December 12, 2023

Chetana Education LLP (erstwhile Chetana Publication (India) LLP): Rating upgraded to [ICRA]BB (Stable)/[ICRA]A4+ and removed from ISSUER NOT COOPERATING category; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	30.00	30.00	[ICRA]BB (Stable); upgraded from [ICRA]B+ (Stable) and removed from ISSUER NOT COOPERATING category
Short-term – Non-fund based – Letter of credit*	(5.00)	(5.00)	[ICRA]A4+; upgraded from [ICRA]A4 and removed from ISSUER NOT COOPERATING category
Long-term/Short-term – Unallocated limits	0.00	10.00	[ICRA]BB (Stable)/[ICRA]A4+; assigned
Total	**30.00**	**40.00**	

**Instrument details are provided in Annexure-I; *Sub-limit of cash credit*

Rationale

ICRA has upgraded the ratings of Chetana Education LLP (CEL or the firm) and removed the same from 'ISSUER NOT COOPERATING' category, owing to the firm's cooperation in concluding the rating exercise and improvement in its revenues and operating profits resulting in adequate debt protection metrics. In FY2023, the revenues grew by 75% YoY to Rs. 76 crore, driven by steady demand for books due to opening of schools, educational institutions, post lifting of the Covid-19 pandemic-related restrictions. Consequently, the operating profit margins (OPM) improved by 720 bps to 20.7%, aided by better absorption of fixed costs. ICRA expects the firm to report a healthy revenue growth of 15-17% YoY each in FY2024 and FY2025, supported by healthy demand, while the OPM is expected to remain in the range of 17-18%. Its leverage and debt coverage indicators improved in FY2023, backed by an increase in operating profits and are estimated to be adequate with TD/OPBDITA of around 3 times (PY: 2.7 times) and DSCR of 4 times as of March 2024 (P.Y.: 5.6 times). The firm's working capital intensity (NWC/OI) reduced to 84% in FY2023 (though remaining high) from 172% in FY2021 and 128% in FY2022, resulting in an improved liquidity.

The ratings, however, are constrained by the modest scale of its operations and the geographical concentration with majority of revenues coming from Maharashtra. 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 its business to volatile raw material prices as well as 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 established brand presence in schoolbooks in the target geography, increasing scale of operations and adequate debt coverage metrics.

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 for 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 the West India zone; 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.

Improvement in revenues and profitability, adequate debt protection metrics – The healthy revival in demand, supported by opening of schools and educational institution, post lifting of pandemic-related restrictions, helped CEL in posting strong recovery in FY2023. The revenues in FY2023 grew by 75% YoY, while the OPM improved by 720 bps to 20.7%. It has reported revenues of Rs. 55.8 crore in H1 FY2024 and is likely to close FY2024 with revenues of Rs. 90-100 crore, while the OPM is expected to remain in the range of 17-18%%. The firm's leverage and debt coverage indicators improved in FY2023, following the increase in operating profits, as reflected by TD/OPBDITA of 2.7 times (6.6 times – FY2022) and DSCR of 5.6 times (3.5 times – FY2022).

Credit challenges

Moderate scale of operations with revenues concentrated in Maharashtra – Despite recovery in revenues, CEL's scale of operations remains moderate with an operating income (OI) of Rs. 75.6 crore in FY2023 (against Rs. 43.1 crore in FY2022) and Rs. 55.8 crore in H1 FY2024. Its revenues are largely concentrated in Maharashtra, which accounted for 66% and 76% of the OI in FY2023 and H1 FY2024, exposing the firm to geographical concentration risks.

High working capital-intensive business; susceptibility of profit margins to fluctuations in raw material prices – CEL's working capital intensity remains high (NWC/OI of 84% for FY2023) on account of elevated receivables and inventory levels. The inventory is typically high during the pre-academic period of October to January, wherein the firm plans its production for the next academic season. Sales typically start picking up from February (period of dispatch) till July (start of academic season), wherein the debtors are usually high. The collection starts subsequently and extends until December, wherein CEL recovers the dues from the dealers, who deal with multiple bookstores and schools. Its operating profit margins remain susceptible to volatility in prices of paper, the key raw material.

Risk of capital withdrawals being a partnership firm – 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 school book segment is diverse and intensely competitive due to presence of various boards. 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 publish subsidised books prescribed by schools, especially Government schools.

Liquidity position: Adequate

CEL's liquidity position is adequate. As on September 30, 2023, it reported undrawn fund-based working capital limit of Rs. 7.5 crore. The fund-based limit utilisation averaged at 44% during October 2022 to September 2023 resulting in an average cushion of Rs. 11.2 crore during the period. The firm's long-term debt repayment for H2 FY2024, FY2025 and FY2026 are Rs. 0.15 crore, Rs 2.1 crore and Rs. 2.1 crore, respectively, which are expected to be comfortably met from the cash flow from operations.

Rating sensitivities

Positive factors – Sustained growth in revenues and profitability, along with improvement in working capital intensity and liquidity could result in a rating upgrade.

