

9th January 2018



S Chand and Company Ltd



Market leader
consolidating
the Indian education
space further.



Leading K-12 education
content provider

Acquisition strategy
to boost revenue

Initiate with BUY;
TP - INR 675



S Chand and Company Ltd | BUY

Market leader consolidating the Indian education space further

S Chand is a leading education content and services provider across the education lifecycle, with a commanding share in the CBSE/ICSE K-12 segment. The company also operates in the higher education and early learning segments. S Chand is ideally positioned to capitalise on the burgeoning education market in India, with its strong brand equity comprising 59 consumer brands and high consumer recall. After three major acquisitions over the past five years, the company clocked revenue CAGR of 31.6% and EBITDA CAGR of 46.3% over FY12-17. Further penetration-led growth opportunities, strong execution of its inorganic growth strategy and a healthy balance sheet ideally positions the Company to benefit from the overall growth in India's education sector. We forecast a c.14% EBITDA CAGR over FY17-FY20E and value the stock at 9x EV/EBITDA FY20E to arrive at a fair value of INR 675/share, implying an upside of 25%+. We initiate with a BUY rating.

- Ideally placed to capitalise on India's booming education market:** India's economic growth and expansive young population has led the share of education-related spending – within India's consumption expenditure segment – to increase from 4% in 2005 to 5% in 2015. Ancillary segments have become direct beneficiaries of growth in the education segment. S Chand leads the Indian education content market with strong presence in CBSE and ICSE affiliated schools. The K-12 segment – which forms c.80% of the company's revenue – has an addressable market size estimated at over USD 3.4bn. Its integrated in-house editorial/sales teams, 2,400+ author relationships, 59 consumer brands across the consumer lifecycle and 6,500+ pan-India distributor network has enabled the company to capitalise on India's burgeoning education market. S Chand also operates in the higher education and early learning segments and has been investing in digital products and technology platforms to complement its growth.
- Organic/inorganic revenue growth, synergies across acquired brands aid higher margins:** S Chand's net sales nearly quadrupled over FY12-FY17 to INR 6.8bn as the company expanded its school board presence and subject matter offerings through strategic acquisitions of brands such as Saraswati, Vikas, Chhaya and Madhubun. Integrated raw material purchases, in-house content development and in-house printing have resulted in EBITDA margin increasing from 20.5% in FY13 to 25% in FY17. The company is likely to gain further momentum in EBITDA as it furthers its presence into the State Board market via acquisitions similar to Chhaya. High cash flow from operations and limited capex are expected to keep free cash flow positive with an FCF yield of 4.4%/3.8% for FY19E/FY20E, respectively.
- Leadership in K-12 and strong execution on the inorganic growth strategy to drive earnings; Initiate with BUY:** S Chand's leadership position in CBSE/ICSE in the K-12 segment and the opportunity for penetration-led growth, along with the strong execution of its inorganic growth strategy and healthy balance sheet positions the company to benefit from the growth in India's education sector. Revenue dependence on authors, unexpectedly large sales returns by distributors and the seasonal nature of the business remain key risks. We estimate a potential EBITDA increase from INR 1.7bn in FY17 to INR 2.6bn in FY20E and estimate an EPS CAGR of c.33.2% over FY17-20E. We value the stock at 9x EV/EBITDA FY20 to arrive at a fair value of INR 675/share, implying an upside of 25%+. We initiate with a BUY rating.



Ashutosh Somani

ashutosh.somani@jmfl.com | Tel: (91 22) 66303083

Nitin Agarwala

nitin.agarwala@jmfl.com | Tel: (91 22) 66303125

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	NA
Current Price Target (12M)	675
Upside/(Downside)	28.7%
Previous Price Target	NA
Change	NA

Key Data – SCHAND IN

Current Market Price	INR525
Market cap (bn)	INR18.3/USD 0.3
Free Float	53%
Shares in issue (mn)	34.8
Diluted share (mn)	34.8
3-mon avg daily val (mn)	INR44.8/USD 0.7
52-week range	707/425
Sensex/Nifty	34,353/10,624
INR/USD	63.4

Price Performance

%	1M	6M
Absolute	9.0	5.6
Relative*	5.5	-3.6

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary

Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	5,376	6,841	8,026	9,066	10,276
Sales Growth (%)	12.8	27.3	17.3	13.0	13.3
EBITDA	1,250	1,709	1,991	2,253	2,557
EBITDA Margin (%)	23.3	25.0	24.8	24.9	24.9
Adjusted Net Profit	461	582	928	1,185	1,376
Diluted EPS (INR)	13.2	16.7	26.7	34.0	39.5
Diluted EPS Growth (%)	63.2	26.4	59.5	27.6	16.2
ROIC (%)	10.0	9.9	10.7	11.6	12.4
ROE (%)	9.3	9.3	10.8	10.5	11.0
P/E (x)	39.7	31.4	19.7	15.4	13.3
P/B (x)	3.1	2.8	1.7	1.5	1.4
EV/EBITDA (x)	16.0	12.8	9.2	8.2	7.0
Dividend Yield (%)	0.0	0.3	0.3	0.3	0.3

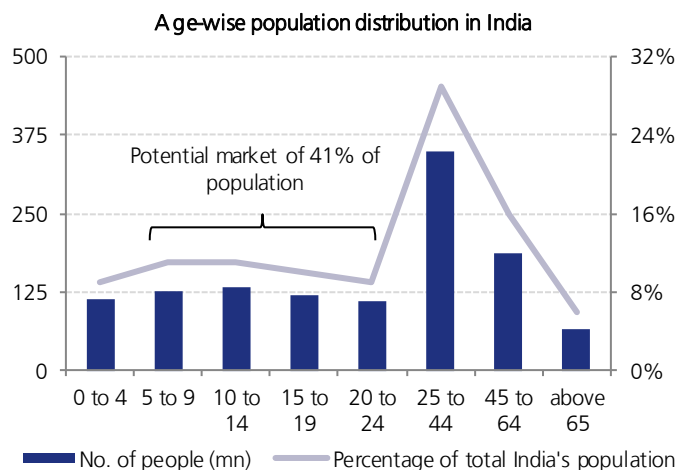
Source: Company data, JM Financial. Note: Valuations as of 08/Jan/2018

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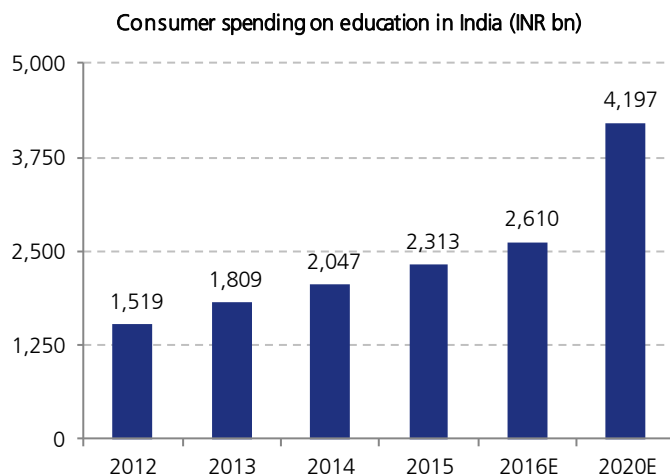
A) Story in charts

Exhibit 1. 41% of India's population a potential education market



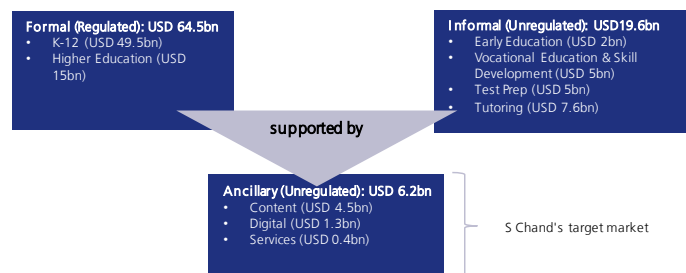
Source: IBEF, JM Financial

Exhibit 2. Increasing share of spend in education



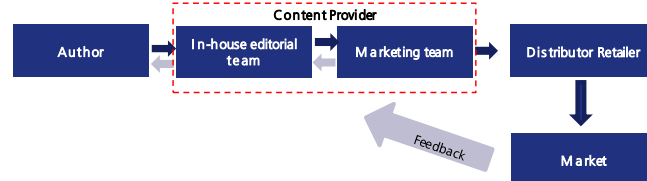
Source: Euromonitor, JM Financial

Exhibit 3. Indian education industry structure



Source: Technopak, JM Financial

Exhibit 4. Value chain in the publishing sector



Source: Technopak, JM Financial

Exhibit 5. Number of schools by affiliated boards ('000)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	CAGR FY11-17 (%)
CBSE	11.3	12.3	13.9	14.8	15.9	17.5	19.4	9.4%
ICSE	1.5	1.6	1.7	1.8	1.9	2.2	2.2	7.3%
State Board	1,316	1,364	1,447	1,466	1,460	NA	NA	NA
Total	1,329	1,378	1,463	1,482	1,478	NA	NA	NA

Source: DISE, School Board reports, Nielsen estimates, JM Financial; Note: Excludes Madrasa and unrecognised

Exhibit 6. Estimated spending on books for K-12 segment - by board (USD mn)

	FY11	FY12	FY13	FY14	FY15	CAGR FY11-15 (%)
CBSE	203	252	305	372	445	21.7
ICSE	28	34	41	50	59	20.5
State board	1,434	1,718	2,046	2,448	2,862	18.9
Total	1,665	2,004	2,391	2,870	3,366	19.3

Source: Nielsen, JM Financial; Note: Estimation based on available data based on enrolment figures, drop-out rates and individual expenditure on books

Exhibit 7. Key segments in which S Chand operates

Segment	K-12	Higher Education	Early Learning
FY17 revenue contribution	80%	18%	2%
Target customer	Schools Students (4-18 years)	College Students / Professionals (>18 years)	Children (below 4 years)
Products	- School books for kindergarten to Class 12 ("K-12") of the formal educational system (schools affiliated to Central/ State Boards) - Digital Content and interactive education solutions	- Books for college and university students pursuing arts, science & commerce degrees; customized content for universities - Books for test prep in competitive exams, job selection - Online test prep platform	- Children books and educational toys - Activity based modules - Experiential learning
Business model	B2B2C (sales through schools via distributors); B2B2C (sales via retailers) for part of 9-12	B2B2C (sales via retailers)	B2C sales

Source: Company, JM Financial

Exhibit 8. Key brands of S Chand across segments

	K-12	Higher education	Early education
Core Brands			
S Chand	✓	✓	
Vikas		✓	
Madhubun	✓		
Saraswati	✓		
Blackie	✓		
Chhaya	✓		
IPP	✓		
Brands specialising in e-content and services			
mystudygear	✓		
Mylestone	✓		
flipclass*	✓		
Destination Success	✓		
Iqnitro*	✓	✓	
Testbook*			✓
BPI*			✓
Smartivity*			✓
Risekids			✓
OnlineTyari*		✓	

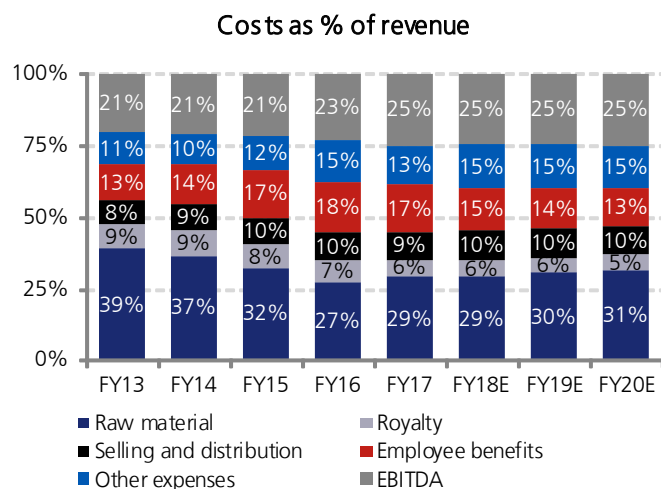
Source: Company, JM Financial; Note: * Investee Company

