September 05, 2023

S Chand and Company Limited: Rating upgraded to [ICRA]A- (Stable); rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/OD	20.00	100.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable) for existing limits/assigned for the enhanced amount
Long-term – Fund-based/TL	0.00	10.00	[ICRA]A- (Stable); assigned
Total	**20.00**	**110.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the rating, ICRA has considered the consolidated financials of S Chand and Company Limited (SCCL) and its subsidiaries referred to as the Group on account of common management and operational and financial linkages.

The rating upgrade favourably factors in the healthy growth of approximately 26% in the Group's revenues in FY2023 to Rs. 614 crore, which was accompanied with improvement in operating margins and better working capital management. The growth momentum is likely to continue in the current fiscal. The Group is expected to report over Rs. 700 crore of revenues. The Group's cash accruals increased to Rs. 85 crore in FY2023. Further, the debt coverage indicators improved with interest coverage and Debt/OPBDITA of 4.9 times and 1.5 times, respectively, against 2.5 times and 2.6 times, respectively, in the previous fiscal. The working capital intensity also improved to 46% in FY2023 from 58% in the previous fiscal. ICRA expects the improvement trend to continue and the Group's financial risk profile to strengthen over the medium term. The rating notes in Group's strong operational profile, supported by its experienced promoters, established market position in the textbook publishing industry and long track record of over eight decades. The rating also considers the Group's established relationships with schools and tie-ups with various authors and professors, which have strengthened its foothold in the market. ICRA notes that the steps being taken by the Group to streamline their working capital cycle are favourably contributing to its cash flow generation and have enabled the Group to prepay a part of its debt obligations, facilitating faster deleveraging of its balance sheet. The Group's liquidity is also healthy with cash equivalents and undrawn working capital limits of more than Rs. 200 crore as of June 2023.

The rating, however, continues to be constrained by the Group's elongated working capital cycle on account of stretched receivable days and inherent seasonality of operations. The rating is constrained by the susceptibility of the business to volatile raw material prices and the intense competition due to the fragmented industry structure. Moreover, the Group is exposed to digital and regulatory risks. The digital transformation requires a significant change in content distribution and the content provider's position between retailers and authors. The inability of the Group to adapt to the transition faster than its competitors may render its products obsolete or it may lose its competitive edge and market share.

The Stable outlook on the long-term rating of [ICRA]A- reflects ICRA's opinion that the Group will continue to grow its scale of operations while improving its profitability, financial risk profile and working capital intensity, going forward.

Key rating drivers and their description

Credit strengths

Healthy growth in revenues and earnings in FY2023; momentum likely to continue in the current fiscal – The Group has reported healthy growth of 26% in revenues in FY2023 to Rs. 615 crore from Rs. 486 crore in FY2022 on account of improvement in sales volumes. This coupled with an increase in operating margins to more than 16% led to an improvement in cash accruals. This is supporting a gradual improvement in coverage metrics, reflected in an interest cover of 4.9 times and NCA/TD of 56% in FY2023. Moreover, the Group's performance is expected to improve in FY2024, aided by improved working capital management and ongoing deleveraging of its balance sheet. ICRA expects the improvement trend to continue and the Group's financial risk profile to strengthen over the medium term. The Group has already reported revenues of Rs. 111 crore in Q1 FY2024 and expects to report revenues of more than Rs. 700 crore of revenues in the current fiscal.

Extensive track record of promoters in publishing business – The Group has been in the publishing business since 1939, and delivers content, solutions and services across the education lifecycle through its presence in four business segments — Early Learning, K-12, Higher Education and digital offerings. The Group is one of the market leaders in the K-12 segment for the CBSE/ ICSE and West Bengal State Board curriculum books. Further, its established relationships with schools and long standing agreements with various authors and professors have strengthened its foothold in the market. Moreover, in the recent years, the Group has increased its efforts on investing and improving its digital offerings in each of the business segments to remain competent.

