you very much. We'll now begin the Question & Answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets when asking a question. Ladies and gentlemen, we'll wait for a moment while the question queue assembles.

The first question is from the line of Niteen Dharmawat from Aurum Capital. Please go ahead.

Mr. Niteen Dharmawat – Aurum Capital:

Thank you for the opportunity. I just wanted to know, how is the trend of paper prices now? If you can throw some light based on the current price movements, especially the printing paper that we're using. Second is about, how much inventory we are maintaining? Have we now compiled the entire inventory, or are we going to build the inventory in case the prices are moving up again?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

Thank you Niteen. So, paper prices are down about 8-10% from what we bought last year. At this point of time, just to reiterate, we have already contracted almost 60% of our supplies by imports from Indonesia. So the price is fixed for that quantity, and those supplies will be between September to December. In terms of holding inventory, of course, we cannot hold long period inventory; maximum inventory that we hold is for 45-60 days as that requires a lot of space. So, we will stagger the supplies, and we don't see a challenge, as of now this year, in terms of building inventory as and when we require. We're not holding too much of inventory, but we've already placed orders both for imports and for domestic markets for our requirement, up to October already.

Mr. Niteen Dharmawat – Aurum Capital:

Got it. My next question is about the impact of the NCF which is coming up. So, we had given some revenue projection number. So, do we maintain the same, or are we having any change on it?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

No, we are maintaining our number. In fact, as and when the NCF comes this year, that will only further spur demand. Having said that, we are well prepared in terms of the content, which is ready, because the draft NCF is already available, and largely it's around the NEP and the NCF. So, what is already known, the work is already in progress for that. And, once the NCF is announced, our products will be out in the market shortly after that.

Mr. Niteen Dharmawat – Aurum Capital:

Got it. My final question is about, how is the current quarter going on? Especially the 2nd and 3rd quarter are not very strong in terms of revenue for our kind of business. We have lot of seasonality built towards the end of the year. But, this year, I wanted to understand, is there any change or are we in line with the same as last year?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

Yeah. So, largely Q2 is focused around Higher Education. So, with colleges opening, we see that both higher education and test prep segment, should have a strong Q2. Q3 is largely around promotion of your products to schools and of course, settlement of accounts with the channel partners. So, we don't see a challenge in both of these. While, of course, revenue numbers are not very high for both of these quarters, we do see the other metrics to be largely well in line.

Mr. Niteen Dharmawat – Aurum Capital:

Got it. Thank you and wishing you best.

Moderator:

Thank you. The next question is from the line of Riya Mehta from Aequitas Investment. Please go ahead.

Ms. Riya Mehta – Aequitas Investment:

Thank you for giving me the opportunity. My first question is with regards to, how is your adoption by schools for NEP up to K-2?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

So, last year it came around October. So, since it had come in very late, the promotion season is between September to December. So, while there were some traction, but of course, it was not that substantial. Plus, what happens is, schools would largely want to take the plunge together for most of the classes. So, I would say, the last year's impact was 20-25%, major part of that impact will be seen in the current period. And of course, with the balance classes coming in in the current year, as and when the NCF is announced, we should see a large impact across the next 3 years.

Ms. Riya Mehta – Aequitas Investment:

But, you had said that every year we would see some 20-25% impact. Have we seen that kind of traction from the schools, where they're requiring to go change the syllabus?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

See, we will be in a better situation to understand this probably more in October-November. I think, in the Q2 call you would get a better sense. We would know if the balance NCF is out by then, and since the promotion season would start around September, we would have good feedback in terms of how schools are looking forward to the NCF. In the preliminary discussion that we've had along with the feedback of the schools based upon the last year's interaction with schools, is that they are all looking forward to the changes in the NCF, and there is preparation in place. There is lot of trainings that is happening from CBSE and for the schools in terms of adoption of the New Education Policy and the NCF. So, the preparedness is there, and we will see the transition happening over the next 3 years.