Exhibit 9. Segmental net revenue contribution

	FY13								FY14								FY15								FY16								FY17								FY18E								FY19E								FY20E							
	FY13								FY14								FY15								FY16								FY17								FY18E								FY19E								FY20E							
K-12 (Including Chhaya from FY17)	58%	58%	71%	73%	80%	81%	81%	81%	58%	58%	71%	73%	80%	81%	81%	81%	81%	58%	58%	71%	73%	80%	81%	81%	81%	58%	58%	71%	73%	80%	81%	81%	81%	58%	58%	71%	73%	80%	81%	81%	81%	58%	58%	71%	73%	80%	81%	81%	81%	58%	58%	71%	73%	80%	81%	81%	81%							
Test preparation	13%	12%	9%	11%	9%	9%	8%	8%	13%	12%	9%	11%	9%	9%	8%	8%	13%	12%	9%	11%	9%	9%	8%	8%	13%	12%	9%	11%	9%	9%	8%	8%	13%	12%	9%	11%	9%	9%	8%	8%	13%	12%	9%	11%	9%	9%	8%	8%	13%	12%	9%	11%	9%	9%	8%	8%	13%	12%	9%	11%	9%	9%	8%	8%
Professional and University	25%	25%	17%	13%	9%	8%	8%	8%	25%	25%	17%	13%	9%	8%	8%	8%	25%	25%	17%	13%	9%	8%	8%	8%	25%	25%	17%	13%	9%	8%	8%	8%	25%	25%	17%	13%	9%	8%	8%	8%	25%	25%	17%	13%	9%	8%	8%	8%	25%	25%	17%	13%	9%	8%	8%	8%	25%	25%	17%	13%	9%	8%	8%	8%
Early learning	4%	5%	3%	3%	2%	2%	2%	2%	4%	5%	3%	3%	2%	2%	2%	2%	4%	5%	3%	3%	2%	2%	2%	2%	4%	5%	3%	3%	2%	2%	2%	2%	4%	5%	3%	3%	2%	2%	2%	2%	4%	5%	3%	3%	2%	2%	2%	2%	4%	5%	3%	3%	2%	2%	2%	2%	4%	5%	3%	3%	2%	2%	2%	2%
Total (INR mn)	2,790	3,700	4,767	5,376	6,841	8,026	9,066	10,276	2,790	3,700	4,767	5,376	6,841	8,026	9,066	10,276	2,790	3,700	4,767	5,376	6,841	8,026	9,066	10,276	2,790	3,700	4,767	5,376	6,841	8,026	9,066	10,276	2,790	3,700	4,767	5,376	6,841	8,026	9,066	10,276	2,790	3,700	4,767	5,376	6,841	8,026	9,066	10,276	2,790	3,700	4,767	5,376	6,841	8,026	9,066	10,276								

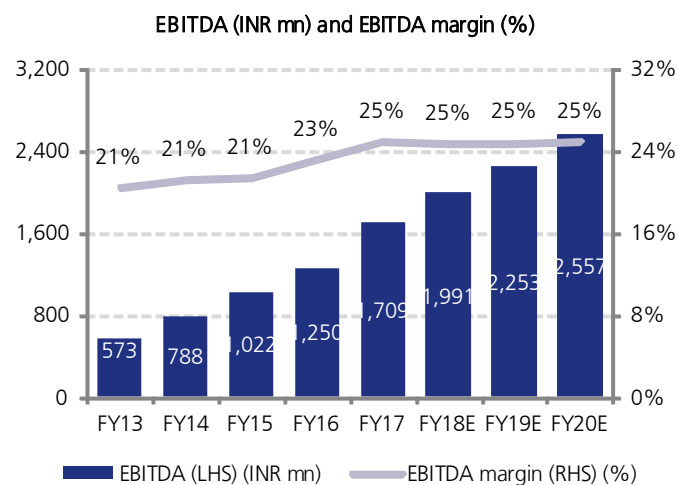
Source: Company, JM Financial

Exhibit 10. Raw material costs constitute c.30% of revenue



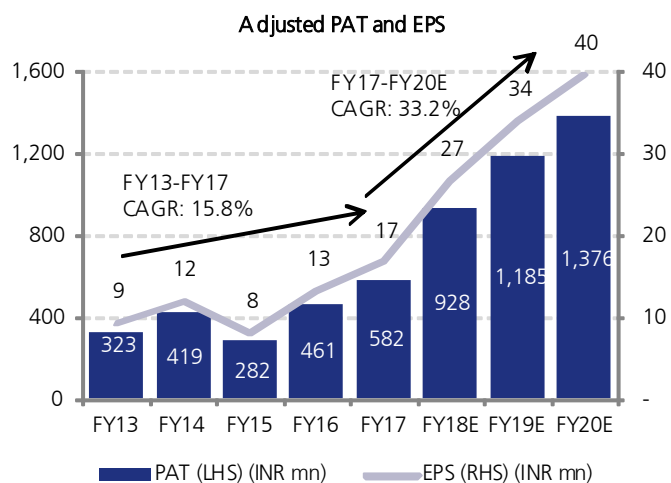
Source: Company, JM Financial

Exhibit 11. EBITDA expected to remain stable around 25%



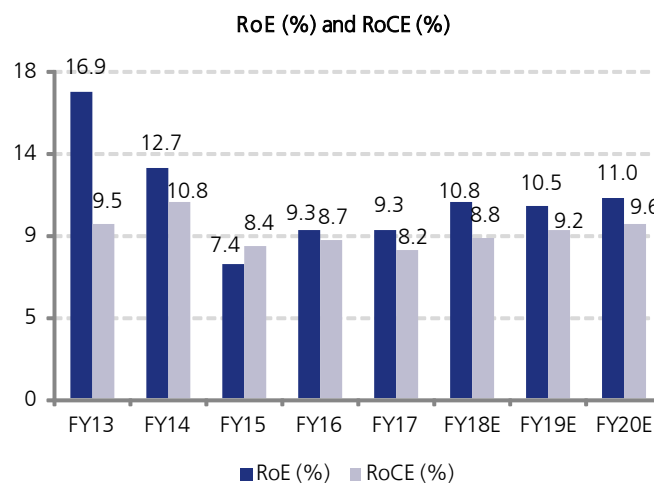
Source: Company, JM Financial

Exhibit 1. PAT expected to increase 33.2% CAGR over FY17-20E



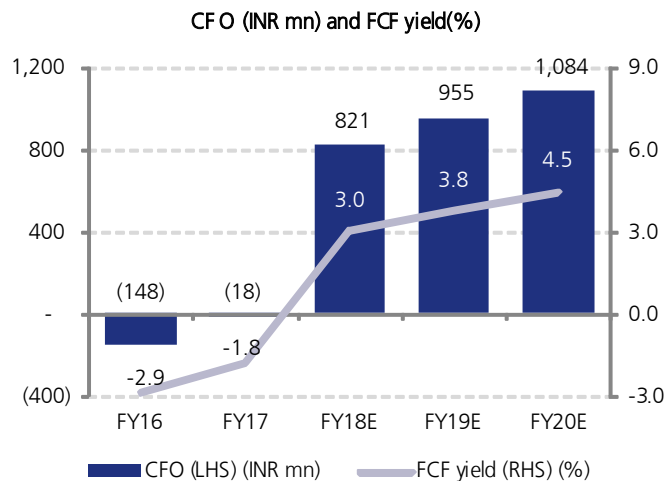
Source: Company, JM Financial

Exhibit 2. Low RoCE driven by acquisitions and printing capex



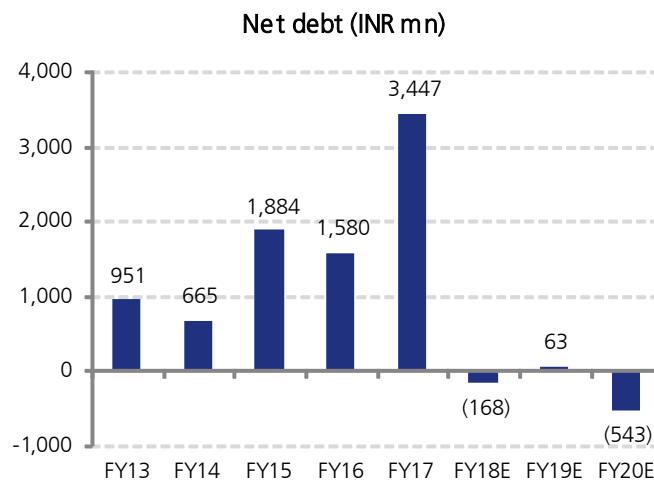
Source: Company, JM Financial

Exhibit 3. High CFO and lower capex to drive FCF



Source: Company, JM Financial, JM Financial

Exhibit 4. IPO proceeds in FY18 utilised for debt repayment



Source: Company, JM Financial, JM Financial

Exhibit 5. Target price; initiate with BUY

	(INR bn)
Target EV/EBITDA	FY20 9.0
EBITDA	2.6
EV	23
Less: Net Debt	-0.5
Implied mcap.	23.5
No. of shares (mn)	35
Fair value (INR/share)	675

Source: JM Financial

B) Company profile – a leading knowledge content publisher

- Brief background:** S Chand delivers content, solutions and services across the education lifecycle through its K-12, higher education and early learning segments. The company has presence across 40,000 K-12 schools with a strong presence in the CBSE/ICSE affiliated schools. The company entered the Regional Board affiliated schools segment in West Bengal through the acquisition of Chhaya in Dec'16. The company offers 59 consumer brands across knowledge products and services, including S Chand, Vikas, Madhubun, Saraswati, Chhaya, Destination Success and Ignitor. S Chand's textbook and instructional materials are supported by its offerings of technology-driven methods of education and digital learning. The company has an extensive pan-Indian network of sales offices, distributors and dealers.
- Strong past record of best-selling titles and renowned authors affiliation:** S Chand sold 48.3mn gross copies of 13,033 titles in FY17. The Company has relationships with c.2,400+ authors. The company retains and attracts the best authors due to its track record of progressing authors' careers and by providing on-going editorial team support to the author to create new products and solutions as well as refreshing existing products.
- Supported by pan-India network of sales and distribution along with in-house sales team:** S Chand's distribution and sales network consists of 6,500+ distributors and dealers. The company has an in-house sales team of over 900 professionals working from over 58 branch and marketing offices. The company considers its schools, teachers and student customers to be its "touch points", and its sales teams are responsible for forging relationships with its customers across the K-12 and higher education businesses. In the company's K-12 business, it markets content to educators and schools to place products on required and recommended reading lists. In higher education, the company markets its products directly to retailers and consumers.

Exhibit 6. Key segments in which S Chand operates

Segment	K-12	Higher Education	Early Learning
FY17 revenue contribution	80%	18%	2%
Target customer	Schools Students (4-18 years)	College Students / Professionals (>18 years)	Children (below 4 years)
Products	- School books for kindergarten to Class 12 ("K-12") of the formal educational system (schools affiliated to Central/ State Boards) - Digital Content and interactive education solutions	- Books for college and university students pursuing arts, science & commerce degrees; customised content for universities - Books for test prep in competitive exams, job selection - Online test prep platform	- Children books and educational toys - Activity based modules - Experiential learning
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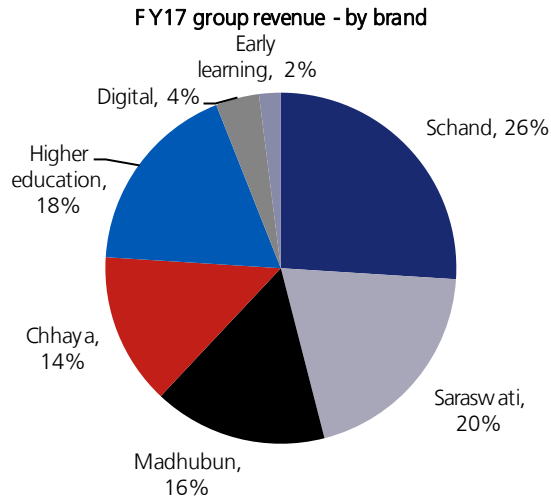
Source: Company, JM Financial

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Madhubun	✓		
Saraswati	✓		
Blackie	✓		
Chhaya	✓		
IPP	✓		
Brands specialising in e-content and services			
mystudygear	✓		
Milestone	✓		
flipclass*	✓		
Destination Success	✓		
Ignitor*	✓	✓	
Testbook*		✓	
BPI*			✓
Smartivity*			✓
Risekids			✓
OnlineTyari*		✓	