Reputed publishing house with strong in-house content development team – Over the years, the Group has built strong content development capabilities. It has an extensive track record of catering to books of different boards. The Group has arrangements with multiple bestsellers and has strong relationships with authors, which ensure good quality content of the books.

Extensive pan-India sales and distribution network – The Group has a strong marketing team of over 700 employees spread across the country, who stay in regular touch with schools and teachers. It helps in content development of the books through regular feedback and helps in assessing the demand for the books to facilitate the planning of production activities accordingly. The Group's marketing efforts are supported by an extensive pan-India distribution network of approximately 3,000 dealers, with a major part of the sales taking place through dealers.

Credit challenges

High working capital-intensive business due to stretched receivables and inherent seasonality of operations – The Group predominantly caters to the education sector, so it witnesses maximum demand during the Q4 of the financial year (pre-academic period). As a result, the debtors are usually high, leading to high working capital intensity. Further, the inventory remains high in H1 when the Group plans its production for the next academic season based on the past trend as well as new enquiries. However, the Group has been able to reduce its inventory and debtor days over the years, resulting in improvement in the net working capital intensity to 47% as on March 31, 2023 from 76% as on March 31, 2021.

Exposure to digital transformation and government regulations – The Group is exposed to digital learning and regulation related risks. The digital transformation requires a significant change in content distribution and the content provider's position between retailers and authors. The Group's ability to adapt to the transition faster than its competitors remains the key rating monitorable. With the onset of the Covid-19 pandemic, various schools adopted the digital way of teaching. Consequently, the Group has undertaken measures to promote its affordable digital learning applications, Learnflix, Mylestone, Madhubun Educate360 and SmartK to increase the enrolment rate and subscription base by providing easy access to educational content to the students amid the lockdown.

Moreover, the Group's operations continue to be affected by the changes in the education policies and regulations of the government. With the announcement of the New Education Policy (NEP) in July 2020, it is envisaged that the new curriculum is being developed after a gap of 15 years, which would eliminate the impact of the second-hand book market and may lead to strong growth for the Group in the near to medium term. Also, the extent of the Group's ability to liquidate its inventory pertaining to the old curriculum, before the full impact of NEP kicks in, will remain the key monitorable.

Profitability exposed to volatility in raw material prices – The profit margins remain susceptible to volatility in the prices of paper, the key raw material. The raw material cost accounts for around 30-40% of the total operating income. Thus, the Group's profitability remains susceptible to the prices of paper. However, the Group has an integrated procurement process for paper and other raw materials, which enables it to achieve economies of scale with better bargaining power with the domestic suppliers, with which it has long-term relationships.

Intense competition from other publishing houses – The primary segment for the Group is schoolbooks, which account for the major portion of the operating income. ICRA notes that this segment is diverse and intensely competitive amid presence of various state boards, Central Board of Secondary Education (CBSE) and the Indian Certificate of Secondary Education (ICSE). While the Group faces competition from a few established publishers with wide acceptability and presence, its long track record supports its competitive position.

Environmental and Social Risks

Environmental considerations – Paper is the key raw material required for the printing industry, and its availability as well as waste reduction remains a key concern for the industry. Besides, the environmental risk for printing companies arises from the use of electricity to power the manufacturing units and use of water resources for cleaning and for other manufacturing processes. The Group would remain exposed to tightening environmental regulations related to breach of waste and pollution norms, which could lead to an increase in the operating costs and new equipment installation costs.

Social considerations – Entities in the printing sector are also exposed to risks of disruptions due to their inability to properly manage the human capital in terms of their safety and overall well-being. Besides, human rights issues and inability to ensure diversity, while providing equal opportunity could pose social risks for the company.

