"S Chand and Company Limited Q1 FY18 Results Conference Call"

August 22, 2017

MANAGEMENT: **MR. HIMANSHU GUPTA - MANAGING DIRECTOR, S CHAND AND COMPANY LIMITED**
MR. SAMIR KHURANA - HEAD (STRATEGY AND INVESTMENT), S CHAND AND COMPANY LIMITED
MR. SAURABH MITTAL - CFO, S CHAND AND COMPANY LIMITED

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

Moderator: Ladies and gentlemen, good day, and welcome to the S Chand and Company Limited Q1 FY18 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. Thank you, and over to you, sir.

Aditya Bagul: Thank you, Lisanne. Good afternoon, ladies and gentlemen. On behalf of Axis Capital, I welcome you to the earnings conference call of S Chand and Company Limited for first quarter FY18. We have with us from the management team of S Chand, Mr. Himanshu Gupta, Managing Director; Mr. Samir Khurana, Head, Strategy and Investment; and Mr. Saurabh Mittal, CFO.

I request Mr. Himanshu Gupta to give us a brief overview of the results and to share his outlook for FY18, post which we will open the call for Q&A. Over to you, sir.

Samir Khurana: Hi Aditya, this is Samir Khurana from S Chand. I would like to first start with an introduction and then Himanshu will take over. Good afternoon, ladies and gentlemen. I am Samir Khurana and I head Strategy and Investments in S Chand. I would like to welcome you all to our first quarter results presentation for financial year 2017-2018 and thank you for taking the time to join us here today to discuss our performance. I would like to start by mentioning that we transitioned into IndAS accounting from this financial year as per regulatory norms. The results reported by us yesterday were as per this accounting norm. Further, we have reported results of S Chand on a standalone basis, the financial performance of our material subsidiaries including Vikas, Saraswati, Chhaya and DS Digital are not included in these results. To give you a sense of S Chand's contribution to overall Group revenues, S Chand last year contributed to around 45% of the Group revenues and a similar trend should emerge in the current year. I would also like to emphasize that Q1 is a low revenue quarter for us, since we primarily cater to CBSE and ICSE schools, which purchase books and content in the month of February and March and the sales of April and May are typically the year-end sales. In financial year 2017, Q1 in terms of contribution to annual Group revenues was less than 6% given the seasonality of the business. However, since fixed costs are incurred evenly throughout the year that results in the first quarter typically being a loss-making quarter for us.

Another update that in the last Board meeting which concluded yesterday, the Board is considering various options for restructuring the business of the company and its subsidiaries with the objective of simplifying the holding structure. As we have a more detailed conversation with the Board members in the subsequent meeting, we will keep you updated on any latest decisions taken in this regard.

I would now like to hand over to Mr. Himanshu Gupta, the Managing Director to give you a sense of the business performance of the first quarter.

Himanshu Gupta: Good afternoon, ladies and gentlemen. Thank you for attending this call and giving us your time to understand our performance. I am Himanshu Gupta, Managing Director of S Chand Group.

Let me start with giving you a brief about the industry landscape and where we are operating. As you all know, India is one of the youngest demographies in the world. Average age of Indian population is less than 30. What is more interesting from S Chand's point of view is that our target audience, which are students in the ages of five to 24 is close to 41% of the total population or around 49 crores, more than population of most of the countries in the world. Literacy rate in India is improving with lowering drop-out ratios in the primary education. S Chand is direct beneficiary of this huge potential market in India. Another emerging trend we notice is the faster pace of growth in CBSE and ICSE schools and the higher enrollment in private schools versus public schools. Industry reports indicate that the number of students depending on private schools will be more than the number of students relying in the public schools in the next 10 years. Schools today are more focused on quality of education and content, which is a big positive for S Chand. We believe that the number of CBSE and ICSE schools will keep increasing as more people move towards Central Board schools and S Chand is well positioned to benefit from this transition. Books remain core content provider in education.

Digital format and mobile devices could be used as supplementary to the books. As we have seen in the last few years, though Internet penetration in India is constantly improving, book sales has also gone up simultaneously. We believe the hybrid solution, which is books plus digital solution is the future going ahead. And S Chand has been doing that for the last 5 or 6 years and more than 50% of our books especially in the school segment is having some kind of hybrid solution, which means it has some digital intervention in the products.