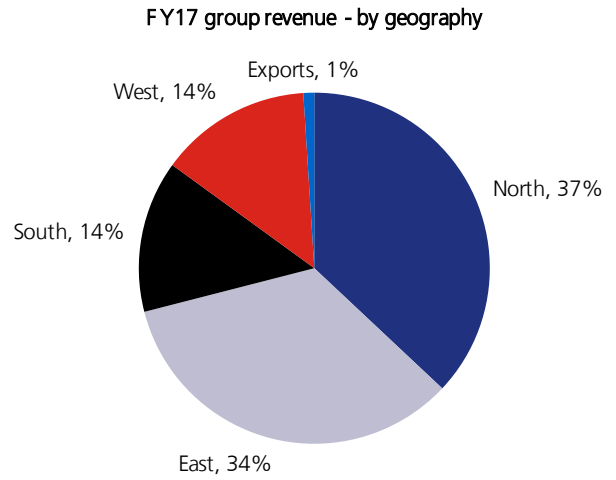
Source: Company, JM Financial; Note: * Investee Company

Exhibit 8. Well-diversified revenue across brands



Source: Company, JM Financial

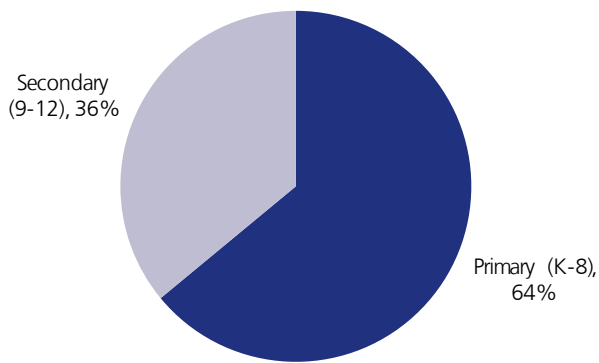
Exhibit 9. Pan-India presence



Source: Company, JM Financial

Exhibit 10. K-12 revenue spread across grades

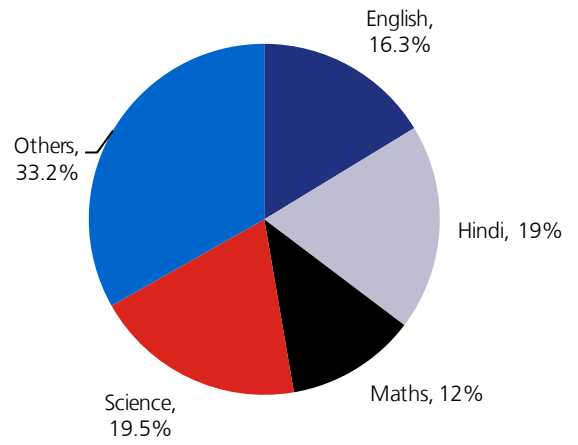
FY17 K-12 revenue: Primary vs Secondary



Source: Company, JM Financial

Exhibit 11. C.67% revenue from core subjects

FY17 K-12 revenue - by subject

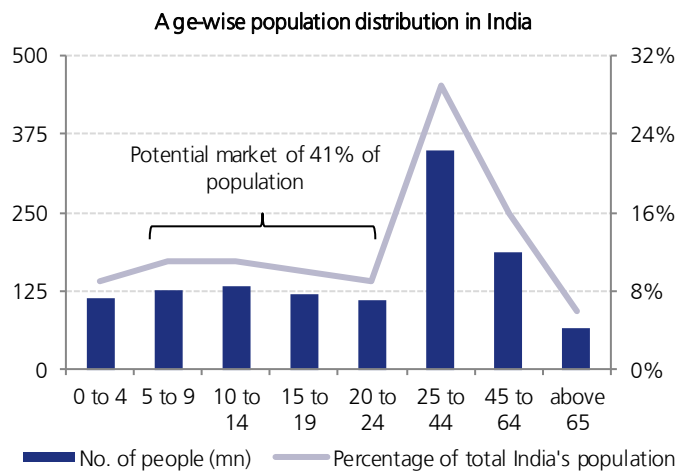


Source: Company, JM Financial

C) Education & Publishing – riding the growth in educational spending

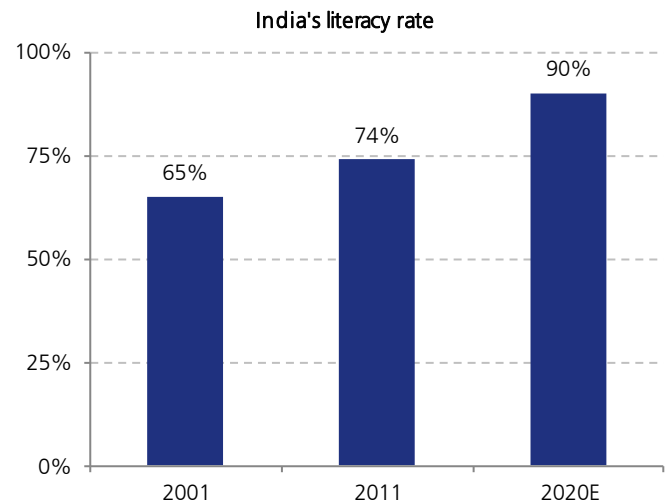
- India's education sector is a key beneficiary of economic growth and demographic dividend:** India is one of the fastest growing economies in the world. Over the past three years, India has recorded an average annual increase in its GDP of c.7.0%. According to the Nielsen Research Report, the Indian economy has the potential to become the world's third-largest economy by the next decade. India offers significant market potential due to its sizeable population, a burgeoning middle class and its young population being the largest in the world (with a median age of 27.6 years). The education sector has been a key beneficiary of India's economic growth and favourable demographic profile. The share of spend on education within India's consumption expenditure has increased from 4% in 2005 to 5% in 2015. According to Nielsen, during 2011-15, enrolment in K-12 schools has grown from 248mn to 259mn students, adding an average of approximately 3mn students per annum. The Indian education industry is slated to reach USD 188bn by 2020 from USD 90bn in 2015.

Exhibit 12. 41% of India's population is potential education market



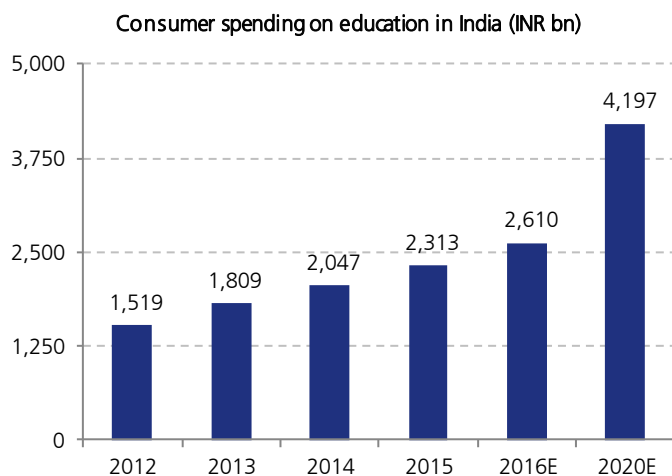
Source: IBEF, JM Financial

Exhibit 13. 217mn+ literate people between 2001-2011



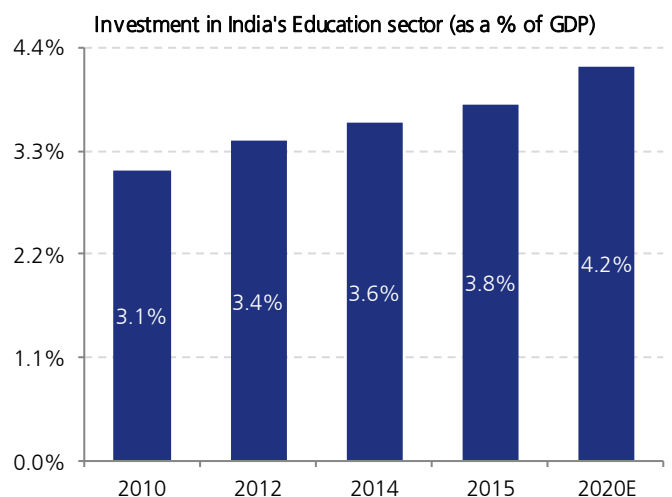
Source: IBEF, JM Financial

Exhibit 14. Increasing share of spend on education



Source: Euromonitor, JM Financial

Exhibit 15. Increasing investment in India's education sector



Source: IBEF, JM Financial

Exhibit 16. Number of schools by management type ('000)

	FY11	FY12	FY13	FY14	FY15	CAGR FY11-15 (%)
Government	1,065	1,078	1,117	1,122	1,107	1.0%
Private aided	71	73	84	84	83	4.0%
Private unaided	194	226	262	277	288	10.4%
Sub-Total	1,329	1,378	1,463	1,482	1,478	2.7%
Others	33	34	38	36	39	4.26%
Total	1,362	1,412	1,501	1,518	1,517	2.7%

Source: DISE, School Board reports, Nielsen estimates, JM Financial

During FY11–15, the share of private unaided schools recorded the highest growth rate among other types of schools

Exhibit 17. Number of schools by affiliated boards ('000)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	CAGR FY11-17 (%)
CBSE	11.3	12.3	13.9	14.8	15.9	17.5	19.4	9.4%
ICSE	1.5	1.6	1.7	1.8	1.9	2.2	2.2	7.3%
State Board	1,316	1,364	1,447	1,466	1,460	NA	NA	NA
Total	1,329	1,378	1,463	1,482	1,478	NA	NA	NA

Source: DISE, School Board reports, Nielsen estimates, JM Financial; Note: Excludes Madrasa and unrecognised

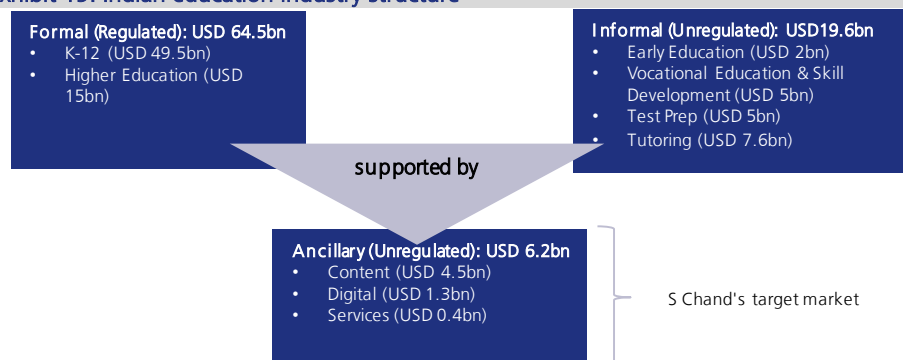
CBSE schools have posted the fastest CAGR of 9.4% during FY11-17

Exhibit 18. Number of enrolments by school level (mn)

	FY11	FY12	FY13	FY14	FY15	CAGR FY11-15 (%)	GER- FY13	2017GER target
Primary (I - V)	135	140	135	132	131	(0.8)	95%	100%
Upper Primary (VI - VIII)	62	63	65	66	67	2.1	74%	90%
Secondary (IX - X)	32	34	35	37	38	4.7	49%	65%
Senior Secondary (XI-XII)	19	21	20	22	24	4.8	21%	30%
Total	248	258	254	258	259	1.1		

Source: DISE 2014-15, MHRD, Nielsen Research Report, JM Financial; Note: GER = Gross enrolment ratio

While historically, government schools accounted for the majority, the private unaided schools have significantly added to the growth in enrolment

Exhibit 19. Indian education industry structure

Source: Technopak, JM Financial

Exhibit 20. The Indian education sector is broadly classified into formal and informal segments

Segments	Market Size	Drivers
Formal education (regulated)		
K-12 (secondary and senior secondary)	1.1mn govt. schools and 0.4mn private schools with 259mn students enrolled; the K-12 education market is worth USD 50bn	- Rising disposable incomes - Consumer preference for private schools - Government initiatives on promoting primary education
Higher Education (undergraduate, graduate and post-graduate studies)	777 universities, 38,498 colleges and 12,276 standalone institutes with 34.2mn students enrolled. The higher education market is estimated around USD 15bn	- Services sector contribution to GDP
Informal education (unregulated)		
Test-Prep (entrance exams at undergraduate and postgraduate as well as job-oriented tests)	Estimated at USD 5bn as of FY16, while digital test preparation is estimated to be USD 50mn	- Rising share of private institutions and enrolments - Increase in number of exams going online
Early learning (0-5 years of age)	Estimated at USD 2bn – increasing at CAGR of 15%	- Increasing private investments - Rising working parent population
Vocational / Skill based learning	Estimated at USD 5bn. Estimated to rise at a CAGR of 18% in FY15-20	- Growing working age group population - Job creation by government institutes - Government initiatives such as National Council for vocational training, make in India and skill in India

Source: Technopak, Nielsen, CL Educare DRHP, Crisil research, JM Financial

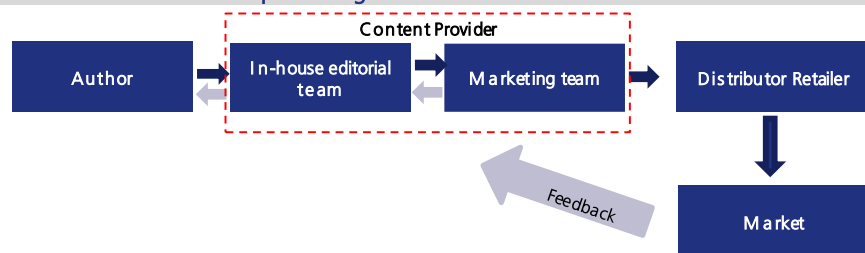
- **Ancillary segment is direct beneficiary of growth in education segment:** The ancillary segment is supplementary to both formal and informal education segments and therefore is a direct beneficiary of the growth in the segments. The ancillary segment is taking an increasingly 'central' role in education, driven by the increasing participation of the private sector in Indian education. The ancillary segment includes participation from content providers (textbooks, reference books or supplementary books), digital players (online education, e-books) and other service providers (curriculum management).