Liquidity position: Adequate

The Group's liquidity position is adequate, with expected cash flow from operations remaining sufficient to meet the debt servicing obligations as well as the margin funding requirements for capex and working capital. This has enabled the Group to prepay a part of its term debt obligations beyond the scheduled repayment obligations. The Group has become net debt free in April 2023. The Group's adequate liquidity position is corroborated by its comfortable cushion in the form of undrawn fund-based working capital limits. The available undrawn limits stood at more than ~Rs. 65 crore as on June 30, 2023. Further, the Group has cash and bank balances and investments of about Rs. 145 crore as on June 30, 2023, which provides additional comfort.

Rating sensitivities

Positive factors – The rating could be upgraded if it demonstrates a sustained improvement in its profitability and working capital intensity, strengthening its liquidity profile and improving its credit metrics.

Negative factors – Pressure on the rating could arise if there is a decline in the Group's revenues and operating margins, resulting in lower cash flows on a sustained basis. Deterioration in the working capital cycle and sharp increase in sales return, impacting the Group's liquidity position, could be a trigger for a rating downgrade. Specific credit metrics that may result in a rating downgrade include DSCR of less than 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Media (Print)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financials of SCCL, and its 13 subsidiaries, given the strong operational and financial linkages among the entities.

About the company

SCCL belongs to the S. Chand Group of Companies, which was founded by the Late Shyam Lal Gupta and is one of the leading schoolbook and technical book publishers in India. SCCL was incorporated as a private limited company in 1970. It publishes mainly academic books and other educational services through its subsidiaries. It sells products in various categories including competitive exams and reference books, technical and professional books, KG to 12th level schoolbooks, higher academic books, Integrated curriculum solutions and has also invested in start-ups offering digital solutions in test preparations. The main product offering of SCCL is in the K-12 segment, primarily towards schools affiliated with CBSE and ICSE Boards.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	486.3	614.6
PAT	8.6	57.7
OPBDIT/OI	14.2%	16.5%
PAT/OI	1.8%	9.4%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	2.6	1.5
Interest coverage (times)	2.5	4.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Sep 5, 2023	Feb 23, 2023	-	-
1	**Dropline Overdraft**	Long term	100.00	-	**[ICRA]A- (Stable)**	[ICRA]BBB+ (Stable)	-	-
2	**Term loan**	Long term	10.00	6.73	**[ICRA]A- (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based/Dropline OD	Simple
Long-term – Fund-based/TL	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 are available on ICRA's website: Click Here.

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Dropline Overdraft	-	-	-	100.00	[ICRA]A- (Stable)
NA	Term Loan	FY2021	-	FY2026	10.00	[ICRA]A- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA]

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
S Chand and Company Limited	100%	Full Consolidation
Nirja Publishers and Printers Private Limited*	100%	Full Consolidation
Safari Digital Education Initiatives Private Limited	100%	Full Consolidation
Blackie & Son (Calcutta) Private Limited*	100%	Full Consolidation
Vikas Publishing House Private Limited	100%	Full Consolidation
DS Digital Private Limited*	100%	Full Consolidation
New Saraswati House (India) Private Limited	100%	Full Consolidation
Chhaya Prakashani Limited	100%	Full Consolidation
BPI (India) Private Limited	51%	Full Consolidation
S. Chand Edutech Private Limited	100%	Full Consolidation
Indian Progressive Publishing Co Private Limited	100%	Full Consolidation
Edutor Technologies India Private Limited	54.9%	Full Consolidation
Convergia Digital Education Private Limited	100%	Full Consolidation

**As per the Hon'ble National Company Law Tribunal order dated July 24, 2023, approving the composite Scheme of Arrangement, Blackie and Sons (Calcutta) Private Limited, Nirja Publishers & Printers Private Limited and education business of DS Digital Private Limited have been merged into S Chand and Company Limited and residual business remaining in DS Digital Private Limited have been merged into Safari Digital Education Initiative Pvt Ltd.*

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100

jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Gaurav Singla
+91 124 4545 366
gaurav.singla@icraindia.com

Preeti Rana
+91 124 4545 887
preeti.rana@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches