

March 21, 2022

Chetana Education LLP (erstwhile Chetana Publication (India) LLP): Ratings reaffirmed and removed from Non-Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Cash Credit limit	30.00	30.00	[ICRA]BB-(Stable); reaffirmed and removed from Non-Cooperating category
Short-term – Non-fund Based Letter of Credit	(5.00)	(5.00)	[ICRA]A4; reaffirmed and removed from Non-Cooperating category
Total	30.00	30.00	

*Instrument details are provided in Annexure-1; Letter of Credit is a sub-limit of Cash Credit limit

Rationale

The rating reaffirmation for Chetana Education LLP (CEL, erstwhile Chetana Publication (India) LLP) continues to reflect the extensive experience of its promoters in the publishing business and factors in the improvement in CEL's net worth over the past two years, aided by capital infusion by the promoters. The ratings draw comfort from its established brand presence in the West India, along with its demonstrated acceptability in schools, wide distribution network and association with authors.

The ratings, however, are constrained by the modest scale of its operations with significant moderation in CEL's top line in FY2020 and FY2021 due to the Covid-19 pandemic and the geographical concentration in Maharashtra. The business recovery has been delayed and a recovery to the pre-pandemic levels is likely over the medium term with all state governments having granted permission for schools to operate without restrictions. The ability to scale up operations to pre-pandemic levels without a significant increase in leverage remains critical. The ratings further remain constrained by the high working capital-intensive nature of the firm's business and the seasonality in revenues. The ratings consider the susceptibility of the business to volatile raw material prices and the highly competitive and fragmented industry structure. ICRA also notes the risk associated with the limited liability partnership (LLP) constitution including the inherent capital withdrawal risk.

The Stable outlook on the long-term rating of [ICRA]BB- reflects ICRA's opinion that CEL will continue to benefit from the experience of its promoters, the established brand presence in school books in the target geography and will be able to improve its scale of operations over the medium term.

Key rating drivers and their description

Credit strengths

Extensive track record of promoters in publishing business - The Chetana Group has been involved in the publishing business since the last four decades. Over the years, the Group has built strong content development capabilities. CEL primarily caters to the kindergarten to higher secondary school segment and has an extensive track record in catering to books pertaining to different boards.

Established brand in West India; acceptability with schools and association with authors - CEL has more than 1,000 titles across education boards partnering with over 400 authors for content. It manages a distribution network of over 5,000 retailers and a workforce of over 500 employees across 22 branches, to ultimately cater to over 30,000 schools and educational institutes. The extensive distribution network and acceptability lends it a competitive advantage in the publishing segment.

Credit challenges

Modest scale of operations with revenues concentrated in Maharashtra and Gujarat; delayed business recovery - The firm has a modest scale of operations with an operating income (OI) of Rs. 32.56 crore in FY2021, which declined from Rs. 63.03 crore in FY2020 due to the headwinds of the pandemic. The shutdown of schools and educational institutions continue to impact its business operations as seen in the financial performance in YTD FY2022. With schools in Maharashtra, the key target geography, opening fully in Q4 FY2022, the business is expected to pick up significantly in FY2023.

Working capital-intensive nature and seasonality in business - Being into the sales of school/college books, the inventory is typically high during the pre-academic period of October to January/February, wherein the firm plans its production for the next academic season based on the past trend as well as new enquiries. Sales typically start picking up from March/April (period of dispatch) till July (start of academic season), wherein the debtors are usually high leading to high working capital intensity. The collection starts subsequently and extends until December, wherein the firm recovers the dues from the dealers – who deal with multiple bookstores and schools. Over the last two years, the inventory holding period was elevated on account of sluggish sales and higher sales return during the times of pandemic. The working capital requirements have partly been funded through capital infusion by the promoters.

Susceptibility of profit margins to fluctuations in raw material prices - The profit margins remain susceptible to the volatility in prices of paper, the key raw material. ICRA, however, notes that over FY2021 and FY2022, the firm has been able to manage its profit margins through adoption of cost rationalisation measures, along with benefits of working on an asset light model. Further, given CEL's constitution as an LLP firm, the net cash accruals are exposed to discrete risks of capital withdrawal by the partners.

Stiff competition from other publishing houses - The primary segment for CEL is school books, which accounts for majority of the OI. ICRA notes that this segment is diverse and intensely competitive due to presence of various boards namely, state boards, Central Board of Secondary Education (CBSE) and the Indian Certificate of Secondary Education (ICSE). A separate body governing each board with a different syllabus provides opportunity to regional, state and local content providers to cater to the respective affiliated schools. There are other established content providers like National Council of Educational Research and Training (NCERT) and the State Council of Educational Research and Training (SCERT), which also publish subsidised books prescribed by schools, especially Government schools. While CEL faces competition from few established publishers with wide acceptability and presence, its long track record aids its competitive position.

Liquidity position: Stretched

CEL has a stretched liquidity profile with a cash balance of ~Rs. 0.68 crore as on September 30, 2021, with significant limits blocked in the form of working capital. Nonetheless, the undrawn working capital limits of Rs. 10.70 crore (considering drawing power) as of September 2021 is expected to support CEL's funding requirement for growth over the near to medium term.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of an improvement in liquidity position and stronger-than-expected sales growth result in a sustained improvement in the firm's profitability and debt coverage indicators.

Negative factors – Negative pressure on the ratings could arise if slower-than-anticipated recovery in revenues, or a deterioration in the working capital position, weakens the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the issuer.

About the company

Chetana Publication (India) LLP (CPIL) was incorporated in December 2017 as an LLP firm and is a part of the Mumbai-based Chetana Group. It was formed after the business of its Group companies (Chetana Publications Private Limited and Chetana Book Depot) were transferred to CPIL. CPIL has been renamed Chetana Education LLP (CEL) with effect from October 2021. The firm has presence in school and college book publishing and manufacturing of stationary items. The books are sold under the Chetana brand for pre-primary, Maharashtra State Board (English, Hindi and Marathi medium), CBSE, ICSE, college and various competitive exams. CEL has recently launched QR code books (physical books with QR codes providing a link to educational videos pertaining to the subject). Its registered office is in Mumbai, with a warehouse in Bhiwandi (on the outskirts of Mumbai).

Key financial indicators (Audited)

	FY2020	FY2021
Operating Income (Rs. crore)	63.03	32.56
PAT (Rs. crore)	5.96	3.06
OPBDITA/OI (%)	16.21%	15.99%
PBT/OI (%)	9.45%	9.40%
Total Outside Liabilities/Tangible Net Worth (times)	2.03	1.84
Total Debt/OPBDITA (times)	3.93	6.70
Interest Coverage (times)	2.67	2.78

PBT: Profit before Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 21, 2022	Aug 19, 2021			
1	Cash Credit	Long term	30.00	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable); ISSUER NOT COOPERATING	-	[ICRA]BB-(Stable)	-
2	Letter of Credit	Short term	(5.00)	-	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	-	[ICRA]A4	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	30.00	[ICRA]BB- (Stable)
NA	Letter of Credit	-	-	-	(5.00)	[ICRA]A4

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Mathew K Eranat
+91 80 4332 6415
mathew.eranat@icraindia.com

Shreekiran Rao
+91 22 6114 3469
shreekiran.rao@icraindia.com

Preeti Kumaran
+91 22 6169 3356
preeti.kumaran@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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