Exhibit 21. Details of sub-segments within ancillary services

Segments	Drivers
Content providers (non-academic and academic including K-12, higher education, test preparation and early education)	- Growing Literacy rate - Growth in number of schools - Growth in enrolment and decline in dropout ratio - Growth in number of private institutions - Growth in government spending on education - Growth in urbanisation
Digital (include device-based learning, mobile learning applications, online test platforms and online marketplaces that connect students with tutors)	- Favourable age and income demographics - Rising internet penetration - Increasing use of smartphones (with mobile applications)
Other services (curriculum management, assessment and child skill enhancement)	- Increasingly growing participation by privately-owned educational institutions - Rising private spend on education - Competitive Intensity - Lack of quality teachers and tutors

Source: Technopak, Nielsen, CL Educare DRHP, Crisil research, JM Financial

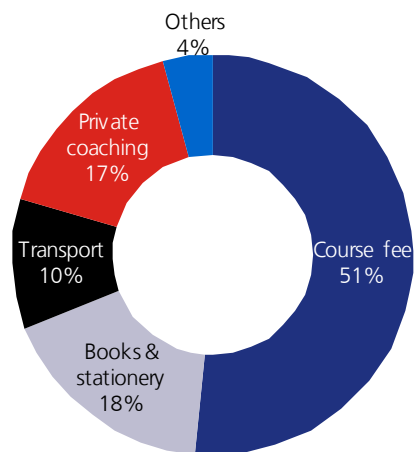
Exhibit 22. Value chain in publishing sector



Content providers' role is central in the education industry

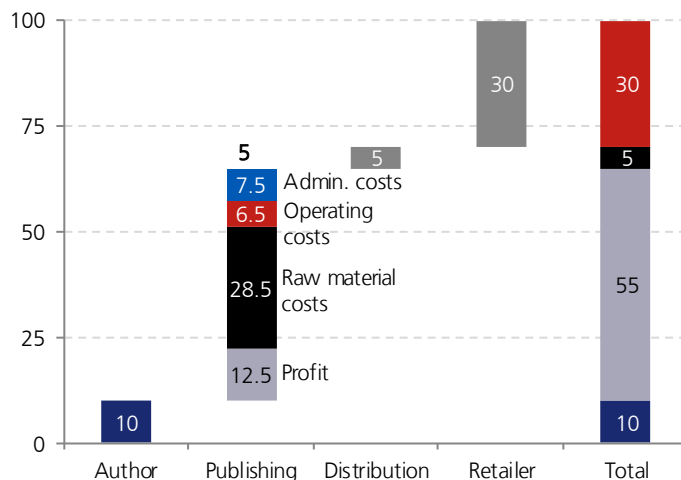
Source: Technopak, JM Financial

Exhibit 23. Share of expenditure on K-12 education - Urban



Source: Technopak, JM Financial

Exhibit 24. Value split for an INR 100 book (INR)



Source: Technopak, JM Financial

Exhibit 25. Estimated spending on books for K-12 segment – by grade (INR bn)

	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E	CAGR FY16-20P
Primary	77	90	105	123	144	168	197	17%
Upper primary	46	54	64	75	89	105	124	18%
Secondary	31	38	47	57	70	86	105	22%
Senior secondary	32	39	49	61	75	93	116	24%
Total K-12	186	222	265	316	378	453	542	20%

Source: Nielsen, JM Financial; Note: Estimation based on available data based on enrolment figures, drop-out rates and individual expenditure on books

Exhibit 26. Estimated spending on books for K-12 segment - by board (USD mn)

	FY11	FY12	FY13	FY14	FY15	CAGR FY11-15 (%)
CBSE	203	252	305	372	445	21.7
ICSE	28	34	41	50	59	20.5
State board	1,434	1,718	2,046	2,448	2,862	18.9
Total	1,665	2,004	2,391	2,870	3,366	19.3

Source: Nielsen, JM Financial; Note: Estimation based on available data based on enrolment figures, drop-out rates and individual expenditure on books

K-12 content market witnessed a CAGR of 19.3% in FY11-15, driven by increase across boards

Exhibit 27. Estimated spending on books for higher education (USD mn)

	FY11	FY12	FY13	FY14	FY15	CAGR FY11-15 (%)
General education	194	262	356	483	655	35.5
Professional education	255	292	336	387	445	14.9
Total	448	555	692	870	1,100	25.1

Source: Nielsen, JM Financial; Note: Estimation based on available data based on enrolment figures, drop-out rates and individual expenditure on books

Higher education content market witnessed a CAGR of 25.1% in FY11-15, driven by 35.5% growth in general education

Exhibit 28. Estimated spending on books for test preparations

	Approx. # of candidates appeared ('000)	Avg. retail value of books purchased (USD)	Total value (USD mn)
Technical / Professional course entry exams			
IIT JEE	1,250	93.7	117
CET	1,500	18.7	28
NEET (Medical)	1,000	18.7	19
CTET	750	15.6	12
GATE	600	19.5	12
NDA	750	9.4	7
NTSE	1,000	6.2	6
CAT	200	15.6	3
Employment linked exams:			
Railway Recruitment Board - Non technical	10,000	11.7	117
IES	1,000	39.1	39
IAS	950	35.1	33
Bank Clerical	2,000	11.7	23
Staff Selection Commission	1,800	11.7	21
Bank PO	1,000	15.6	16
State Public services Commission	2,000	4.7	9
Total	26,050		465

Source: Nielsen, JM Financial

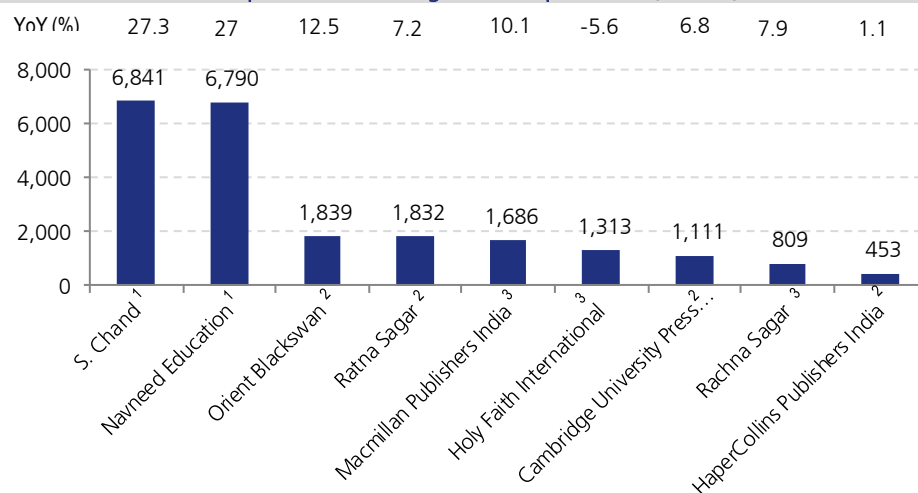
An estimated 26mn+ students sit for professional entrance or employment-linked exams

Exhibit 29. Recommendation methodology of books by school

Grade	Central board (CBSE/ICSE) affiliated schools	Regional board affiliated schools
K-8	- School provides the book (compulsory) list to students - S Chand targets to get title names in the book list	- Core subject books supplied free of cost by state government
9-12	- Reference/ supplementary books (of S Chand and others) recommended by schools to students	- Reference/supplementary books (Navneet) recommended by schools to students. Large part of the regional board is supplementary

Source: Company, JM Financial

- **Fragmented competition:** Several companies have various product offerings in the education sector. Competition in each ancillary business segment as well as in the education sector as a whole is generally fragmented. Additional principal competitive factors in the publishing market in India include pricing, location, portfolio of product/service offerings, quality and reputation of faculty, product differentiation through content development, success rates and brand value, and management of quality issues in business partners' operations.

Exhibit 30. Revenue comparison of few large content providers (INR mn)

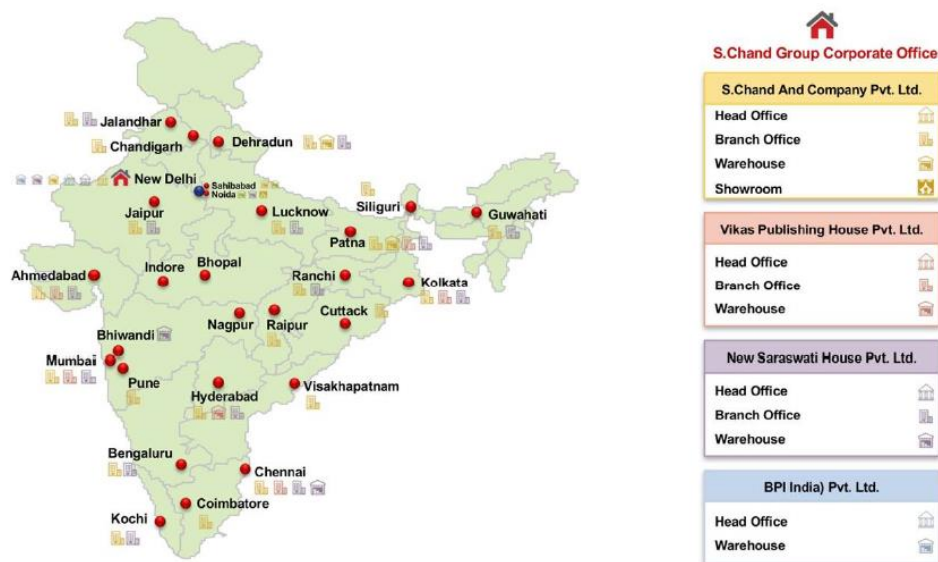
S Chand is one of the largest education companies in India

Source: Nielsen, JM Financial; Note: 1 Only publishing revenue considered for Navneet, 1 represents revenue for FY17, 2 represents revenue for FY15, 3 represents revenue for FY14, Represents revenue from all segments as per details available at Ministry of Corporate Affairs, Register of Companies