This quarter, is a lower revenue quarter, so I would like to talk now about the S Chand business overview. So this Q1 is normally a lower quarter for us and Q4 is the main quarter, which has the maximum sales, close to 80% of our sales happens in the Q4 because schools, CBSE and ICSE schools tend to buy their books for the students in the February and March months of the Q4 quarter. But higher education starts registering revenues now from the Q1. On a standalone basis in Q1 , S Chand did 340 million of revenue versus 181 million of revenue in the quarter one of financial year FY16, which is a growth of close to 88%. We have also managed to reduce our EBITDA losses by 50% to Rs. 68 million. We believe the year has started on a good note and we hope to deliver on our targeted numbers. Thank you.

Sorry, I missed, I need to update you also on the new initiatives that the company is planning to do in this year. The company is planning to do two initiatives in the digital side of the business. One is called VRX, which is Virtual Reality Experience targeted at schools starting with 9th and

10th books of science. This is targeting close to 500,000 children in the first year and will go up to approximately to a million students in the next 3 years. This is basically extension of the hybrid model that I was just mentioning to you, so we will give a Virtual Reality Experience to the students with our 9th and 10th books with having a content in the books and plus with these books, they will also get VR glasses, which basically the student can use himself using the mobile phone and see the Virtual Reality Experience sitting at his home.

The second initiative that we are planning to do this year is in the early learning segment, where we believe there is a big opportunity for players like us who are in the content and services space and we want to become educational partners for helping the non-branded pre-schools with curriculum management, which will include giving them print books, digital material, teacher training, assessments, activities and other things for the students and the teachers. We are launching the pilot in some of the schools in Delhi-NCR by January 2018 in this initiative and we believe that, if this initiative works well, we will look at doing a full roll-out by next financial year. And also we are in discussion with some global partner for giving us high quality content in this regard. Thank you.

Saurabh Mittal: Thank you for joining this call. I am Saurabh Mittal. I will be presenting the financial results for Q1. Our revenues on a standalone basis are Rs. 340 million versus Rs. 181 million last year, an increase of 88%. Our gross margins are 45% versus 44%, they are higher than last year by 1%. On a full year basis, they are 50%, because of the lower volumes in the first quarter, the gross margins are slightly lower in Q1. Our EBITDA loss is almost half at Rs. 68 million from Rs. 122 million last year. Our finance cost includes Rs. 40 million on account of the loans for the Chhaya acquisition, which has been subsequently paid in May, which will not happen in the next few quarters since we have repaid loans of almost Rs. 255 crores in the first quarter from the proceeds of the public issue.

Our losses are lower at Rs. 78 million versus Rs. 109 million last year. The results are as per IndAS, but if you see for the full year, the impact of the IndAS is a positive Rs. 1.22 million for the full year, largely on account of goodwill amortization not happening, then there are some changes in the fair valuation of accounting in ESOPs. So the net impact is a positive Rs. 1.22 million for the full year. So last year's financial results in terms of standalone basis versus Rs. 270 million were Rs. 272 million for the full year. In terms of utilization of proceeds, of course, from the Rs. 325 crores that we have raised, we have repaid Rs. 255 Crores completely as of today, up to 30th of June, we paid about Rs. 251 Crores. And the company has transitioned on to GST since most of our products are zero-rated products, the impact on the sales is not substantial, but our SAP and other systems have been revamped and online in terms of the requirements as per GST. Thank you.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Ashutosh Somani from JM Financial. Please go ahead.

Ashutosh Somani: Just wanted to understand, I understand it is a low season quarter for us, seasonally low quarter for us. But will it be possible to give some directional trends to the performance of subsidiaries especially Chhaya, that is one. And the other thing is, when we say most of our products are zero taxed, I just wanted to understand, if we give a CD with a book, does it attract GST?

Saurabh Mittal: So I will answer the second question on to the CD. So what we have seen is that CDs as on today are becoming largely irrelevant. So most of our books we are moving from CDs and we are providing Apps and other net support solutions, because most of the computers that come today come without CD drive. That is one initiative that we have taken and that is saving us a lot of cost in the current year.

Himanshu Gupta: And if CD is demanded by some schools, CDs can be given separately to those schools. Since the price of the CDs will be very substantially lower, because the cost of CD is lower. So if this is demanded by some schools, we can provide them as well.

Ashutosh Somani: Sure. So in essence, we are saying that even the hybrid products do not attract any tax rate under GST regime. Is that understanding, correct?

Himanshu Gupta: Right. So basically because apps do not have any tax impact and CDs if they are demanded we can give the CDs at a very low cost. So that will have a very low impact in any case. Samir, can answer the first part.