Ms. Riya Mehta – Aequitas Investment:

Got it. My second question is in terms of price hike. Since we have taken a significant price hike last year, have we seen any impact in terms of volumes or in terms of any schools which have dropped? Because, I heard from competition that they are seeing a similar trend with the price hike, that the customers are not willing to take because of the current scenario?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

See, in terms of price hike, we didn't see much of an impact. I mean, in some pockets, I would say, there would be some impact, there are some schools which are very price sensitive. But, since in the CBSE/ICSE segment most of the publishers did take a price hike between 15-30%, so we didn't see much of a challenge in terms of volumes there. In fact, we had higher volumes in the last year as compared to the previous year, but again, that could also be a function of schools reopening after COVID. So, to be honest, we got some feedback, but that was not large feedback that price hike is impacting volumes.

Ms. Riya Mehta – Aequitas Investment:

And, in terms of this year's price hike, we're going to do a single-digit hike.

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

Yeah.

Ms. Riya Mehta – Aequitas Investment:

Also, are you foreseeing any pushback coming from schools or something, where they would go to our competitors and leave us?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

So, it's a single-digit price hike of approx 7%. Again, it's very selectively across products, the weighted average that we're seeing is mid single digit. But, we don't see an impact, because in some years, of course, we did not increase prices, but then that did not spur volumes to that extent. So, in terms of our products which goes, it's more of our adoption products, which a school adopts and then the students have to buy the books. So, we don't see much of an impact in terms of that kind of demand.

Ms. Riya Mehta – Aequitas Investment:

And, are you adding any new schools recently?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

See, this is a year-round activity where we continue to engage schools through workshops, through various interactions with them throughout the year. The adoptions, of course, do increase as and when the season comes. Of course, in the current period, in the 2nd quarter, there will not be any major adoptions. The adoption will start from the end of the 3rd quarter, and then finally add up in the 4th quarter. So, for the current period, of course, last year we did have a lot of school adoptions.

Ms. Riya Mehta – Aequitas Investment:

Got it. And, in terms of raw materials, almost 60% of our import has already been contracted. So, the lower paper prices, of 8%-10% we wouldn't get any benefit in the current year. Is that fair to assume?

Mr. Saurabh Mittal – CFO, S Chand And Company Limited:

No, we will get benefit, because, again, the contract has been at a lower price. See if it further reduces, then of course, we may not. But, currently as things stand, we don't see a substantial reduction of paper prices going ahead. In our opinion, if the reduction had to happen, it would've happened by July-August. Beyond this, the paper purchase begins for the publishing industry, and we would see paper prices only going up, that's what we understand.

Mr. Atul Soni – Head, Investor Relations, S Chand And Company Limited:

To answer your question, we will get the positive impact of this lower price in this upcoming sales season itself.

Ms. Riya Mehta – Aequitas Investment:

So, we would get some kind of positive impact in this season?

Mr. Atul Soni – Head, Investor Relations, S Chand And Company Limited:

Yeah, obviously. See, currently we have only 100 crores of inventory, and if you look at our guidance, it's at around Rs720cr – Rs750 crores, right? So, there is a huge gap. The paper which will be bought over the next 3-4-5 months will be used in the sales of the sales season, which is in Jan-Feb-March.

Ms. Riya Mehta – Aequitas Investment:

Okay. But, these contracts typically work on the prices which have been decided today, right, or as on when the contracts are being signed?

Mr. Saurabh Mittal – CFO, S Chand And Company Limited:

No, for the imports the prices are already fixed for the supplies up to December. And for the others, we'll continue to negotiate the price. Of course, we've kept 60% fixed, 40% is variable. In case it goes down, it will definitely benefit us.

Ms. Riya Mehta – Aequitas Investment:

Okay. And my last question, are you seeing any returns from the Jan to March sales currently?

Mr. Saurabh Mittal – CFO, S Chand And Company Limited:

So, our average returns have been reducing in the last 2 years. We hit a peak of 25% to 26% in 2 years of COVID. Last year we were down to about 15.8%. This year we are estimating about 14% to 14.5%. So, that we've been careful in terms of the quality of sales that we are doing. Returns are coming in, but they are largely in line with our expectation.

Mr. Atul Soni – Head, Investor Relations, S Chand And Company Limited:

So, majority of these returns come in from August till October.