D) Ideally placed to capitalise on the burgeoning education market

- **Comprehensive consumer focused education content player with product offering across consumer lifecycle:** S Chand has an operating history of 75+ years in knowledge and content development and has established a comprehensive presence in the consumer education lifecycle. The company is not only focused on consumers – both students and educators – but also develops and nurtures relationships with customers by developing quality content and educational innovations, empanelling authors, creating content and employing best practice editorial processes. The company's presence across the student lifecycle allows it to generate recurring revenue throughout student's lives.
- **Strong and established brand equity aids high consumer recall:** S Chand offers 59 consumer brands and the books are sold based on strong brand equity, popular titles and author recognition. Consumers have high visibility of the company's brands, content, products and services throughout the education lifecycle. The company maintains consumer brand recalls by consistently upgrading content quality and augmenting content with supplementary digital and hybrid offerings.
- **Longstanding author relationships:** S Chand has relationships with over 2,400 authors. The company's track record of progressing authors' careers aids the company to retain and attract the best authors. The authors benefit by the consistent support received by in-house editors to update their content and to develop new content in conjunction with faculty members and experts in various subjects. In addition, relationships with authors are maintained by continuous interaction and feedback as well as invitations to workshops.
- **In-house printing aids cost control:** S Chand's two printing facilities at Sahibabad and Rudrapur which aids 70% in-house printing. The total printing capacity was enhanced from 15 tonnes of paper per day in FY14 to 55 tonnes of paper per day in FY16. Since the company's business is highly seasonal and majority of sales happen in 4Q, the bargaining power of third-party vendors increases during the peak season. In-house printing facilitates lower dependence on third-party vendor.
- **Integrated supply chain and in-house printing:** S Chand has developed a robust supply chain ensuring optimisation of back-end operations and processes. This has been achieved by rationalising and integrating procurement, manufacturing and logistic capabilities. The company's printing facilities and distribution networks are supported by a robust logistics network comprising 42 warehouses strategically located in 19 states across India. The company's paper purchases are integrated, which helps it achieve economies of scale and improve bargaining power with raw material suppliers. The raw materials are sourced through common vendors at the group level. The company generally procures its paper on a fixed-price basis with volume commitments over a 12-month term.
- **Pan-India sales and distribution network:** S Chand has built a pan-India distribution and sales network comprising 6,557 distributors and dealers. The company has an in-house sales team of over 900 professionals. Acquisition of the distribution network of New Saraswati House, Vikas and Chhaya strengthened presence in southern, northern and eastern India, respectively. Each brand has a focused separate sales team to **a)** achieve healthy growth for each brand and better overall sales, **b)** cater to the end consumer preference of selecting from a wider product catalogue of authors and titles and **c)** develop deep product expertise, which allows for better brand positioning and increased brand recall.

Exhibit 31. S Chand's pan-India presence of distribution and sales network



Source: Company, JM Financial; Note: Map not to scale


- Integrated information technology:** Sales, publishing and logistics are supported by integrated information technology infrastructure. The ERP software built on latest SAP platform provides real time visibility of all transaction and inventory movements. It also helps maintain quick, well-informed decision making and serves as a robust analysis tool with back-end customised reports.

E) Product offering across student's life-cycle

a) K-12 business

- **A leading CBSE/ICSE content provider:** The K-12 content portfolio is offered to students from ages 4 through 18 and includes numerous instructional resources, covering nearly all subjects offered in the K-12 segment. Through pan-India sales teams, S Chand markets its content and brand to schools, educators and students for placement on prescribed and recommended reading lists. The company sells the requested K-12 content to the distributors for re-sale to K-12 institutions and students. Relationships with schools allow the company to work closely with schools and teachers to map their content to such curriculum and provide these schools with engaging learning methods and teacher support material. The company's prestigious brands include some of the best-selling and popular publications in the K-12 segment such as S Chand, Vikas, Madhubun, Saraswati, Chhaya and IPP.

Exhibit 32. S Chand's offering in K-12 segment



Description	<p>Provider in India for K-12 curriculum and learning solutions with a strong position among Central Board affiliated schools</p> <p>K-12 content portfolio includes print and digital offerings, covering nearly all courses offered in K-12 segment</p> <p>S Chand made strategic investments in K-12, including Vikas, Saraswati and Chhaya</p>
Financial metrics	<p>FY17 revenue: INR 5.4bn, 80% contribution to S Chand consolidated revenues</p> <p>FY12-FY17 revenue CAGR: 44%</p> <p>% digital and hybrid revenues within K-12 FY17 revenues: 25%</p>
Strategy	<p>Increase share of wallet within existing Central and State Board affiliated schools by offering both print and digital offerings & education services</p> <p>Further penetrate regional board affiliated / un-affiliated schools</p> <p>Further investments / acquisitions</p>
Brands	

Source: Company, JM Financial

b) Higher Education Business

- **Higher competition in entrance examination to drive higher education market growth:** The higher education segment comprises two components: test preparation, and college and university/technical and professional. The company intends to further its presence in the higher education business, particularly on the high growth test preparation market as more government jobs require entrance exams. Offering online content and online assessment options becomes a key resource as more students are showing a preference to take online tests as a form of test preparations. S Chand intends to build online solutions by investing in technology companies to leverage innovative technologies to pair them with the company's content and industry experience. The company experiences limited seasonality as sales take place throughout the year through retailers and online sales platforms.

Exhibit 33. S Chand's offering in higher education


	Test preparation	College & university/technical & professional programmes
Description	<p>Test preparation materials for students for competitive exams (engineering, government jobs)</p> <p>Test preparation materials include print textbooks and digital products</p> <p>Digital content includes Ignitor, Testbook (web and mobile platform for competitive exam preparation for GATE / Government jobs) and OnlineTyari</p>	<p>Provide students, instructors and institutions with customised content including accounting, economics, physics and medicine, as well as books that can be used for distance learning</p> <p>Technical and professional titles that cover a range of courses, including engineering, applied sciences, computer sciences</p> <p>Editorial development process involves a creative interaction between authors and editors, which helps create high-quality manuscripts</p>
Financial metrics	<p>FY17 revenue: INR 0.6bn / c.9% contribution to S Chand consolidated revenues</p> <p>FY12-FY17 revenue CAGR: c.13%</p>	<p>FY17 revenue: INR 0.6bn / 9% contribution to S Chand consolidated revenues</p> <p>FY12-FY17 revenue CAGR: 3.5%</p>
Strategy	Provide materials in regional language, create content for specific examinations for applicants for government & public sector jobs and build online solutions by investing in technology companies and pair them with the company's content and industry experience	Creative interaction between authors and editors, which helps create high-quality manuscripts
Brands		

Source: Company, JM Financial; Note: Financials do not consolidate Edutor (Ignitor), Test book, Onlinetyari, Smartivity & Flipclass

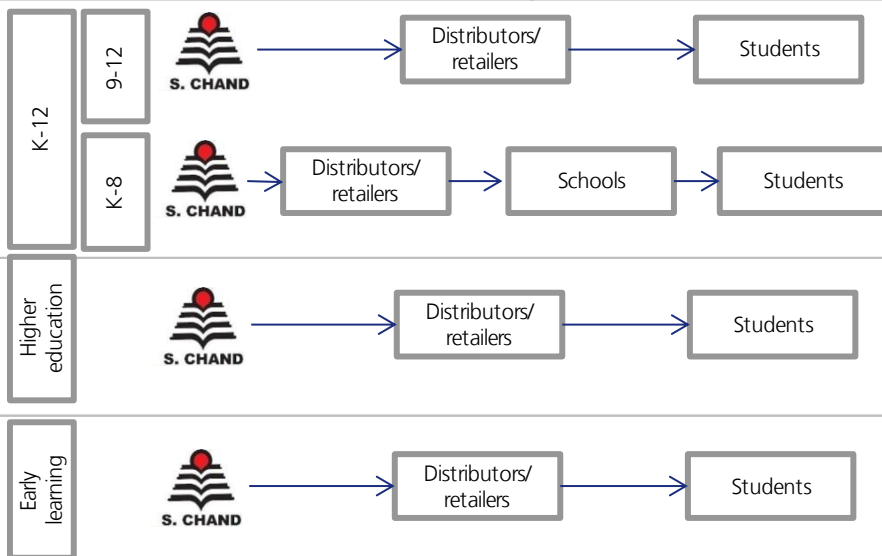
c) Early learning business

- **Exposure to S Chand brands at beginning of student career:** S Chand's early learning business caters to the youngest customer market (2-5 years old) and introduces them to the company's brands, products and services at the beginning of their student career. The company has customised early learning brands targeted to specific product and service categories. S Chand sells content in its early learning directly to the end consumers through a combination of retailers and online sales platforms.

Exhibit 34. S Chand's offering in early learning

Description	<p>Invested in Smartivity in 2015; Smartivity offers activity based 'experiential' learning, including 'do-it-yourself' kits and augmented reality enabled products</p> <p>BPI is involved in children books, educative board games, activity packs, puzzles and stationery</p> <p>Also operates six pre-school centres under RiseKids brand in the National Capital Region</p>
Financial metrics	<p>FY17 revenue: INR 154mn / 2% contribution to S Chand consolidated revenues</p> <p>FY12-FY17 revenue CAGR: 161%</p>
Strategy	Support disposition to learn from an early age by providing experience dependent modules
Brands	

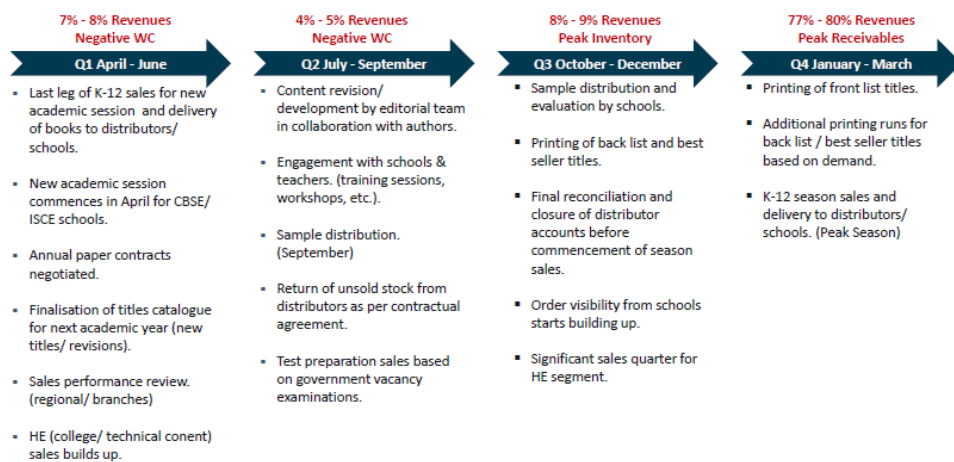
Source: Company, JM Financial

Exhibit 35. S Chand's distribution channel across segments

Source: Company, JM Financial

d) High seasonality in working capital across quarters

- **High working capital seasonality; c.80% sales in 4Q makes the quarter critical:** K-12 represents 80% of S Chand's business in which books are purchased by the students at the beginning of the academic year, starting April. These books are therefore sold to the distributors by S Chand in the fourth quarter. Sales in 4Q accounts for c.80% of annual sales and the debtors peak in 4Q. The books are printed a quarter earlier (i.e. 3Q) during which the company sees peak inventory. Such seasonality materially affects operating revenue, margins and cash flow from quarter to quarter. Accordingly, operating revenues and margins are extremely low during the first three fiscal quarters while the fourth quarter witnesses high revenue and margin. The acquisition of Chhaya and other potential state board publishers may reduce the seasonality going forward considering their sales spread over Dec-Jun. Higher education experiences limited seasonality as sales take place throughout retailers and online sales platform.




Exhibit 36. High seasonality

Source: Company, JM Financial

F) Inorganically expanding presence across segments

- Acquisitions complement and diversify 'home grown' product portfolio:** Through strategic acquisitions, S Chand has expanded its product range and strong brands across multiple subject offerings, allowing it to cross-sell content across schools and the educational life cycle—acquisition of Chhaya in FY17, helped gain significant presence in the eastern Indian states as well as strong regional textbook brands and offerings. In FY15, S Chand acquired Saraswati brand for its strength in languages, and arts and crafts titles. In FY13, the company acquired Madhubun and Vikas brands to bolster offering in Hindi language titles. The company has also made minority investments in several digital-based companies. These acquisitions have also enabled the company to integrate its raw material sources and printing capabilities and benefit from the economies of scale.