Samir Khurana: On the first question, to give you a sense of performance on material subsidiaries, because we gave numbers on standalone and we have only commented on standalone, the sales number of S Chand, being Rs. 34 crores is excluding any of the subsidiaries. In terms of the performance of other subsidiaries, all the 3 subsidiaries have recorded good growth. On a consolidated level, the growth trends are very similar to what we have shown for S Chand on a standalone basis. And Chhaya's contribution of revenues is approximately Rs. 19 crores at the consolidated level.

Moderator: Thank you. We will take the next question from the line of Keyur Pandya from Prabhudas Lilladher. Please go ahead.

Keyur Pandya: Sir, my question is regarding the digital investment that you have done. So I think our total investment till now is around Rs. 100 crores in digital ventures, if I am not wrong. So what is the outlook there and what is the guidance there in terms of investment in returns? And in terms of Virtual Reality Experience that you talked about, will we be required to do some substantial investment and how we are expecting to pay back from that service?

Samir Khurana: So on the first part, on the digital side, from the IPO from the first quarter, we have not made any further investments apart from some normal CAPEX towards content. For the full year also we are only looking to invest in our content, we are not currently looking at any minority investment. The only minority investment that we looked at and we did was investing Rs. 25 lakhs in Smartivity which was along with other investors. The digital businesses are forecast to grow around 30% this year, year-on-year 30% to 35%. And between the two digital businesses, Mylestone, which we started last year, we were looking at a significant addition of schools. We signed 68 schools last year, this year we are looking to at least double the number of schools. So digital, again as I mentioned, we are looking at a 35% revenue growth. In terms of profitability, the businesses should be close to EBITDA breakeven. I think DS Digital will be profitable, Mylestone is relatively new and should be at breakeven this year hopefully, if we meet the numbers. In terms of payback, it will take a few years for us because what we see right now is there is a lot of transformation in the market. Three years ago the market was very competitive, we had certain large players playing on commercials but now because the market has kind of cleaned up, some of the larger players are struggling, it is much easier for us to sell our solutions based on the quality of content and not only the pricing. So we do expect digital businesses to start contributing to the bottom line in the next 3 odd years. On the VRX side, we are not going to invest substantially in it, the investment will be probably…

Himanshu Gupta: So, the investment we are starting with, because it is a very new initiative. So starting with the development cost because we are doing with 9th and 10th books of science and we are developing 30 modules and one module will cost us around Rs.1.5 lakhs, so it is around close to Rs. 4.5 million to Rs. 5 million in the total investment in terms of development. And with the glasses that we are giving with the books itself is of variable cost. So that cost has been added already in the books price.

Samir Khurana: So we are actually looking to price the VRX by embedding in the price of the book. Effectively, we are looking at making sure that it is not a loss-making venture for us right from the start and because we have a very strong positioning in science, especially in the case of S Chand with the best-selling authors, for us our ability to sell this product is much better.

Keyur Pandya: Okay. Sir, can you just throw some more light on exactly what the Mylestone is? And the last question is on standalone basis we have seen a reduction in the working capital. So on standalone as well as on consolidated basis, what should be the trend in terms of working capital, because I think working capital in Chhaya is lower as compared to S Chand ex-Chhaya, right?

Samir Khurana: So I will answer your first question on Mylestone. Mylestone is an end-to-end curriculum solution, where rather than going to your school and providing either digital or books, we provide the complete solution, so we provide books which are customized, we provide digital content, we provide activities, we train the teacher, we support the teacher and designing the curriculum, so that the outcome, the learning for the child is more effective. When we sign a school in Mylestone, we typically take care of all the content needs of that school and no other publisher is involved.

Keyur Pandya: And how do you price that sir?

Samir Khurana: The pricing of that is approximately 5 lakhs per school, which should be how many students?

Saurabh Mittal: Approximately 300 students, because it is 1,700-1,800 per student.

Samir Khurana: So around 300 students Rs. 5 lakh - Rs. 5.5 lakh.

Keyur Pandya: Right. Then on working capital, sir?

Samir Khurana: See, on the working capital side, if you look at S Chand, we have recovered around 30% of our debtors in Q1, which is what we had indicated that around one-third debtors get recovered in the first quarter. However, that is on a standalone basis. On a consolidated basis, I think the performance is pretty much similar, it might be slightly better for some of the subsidiaries, because a lot of the subsidiaries are purely into K-12, S Chand is a combination of K-12 and higher education. In terms of looking at improving working capital, yes, we are trying to reduce our credit norms for some of the best-selling titles, and what is also happening is because our leadership position in the market and some consolidation, our ability today to negotiate better terms with the channel partners has improved. So there are 2 elements of working capital that we are focused on, one is stock, which you would notice has reduced. The second is receivables, where we are very focused on improving the collection.

Keyur Pandya: Sir, in FY17, working capital days were around 253 days. So what should be the steady state or stable working capital days for our company once Chhaya is included, I mean, if you can quantify in some range, broad range?

Samir Khurana: So last year, 253 were including Chhaya, but on a steady state basis, it is a bit difficult to answer, because it is a very seasonal business. Four years back, 50% of our sales were K-12, now 80% were K-12 and our dependence on the last quarter has increased. But having said that it is our target to reduce the receivables by at least 15 to 20 days by the end of the year. So we want to bring this 253 down by 15, 20 days by the end of March, and going forward also, our target is to bring this down further.

Moderator: Thank you. The next question is from the line of Arjun Khanna from Kotak Mahindra Asset Management. Please go ahead.

Arjun Khanna: I just wanted to understand sir, any reason why we haven't disclosed our consolidated numbers for the quarter?

Saurabh Mittal: So, I will take that question. We just transitioned on to IndAS and since we have got about 12 subsidiaries, the whole process of conversion of the opening balance sheet of 2016 and then we had to do 4 balance sheet transitions for each company so that it is taking some time and we hope that we would have a better sense soon on the full consolidated, but that process is on. And since we just got listed in May, and also with GST coming in, so there is a time issue also.

Samir Khurana: So, I think hopefully, next financial year, we will start giving consolidated, because we have to give an undertaking to the stock exchange at the beginning of the year, whether we will follow standalone or consolidated and we do not have the option to transition during the year. So, I think going forward from next financial year, we will look at giving consolidated.

Arjun Khanna: We could always release the pro forma numbers post the results, the consolidated, because given that our company has substantial value not just in the standalone, it is very difficult to get a full understanding on how the company has performed with just standalone numbers?

Samir Khurana: Arjun, see, I am very happy to share the consolidated numbers, but unfortunately I have taken a legal view and I have been advised that I can only disclose the numbers that have been discussed at the Board. So that is the reason why the consolidated numbers are not disclosed in the presentation.

Arjun Khanna: Sure, fair enough. Secondly sir, if you can probably just help us with our raw material or paper cost, how do we see that actually move throughout this year?

Himanshu Gupta: So Arjun, basically we had done the road show also, at that time also we explained, because paper cost is moving up. And this year, we expect the paper prices to move up substantially compared to the other earlier years. Paper used to have a movement of on an average, I would say 4% to 5%, but this year we are looking at a paper cost increase of 15% to 16% in terms of the upward movement.

Moderator: Thank you. We will take the next question from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Thank you for taking my question. Sir, just taking off from where Arjun asked the last question. The increase in paper cost, sir, do we believe that we will be able to pass on most of this increase in our revenues?

Himanshu Gupta: Yes, normally the increase in the paper, the book prices every year annualized basis around 8% to 9%, that's the average increase that we take in account on a normalized basis, but this year because the paper costs have gone up substantially, so we are increasing the prices of our books between 10% to 12% on an average basis and that should be sufficiently enough to cover the paper prices, because paper cost is around 20% of the total cost of the company on a net sale basis. So we should be able to cover those prices back, taking an increase of 10% to 12% in the book prices.

Samir Khurana: And Aditya, it is an industry feature, because if you look at most publishers, the prices of books are being increased in a same proportion, so we are going to increase the prices in according with the industry. Even there were some media articles that NCERT is looking at increasing the price of its books by up to 30%. So I think it is going be an industry wide increase.

Aditya Bagul: Okay. That's quite helpful, sir. And just one more question from my end. Sir, in your opening remarks, you touched upon the restructuring plan that was presented to the Board. Can you please share some more details on the same?

Samir Khurana: Yes. When we were on the road show, we had got feedback that the capital structure or the holding structure that we have is a bit complicated and we need to collapse this, that is something that we have also discussed with our Board and investors in previous meetings. The discussion that we had with the Board was that, we would like to look at various options of collapsing and consolidating the holding structure, and one of the option that is being considered is to merge some of the subsidiaries with S Chand. And these are not the core subsidiaries like Vikas, Saraswati or Chhaya, but the other subsidiaries which either have digital assets or which have printing facilities. We are currently analyzing either merging or demerging some businesses from subsidiaries and merging with S Chand both the options. The objective obviously is to reduce some of the costs also to and improve our tax efficiency. And the status as of now is that we will be looking at taking some expert advice and probably a formal proposal will be put up to the Board in the next meeting.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investment Consultancy. Please go ahead.