Ms. Riya Mehta – Aequitas Investment:

Right. I think that's it from my side. Thank you.

Moderator:

Thank you. The next question is from the line of Manan Patel from Airavat Capital. Please go ahead.

Mr. Manan Patel – Airavat Capital:

Thank you for the opportunity, sir, and congratulations for an all-round very good performance. Sir, first question is regarding the gross margins. So, when you say you will take a price hike and the paper prices have reduced, at least for 60% of your entire inventory, so your gross margins should improve. So, when you have an EBITDA margin guidance of 15 to 18%, does that take in the gross margin improvement, or we can see further improvements if the gross margins are better?

Mr. Atul Soni – Head, Investor Relations, S Chand And Company Limited:

So see, this year actually we have given an EBITDA margin guidance, because in case the NCF comes through, there will be some extra spending in marketing activities. So, we are not trying to pin down a number for the gross margins there, and that's why we have, kind of, given a guidance of the EBITDA range. Obviously, there can be upsides, but these are couple of moving variables. So, we need to kind of see how it pans along.

Mr. Manan Patel – Airavat Capital:

Understood. Sir, the second question is on the NCF itself. So, by what time does the NCF need to be announced for you to have the benefit in this year itself?

Mr. Saurabh Mittal – CFO, S Chand And Company Limited:

So, the sooner it comes, the better for us and for the industry. But, having said that, I would say, lot of the schools are already looking at the change in the product portfolio. So hypothetically, even if it doesn't come this year, there will be a lot of products going out in the market which will be aligned to the draft NCF. So, I think, a formal announcement may spur the demand. But even if it doesn't come in, it should not impact us too materially. Because again, lot of schools are looking at changing the list of books that they use. And we have a lot of new products are coming out for us; we are looking at almost 500 plus SKUs across subjects. So, that will definitely get us better traction.

Mr. Manan Patel – Airavat Capital:

Understood. So, your guidance of Rs720-Rs750 crores of sales, does that factor in NCF? If NCF doesn't come, how does that pan out?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

So, Rs720 crores is the base, I think. Even if NCF does not come in, Rs720 crore definitely will be done. And, if the NCF does come in, we can look at a higher number. It may go beyond Rs750 crores also.

Mr. Manan Patel – Airavat Capital:

And sir, you mentioned about adding new schools. So, I just wanted to understand, how competitive is the market and how difficult is it to add new schools? And when you add new schools, are they completely new school openings or schools are moving from other vendors to you? So, if you can explain the competition scenario, that would be helpful.

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

So, it is a competitive scenario. I think, there are large number of companies who provide quality content to schools. Some, international publishers, some domestic players are also there in the market, so competition is definitely there. We try to engage the schools more with multiple interactions, including doing a large number of workshops with them, helping their teachers teach better. We have subject-based workshops in Maths, Science, Hindi etc. We do a lot of other interactions with them as well during the year. So, in terms of increase in number of schools, of course, we look at multiple things. One is, when there is a new school which is not a user school, that comes on board. Or, if there is an existing school which is using probably 1 or 2 subjects, you can increase that to multiple subjects. Or, there may be some schools which have moved to a complete book list, which means that they will adopt all the books from the company. Plus, of course, we do have curriculum products which is there from K to 8, where the school adopts the full curriculum from us only. So, we have multiple product lines which are very strong with schools, and that is what we are trying to expand. So, that promotion will happen this year.

Mr. Manan Patel – Airavat Capital:

And sir, sorry to harp on this. But, as you mentioned, there is good and strong competition in the market. But there would also be taking similar steps, right? So I just wanted to understand, what is our competitive advantage? Is there an unorganised market which you can take? Can you explain that a bit more?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

Yeah, so there is an unorganised market, which may not be able to ramp up to NCF so quickly. So, that's one advantage. Second, financially, we are very strong. For the last couple of years, we have built our own war chest to go out and to be able to promote to schools freely, rather than the kind of restrictions that we had a couple of years back. That plus, we know what we want to do at this point of time. There's a lot of clarity in the kind of product portfolio that we have. We are well planned in terms of products, in terms of promotions, in terms of engagement. So, we are very well focused. There are some players who are having their own challenges in terms of funding, they're having their own challenges, some international publishers who've sold out, so they're having their own internal issues. So, we have taken advantage of that in the previous year, and we'll continue to gain market share on account of that.

