September 27, 2024

S Chand and Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ Overdraft facilities	100.00	95.00	[ICRA]A- (Stable); reaffirmed
Long-term – Fund-based/ Term loans	10.00	10.00	[ICRA]A- (Stable); reaffirmed
Long-term – Unallocated limits	-	5.00	[ICRA]A- (Stable); reaffirmed
Total	**110.00**	**110.00**	

**Instrument details are provided in Annexure-I*

Rationale

While assessing the rating, ICRA has considered the consolidated financials of S Chand and Company Limited and its subsidiaries, i.e., Chhaya Prakashani Limited, Vikas Publishing House Private Limited, New Saraswati House (India) Private Limited, Safari Digital Education Initiatives Private Limited, S. Chand Edutech Private Limited, Indian Progressive Publishing Co Private Limited, Convergia Digital Education Private Limited, Edutor Technologies India Private Limited, and BPI (India) Private Limited, herein collectively referred to as SCCL/Group, given the strong business, financial and managerial linkages among the same.

The rating reaffirmation considers the Group's comfortable financial risk profile with improved revenues and earnings (OPBIDTA of 16.6% in FY2024 from 15.9% in FY2023) in FY2024 due to better efficiencies and lower paper prices. ICRA expects the improvement trend to continue and the Group's financial risk profile to remain comfortable over the medium term. Also, its working capital intensity has improved (NWC/Operating income of 43.3% in FY2024 from 46.9% in FY2023) owing to continued focus on reduction in collection period (receivable period of 146 days as on March 31, 2024 from 163 days as on March 31, 2023) and generation of cash flow from operations (Rs. 95.9 crore in FY2024), which have supported the Group in limiting its dependence on external debt, facilitating deleveraging of its balance sheet. The Group reported 8.6% growth in operating income in FY2024. However, the same is yet to surpass the pre-Covid level due to relatively lower sales volume of higher education books (decline by around 30%). Nevertheless, the growth in the K-8 segment and a steady increase in prices contributed to the revenue growth in FY2024. Further, the debt coverage indicators improved in FY2024 with interest coverage and Debt/OPBDITA of 7.2 times and 1.2 times, respectively, against 4.7 times and 1.6 times, respectively, in the previous fiscal. The Group's liquidity is adequate with cash equivalents and undrawn working capital limits of Rs. 275.3 crore as on March 31, 2024. The rating notes the Group's strong operational profile, aided by its experienced promoters, established market position in the textbook publishing industry and long track record of over eight decades. Moreover, in the recent years, the Group has increased its efforts on improving its digital offerings to remain competent. 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 pan-India market with the help of ~3,000 distributors.

The rating, however, is constrained by the Group's elongated working capital cycle on account of stretched receivable and inventory days, along with inherent seasonality of operations. Nevertheless, it witnessed an improving trend in the recent years. Any material sales return/write-offs could adversely impact its profitability and hence remains a key monitorable. 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 transformation, regulatory risks and piracy. 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. Also, the publishing industry in India faces challenges of piracy and copyright issues.

The Stable outlook on the long-term rating reflects ICRA's opinion that SCCL will maintain robust capitalisation and comfortable debt coverage metrics, supported by healthy profits and strong cash flow from operations. Further, the outlook underlines ICRA's expectations that SCCL's working capital requirements would be funded in a manner that it is able to durably sustain its debt protection metrics commensurate with the existing rating, while maintaining an adequate liquidity.

Key rating drivers and their description

Credit strengths

Comfortable financial risk profile with improved revenues and earnings in FY2024; momentum likely to continue in near term – The Group's financial risk profile remains comfortable with improved revenues and earnings (OPBIDTA of 16.6% in FY2024 from 15.9% in FY2023) in FY2024 due to better efficiencies and lower paper prices. Also, the working capital intensity has improved (NWC/Operating income of 43.3% in FY2024 from 46.9% in FY2023) owing to continued focus on reduction in collection period (receivable period of 146 days as on March 31, 2024 from 163 days as on March 31, 2023) and generation of cash flow from operations (Rs. 95.9 crore in FY2024), which have supported the Group in reducing its dependence on external debt, facilitating deleveraging of its balance sheet. The Group reported 8.6% growth in operating income in FY2024. However, the same is yet to surpass the pre-Covid level due to relatively lower sales volume of higher education books (decline by around 30%). Nevertheless, growth in the K-8 segment and a steady increase in prices contributed to the revenue growth in FY2024. Further, the debt coverage indicators improved in FY2024 with interest coverage and Debt/OPBDITA of 7.2 times and 1.2 times, respectively, against 4.7 times and 1.6 times, respectively, in the previous fiscal. ICRA expects the improvement trend to continue and the Group's financial risk profile to remain comfortable over the medium term.