Sunil Kothari: Broadly, we are talking about this restructuring, should we expect this, by this year end, that should be a one-off win, so whatever subsidiaries we want to merge or consolidate?

Samir Khurana: See, we are in August and hopefully in the next month or so we will have a Board meeting and this will be brought up. Now beyond that it is more of a regulatory timeline because any merger, demerger requires a court approval. Our objective obviously is to go ahead and try and execute whatever the Board decides ASAP. So the target is just to try and close by the end of this year, but again it is subject to regulatory approvals. The good part is that these are wholly-owned subsidiary, so the process should be fairly simple.

Sunil Kothari: Sir, my second point is about consolidated numbers, if you can provide basically what you said is, Chhaya has done Rs. 19 crores revenue, we have done Rs. 30 crores. So roughly consolidated numbers, just topline should be in the range of what?

Samir Khurana: I will give you a sense of topline, because topline is something that is coming from the management MIS. On a topline basis we are approximately Rs. 73 crores versus Rs. 34 crores last Q1. Out of that Rs. 73 Crores , Rs. 19 Crores is flowing in from the new acquisition and the core business, the existing businesses have grown from Rs. 34 Crores to Rs. 54 Crores.

Sunil Kothari: Great. And sir my another point is during the last five-year, we have grown really well with a little bit inorganic growth also. So this trajectory can we expect for next 3-5 years, should we take this view that 30% topline is feasible to achieve?

Samir Khurana: Yes, I think on the guidance we have always maintained that we are looking at 14%, 15% organic growth. Now anything beyond that, obviously if you outperform that is a different thing, but I think on the inorganic side that is very dependent on the acquisitions that we do. As we mentioned previously also, we are always in conversation for a few opportunities. However, there is nothing significant right now that we are looking at. As and when we do an acquisition, it has to fit within our strategy and it has to be margin accretive. So it is very difficult for me to give you a sense of the inorganic part of the growth. At best I can comment on the organic part, which we believe a 15% growth rate is possible in a 3-5 year timeframe.

Himanshu Gupta: Yes. And you have to also appreciate the fact that because our business especially the school part of the business is largely dependent on the quarter four and right now for the first nine months of the business, we always plan and strategize and manage logistics and everything, and the last 3 months is basically when the business actually happens. So basically we feel 14%-15% is doable organically, rest is very difficult to comment right now, maybe in the Q4, at that time, we will have a better view of what is happening.

Samir Khurana: One of the objectives obviously is to increase our presence in regional board markets or state board markets. And I think one of the benefits of that is that we should be able to have a half year heavy business versus a Q4 heavy business. So some of the regional businesses are Q1 heavy and our objective is to try and increase the exposure to first quarter as well.

Sunil Kothari: Great, sir. And my last question is, should we expect some dent on EBITDA margin this year because of this paper price going up so our track record of improving margin year-on-year?

Himanshu Gupta: So paper prices will not largely have a dent, very minor I would say, if any. On a stable basis our expectation is to have a 25% Group level EBITDA for the company which is largely achievable.

Moderator: Thank you. The next question is from the line of Manjubhashini from Sundaram Mutual Fund. Please go ahead.

Manjubhashini: Couple of questions. Last time, in Q4 you mentioned about some spillover of revenues that has gone into Q1 because of one in the NCERT books not being taken up in Q4 and also on the test preparation side, there were some restructuring that you were on and the change in the syllabi not accounted for and that was also expected to spillover to Q1. Any updates on that front, one? And this increase in the paper cost which you talked about which can be largely passed on. I mean, what has been your experience so far there? Any push backs that we are getting through and talking to some of the other peers in the market, they say the contracts were in, what is our sourcing strategy here, is it a 6 monthly or one year contract that we have with these paper companies or what is it like? If you can throw some light there?

Himanshu Gupta: So for the paper contracts, normally, the paper contracts are for one-year period, starting with the beginning of the financial year and till the end of the financial year. That is normally the paper prices that we have been doing. And paper prices have gone up and we feel that the impact we will be able to pass on largely to the customer by increasing the book prices. And I think because as a branded player, as a strong branded player in the market, we have an edge over other players in the market to pass on the prices plus we are giving a lot of, I would say lot of value added materials with the books. So it is not merely books that we are giving, so we are giving teacher support books, we are giving teacher training workshops, we are giving assessments, we are giving lesson plans, we are giving digital material apps now and lot of other materials. So basically the customer now is really becoming more and more quality conscious at the school level and even at the parent's level. So we believe players like us have a better edge in passing the prices to the consumer. What was the first part of the question, can you repeat it again, please?

