

July 19, 2024

Viva Books Private Limited: Rating reaffirmed and outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Overdraft	30.00	30.00	[ICRA]BB+ (Stable); reaffirmed and outlook revised to Stable from Positive
Long-term – Fund-based – Term loan	2.52	0.45	[ICRA]BB+ (Stable); reaffirmed and outlook revised to Stable from Positive
Long-term – Unallocated	2.48	4.55	[ICRA]BB+ (Stable); reaffirmed and outlook revised to Stable from Positive
Total	35.00	35.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in outlook to Stable from Positive for Viva Books Private Limited (VBPL) reflects ICRA's expectation that continued high working capital intensity (NWC/OI of ~60% in FY2024) will constrain material improvement in its credit profile in the near term. The working capital intensity is likely to remain at elevated levels, in contrast with the earlier expectations of improvement in the overall cash conversion cycle. The high working capital intensity is attributed to the stretched receivable days (400 days as on March 31, 2024) and inherent seasonality of operations and cash flows associated with the business.

The rating derives strength from VBPL's established market position in the textbook publishing business, along with the extensive experience of its promoters in the publishing domain. The rating considers the recovery in the revenue, which surpassed the pre-Covid level post re-opening of schools and improved realisations. Consequently, the coverage metrics has improved with an interest coverage 3.4 times in FY2024 (compared to 2.8 times in FY2023). The rating considers VBPL's pan-India distributor network, established relationships with schools and tie-ups with various authors and teachers, which have strengthened its foothold in the market.

The rating, however, is constrained by the company's working capital-intensive operations on account of stretched receivable days, leveraged capital structure with TOL/TNW of 3.9 times and inherent seasonality of operations. The receivable cycle remains elongated with high receivable days of 400 days as on March 31, 2024, of which Rs. 22.45 crore (51.0% of net worth) were outstanding for over 180 days. Any material write-offs could adversely impact its profitability and leverage metrics, and hence remains a key monitorable. VBPL has relied on extended credit from suppliers and need-based unsecured loans from promoters to fund the working capital requirements. This has resulted in a leveraged capital structure with TOL/TNW of 3.9 times as on March 31, 2024. The rating is also constrained by the susceptibility of the business to volatile raw material prices and the intensely competitive and fragmented industry structure.

The Stable outlook on the long-term rating reflects ICRA's opinion that VBPL is likely to sustain its operating metrics and its debt protection metrics commensurate with the rating level.

Key rating drivers and their description

Credit strengths

Established track record and brand name of promoters in publishing business and extensive pan-India sales and distribution network – The company has been involved in the publishing business since the last three decades. Over the years, the company

has exhibited strong content development capabilities. VBPL primarily caters to the academic books for the K-12 segment. It has an extensive track record of catering to books of different school boards. The rating further draws comfort from its strong dealership network across the country. The company has its own warehouses across various locations in India. VBPL's established relationship with dealers and schools and royalty-based tie-ups with authors as well as the extensive distribution network lend competitive advantage to this segment.

Satisfactory debt coverage metrics – There was a recovery in revenue in FY2023 and FY2024 and it surpassed the pre-Covid level in FY2024 due to stronger demand and an increase in the prices of the books. Further, the operating margins recovered with expansion in scale and better absorption of fixed costs. Due to recovery in the scale and profitability, the debt coverage metrics were satisfactory with an interest coverage of 3.4 times in FY2024, which is likely to sustain in FY2025 on the back of favourable demand prospects.

Credit challenges

High working capital-intensive business due to stretched receivables and inherent seasonality of operations – VBPL's working capital cycle remains elongated as reflected by NWC/OI of ~60%, which is unlikely to improve significantly in the near term. The high working capital intensity is attributed to stretched receivable days (400 days as on March 31, 2024) and inherent seasonality of operations associated with the business. Majority of the company's sales happen in Q4 of the fiscal and full recovery of receivables occur by December. The inventory peaks from September to January when the paper is procured, and books are printed for the next academic year. VBPL has relied on extended credit from suppliers and need-based unsecured loans from the promoters to fund its working capital requirements. This has resulted in a leveraged capital structure with TOL/TNW of 3.9 times as on March 31, 2024.

Exposed to paper price volatility, competition from other publishing houses – The profit margins remain susceptible to volatility in prices of paper, the key raw material. However, the company has been able to negotiate on bulk purchases from the suppliers or pass on the increase in raw material cost through rise in price of books. ICRA notes that this segment is diverse and intensely competitive due to the presence of various state boards, besides the Central Board of Secondary Education (CBSE) and the Indian Certificate of Secondary Education (ICSE). While VBPL faces competition from few established publishers with wide acceptability and presence, its long track record supports its competitive position.

Liquidity position: Adequate

VBPL's liquidity position is adequate, supported by cash flow from operations of ~Rs. 10 crore in FY2024 and some buffer in the working capital limits. Its average working capital utilisation in the past 13 months ending in April 2024 stood at ~76%. It has annual repayment of term loans stood at Rs. 1.18 crore in comparison to estimated cash accruals of ~Rs. 9.0 crore in FY2025. Further, the promoters supported the working capital requirement through unsecured loans, on a need basis. Given the seasonality associated with cash flows in business, the company's ability to judiciously manage its cash conversion cycle remains crucial to maintain adequate liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade VBPL's rating if there is a substantial growth in the revenues and profitability, along with material improvement in the working capital intensity and net worth on a sustained basis.

Negative factors – Pressure on VBPL's rating could arise if there is a decline in its revenue and earnings, resulting in lower cash flows on a sustained basis. Any further stretch in the working capital cycle, impacting the company's liquidity position, could also be a trigger for a rating downgrade. Specific credit metrics that could lead to a rating downgrade include OPBDITA/Interest of less than 2.5 times on a consistent basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Viva Books Private Limited (VBPL) was incorporated in FY1991. It publishes mainly academic books for the K-12 segment (school education). Majority of the revenue, i.e., ~80-85% comes from I to VIII standard schoolbooks, while the rest of the revenue is generated from IX-XII standard books. It majorly sells its books through dealers and sometimes directly to the schools as well. Further, VBPL derives a small portion of its revenue from trading of books, which are imported and sold in India based on market demand. The company has its own sales team spread across major states in India.

Key financial indicators (audited)

	FY2022	FY2023	FY2024*
Operating income	103.5	147.5	170.3
PAT	1.7	3.3	7.9
OPBDIT/OI	8.7%	8.8%	10.6%
PAT/OI	1.7%	2.3%	4.7%
Total outside liabilities/Tangible net worth (times)	4.6	4.4	3.9
Total debt/OPBDIT (times)	8.5	5.1	3.7
Interest coverage (times)	1.7	2.3	3.4

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and Amortisation; Amount in Rs. crore; *Provisional financials

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2025)		Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Date and Rating in FY2025	Date and Rating in		
			July 19, 2024	FY2024	FY2023	FY2022
1 Fund-based – Overdraft	Long-term	30.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	-
2 Fund-based – Term loan	Long-term	0.45	[ICRA]BB+ (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	-
3 Unallocated	Long-term	4.55	[ICRA]BB+ (Stable)	[ICRA]BB+ (Positive)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Overdraft	Simple
Long-term – Fund-based – Term loan	Simple
Long-term – Unallocated	Not Applicable

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-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund-based – Overdraft	NA	NA	NA	30.00	[ICRA]BB+ (Stable)
NA	Long-term – Fund-based – Term loan	FY2021	-	FY2025	0.45	[ICRA]BB+ (Stable)
NA	Long-term – Unallocated	NA	NA	NA	4.55	[ICRA]BB+ (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: Not Applicable

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