

February 18, 2020

Chetana Publications (India) LLP: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based limit	30.00	[ICRA]BB-(Stable); Assigned
Short Term non fund based interchangeable limit (5.00)		[ICRA]A4; Assigned
Total	30.00	

*Instrument details are provided in Annexure 1

Rationale

The assigned ratings of Chetana Publications (India) LLP (CPIL) is constrained by the modest scale of its operations with its revenue stream concentrated in the states of Maharashtra, and Gujarat. The ratings further remained constrained by the weak financial profile of the company characterised by high working capital intensive nature of the firm's business along with seasonality of revenues, leveraged capital structure and modest coverage indicators. In addition, the ratings are further constrained by the susceptibility of the business to volatile raw material prices and the highly competitive and fragmented industry structure.

The ratings, however, derive strength from the extensive experience of promoters and proficient management along with established relationships with schools and association with exclusive authors.

The Stable outlook on the long-term rating of [ICRA]BB- reflects ICRA's opinion that CPIL will continue to benefit from the experience of its promoters in the business of publishing of books.

Key rating drivers and their description

Credit strengths

Extensive track record of promoters in publishing business; established relationships with schools and association with exclusive authors - The Chetana Group has been in the publishing business over the last four decades. Over the years, the Group has built strong content development capabilities. Given that CPIL caters to the K-12¹ school segment, it has established relationships with schools. Moreover, its extensive distribution network lends it a competitive advantage in this segment.

¹ K-12 is a term used in education and educational technology as a short form for the publicly-supported school grades prior to college. These grades are kindergarten (K) and the 1st through the 12th grade (1-12).

Credit challenges

Modest scale of operations with revenues concentrated in Maharashtra and Gujarat- The company has a modest scale of operations with an operating income (OI) of Rs. 67.69 crore for FY2019, which was its first full year of operations. The operations of the firm are concentrated in the markets of Maharashtra and Gujarat, even though it has limited presence in other locations in India.

Highly working capital-intensive business given long payment cycles, inherent seasonality of revenues and high inventory requirements- Due to the nature of the business, the firm witnesses maximum demand during the last quarter of the financial year (which precedes start of an academic year in schools). Consequently, majority of the revenue is derived in the last quarter. The seasonal nature of business results in the collection period to rise significantly at year end; the debtor days stood at 177 in FY2019. In addition to this, the inventory holding period was elevated at around 200 days in FY2019 on account of sluggish sales and higher sales return. Thus, the borrowing levels also remain elevated in the last quarter, which subsequently tapers down during ensuing quarter/next financial year as the firm start realising the payments.

Stretched capital structure with a gearing of 6.70 times as on March 31, 2019, however comfort derived from unsecured loans from directors and group companies- The company's outstanding debt consists of interest bearing unsecured loans from directors and family members, unsecured loans from group companies (interest free), vehicle loans and working capital borrowings. The net worth position remains low. Thus, the capital structure is stretched with a gearing of 6.70 times as on March 31, 2019, which got reduced to 1.97 times as on November 30, 2019 (due to reduction in debt). The debt coverage indicators are also modest with NCA/Total debt of 11% and Total Debt/OPBDITA of 5.41 times in FY2019.

Exposure of profitability margins to volatilities of raw material prices-The main raw material for CPIL is paper, the price of which have been volatile. The material cost accounts for around 70% of the total operating income. So, the profitability margins remain susceptible to the raw material price volatility.

High competitive intensity from other publishing houses-The primary segment for CPIL's is K-12, which accounts for majority of the operating income. However, this segment is diverse and intensely competitive due to presence of various 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 which are prescribed by schools, especially government schools.

Liquidity position: Stretched

The liquidity profile of the company has remained **stretched** due to its high inventory and receivables. Further, the average utilisation of the working capital limits stood high at 72% during the 12-month period ended December 2019. The firm has long-term loans of Rs. 0.17 core on its books as on March 31, 2019, which is to be repaid by FY2022. CPIL has no major capacity expansion plans in the near-to-medium-term.

Rating sensitivities

Positive triggers – An upward movement in rating could happen if there is reduction in working capital intensity. The ratings could also be upgraded if there is diversification in sales by expanding its footprint in states other than Maharashtra and Gujarat with the profitability kept intact. Also, if there is revenue growth by venturing into digital teaching solutions or ramp-up of its stationery business.

Negative triggers – Negative pressure on the rating could arise if there is any moderation in the firm's profitability metrics or revenues, or a deterioration in the working capital position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

CPIL was incorporated in December 2017 as a Limited Liability Partnership (LLP) firm and is a part of Mumbai-based Chetana group of companies. It was formed after the business of its group companies (Chetana Publications Private Limited and Chetana Book Depot) were transferred to CPIL. The firm has presence in school and college book publishing and manufacturing of stationary items. The operations are concentrated in Maharashtra and Gujarat, while it has limited presence in other Indian locations. The books are sold for the K-12 education system under various boards like Maharashtra State Board (English and Marathi medium), CBSE and ICSE. The firm has its registered office in Mumbai, while it has a rented warehouse in Bhiwandi (on the outskirts of Mumbai).

CPIL recorded a profit after tax of Rs. 6.21 crore on an OI of Rs. 67.69 crore in FY2019 and a profit before tax of Rs. 10.13 crore on an OI of Rs. 49.31 crore for the eight months ended November 30, 2019 (provisional numbers).

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income	6.82	67.69
PAT	2.37	6.21
OPBDITA/ OI (%)	37.51%	14.37%
RoCE (%)	-	17.55%
Total Debt/ TNW (times)	18.17	6.70
Total Debt/ OPBDITA (times)	4.26	5.41
Interest Coverage (times)	3193.19 [^]	3.10
DSCR	-	3.04

Amounts in Rs. crore

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital employed;

TNW: Tangible Net Worth

[^] Not meaningful

Source: Financial statements of CPIL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

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Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding	Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					February 18, 2020			
1	Cash Credit	Long-term	30.00	-	[ICRA]BB-(Stable)	-	-	-
2	Letter of Credit*	Short-term	(5.00)	-	[ICRA]A4	-	-	-

Amount in Rs. crore

** Sublimit of Cash credit*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure 1: Instrument details

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

Amount in Rs. crore

* Sublimit of Cash Credit

Source: Chetana Publications (India) LLP

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