Samir Khurana: On the NCERT side, I think what happened was some state orders did come in April because there were delays in delivery and I think that is also partly reflected in the fact that year-on-year the growth was significantly higher especially on the K-12 side. On the test prep side, there is some restructuring that we did, but I think test prep Q1 is always not a very large quarter, you will see a reflection of test prep performance in the subsequent quarters.

Manjubhashini: And so the revenue lost in Q4 on the test prep is lost for the year, correct, that is how we should take it?

Samir Khurana: Test prep is dependent on the exam, rather when an exam is coming based on which month there are more exams, your ability to sell books increases. So it is not, I mean, I won't say that the revenue is lost, what happens is that when we revise a book or when you modify a book, then it takes time for the market to get your stocks. And today when we have given new stock in the market, the sales will pick up. Right now, Q1 is still not a very large quarter for us when it comes to test prep.

Manjubhashini: What would that revenue number be, sir, if you can quantify it broadly?

Samir Khurana: Yes, I think the revenue number last year was Rs. 29 million, this quarter its Rs. 22 million for test prep.

Saurabh Mittal: So we did Rs. 29 million last June. No, for Q1 last year was Rs. 29 million, this time it is Rs. 22 million.

Samir Khurana: But again on a full year basis, test prep last year was approximately Rs. 63 crores - 64 crores, if you look at the percentage, it is very negligible.

Manjubhashini: And test prep business attracts GST, right, your K-12 GST is not applicable, but…

Saurabh Mittal: No, test prep does not attract GST.

Himanshu Gupta: Any educational books does not have any kind of GST, only books which have an element of stationery in-built in them like notebooks or something like that which have lot of writing space will attract some GST. So our total books under GST is totally less than 2% of the sales.

Saurabh Mittal: Only 2% of our total would have GST.

Manjubhashini: And even if you supply it along with CD, CD is not considered as stationary there, it is considered as a book only, is it?

Himanshu Gupta: Yes.

Saurabh Mittal: No, CDs as we already mentioned in the first question, we are removing CDs from the books on supply, because CDs as a product is no longer relevant. We are providing it on a demand basis and we are providing more data on the web support and on apps rather than providing it on CDs.

Manjubhashini: Fine. And you made a mention about trying to work with non-branded pre-schools and you are starting this exercise in Delhi and NCR region and you had very ambitious targets of reaching a million odd students in 2-3 years' timeframe. Can you please elaborate here, what is it that we are exactly trying to do here?

Himanshu Gupta: Yes, so the million students that we are trying to reach actually is for the Virtual Reality Experience, not for the early learning. In early learning what we are doing is right now is a pilot project, it is a new initiative. And what we are trying to do is, because the non-branded pre-schools, which are not affiliated to any brand like Zee Kidzee or EuroKids or Bachpan and all those big brands. Big brands normally have a franchisee model with the pre-schools and these schools basically they give the curriculum to them, books to them, and lot of other stuff that they provide to the schools. But the non-branded pre-schools do not have any kinds of curriculum partner with the schools. So we are going to become like the educational partner or the curriculum partner with the schools, where we plan to give them printed material plus digital material, plus teacher training, plus assessment to the students, how the students are performing in the class, plus some activities to the students that they can do it themselves. So we will become an educational partner to the non-branded pre-schools in the country, that is what our idea is.

And it is just a pilot we are doing, starting in January this year. And then we will see how the pilot works out and if the pilot works out well, we will roll it out all over the country in a phase wise manner. And for that we are trying to rope in a digital content partner, large global content partner, which can help us in giving high quality digital content for the pre-schools.

Manjubhashini: And what would be the investments from our end, incremental, because you are talking about roping in another partner for the digital content, especially for this segment. I believe we have already invested in the digital for various other initiatives and it is still not profitable, if I am correct at the consol level. So what sort of investments should we project here for these newer initiatives?