Mr. Atul Soni - Head, Investor Relations, S Chand And Company Limited:

So Manan, just to add, see, if I want to give you a flavour of the landscape, there will be thousands of publishers. But in this year, when the NCF comes, only a handful will be willing to invest in creating the new kind of content which is there. Every publisher is not going to do it, right? So, as it is, our competition comes from thousands of publishers to a handful. So, that's where the differentiation comes through for the customer also to see. So, the customer is also seeing which companies are kind of giving information or workshops or training around what is going to come this year. So, that, I think, will be a big differentiator when it comes to choosing your content partner in the new NCF regime. So, I think, that's the way to kind of look at it, in terms of competition.

Mr. Manan Patel – Airavat Capital:

That's very helpful sir. And the last question is on the capital allocation side. Now that we are a net cash company, I understand that you have seasonality in terms of investment and working capital. Given the cash flows that you are generating, and you started with dividend policy also, so, can we expect any inorganic route for your company, apart from the small investments that you'd make? Do you look forward to inorganic investments in your own business?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

Yeah. So, we are looking at something right now also. We've taken approval from the board to look at a certain transaction. I cannot share details, but yes, we are looking at something which is not too significant. But again, we're looking at very strategic investments where we have gaps in our own portfolio, it can build up, and we will continue to look at that. But, whatever we do with the existing cash flow that comes from within the system, we will not raise debt, we will not raise equity for any investments. So, currently we are looking at one transaction, and if and when things are finalised, we would definitely announce it.

Mr. Manan Patel – Airavat Capital:

Thanks a lot sir. That's all from my side. Your answers are very clear. Thank you.

Moderator:

Thank you. The next question is from the line of Raj from Please go ahead.

Mr. Raj – Argus Partners:

Sir, I just want to know on the EBITDA front. How much of EBITDA have we guided for FY24?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

It's in the band of 16-18%.

Mr. Raj – Argus Partners:

16-18% of EBITDA, and on the sales of 720-750 crores, am I right?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

Yes, that's correct.

Mr. Raj – Argus Partners:

And also, how many SKUs are we planning to launch?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

Around 500 plus.

Mr. Raj – Argus Partners:

Alright okay. Thank you. That's it, all the best.

Moderator:

Thank you. The next question is from the line of Niteen Dharmawat from Aurum Capital. Please go ahead.

Mr. Niteen Dharmawat – Aurum Capital:

Thank you for the opportunity again. I was not very clear, you mentioned about the acquisition possibility, right? So, what kind of size we are looking for, if it is acquisition indeed?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

Niteen, this is a very small one, it's not a very large one that we're looking at. It's a very niche kind of segment. I can't share more details, because again, we are in NDA right now and we haven't signed the term sheet yet. It's not a very large allocation. Just to give some idea, we've taken a board approval of up to Rs20 crores investment.

Mr. Atul Soni - Head, Investor Relations, S Chand And Company Limited:

This is also documented in the exchange release, Niteen. We have taken a board approval of up to Rs20 crores.

Mr. Niteen Dharmawat – Aurum Capital:

Got it. Thanks so much.

Moderator:

Thank you. The next question is from the line of Riya Mehta from Aequitas Investment. Please go ahead.

Ms. Riya Mehta – Aequitas Investment:

Sir, in terms of gross margin, is the current gross margin of the June quarter sustainable for the rest of the year?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

1st quarter is normally higher by a couple of percentage points. But, as you see, 2nd and 3rd quarter, the volumes are lower, so it will come down. But overall on the full year level, it depends on how paper prices move in the next 6 months.

Mr. Atul Soni - Head, Investor Relations, S Chand And Company Limited:

So, we have to see. It depends on how the paper prices move Riya.

Ms. Riya Mehta – Aequitas Investment:

Since 60% of our prices have been contracted, so I think, we would have a fair sense.

