

March 17, 2017

Malhotra Book Depot

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based limits	15.00	Reaffirmed [ICRA]BBB- (Stable)
Total	15.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB- (pronounced as ICRA triple B minus)¹ on the Rs. 15.00-crore fund-based limits of Malhotra Book Depot (the firm). The outlook on the long-term rating is 'Stable'.

Detailed rationale

The rating continues to derive strength from the extensive experience of the promoters, the group's track record as a book publisher with a strong brand name, its strong content development capabilities and extensive sales and distribution network. The ratings further factor in the firm's comfortable debt protection metrics in the absence of any long-term loan and its limited dependence on external working capital facilities, with moderate utilisation.

The ratings, however, continue to be constrained by the firm's subdued revenue growth amid a competitive market. Furthermore, high receivables and inherent seasonality of operations result in stretched working capital indicators. The rating also remains constrained by the company's significant investment (~Rs 50 crore, made prior to FY2013) in group entities and its exposure to paper price volatility, which impacts profitability.

Going forward, the company's ability to maintain revenue growth, reduce its dependence on creditors and maintain its debt coverage indicators will be the key rating sensitivity.

Key rating drivers

Credit strengths

- Strengths derived from being part of the MBD group
- Low overall indebtedness; exposure limited to working capital limits
- Comfortable debt coverage and liquidity position in publishing entities with profits supported by consistent interest income earned on cash balances

Credit weaknesses

- Subdued revenue growth given the high competition from other large publishing houses
- Exposure to paper price volatility; however, the firm negotiates bulk discount and long credit period with paper mills
- Weak working capital indicators, partly attributable to high seasonality of business

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Description of key rating drivers highlighted above:

The MBD Group is a leading Indian publishing house with over six decades of experience. Over the years, the group has built strong content development capabilities as well as royalty-based tie ups with authors. The group has its own branches at 26 locations; relationships with schools as well as strong distribution network act as competitive advantage in this segment. The firm's indebtedness is limited largely to working capital. The firm generally has liquidity in the form of cash in hand and fixed deposits, against which it utilises an overdraft limit from the bank (Rs 3.62 crore and Rs 12.00 crore respectively as on Mar 31, 2016). As the partners have been retaining majority of the profits generated, the capital structure remains comfortable.

The ratings are, however, constrained by high working capital intensive nature of operations given stretched receivables and inherent seasonality of operations (as on March 31, 2016, debtor and creditor days stood at 68 days and 330 days, respectively, as compared to 59 days and 299 days in previous year). Given the large investment in group, the firm has remained dependent on high creditor funding. The firm also remains exposed to paper price volatility as paper forms a significant portion of its cost structure as also evident in lower operating margin in FY2016 as compared to FY2015. However, ICRA notes that the firm negotiates bulk discount with paper mills.

For the period 9MFY2017, as per the provisional numbers provided by the firm, it recorded similar revenue of Rs 76 crore as compared to Rs 77 crore in the previous year. The margins also remained under pressure due to volatility in the paper prices during the year.

Analytical approach: Not Applicable

Links to applicable criteria:

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

About the company:

MBD is a part of the New Delhi-based publishing group- the Malhotra group, which also has interests in hospitality and real estate. The MBD group is managed by Ms. Satish Bala Malhotra and her two daughters Ms. Sonica Malhotra and Ms. Monica Malhotra. MBD publishes text and reference books, largely for Classes V to XII.

MBD reported a net profit of Rs. 7.7 crore on an operating income of Rs. 87.9 crore in FY2016, as compared to a net profit of Rs. 7.4 crore on revenue receipts of Rs. 83.1 crore in the previous year. On provisional basis, the company has reported an operating income of Rs 76.1 crore in 9MFY2017.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years	
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Date & Rating in FY2016	Date & Rating in FY2015
				March 2017	Mar, 2016	Feb, 2015
1	Cash Credit	Long Term	15.00	[ICRA]BBB-(Stable)	[ICRA] BBB-(Stable)	[ICRA] BBB-(Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	15.00	[ICRA] BBB- (Stable)

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