Samir Khurana: So what we are looking at here is not any kind of, when we talk of the partnership, we are not looking at giving any commitments or any minimum guarantees. It is purely a revenue share model where I have no commitments on the pilot basis, I will buy content, I will sell it. So strictly speaking there is no cost or investment on the content side. The only investment I will have is on my team and that is a very small investment maybe of 30 lakhs, 40 lakhs. I want to highlight one thing, we're not looking at any significant investments on the digital side, all we are looking at is to further consolidate and gain larger market share in our existing digital businesses. We have not done any minority investment, new minority investment in digital in the last close to a year now. These are all initiatives where we already have a presence among students and we want to further increase our relevance for those students. We are not trying to go and capture a new audience or to build new content, pay a lot of money for it and then try and monetize, that's not the idea.

Moderator: Thank you. The next question is from the line of Nishna Biyani from Prabhudas Lilladher. Please go ahead.

Nishna Biyani: Sir, the presentation has been very nicely highlighting that the opportunity in the industry is still a lot considering the regional medium schools out here, and only 20%, 25% is organized private school business this point in time for textbooks. Just wanted to know what can be the size of your business, say seven or 10 years down the line. Today we are at Rs. 700 crore odd turnover. So where do you foresee not for 1-2 years, say 5-7 years down the line, what should be the kind of opportunity for S Chand in the Indian market being the largest listed player in the textbook space?

Himanshu Gupta: Nishna, I think that is a very difficult question, because if you had asked me 5 years back when we have 170 crores, where will you be in five years, I would not been able to say 700 crores. But having said that, look organically as I said we are looking at 15% odd growth of that K-12 will be the key driver where we are anticipating this year also 18% to 20%. Having said that one very key strength that we noticed is a lot of students are now relying on private schools. So there are reports that suggests that the students which go to private schools versus public schools is one-third, two-third, and in the next decade, it is expected to actually reverse. So we will actually have two-thirds of students relying on private schools. So basically by the report which says it by 2030, around two-thirds of the students will be going to private schools and one-third will be going to government schools, which is right now the opposite. So we believe that the education opportunity in India is huge, because quality education unfortunately in the last 70 years of our independence has been not been provided by the public schools. And the quality education the students have to rely on private schools. And private schools open up the market for private publishers like us, private education providers like us. So we believe in next 10 to 15 years, the opportunity in the education space is quite large and the branded and the organized players will have a more advantageous position rather than the non-branded or the local players.

Nishna Biyani: Sir, I completely agree with you on that part, in terms of, as the affordability in the hinterland improves, the business prospect for companies like S Chand also improves. And over the last few years, the media hype regarding the textbooks, prices going up significantly, just wanted to know your thoughts on that part, what is the steady state inflation which one should build in S Chand's textbook portfolio?

Himanshu Gupta: So if you see the textbook prices in India and if you compare with any of the developing or the developed countries in the world, Indian textbook prices are still one of the lowest in the world. Unfortunately, we cannot compare ourselves with NCERT textbooks, because NCERT textbooks are highly subsidized by the government in terms of paper and other costs. So we believe from the next 5-7 years, there is a good scope of improvement in the prices of the books at a normalized basis that we increase and which is around 7% to 8% as on an average basis and after that maybe we have to see what will happen. But the important part in the education sector today is the child or the parent or the teacher only does not want books, they want other value added features with the books, which help players like us to increase the prices more or which helps us to penetrate the market more, because other local players are not able to give value added services with their books and with their content, which we are able to provide on a timely manner and which will help us gain more market share in the near future.

Nishna Biyani: Sure. And sir, when I look at the publishing business in India, most publishers are being unlisted, but the business as such generates a lot of cash, and when I look at your balance sheet after the IPO, now your kind of net cash balance sheet at least standalone. Just wanted to understand the cash generation from operations say this year, what are the uses which you are seeing, whether there is a dividend policy coming up or how do you decide to use that cash?

Samir Khurana: So, see what we are looking as we mentioned earlier is that, one of our strategies is to focus on increasing our share in the state board and the regional markets, which is largely going to be an inorganic play. Now if there are opportunities to do a certain acquisition, we will be looking at that and we will be looking at using our free cash flows to fund that acquisition to the extent possible. If there is no viable investment opportunity then we are open to giving out dividends.

I think that is the call that we have taken internally. The idea is to reward the shareholders with dividends, but at the same time, if we feel there is an opportunity that can be beneficial to all the shareholders then we should look at these opportunities.

Nishna Biyani: Sure. And sir, lastly just wanted to understand, the digital investments which we have made till date. So is there a way wherein, of course, when you look at ROE, ROC, it is been at least since they are not generating a significant cash, it is been diluting the ROE, ROC. But is there a way wherein we can monetize some of this investment and what is your thought process there? Is it just a very, very long-term picture, which are looking that you keep on investing in the start-ups and in subsequent round of funding you too participate or can some monetization in the 4-5 ventures which you had highlighted, can there be some monetization of those?