Extensive track record of promoters in publishing business; reputed publishing house – The Group has been in the publishing business since 1939. It 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. Moreover, in the recent years, the Group has increased its efforts on improving its digital offerings to remain competent. The Group has arrangements with multiple bestsellers and has strong relationships with authors, which ensure good quality content of the books.

Strong 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.

Credit challenges

High working capital-intensive business due to stretched receivables and inherent seasonality of operations – The Group predominantly caters to the K12 sector, so it witnesses maximum demand from January to April and full recovery of receivables occur by December. As a result, the debtors are usually high, leading to high working capital intensity. Further, the inventory peaks from September to January when paper is procured, and books are printed for the next academic year 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 (NWC/OI) to 43.3% as on March 31, 2024 from 76.9% as on March 31, 2021. Moreover, SCCL has relied on bill discounting facility for payment to the suppliers and funding its working capital requirements.

Profitability exposed to volatility in raw material prices and intense competition in fragmented industry – The raw material cost accounts for around 30-40% of the total operating income. Thus, the Group's profitability remains susceptible to volatility in prices of paper, the key raw material. 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. The fragmented nature of the publishing industry results in stiff competition, which limits the pricing flexibility of the industry participants. This keeps the profitability at a modest level. However, the reputed brand name of S Chand and Company supports the Group's margins to an extent. ICRA also notes that any material sales return/write-offs could adversely impact its profitability and hence remains a key monitorable.

Exposed to risk of digital transformation, government regulations and piracy – Post pandemic, there is a rapid shift towards e-books/digital content instead of physical books, particularly in higher education segment. The Group's ability to adapt to the transition faster than its competitors remains the key rating monitorable. ICRA notes that the Group has undertaken measures to promote its affordable digital learning applications and executed agreements for content distribution to increase its digital learning proportion to the revenue. Changes in the syllabus by the government and implementation of the same by the schools, results in inventory building/lower revenue to the publishers, which adversely impacts working capital intensity. It may also lead to write-off of the old curriculum books, which may impact the Group's profitability. Also, the publishing industry in India faces challenges of piracy and copyright issues.

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 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 annual cash flow from operations of ~Rs. 85 crore, which are sufficient to meet the debt servicing obligations as well as the margin funding requirements for working capital and capex. The Group became net debt free in March 2024. 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 Rs. 107.6 crore as on March 31, 2024. Further, the Group has free cash and liquid investments of about Rs. 167.7 crore as on March 31, 2024, which provides additional comfort. However, the working capital cycle, though improving, remains elongated with the seasonal nature of business leading to substantially stretched operating cycle with NWC/OI of 43.3% at the end of the financial year, which remains a key monitorable.

Rating sensitivities

Positive factors – ICRA could upgrade SCCL's rating if there is a sustained growth in its revenues and profitability, along with an improvement in the working capital intensity, while maintaining a comfortable liquidity profile and debt protection metrics.

Negative factors – Pressure on the SCCL's rating could arise if there is a decline in the Group's revenues and earnings, along with a deterioration in the working capital cycle, impacting the Group's liquidity position. 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
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financials of S Chand and Company Limited and its subsidiaries (as mentioned in Annexure-II) given the strong business, financial and managerial linkages among the same.

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 it 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)

Consolidated	FY2023	FY2024
Operating income	610.3	662.6
PAT	57.6	51.1
OPBDIT/OI	15.9%	16.6%
PAT/OI	9.4%	7.7%
Total outside liabilities/Tangible net worth (times)	0.2	0.3
Total debt/OPBDIT (times)	1.6	1.2
Interest coverage (times)	4.7	7.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs. crore)**	**27-SEP-2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Fund-based/ Overdraft facilities	Long-term	95.00	[ICRA]A- (Stable)	5-SEP-2023	[ICRA]A- (Stable)	23-FEB-2023	[ICRA]BBB+ (Stable)	-	-
Fund-based/ Term loans	Long-term	10.00	[ICRA]A- (Stable)	5-SEP-2023	[ICRA]A- (Stable)	-	-	-	-
Unallocated limits	Long-term	5.00	[ICRA]A- (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based/ Overdraft facilities	Simple
Long-term – Fund-based/ Term loans	Simple
Long-term – Unallocated limits	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund-based/ Overdraft facilities	-	-	-	95.00	[ICRA]A- (Stable)
NA	Long-term – Fund-based/ Term loans	-	-	-	10.00	[ICRA]A- (Stable)
NA	Long-term- Unallocated limits	-	-	-	5.00	[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