Exhibit 37. Details of past acquisitions

Brand	Year of acquisition	Acquisition rationale
	2012	<ul style="list-style-type: none"> - Madhubun has a leading position in Hindi segment books - In higher education, Vikas is strong in management & commerce
	2014/15	<ul style="list-style-type: none"> - Saraswati has an established position in Hindi language school books - Presence in other key school titles such as French, regional language books, physical education
	2016	<ul style="list-style-type: none"> - Strong presence into East India region - Enabled S Chand to increase presence in State board affiliated schools

Source: Company, JM Financial

Exhibit 38. Large global education content providers have grown inorganically in fragmented markets

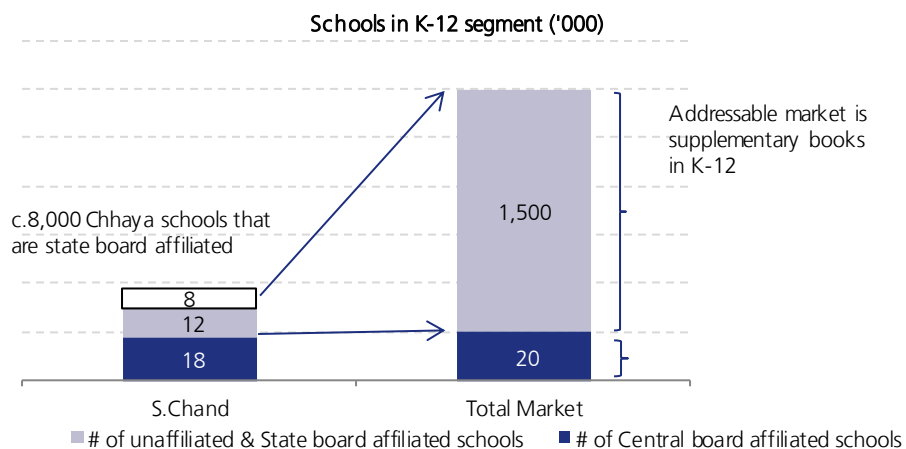
Rapid expansion via acquisition of content providers is a proven strategy in publishing

Leading education publishers all grew large portions of their portfolios inorganically



Source: Press article, JM Financial

- Chhaya's acquisition to provide significant access to eastern market:** S Chand acquired 74% in Chhaya in Dec'16 for a consideration of INR 1.7bn. S Chand is obligated to acquire the remaining 26% stake in FY19 based on FY18 EBITDA of Chhaya. The acquisition complements S Chand's strategy of growing in the State Board market and has expanded the company's presence in Eastern India as well as regional textbook brands and offerings. Chhaya brand sold 8.1mn copies of 478 titles in FY17 covering subjects in Bengali, Chemistry, English, Physics, History, Mathematics and Geography. Chhaya's longer sale season (Dec-Jun) will likely help reduce the high seasonality in S Chand's CBSE/ICSE business.

Exhibit 39. Acquisition of Chhaya has provided S Chand accessibility to State Board Schools

Source: Company, JM Financial

- Quest for expanding further in State Board publishing market:** S Chand is at a preliminary stage of discussion to acquire a State Board publisher in West India. The company is also in the process of identifying another potential target in the South India state board market. The company has also identified an opportunity to invest in a content company providing learning materials to international curriculum schools. The company has recently entered a strategic alliance with an affiliate of Sigong media for introducing their NuriNori curriculum products to pre-schools and students in India. Sigong media is a leading digital education company of South Korea and provides learning platform, content and curriculum for pre-school students.
- Business restructuring to provide cost and tax efficiencies:** S Chand's board has recently approved a scheme of arrangement in which the two publishing subsidiaries – **a)** Nirja Publishers Printers Pvt. Ltd. (houses print facilities in Uttarakhand) and **b)** Blackie and Son Pvt. Ltd., along with the two digital platforms **a)** Destination Success (digital class solutions) and **b)** Mylestone (curriculum management) is expected to be merged with S Chand and Company Ltd. By Jun'18. The restructuring is likely to provide benefits such as tax efficiency, cost rationalisation and improved capital allocation.

G) Digitalisation is the way forward

- Focusing on digital technology across K-12 and higher education:** S Chand's textbook and instructional materials are supported by its offering of technology driven methods of education, digital learning and online assessment tools. Such hybrid print and digital products complement existing print content with online applications and interactive learning. In addition, the company leverages its K-12 relationships to cross-sell digital offerings and education services such as digital classroom learning solutions, learning management solutions and assessment tools. This provides educational institutions with flexibility in the delivery of an education curriculum. The company offers over 7,500 hours of e-content for delivery through its digital platforms. The company has invested for growth – both through organic build out and strategic investments. In FY17, hybrid offering contributed 25% of the company's consolidated revenue and digital offerings contributed 5% of the company's consolidated revenue.

Exhibit 40. In-house digital/ service platforms



Source: Company, JM Financial

Exhibit 41. Digital Investments (inorganic)



Source: Company, JM Financial

- Digital content across the education life-cycle:** S Chand aims to use technology to innovate learning and content delivery and thereby build and deepen its relationships with students across the education life-cycle. Over the past three years, the company has coupled its print content with digital and interactive methods of learning, thereby providing with flexibility in the delivery of content to students. Such hybrid print and digital products complement the company's existing print content with online applications and interactive learning.
- Focus on digital as an extension of existing content strength:** The company strategically invested for growth – both through organic build-out and investment in early-stage education companies. In the K-12 business, S Chand has a comprehensive suite of digital offerings for K-12 schools and students. The company's virtual reality (VRX) product is nearly ready and will be incorporated in class IX and X science books in the coming academic cycle. In the higher education business, investee companies have an early mover advantage to capture the growth in the online test prep markets as more exams move online.

H) Revenue growth to be driven by K-12 segment

- **Net sales quadrupled over FY12-17 driven by acquisitions in K-12 segment:** S. Chand's net sales have nearly quadrupled from INR 1.7bn in FY12 to INR 6.8bn in FY17, implying a CAGR of 31.6%. The growth is largely attributable to the K-12 segment, which posted a CAGR of 44.2% in FY12-17 to INR 5.4bn and contributed 80% of FY17 consolidated revenues. K-12 growth was led by acquisition of brands such as Chhaya, Saraswati and Madhubun. The higher education segment's revenue posted a CAGR of 7.7% over FY12-17 to INR 1.2bn led by a 13.4% growth in revenues from test preparation.
- **K-12 expected to witness 15.2% organic CAGR over FY17-FY20E:** We estimate the consolidated revenue to increase by 14.5% CAGR over FY17-FY20E to INR 10.3bn, primarily driven by an organic CAGR of 15.2% over the same period in K-12 segment. We estimate the K-12 revenue to increase to INR 8.4bn by FY20E constituting c.81% of total revenue. We expect the K-12 volume to increase in the range of c.5% driven by **a)** growth in student enrolment, **b)** shifting preference from state board to CBSE/ICSE, **c)** shifting preference from government schools to private schools. We estimate the higher education revenue to increase at 10.4% CAGR over FY17-FY20E primarily driven by price increases as volume growth is expected to remain muted due to intense competition and unfavourable demand dynamics.

	Exhibit 42. Segmental net revenue contribution						(INR mn)	
	FY12	FY13	FY14	FY15	FY16	FY17	FY12-FY17 CAGR (%)	
K-12 (Including Chhaya from FY17)	877	1,613	2,145	3,369	3,899	5,466	44.2%	
Test preparation	327	371	446	439	579	613	13.4%	
Professional and University	509	703	925	809	711	608	3.6%	
Early learning	1	100	173	136	173	154	160.7%	
Total	1,730	2,790	3,700	4,767	5,376	6,841	31.6%	

Source: Company, JM Financial

	Exhibit 43. Segmental net revenue contribution							(%)
	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
K-12 (Including Chhaya from FY17)	58%	58%	71%	73%	80%	81%	81%	81%
Test preparation	13%	12%	9%	11%	9%	9%	8%	8%
Professional and University	25%	25%	17%	13%	9%	8%	8%	8%
Early learning	4%	5%	3%	3%	2%	2%	2%	2%

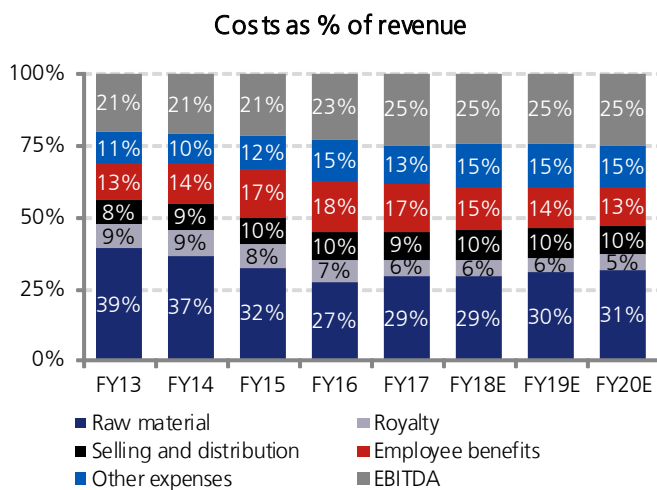
Source: Company, JM Financial

K-12 to contribute 80%+ revenue

I) Integrated purchases, in-house content development/printing to aid margins

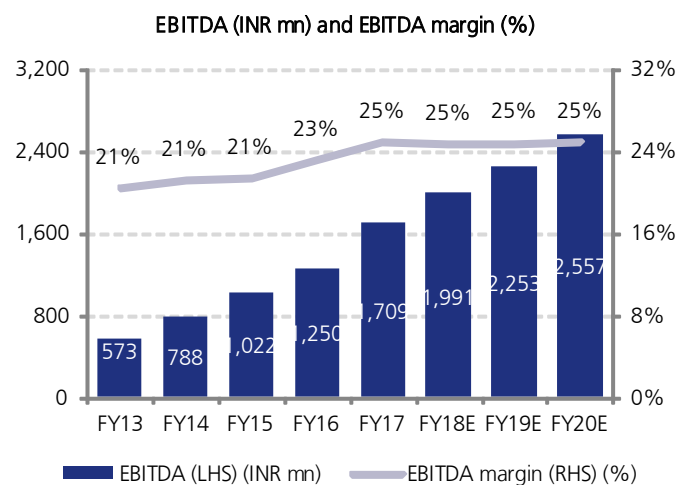
- Lower raw material costs driven by integrated purchases:** Raw material costs constituted c.29% of revenue in FY17, primarily driven by paper costs. Raw material as percentage of revenue decreased from 39% in FY13 to 29% in FY17 driven by acquisitions of Vikas and New Saraswati House resulting in higher bargaining power with paper suppliers and savings due to expansion of its in-house printing facility. We expect the raw material to remain in the range of 30% of revenue going forward. GST on paper is now 12% vs. 10-12% VAT earlier. This has led to an increase in paper costs by 1-2% which is not material.
- In-house content development led to higher employee costs and lower royalty:** Employee costs, as a percentage of net sales, increased from 13% in FY13 to 17% in FY17, driven by larger editorial team size of Vikas and New Saraswati House, SAP implementation and other factors. Royalty costs have reduced to c.6% of revenues in FY17, driven by higher development of in-house content and lower rates of new royalty contracts. We expect the royalty to remain at c.6% of revenue going forward. The company is in discussion with the authors to share the additional cost of GST on royalty and will accordingly impact the margins
- Margins to remain stable at 25%:** S Chand consolidated EBITDA increased at a CAGR of 31.4% over FY13–FY17 to c.INR 1.7bn, led by a 25.1% growth in net sales and costs savings. EBITDA margins increased from 20.5% in FY13 to 25% in FY17, driven by savings in **a)** raw material costs – integrated paper purchase led to better bargaining power, **b)** royalty costs – in-house content development and lower rate contracts with new authors, **c)** in-house printing capability. Acquisition of high margin state board business of Chhaya (c.32% in FY17) has also been margin accretive. Margin accretion due to economies of scale in future years is partially offset by GST driven by **a)** increase of 1-2% in paper price due to higher tax rate and **b)** introduction of reverse charge of 12% on royalty. We expect the EBITDA to increase 14.4% CAGR to INR 2.6bn over FY17-FY20E and the EBITDA margin to remain stable at c.25%.