Negative factors – Any significant decline in revenues and profitability, or substantial increase in indebtedness impacting the firm's debt protection metrics could result in a rating downgrade. Additionally, deterioration in the working capital cycle or considerable capital withdrawal by the partners impacting the cash flows and liquidity position will also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Print Media
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

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. It has been renamed CEL with effect from October 2021. The firm has presence in school and college book publishing and manufacturing 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)

CELLP	FY2022	FY2023
Operating income	43.09	75.56
PAT	3.80	12.44
OPBDIT/OI	13.48%	20.66%
PAT/OI	8.82%	16.46%
Total outside liabilities/Tangible net worth (times)	2.31	2.03
Total debt/OPBDIT (times)	2.31	2.03
Interest coverage (times)	3.44	5.59

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

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 Sep 30, 2023 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Dec 12, 2023	May 19, 2023	May 08, 2023	Mar 14, 2023	Mar 21, 2022	Aug 19, 2021	-
1	Cash credit	Long term	30.0	5.21	[ICRA]BB (Stable)	ICRA]B+ (Stable); ISSUER NOT COOPERATING	ICRA]BB-(Stable); ISSUER NOT COOPERATING	ICRA]BB-(Stable); ISSUER NOT COOPERATING	ICRA]BB-(Stable)	ICRA]BB-(Stable) ;ISSUER NOT COOPERATING	-
2	Letter of credit*	Short term	(5.0)	-	[ICRA]A4+	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	-
3	Unallocated limits	Long term and short term	10.00	-	[ICRA]BB (Stable)/ [ICRA]A4+	-	-	-	-	-	-

**Sub-limit of cash credit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Non-fund based – Letter of credit	Very Simple
Unallocated limits	NA

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	**Cash credit**	NA	NA	NA	30.00	[ICRA]BB (Stable)
NA	**Letter of credit***	NA	NA	NA	(5.00)	[ICRA]A4+
NA	**Unallocated limits**	NA	NA	NA	10.00	[ICRA]BB (Stable)/ [ICRA]A4+

*Source: Company; *Sub-limit of cash credit*

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

Annexure II: List of entities considered for consolidated analysis- Not applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 45474829
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 45474829
anupama.reddy@icraindia.com

Tushar Bharambe
+91 22 6169 3347
tushar.bharambe@icraindia.com

Mihir Gada
+91 22 6114 3400
mihir.gada@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.

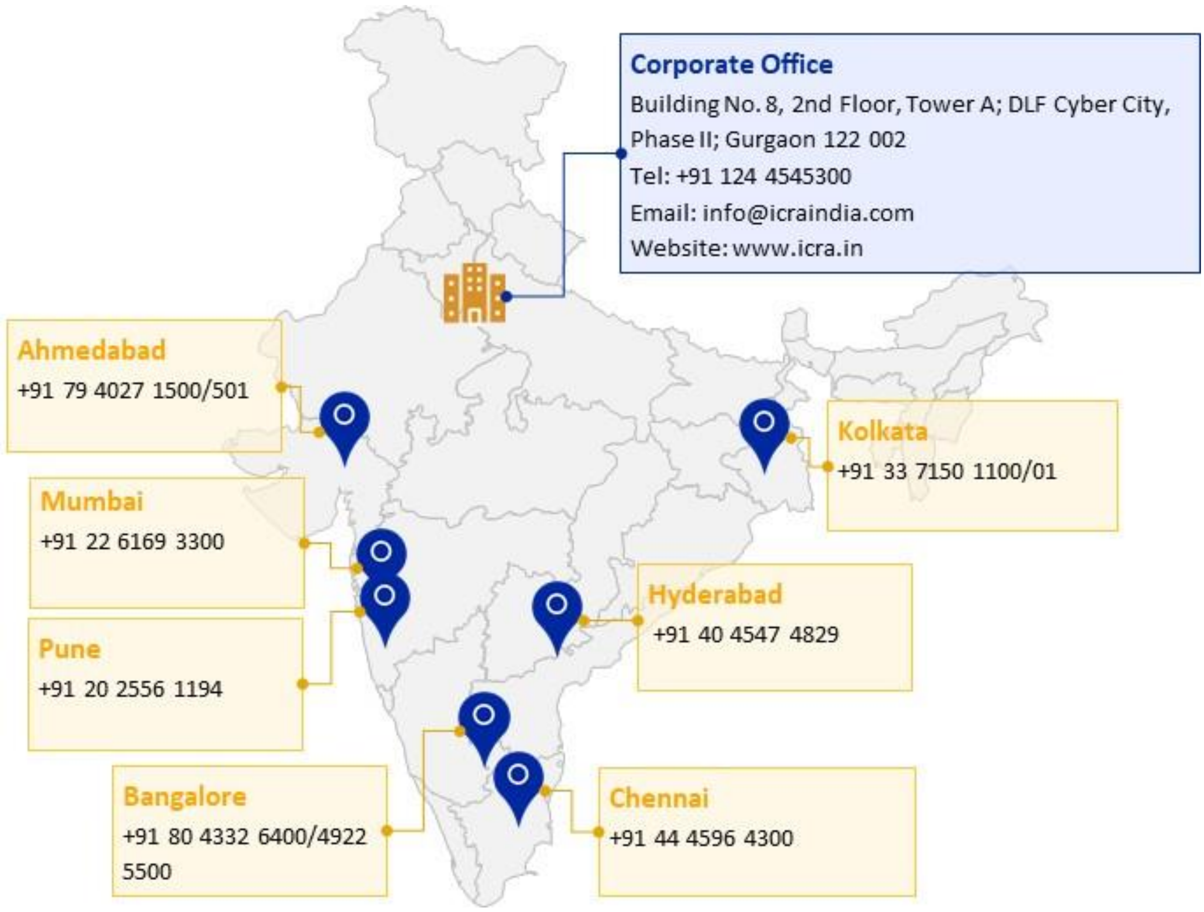
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



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