Mr. Atul Soni - Head, Investor Relations, S Chand And Company Limited:

The thing is, with regards to paper prices, it is very fluid. So, 60% is contracted, that's for sure. I think, that's why we have tried to give an EBITDA margin band and we are working with that.

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

Just to top with that Riya, again, the quarter-to-quarter EBITDA guidance doesn't really work, because the product portfolio across quarters changes. Q1 is largely around your classes 9 to 12 books which are slightly higher prices and are more reference books, so there we would have a slightly higher margin as compared to Q2 and Q3 where higher education comes in where the margins may be slightly lower. So, the product portfolio across quarters, which goes to the market, there might be a 4-5% gap here and there. But overall, the full year, I think we should be slightly higher than what we were last year. But looking at it on quarter-to-quarter basis is a bit difficult.

Ms. Riya Mehta – Aequitas Investment:

And in terms of import and domestic, what would be our breakup for paper prices?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

60% imported and 40% domestic.

Ms. Riya Mehta – Aequitas Investment:

Okay. And the domestic contract is for what period?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

So, domestic we haven't contracted. We are just giving orders on order-to-order basis. We're not contracting yet.

Ms. Riya Mehta – Aequitas Investment:

Okay, thank you.

Moderator:

Thank you. The next question is from the line of Punit Mittal from Global Core Capital. Please go ahead.

Mr. Punit Mittal – Global Core Capital:

Hi, thanks for the opportunity. I just had one question regarding, again, on the capital allocation. I reckon, with the numbers that you have suggested, you are looking at more

than Rs100 crores plus operation cash flows. And now, unfortunately, the reinvestment opportunities that you have, is very low, as you had mentioned. And, our return on capital employed and our return on equity, is low because, naturally, we have large capital employed, and we can't change that numerator much because that growth does not seem to be very high, and the investment opportunity doesn't seem to be very high. So, the only way for you to improve the ROCE and ROE, is to reduce the denominator through share buyback or return of capital. So, what is your thought around that to improve the ROCE and ROE? Thank you.

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

Thank you, Punit. Very very relevant question, and that is something that we have been also thinking about. But, if you look at the last 2-3 years, especially the 2 years of COVID, we've had major issues in terms of cash flows. So, we are a bit conservative in terms of our capital allocation. We would like to have a minimum war chest available for these kinds of uncertain circumstances that have happened. However, having said that, we have restarted the dividend payment, which is the highest that we are paying in the last couple of years. We're paying Rs 3 per share right now. And, your suggestion of buyback is well taken. It's something that we would definitely consider for next year once we are through with this current year. And if we don't have any large acquisition opportunities available, we would definitely like to look at that as a definite option for the next financial year. We'd like to give it one more year for that, but that is definitely on the table for discussion.

Mr. Punit Mittal – Global Core Capital:

Right. Thank you so much and all the very best. Thank you.

Moderator:

Thank you. The next question is from the line of Purshottam, a retail investor. Please go ahead.

Mr. Purshottam – Retail Investor:

Hi. Thanks for the opportunity. I wanted to ask, for some of the investments which we have done in organisations like Smartivity and all, where I think we're invested since 2015 and the organisation seems to be doing well, because I use their products. So, I wanted to ask, do we have plans to increase our stake out here? As of now, I understand, it's around 16% odd. So, some of these organisations which are doing well, do we intend to increase our stake and maybe, take forward the other engagements also, or will we stick to it as an investment only?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

So, in terms of Smartivity, we continue to be large enough investors. And, considering that they're not seeking to raise further capital at the moment, I don't see a way of increasing our own stake, except for being a secondary buyout from some existing investor. But since they already have marquee investors on board, couple of them are pretty well-known names apart from us, so our percentage is large enough. In a couple of years, we'd probably be looking at exiting, because strategically, we are no longer involved in the day-to-day

operations and management of that entity. We continue to support them wherever possible. But, we would be looking at an exit, maybe 1 or 2 years down the line.

Mr. Purshottam – Retail Investor:

Okay, thank you. That's it from my side.