Exhibit 44. Raw material costs constitute c.30% of revenue



Source: Company, JM Financial

Exhibit 45. EBITDA expected to remain stable around 25%

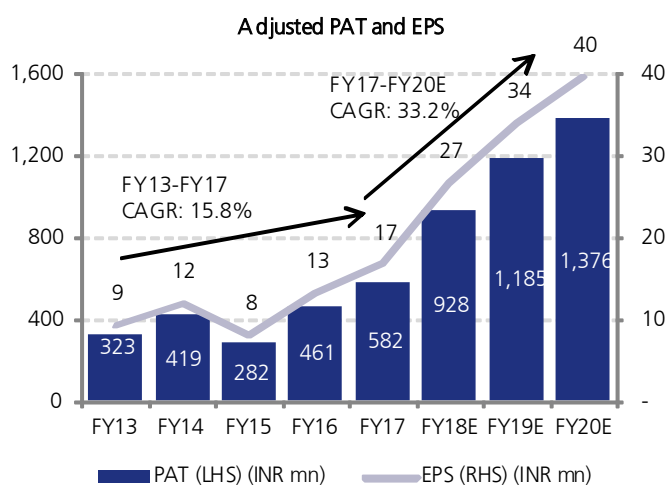


Source: Company, JM Financial

J) Low return ratios driven by past investments and cyclically high working capital

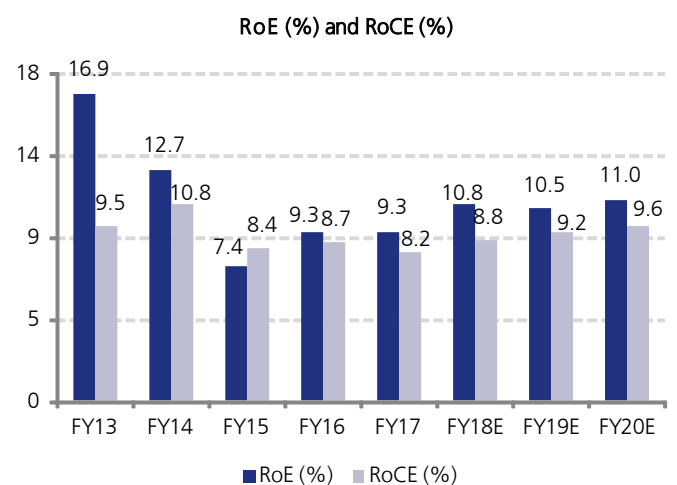
- Savings in interest and tax to support earnings growth:** S Chand's adjusted PAT increased 15.8% CAGR, going from INR 323mn in FY13 to INR 582mn in FY17. We expect PAT to increase at 33.2% CAGR over FY17-20E to INR 1.4bn in FY20E, driven by interest and tax savings. The company has repaid most of its debt from the IPO proceeds in FY18 and we expect the debt to reduce from INR 4bn in FY17 to c.INR 1.7bn by end-FY18. This will lead to interest savings and we expect interest cost to come down from INR 349mn in FY17 to INR 139mn in FY18. Depreciation is expected to remain at the similar levels due to limited capex. S Chand is in the process of merging its digital business which will enable the company to offset the digital business losses and thereby reduce the tax rate from currently 40% to c.36% levels.
- Low return ratios led by acquisition goodwill, and investments in printing facility and digital business:** S Chand has acquired brands such as Chhaya, Vikas, New Saraswati in the past four years and have created a goodwill on acquisition of INR 3.3bn. The company has also increased its printing facility from 15 TPD in FY14 to 55 TPD in FY16. In addition, the company has also invested INR 1bn+ in digital business segment which is yet to positively contribute towards earnings. These investments have kept the return ratio below 10% over FY15 to FY17. Adjusted for the digital investments, we expect the RoE to increase by 150bps. The return ratios are also negatively impacted due to the seasonality of the business as the working capital at the end of the March quarter is high. We expect the return ratios to improve gradually driven by high PAT margins going forward. We expect RoCE and RoE to increase to 9.6%/11% by FY20E, respectively.
- Higher cyclical working capital impact CFO, while minimal capex to support FCF; lower dividend yield:** Working capital requirement is high driven by: **a)** enhanced scale of operations after the acquisition of Vikas and New Saraswati and **b)** larger K-12 segment contribution resulting in longer receivables cycle. Increasing working capital requirement negatively impacts CFO, though the CFO is expected to remain strong driven by strong earnings. We expect the FCF yield to improve to 4.5% by FY20 driven by strong CFO and limited capex. The company did not declare any dividend over FY14-FY16. The dividend yield is low at 0.3% in FY17.

Exhibit 46. PAT expected to increase 33.2% CAGR over FY17-20E



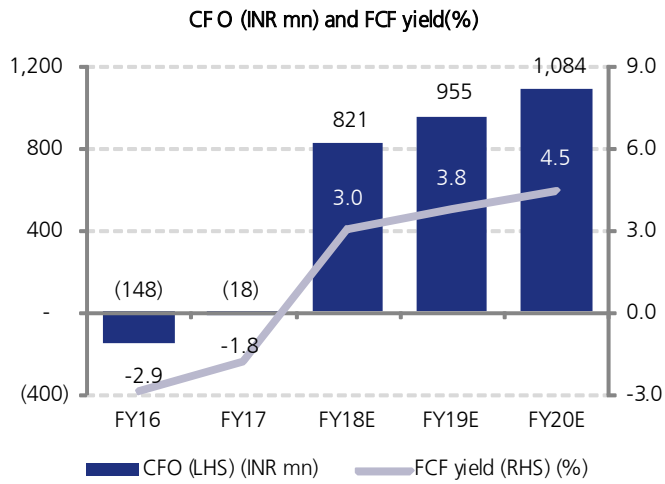
Source: Company, JM Financial

Exhibit 47. Low RoCE driven by acquisitions and printing capex



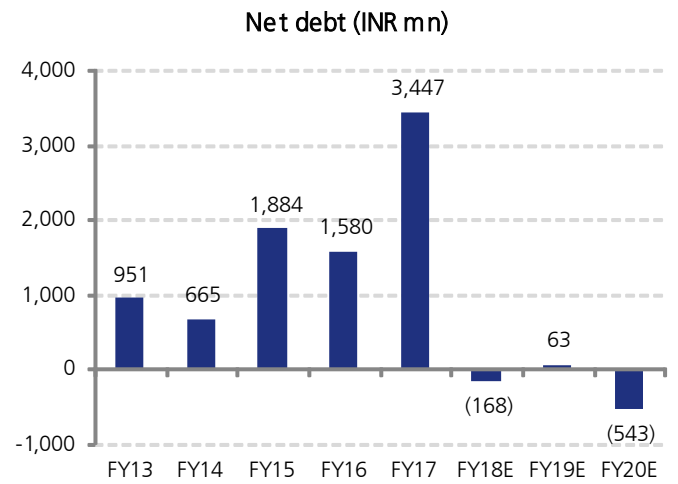
Source: Company, JM Financial

Exhibit 48. High CFO and lower capex to drive FCF



Source: Company, JM Financial, JM Financial

Exhibit 49. IPO proceeds in FY18 utilised for debt repayment



Source: Company, JM Financial, JM Financial

K) Initiate with BUY; Valuation

- **Leadership in K-12 and strong execution on the inorganic growth strategy to drive earnings; Initiate with BUY:** S Chand's leadership position in CBSE/ICSE in the K-12 segment, penetration-led growth opportunity, strong execution on the inorganic growth strategy and a healthy balance sheet positions the company to benefit from the growth in education sector in the country. We estimate a potential EBITDA increase from INR 1.7bn in FY17 to INR 2.6bn in FY20E and estimate an EPS CAGR of c.33.2% over FY17-20E. We value the stock at 9x EV/EBITDA FY20 to arrive at a fair value of INR 675/share, implying an upside of 25%+. We initiate with BUY.

Exhibit 50. Target price; initiate with BUY		(INR bn)
		FY20
Target EV/EBITDA		9.0
EBITDA		2.6
EV		23
Less: Net Debt		-0.5
Implied mcap.		23.5
No. of shares (mn)		35
Fair value (INR/share)		675

Source: JM Financial

Exhibit 51. Global comparative valuation

Companies	Mkt. Cap. (USD mn)	PE (x)		EV/EBITDA (x)		P/B (x)		EPS CAGR	ROE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY17-20E (%)	FY19E	FY20E
Diversified Education & Publishing				15.8	14.2	3.1	2.9			
Wolters Kluwer NV	15,541	2.3	2.4	18.6	17.2	4.4	4.0	4.6	21.2	21.2
Informa PLC	8,076	0.5	0.5	14.7	13.9	2.8	2.6	4.0	14.6	14.7
Pearson PLC	7,975	0.5	0.5	14.8	13.0	1.3	1.4	4.5	8.1	8.8
John Wiley & Sons Inc	3,787	3.2	3.5	19.1	17.5	2.7	NA	5.6	15.9	NA
Wilmington PLC	292	0.2	0.2	10.5	9.5	NA	NA	6.7	NA	NA
Navneet Education Ltd	582	7.9	9.4	16.9	14.1	4.3	3.6	12.3	25.5	26.5
Primary & Secondary Education				27.8	24.0	8.2	6.7			
New Oriental Education & Technology Group Inc	15,948	2.2	3.0	33.4	25.2	6.1	5.0	21.8	21.0	22.7
Bright Horizons Family Solutions Inc	5,679	2.7	3.0	32.0	28.3	5.1	3.7	8.4	14.2	19.7
Navitas Ltd	1,541	0.2	0.2	22.9	19.5	11.2	9.8	10.0	53.8	55.5
Scholastic Corp	1,381	1.3	1.4	27.6	24.1	NA	NA	8.9	NA	NA
Higher Education				16.3	14.9	2.4	2.2			
Kroton Educational SA	9,507	1.3	1.4	13.3	12.1	1.8	1.7	6.3	14.0	14.2
Grand Canyon Education Inc	4,275	3.9	4.1	21.6	19.8	NA	NA	4.8	17.8	16.2
Estacio Participacoes SA	3,279	1.8	2.2	15.0	12.9	3.1	2.7	12.8	21.8	22.7
Strayer Education Inc	1,062	3.3	3.9	23.7	21.6	NA	NA	8.3	17.6	15.8
Capella Education Co	919	3.6	3.7	21.2	19.8	NA	NA	3.9	17.1	16.6
Professional Education & Training				17.7	14.0					
GP Strategies Corp	424	1.0	1.4	17.7	14.0	NA	NA	11.9	NA	NA
Education Technology				23.1	19.3	2.2	1.9			
QuinStreet Inc	400	0.3	0.4	23.0	18.2	2.5	2.1	17.4	NA	NA
Tribal Group PLC	210	0.0	0.0	23.3	20.3	2.0	1.7	10.4	20.1	19.2

Source: Bloomberg, JM Financial Note: Last updated on 08/01/2017

Exhibit 52. FY20E EBITDA sensitivity to K-12 book's realisation and paper price (INR mn)

		YoY increase in K-12 book's realisation (%)				
		1%	3%	5%	7%	9%
YoY increase in paper price (%)	2%	2,441	2,548	2,655	2,763	2,870
	4%	2,392	2,499	2,606	2,714	2,821
	6%	2,343	2,450	2,557	2,665	2,772
	8%	2,294	2,401	2,508	2,616	2,723
	10%	2,245	2,352	2,459	2,566	2,674

Source: JM Financial

A 1% increase in K-12 book's realisation increases the EBITDA by c.2%, while a 1% increase in paper price negatively impacts EBITDA by c.1%

Exhibit 53. Target price sensitivity to K-12 book's realisation and paper price (INR/share)

		YoY increase in K-12 books realisation (%)				
		1%	3%	5%	7%	9%
YoY increase in paper price (%)	2%	646	673	701	728	755
	4%	634	661	688	715	742
	6%	621	648	675	703	730
	8%	608	635	663	690	717
	10%	596	623	650	677	704