Samir Khurana: We have invested out of the 100 crores approximately one-third has been invested in minority stakes in 5 companies. Now there are 2 or 3 ways in which we work together with these companies. One is these are investments, but at the same time, these are investments that we made at a certain price looking at a certain strategic benefit that will flow to us and to them. So from a financial point of view, 3 of those 5 invested companies have gone and raised further rounds of funding from very credible VC funds at significantly higher valuation. We have invested in follow on rounds in a few cases, but again I think we are very valuation conscious and beyond a certain valuation we will not invest, so in those cases we have been diluted. However, we continue to be on the Board of Directors of most of these companies, I think baring one when we have a very small stake, we are on Board of all the other companies and we are involved in key decision making, not in terms of operations, but in terms of strategic decision making. In terms of monetization how it works is that, we use their tech abilities and combine it with our content and try to improve our product offering, as well as give them a distribution channel. So for example, in one case, which is a test prep business that we have invested in, we will actually supplement our books with their test prep coupons. And the idea is that our book then starts to give more value to the child, because there are lot of new exams that are moving online, it adds a new distribution channel for the startup and as an investment it benefits all of us. So that is how we try to monetize. In the case of Edutor, which has an LMS, we actually use their LMS for a lot of these solutions that we provide to schools with our content. So it is a very collaborative approach and at the same time it is a financial investment, which we are looking to maximize both financially, as well as from a strategic point of view.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Sir, can you provide me standalone and consolidated debt after this repayment, which we have done in July?

Saurabh Mittal: On a standalone basis, 30th of June, our gross debt is about Rs. 570 million, but our net debt is…

Samir Khurana: It is basically there is a cash positive of Rs. 247 million.

Sunil Kothari: And on consolidated?

Samir Khurana: Please give us one minute.

Sunil Kothari: Yes. And by then sir, if we can throw some light on this bifurcation or percentage of revenue quarterly, you said normally first quarter gives 6% and last quarter gives 80%. This was we talking consolidated numbers or standalone?

Saurabh Mittal: If I look at last year as a trend, last year we reported approximately 5% to 6% on both standalone and consol in Q1. So on the debt side, on a consolidated basis as of 30th of June, our gross debt is about Rs. 140 crores, but our net debt is Rs. 29 crores, because we have a cash of about 111 crores, including the funds that we had received from the IPO.

Sunil Kothari: Right. So sir, the trend of 80% revenue that you indicated is normally consolidated numbers approximately?

Samir Khurana: See, I will tell you how it works. Now because K-12 has become 80% of my revenues and I think this year it will probably cross 80%, because we are again anticipating K-12 to grow faster than higher education. So most of sales will happen in the last quarter, that is why the dependence on Q4 has increased. Last year versus 4 years ago, it is significantly gone up. Last year was approximately 6% of the annual revenues. I know it is not an indicator for this year, but that is the best sense I can give you. It is very difficult for me to give you a full year sense, but having said that, we are looking at around 15% growth, which is a guidance we gave in the last call also. And our revenue last year on a normalized basis were, if I do full year consolidation of Chhaya was Rs. 712 crores. If I just do the math approximately the revenue that we are looking at is upwards of in Rs. 820 crores closer to around 15% growth.

Sunil Kothari: Right. And sir any specific reason or one-time growth in this first quarter consolidated and standalone, we have grown almost 100%?

Saurabh Mittal: There was no one-time revenue as such.

Samir Khurana: No, we have no revenues which are exceptional by nature. The revenue is primarily books, there are no contracts or government contracts or any other contracts which is a one-time revenue item.

Sunil Kothari: Okay. So there is no one-time effect of any type of business which has grown disproportionately? This is a normal business, this 100% growth in first quarter?

Samir Khurana: Yes.

Saurabh Mittal: It was basically lower, so I mean, it is a low base, but then it is a good start to the year.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.

Samir Khurana: Well, thank you everyone for giving us the time and attending this call. And we look forward to having more interactions with you, and if there are any specific questions you have, you can always either call us or write a mail to me or Saurabh. Thank you.

Himanshu Gupta: Thank you so much for attending this call. This is Himanshu Gupta checking out. Thank you.

Moderator: Ladies and gentlemen, on behalf of Axis Capital that concludes today's conference. Thank you for joining us. And you may now disconnect your lines. Thank you.