Moderator:

Thank you. The next question is from the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

Mr. Jinesh Joshi – Prabhudas Lilladher Pvt. Ltd:

So my question is around the gross margins. I think, in the initial remarks, you mentioned that our gross margin was higher at 69% due to better planning and low wastage. So, if you can just explain that a bit? And secondly, if I look at our finished goods inventory, it is at about Rs100 odd crores. And, given the fact that, since Q2 is seasonally not very high in terms of topline and all, and given we have a decent quantum of finished goods inventory, do you think that the scalability in gross margins could be surrounding the level that we reported currently, given the fact that there will be minimal impact of price hike, and the finished good inventory is already there with us?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

Thank you Jinesh. In terms of our gross margins, the impact has been because of better production planning during the 1st quarter v/s last year, because last year schools were reopening, there were a lot of follow up orders where the print runs were very small. Plus, there were multiple supplies going in terms of even our freight costs were higher during that period. So, better planning has resulted in better gross margins for the 1st quarter. And of course, the number of supplies that have gone are also lower in terms of quantum of supplies, number of shipments. So, that's definitely helped us. Better planning is the only reason why our gross margins are better in the 1st quarter.

In terms of finished good inventory, when we talk about Rs100 crores of finished good inventory that you're talking about, please be aware that out of this Rs100 crores, about 30 crores is something that is already lying with my channel partners. This is just on account for the provision for sales return, Rs30 crores is accounted for as stock lying in my books, but it's actually the amount that will get returned to me during the next 3-4 months; that's just a provision. So, actual inventory with me would be about Rs70 odd crores. So, I just want to make that differential. As and when that comes back to me, of course, it will be part of my inventory. And after that, of course, how it will help in terms of gross margins, whenever we will sell in the new season, on the existing inventory also, the price of the product is changed and is sold. So, of course, since we're doing a single catalogue, we can't sell books in two different prices. So, the existing inventory also gets repriced.

Mr. Jinesh Joshi – Prabhudas Lilladher Pvt. Ltd:

Got that. My second question is with respect to the SKU count. I think you mentioned that we are planning to launch about 500 new SKUs. So, can you explain which all product categories are you referring to? And, is this completely new and different, where we were

not present, or is it just a flip to the existing product with a new cover page, which anyway complies with NEP 2020? So, how is it? Is it completely novel or a flip, so to say?

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

No, I would say it's a mix of all three. I would say, out of the 500 SKU's, about 100-150 will be new products, both in the school and higher education segment. We continue to bring out new products every year. Last year we brought out series in artificial intelligence for schools, which has done decently well last year; that was our new product category completely. This year, in terms of higher education, we're doing a lot of products along with YouTubers in terms of the government exam market. So, there we're also getting good traction. Plus of course, the NEP and higher education has come out in a lot of states, so lot of regional products are coming out in that segment.

Second category, of course, is upgrading the existing best-sellers that are there in the system. So, those SKUs also come around. And of course, there are translations that are happening in the test prep segment, which is also our existing content which is getting translated into new languages. So, I would say it's a mix. 50% is the upgradation of the existing content, 25% is completely new content, and 25% is, I would say, substantially revised content. I mean, that's just a broad one. It may vary about 5-10% here and there.

Mr. Jinesh Joshi – Prabhudas Lilladher Pvt. Ltd:

Got that. Just one last question. On an average annually, how much tons of paper would we be consuming in FY24, because you have mentioned that you have contracted 60% of our supplies via imports. If you can just give me a rough indication.

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

So, it's about 18,000 to 20,000 tons.

Mr. Jinesh Joshi – Prabhudas Lilladher Pvt. Ltd:

Sure sir. Thank you so much. That's it from my side.

Moderator:

Thank you. As there are no further questions, I will now handover the conference over to the management for closing comments.

Mr. Saurabh Mittal - CFO, S Chand And Company Limited:

So, thank you everyone for taking out time and joining us for this Q1 conference call. We look forward to another decent year ahead, focusing completely on good working capital management, improving cash flows, and bringing out content for schools and colleges during the current year. And of course, the announcement of the NCF, which is a major thing that we're waiting for. So, thank you and we look forward to the next quarter. Thank you so much.

Moderator:

Thank you very much. On behalf of Prabhudas Lilladher, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.