Source: JM Financial

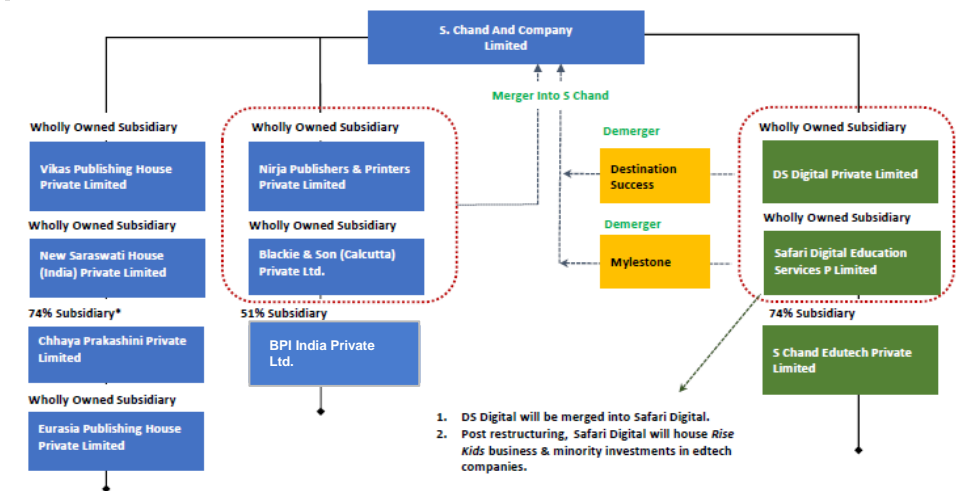
A 1% increase in K-12 book's realisation increases the TP by c.2%, while a 1% increase in paper price negatively impacts TP by c.1%

L) Key risks

- **Revenues dependent on top authors:** Top-20 authors contributed to 48% of consolidated revenue in FY16. This concentration of revenues could potentially place the company at a disadvantage with respect to negotiations regarding payment of royalties and other terms. In addition, this concentration increases the risk that the loss of, or problems with, a single author could have significant effect on sales and profitability.
- **Seasonal nature of business makes operations in fourth quarter critical:** S Chand and Chhaya's businesses are linked to the academic cycle, and are therefore seasonal. In the K-12 segment, sale season has traditionally been in the fourth quarter of the financial year and Chhaya's sales starting in December. Such seasonality materially affects operating revenue, margins and cash flow from quarter to quarter. Accordingly, operating revenues and margins during the first three fiscal quarters have typically been lower compared to the fourth quarter. There are also months where the company operates at net cash deficit from their activities.
- **Central/State board's circular recommending books from specified sources:** CBSE has released various circulars recommending CBSE affiliated schools to use only NCERT textbooks across classes and also avoid insisting that their students purchase additional textbooks of private publishers. Such circulars may adversely impact the revenues of the company.
- **Unexpectedly large returns by the distributors could adversely impact profitability:** The company permits the distributors to return unsold copies within a prescribed time period or if the product does not conform to specifications. Therefore, profitability may be affected if returns are higher than provided based on historical averages. Furthermore, if the company fails to accurately forecast customer demand, it may experience excessive inventory levels or shortage of products available for sale.
- **Highly competitive and fragmented industry:** The Indian market comprises multiple boards, each of which is governed by a separate body with a separate syllabus. This creates high competition from smaller regional, state and local content providers as well as specialised content providers for particular subjects. Lower prices from subsidised content providers or prices designed to promote market penetration may require the company to price its products competitively and provide purchasing incentives to customers. The multitude of players, brands and various sizes of competitors make it difficult to build national brands; thus the company requires a dedicated local sales team to compete effectively. The company also faces competition from internationally recognised brands that may have widespread brand recognition and substantially greater financial, selling and marketing capabilities.
- **Others:** Risk of failure to integrate the acquired businesses, competition from curriculum management programmes offered by competitors and dependence on third-party distributors are some of the other key risks to the business.

M) Annexures

Exhibit 54. Organisation structure



Source: Company, JM Financial; Note: * Remaining 26% of Chhaya will be acquired linked to reported FY18 EBITDA, Investment in VRX and alliance with Sigong done through S Chand Edutech Private Limited

Exhibit 55. Key milestones

Year	Particular
1971	Signed agreement with Maneckji Cooper Trust for exclusive publication rights for certain "Wren & Martin" titles
2009	Achieved consolidated revenue of `1,000mn
2010	Publishing and printing facilities set up at Rudrapur under a wholly owned subsidiary, Nirja Publishers
2011	Underwent corporate restructuring; all hospitality and real estate businesses were demerged to enable the Company to focus purely on the education business
2012	Acquired 100% stakes in Rajendra Ravindra Printers Private Limited (now Vikas Publishing House Private Limited), Eurasia Publishing House Private Limited, and Blackie & Son (Calcutta) Private Limited Everstone Capital Partners II LLC invested `2,000mn in the company
2014	Printing plant at Sahibabad was setup under Vikas Publishing House Private Limited Acquired majority shareholding of 51% in New Saraswati House (India) Private Limited
2015	Everstone and International Finance Corporation invested ` 600mn and ` 1,100mn, respectively, in the Company
2016	Acquired residual minority shareholding of 49 % in New Saraswati House (India) Private Limited Achieved consolidated revenue of `5,000mn Acquired 74% shareholding of Chhaya Prakashani Private Limited
2017	The equity shares were successfully listed on NSE

Source: Company, JM Financial

Exhibit 56. Director and management overview

Name	Designation	Remarks
<u>Directors</u>		
Himanshu Gupta	Managing Director	Bachelor's degree in Commerce; over 15 years of experience in the knowledge products and services industry
Dinesh Jhunjhnuwala	Executive Director	Received preliminary basic education; 11 years' experience in knowledge products & services industry
Gaurav Jhunjhnuwala	Non-Executive director	Received preliminary basic education; 5 years' experience in knowledge products & services industry
Savita Gupta	Non-Executive director	Received preliminary basic education; 25 years' experience in knowledge products & services industry
Deep Mishra	Non-Executive and nominee director	B.Tech Mech., IIT (Kanpur); PGDM, IIM C; currently MD at Everstone (PE)
Desh Raj Dogra	Independent Director & Chairman	Two Master's degrees; 38 years of experience in financial sector and credit administration
Archana Capoor	Independent Director	Master's degree in Business Administration; associated with S Chand since Nov'16
Sanjay Bhandarkar	Independent Director	PGDM, XLRI, Jamshedpur; associated with S Chand since Nov'16
<u>Key Management Personnel</u>		
Saurabh Mittal	Chief Financial Officer	Chartered Accountant; 10 years' experience in knowledge products & services
Samir Khurana	Head, Strategy and Investments	Chartered Accountant; 14 years' experience across Kotak Mahindra bank, Ernst & Young and Och Ziff Capital management
Jagdeep Singh	Company Secretary and compliance Officer	Associate member of ICSI with 16 years of experience in secretarial compliance
K.M. Thomas	Business Head, School Education (S Chand)	Bachelor's degree in Commerce; 36 years' experience in knowledge products & services
Naveen Rajlani	Business Head (Madhubun)	Bachelor's degree in Arts; 22 years' experience in knowledge products & services
Vinay Sharma	Business Head (Safari Digital)	PGDM, IIM C; 20 years' experience in sales and marketing across various industries
Shammi Manik	Business Head (Saraswati)	Bachelor's degree in Commerce; 30 years' experience in knowledge products & services

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement						(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Sales	5,376	6,841	8,026	9,066	10,276	
Sales Growth	12.8%	27.3%	17.3%	13.0%	13.3%	
Other Operating Income	0	0	0	0	0	
Total Revenue	5,376	6,841	8,026	9,066	10,276	
Cost of Goods Sold/Op. Exp	1,461	2,042	2,397	2,796	3,240	
Personnel Cost	942	1,173	1,230	1,289	1,353	
Other Expenses	1,722	1,917	2,408	2,729	3,126	
EBITDA	1,250	1,709	1,991	2,253	2,557	
EBITDA Margin	23.3%	25.0%	24.8%	24.9%	24.9%	
EBITDA Growth	22.3%	36.7%	16.5%	13.2%	13.5%	
Depn. & Amort.	259	282	283	287	297	
EBIT	991	1,427	1,708	1,966	2,261	
Other Income	31	13	10	10	10	
Finance Cost	297	349	138	105	100	
PBT before Excep. & Forex	725	1,091	1,580	1,871	2,170	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	725	1,091	1,580	1,871	2,170	
Taxes	237	436	580	686	794	
Extraordinary Inc./Loss(-)	5	0	0	0	0	
Assoc. Profit/Min. Int.(-)	-27	36	72	0	0	
Reported Net Profit	466	582	928	1,185	1,376	
Adjusted Net Profit	461	582	928	1,185	1,376	
Net Margin	8.6%	8.5%	11.6%	13.1%	13.4%	
Diluted Share Cap. (mn)	34.8	34.8	34.8	34.8	34.8	
Diluted EPS (INR)	13.2	16.7	26.7	34.0	39.5	
Diluted EPS Growth	63.2%	26.4%	59.5%	27.6%	16.2%	
Total Dividend + Tax	0	57	63	63	63	
Dividend Per Share (INR)	0.0	1.4	1.5	1.5	1.5	

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Shareholders' Fund	5,991	6,573	10,690	11,811	13,125	
Share Capital	2	149	174	174	174	
Reserves & Surplus	5,989	6,424	10,515	11,637	12,950	
Preference Share Capital	0	0	0	0	0	
Minority Interest	31	131	131	31	31	
Total Loans	2,035	3,986	1,681	1,798	1,921	
Def. Tax Liab. / Assets (-)	-124	-110	-110	-110	-110	
Total - Equity & Liab.	7,934	10,580	12,391	13,531	14,967	
Net Fixed Assets	3,373	4,982	4,963	5,470	5,438	
Gross Fixed Assets	2,548	2,889	3,153	3,418	3,683	
Intangible Assets	1,718	3,291	3,291	3,821	3,821	
Less: Depn. & Amort.	960	1,232	1,515	1,802	2,099	
Capital WIP	67	34	34	34	34	
Investments	417	442	603	803	953	
Current Assets	6,020	7,792	9,564	10,351	12,081	
Inventories	1,398	1,536	1,864	2,098	2,369	
Sundry Debtors	3,979	5,061	5,257	5,803	6,427	
Cash & Bank Balances	244	375	1,653	1,569	2,298	
Loans & Advances	398	820	790	881	987	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	1,877	2,636	2,740	3,094	3,505	
Current Liabilities	1,520	1,865	2,042	2,396	2,808	
Provisions & Others	357	771	697	697	697	
Net Current Assets	4,143	5,156	6,824	7,258	8,576	
Total - Assets	7,933	10,580	12,391	13,531	14,967	

Source: Company, JM Financial

Cash Flow Statement						(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Profit before Tax	698	1,018	1,508	1,871	2,170	
Depn. & Amort.	259	282	283	287	297	
Net Interest Exp. / Inc. (-)	0	0	0	0	0	
Inc (-) / Dec in WCap.	-873	-882	-391	-518	-589	
Others	5	0	0	0	0	
Taxes Paid	-237	-436	-580	-686	-794	
Operating Cash Flow	-148	-18	821	955	1,084	
Capex	-797	-308	-264	-265	-265	
Free Cash Flow	-945	-325	556	690	819	
Inc (-) / Dec in Investments	-240	-1,598	-161	-730	-150	
Others	-184	99	0	-99	0	
Investing Cash Flow	-1,221	-1,807	-425	-1,094	-415	
Inc / Dec (-) in Capital	0	147	25	0	0	
Dividend + Tax thereon	0	0	0	0	0	
Inc / Dec (-) in Loans	-115	1,951	-2,306	118	123	
Others	1,515	-143	3,163	-63	-63	
Financing Cash Flow	1,399	1,956	883	55	60	
Inc / Dec (-) in Cash	30	131	1,278	-84	729	
Opening Cash Balance	213	244	375	1,653	1,569	
Closing Cash Balance	244	375	1,654	1,569	2,298	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	8.6%	8.5%	11.6%	13.1%	13.4%
Asset Turnover (x)	0.8	0.7	0.7	0.7	0.7
Leverage Factor (x)	1.4	1.5	1.3	1.2	1.1
RoE	9.3%	9.3%	10.8%	10.5%	11.0%

Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	172.0	188.7	306.8	339.0	376.7
ROIC	10.0%	9.9%	10.7%	11.6%	12.4%
ROE	9.3%	9.3%	10.8%	10.5%	11.0%
Net Debt/Equity (x)	0.3	0.5	0.0	0.0	0.0
P/E (x)	39.7	31.4	19.7	15.4	13.3
P/B (x)	3.1	2.8	1.7	1.5	1.4
EV/EBITDA (x)	16.0	12.8	9.2	8.2	7.0
EV/Sales (x)	3.7	3.2	2.3	2.0	1.7
Debtor days	270	270	239	234	228
Inventory days	95	82	85	84	84
Creditor days	135	133	124	128	133

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

Registered Office: 7th Floor, Energy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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