ICRA

February 23, 2023

S Chand and Company Limited: [ICRA]BBB+ (Stable), assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/OD	20.00	[ICRA]BBB+ (Stable); Assigned
Total	**20.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the rating, ICRA has considered the consolidated financials of S Chand and Company Limited (SCCL) and its subsidiaries referred to as the Group on account of common management and operational and financial linkages.

The assigned rating draws strength from the Group's strong operational profile, supported by its experienced promoters, established market position in the textbook publishing industry and long track record of over eight decades. 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 the market. The rating also considers the healthy improvement in SCCL's financial risk profile in FY2022 as well as the current fiscal, led by streamlining of its working capital cycle and prepayment of its debt obligations, facilitating faster deleveraging of its balance sheet. ICRA expects the improvement trend to continue and the Group's financial risk profile to strengthen over the medium term. Healthy revenue growth and steady profit margins are expected to help the Group maintain healthy coverage metrics despite working capital intensive nature of operations. The liquidity of the Group is also healthy with cash and equivalents of more than Rs. 40 crore as of January 2023 along with steady generation of cash flows.

The rating, however, is constrained by the Group's elongated working capital cycle on account of stretched receivable days and inherent seasonality of operations. The rating is also constrained by the susceptibility of the business to volatile raw material prices and the intensely competitive and fragmented industry structure. Moreover, the Group is exposed to digital and regulatory risks. 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.

The Stable outlook on the long-term rating of [ICRA]BBB+ reflects ICRA's opinion that the Group will continue to grow its scale of operations while improving its profitability and working capital intensity, going forward.

Key rating drivers and their description

Credit strengths

Extensive track record of promoters in publishing business – The Group has been in the publishing business since 1939, and 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, catering to books and other publications (primarily core subject offerings like Mathematics, Science etc.) Further, its established relationships with schools and tie-ups with various authors and professors have strengthened its foothold in the market. Moreover, in the recent years, the Group has increased its efforts on investing and improving its digital offerings in each of the business segments to remain competent.

Reputed publishing house with strong in-house content development team – Over the years, the Group has built strong content development capabilities. It has an extensive track record of catering to books of different boards. The Group has arrangements with multiple best sellers and has strong relationships with authors, which ensure good quality content of the books.

Extensive 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 developments 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, with the major part of the sales taking place through dealers.

Credit challenges

High working capital intensive business given stretched receivables and inherent seasonality of operations – The Group predominantly caters to the education sector, so it witnesses maximum demand during the Q4 of the financial year (pre-academic period). As a result, the debtors are usually high, leading to high working capital intensity. Further, the inventory remains high in H1 when the Group plans its production for the next academic season 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 to 58% as on March 31, 2022 from 89% as on March 31, 2020.

Exposure to digital transformation and government regulations – The Group is exposed to digital learning and regulation-related risks. The digital transformation requires a significant change in content distribution and the content provider's position between retailers and authors. The Group's ability to adapt to the transition faster than its competitors remains the key rating monitorable. With the onset of the Covid-19 pandemic, various schools adopted the digital way of teaching. Consequently, the Group has also undertaken measures to promote its affordable digital learning application called Learnflix to increase the enrollment rate and subscription base by providing easy access to educational content to the students amid the lockdown.

Moreover, the Group's operations continue to be affected by the changes in the education policies and regulations of the government. With the announcement of the New Education Policy (NEP) in July 2020, it is envisaged that new curriculum is being developed after a gap of 15 years, which would eliminate the impact of the second-hand book market and may lead to strong growth for the Group in the near-to-medium term. Also, the extent of the Group's ability to liquidate its inventory pertaining to the old curriculum, before the full impact of NEP kicks in, will remain a key monitorable.

Profitability exposed to volatility in raw material prices – The profit margins remain susceptible to the volatility in the prices of paper, the key raw material. The raw material cost accounts for around 30-40% of the total operating income. Thus, the profitability of the Group remain susceptible to the prices of paper. However, the Group has an integrated procurement process for paper and other raw materials, which enable it to achieve economies of scale with better bargaining power with the domestic suppliers, with which it has long-term relationships.

Intense competition from other publishing houses – The primary segment for the Group is school books, which account for the major portion of the OI. ICRA notes that this segment is diverse and intensely competitive amid presence of various state boards, Central Board of Secondary Education (CBSE) and the Indian Certificate of Secondary Education (ICSE). While the Group faces competition from few established publishers with wide acceptability and presence, its long track record supports its competitive position.

Liquidity position: Adequate

The Group's liquidity position is adequate, with expected cash flow from operations remaining sufficient to meet the debt servicing obligations as well as the margin funding requirements for capex and working capital. This has enabled the Group to prepay a part of its term debt obligations beyond the scheduled repayment obligations in the current fiscal. 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 more than ~Rs. 25 crore as on December 31, 2022). Moreover, the Group has cash and cash equivalents of more than Rs. 40 crore as of January 2023, which provides comfort.

Rating sensitivities

Positive factors – S Chand's rating could be upgraded if it demonstrates a sustained improvement in its profitability and working capital intensity, strengthening its liquidity profile and improving its credit metrics.

Negative factors – Pressure on the rating could arise if there is a decline in revenues and operating margins of the Group, resulting in lower cash flows on a sustained basis. Deterioration in the working capital cycle, impacting the Group's liquidity position, could also be a trigger for a rating downgrade. Specific credit metrics that may result in a rating downgrade include DSCR of less than 1.6 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 ratings, ICRA has consolidated the financials of SCCL, and its 13 subsidiaries given the strong operational and financial linkages among the entities.

About the company

SCCL belongs to the S. Chand Group of Companies, which was founded by Late Shyam Lal Gupta and is one of the leading school book and technical book publishers in India. SCCL was incorporated as a private limited company in 1970. SCCL is involved in the publishing of 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 school books, higher academic books, educational CDs and 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.

Key financial indicators (Audited)

Consolidated	FY2021	FY2022	9MFY2023*
Operating income	429.8	486.3	219.8
PAT	-5.8	8.6	-44.0
OPBDIT/OI	13.9%	14.2%	-22.9%
PAT/OI	-1.4%	1.8%	-20.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.3	-
Total debt/OPBDIT (times)	4.0	2.6	-
Interest coverage (times)	1.8	2.5	-3.6

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 23, 2023	-	-	-
1	Dropline Overdraft	Long Term	20.00	-	**[ICRA]BBB+ (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based/Dropline OD	Simple

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	Dropline Overdraft	-	-	-	20.00	[ICRA]BBB+ (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
S Chand and Company Limited	100%	Full Consolidation
Nirja Publishers and Printers Private Limited	100%	Full Consolidation
Safari Digital Education Initiatives Private Limited	100%	Full Consolidation
Eurasia Publishing House Private Limited	100%	Full Consolidation
Blackie & Son (Calcutta) Private Limited	100%	Full Consolidation
Vikas Publishing House Private Limited	100%	Full Consolidation
DS Digital Private Limited	100%	Full Consolidation
New Saraswati House (India) Private Limited	100%	Full Consolidation
Chhaya Prakashani Limited	100%	Full Consolidation
BPI (India) Private Limited	51%	Full Consolidation
S. Chand Edutech Private Limited	100%	Full Consolidation
Indian Progressive Publishing Co Private Limited	100%	Full Consolidation
Edutor Technologies India Private Limited	54.9%	Full Consolidation
Convergia Digital Education Private Limited	100%	Full Consolidation

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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

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