

September 30, 2020

## Holy Faith International (P) Ltd: Ratings reaffirmed

### Summary of rated instruments

| Instrument                 | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                      |
|----------------------------|--------------------------------------|-------------------------------------|------------------------------------|
| Fund based/ Non-fund Based | 25.00                                | 41.00                               | [ICRA]BBB- (Stable)/A3; Reaffirmed |
| Fund based – Long term     | 27.00                                | 0.00                                | -                                  |
| <b>Total</b>               | <b>52.00</b>                         | <b>41.00</b>                        |                                    |

*\*Instrument details are provided in Annexure-1*

### Rationale

The rating reaffirmation takes into account the established track record of Holy Faith International (P) Ltd.'s (HFI) promoters and the Group's reputed brand name as a book publisher, its pan-India distributor network and established relationships with schools. The ratings also positively factor in the company's sustained efforts to diversify its revenue streams by undertaking job-work tenders for state governments, which drove healthy revenue growth in FY2019, and maintaining revenues at similar levels in FY2020, after being mostly stagnant in the last few years. The ratings continue to favourably factor in the company's moderate debt coverage metrics.

The ratings, however, continue to be constrained by the company's long working capital cycle, as is characteristic of the publishing business, wherein the receivable realisation period remains significant. Further, HFI remains highly dependent on extended credit from suppliers and Group companies to fund its working capital requirements. ICRA notes that there are many related party transactions within the Group entities internally, which contribute to high debtor and creditor days. This apart, the ratings continue to factor in HFI's exposure to paper price volatility.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that HFI will continue to benefit from its long track record of operations and adequate liquidity position.

### Key rating drivers

#### Credit strengths

**Extensive experience of promoters in printing business, pan-India distributor network** – The MBD Group is a leading Indian publishing house with a track record of over six decades. Over the years, the Group has built strong content development capabilities. The ratings further draw comfort from the strong dealer network across the country. The Group has 29 branches at various locations across India. Given that HFI caters to the K-12 school segment, it has established relationships with schools. Moreover, its extensive distribution network lends it a competitive advantage in this segment.

**Strengths derived from revenue growth through job-work tenders undertaken for state governments** – HFI's revenues grew ~10% on the back of normal business growth in school books and healthy revenues earned from tenders

undertaken for NCERT<sup>1</sup> and publishing school books under Sarva Siksha Abhiyan. In FY2020, the company undertook tender for the Government of Telangana for Rs. 18 crore.

**Healthy capital structure; net debt-free status** – The capital structure of the company remained healthy owing to low debt levels with a gearing of 0.60 times as on March 31, 2020. The debt coverage indicators were comfortable, as characterised by interest coverage of 2.93 times and DSCR<sup>2</sup> at 2.36 times as on March 31, 2020. Its debt/OPBDITA was moderate at 3.77 times as on March 31, 2020. HFI remains a net debt-free company with a liquidity buffer in the form of cash balances and liquid investments of Rs. 45.24 crore as on March 31, 2020 against comparatively lower debt levels of Rs. 38.41 crore as on March 31, 2020.

## Credit challenges

**Highly working capital-intensive business due to stretched receivables and inherent seasonality of operations** – The ratings are constrained by the highly working capital-intensive nature of operations, given that book publishers usually extend a long credit period to dealers. For the MBD Group, the dues are settled on a rolling basis, given its long relationships with dealers. The business is seasonal, in line with the academic session, with the fourth quarter of the financial year being the highest revenue-booking period. ICRA notes that the Group has various publishing and printing entities. Hence, many related party transactions over the year within the Group entities contribute to high debtor and creditor days. HFI, therefore, remains dependent on funding from creditors.

**Exposure to paper price volatility** – The price of paper, which forms a significant portion of HFI's cost structure, tends to increase over the years. However, company negotiates for bulk discount and long credit period with paper mills. ICRA notes that the company has been undertaking measures to control establishment expenses to conserve margins.

## Liquidity position: Adequate

The liquidity position of HFI is **adequate**, given that it has cash and liquid assets of ~Rs. 31 crore as on August 31, 2020. Further, the working capital limits have adequate buffer of ~28% with average utilisation of ~72% on the sanctioned lines during the 18-month period ending in August 2020. With low debt levels and adequate liquidity, ICRA expects HFI to be able to meet its near-term commitments.

## Rating sensitivities

**Positive triggers** – ICRA may upgrade HFI's ratings if the company is able to significantly scale-up its operations, while maintaining healthy profitability indicators and improving its working capital intensity, thereby improving its liquidity position. Specific credit metrics that could lead to an upgrade of HFI's rating include adjusted TOL/TNW below 1.8 times on a sustained basis.

**Negative triggers** – ICRA could downgrade HFI's rating if there is sustained pressure on operations, resulting in deterioration in HFI's financial risk profile.

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<sup>1</sup> NCERT = National Council of Educational Research and Training

\* DSCR = Debt Service and Coverage Ratio  
[www.icra.in](http://www.icra.in)

## Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a> |
| Parent/Group Support            | Not applicable                                      |
| Consolidation/Standalone        | Standalone  |

## About the company

HFI is a part of the New Delhi-based publishing group, the MBD Group, which also has interests in hospitality and real estate. The MBD Group is managed by Ms. Satish Bala Malhotra and her two daughters—Ms. Sonica Malhotra and Ms. Monica Malhotra. HFI is involved in publishing K-12 text books under titles such as *Holy Faith ABC Series*, *Learnwell Series*, *Humming Bird Series* and *All-in-One Series* and carries out most of its printing in-house.

## Key financial indicators (audited/provisional)

|  | FY2019 | FY2020 (Prov) |
|--|--------|---------------|
| Operating Income (Rs. crore)                         | 164.53 | 160.41        |
| PAT (Rs. crore)                                      | 1.90   | 3.76          |
| OPBDIT/OI (%)  | 6.42%  | 6.35%         |
| RoCE (%)   | 9.55%  | 8.24%         |
| Total Outside Liabilities/Tangible Net Worth (times) | 3.39   | 2.74          |
| Total Debt/OPBDITA (times)                           | 4.13   | 3.77          |
| Interest Coverage (times)                            | 2.29   | 2.93          |
| DSCR   | 2.04   | 2.36          |

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for past three years

|   | Instrument                   | Current Rating (FY2021) |              |                    |                        | Rating History for the Past 3 Years |        |                        |
|---|------------------------------|-------------------------|--------------|--------------------|------------------------|-------------------------------------|--------|------------------------|
|   |                              | Type                    | Amount Rated | Amount Outstanding | Rating                 | FY2020                              | FY2019 | FY2018                 |
|   |                              |                         |              |                    | 30-Sep-2020            | 17-Jun-2019                         | -      | 23-Mar-2018            |
| 1 | Fund based/ Non-fund Based * | Long Term/ Short Term   | 41.00        | -                  | [ICRA]BBB-(Stable) /A3 | [ICRA]BBB-(Stable) /A3              | -      | [ICRA]BBB-(Stable) /A3 |
| 2 | Fund based                   | Long Term               | 0.00         | -                  | -                      | [ICRA]BBB-(Stable)                  | -      | [ICRA]BBB-(Stable)     |

\*interchangeable Cash Credit and Bank Guarantee  
Amount in Rs. crore

### 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 [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

| ISIN No | Instrument Name               | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|-------------------------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
|         | Fund based/<br>Non-fund Based | NA                          | NA          | NA            | 41.00                    | [ICRA]BBB- (Stable)/ A3    |

Source: HFI

### Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|--------------|-----------|------------------------|
| NA           | NA        | NA                     |

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