Entity Name	Ownership	Consolidation Approach
Chhaya Prakashani Limited	100%	Full Consolidation
Vikas Publishing House Private Limited	100%	Full Consolidation
New Saraswati House (India) Private Limited	100%	Full Consolidation
Safari Digital Education Initiatives Private Limited	100%	Full Consolidation
S. Chand Edutech Private Limited	100%	Full Consolidation
Indian Progressive Publishing Co Private Limited	100%	Full Consolidation
Convergia Digital Education Private Limited	100%	Full Consolidation
Edutor Technologies India Private Limited	54.86%	Full Consolidation
BPI (India) Private Limited	51%	Full Consolidation

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About ICRA Limited:

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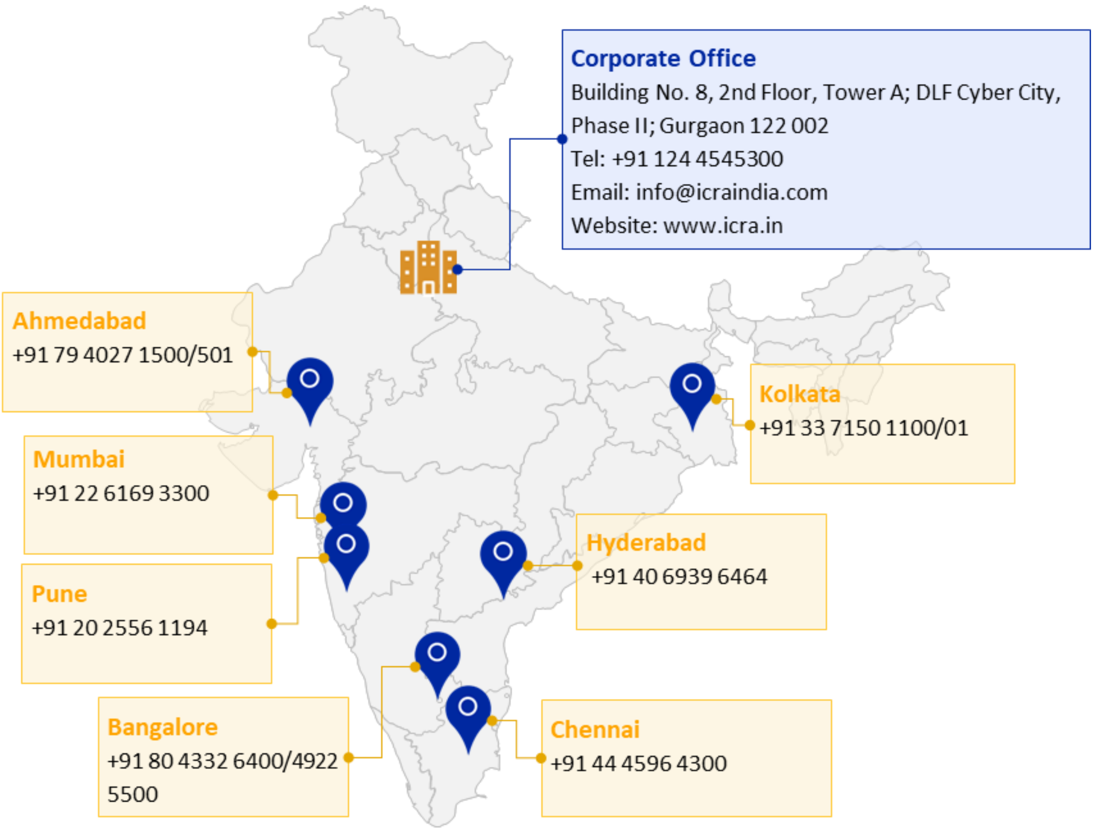

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