

July 26, 2017

School Book Company

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long Term- Cash Credit	5.00	[ICRA]B+ (Stable); reaffirmed
Long Term- Term Loan	4.00	[ICRA]B+ (Stable); reaffirmed
Total	9.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B+ (pronounced ICRA B plus) assigned to the Rs. 5.00-crore cash-credit facility and Rs. 4.00-crore term loans of School Book Company (SBC). The outlook on the long-term rating is 'Stable'.

Rationale

The rating reaffirmation is constrained by the moderate size of the entity in terms of turnover, presence in limited geographic area and fragmented stationery industry with presence of large number of organized and unorganized players. The rating is also constrained by the seasonality in SBC's turnover as a large portion of the demand comes from students and academic institutions which results in higher working capital requirement in few months. ICRA takes note of the leveraged balance sheet on account of the low net worth base of the firm due to the regular capital withdrawals by the partners. Nevertheless, the rating continues to draw comfort from the long track of the firm's operations and its established brand presence in its region of operation.

Key rating drivers

Credit strengths

- Long track record of the firm's operations and extensive experience of the partners in the manufacturing of notebooks and trading of paper, books and other stationery items
- Established brand presence in Mangalore and nearby districts

Credit weaknesses

- Modest size in terms of turnover owing to presence limited to Mangalore area
- Seasonality in business as a large portion of the demand comes from students and academic institutes resulting in higher working capital requirements in few months of a financial year
- Highly fragmented industry structure with presence of large number of organised and unorganised players
- Leveraged capital structure; however, a part of the debt is secured by fixed deposits
- Partnership nature of the firm which results in risk of capital withdrawal by the partners as witnessed in the past, limiting financial flexibility

Description of key rating drivers:

SBC manufactures notebooks under its own brand such as Vindhya, Captain, Campus etc. Notebooks contribute to bulk portion of the total revenue i.e. ~50%, followed by trading (40%) and printing segment (10%). The firm also has digital printing press and provides solutions such as invitation cards, brochure, visiting cards, certificates etc. Domestic stationery market is an extremely fragmented industry and the players in the industry are generally small. However, SBC benefits from its long presence in Mangalore city. Mangalore city acts as an educational centre for a large catchment area, as the nearest major cities are substantially far, with Bangalore being 300 km away, Hubli-Dharwar 350 km away and Kozhikode 232 km away. The firm's customer profile is diversified with the top five customers contributing to only 5% of the total revenue in FY2017. Going forward, the extent of withdrawal of capital by the partners and the ability of the firm to increase its turnover and improve capital structure will be the key rating sensitivities.

Analytical approach: For arriving at the rating, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

Corporate Credit Rating –A Note on Methodology

About the company:

SBC is based out of Mangalore and manufactures notebooks and trades in stationary paper, other stationary items (normally used in offices and schools) and books (school and general). It also has a printing press which provides digital printing solutions based on demand. The firm was established in 1922 and has a multi storey central warehouse in Mangalore for its trading and distribution operations, two retail shops in Mangalore (on Car Street and on KS Rao Road) and a digital printing press. It is being managed by 10 partners from the Bhandary family.

Based on provisional numbers, the firm has reported an operating income of Rs. 63.46 crore in FY2017. In FY2016, the firm reported a profit after tax of Rs. 1.36 crore on an operating income of Rs. 56.00 crore against a profit after tax of Rs. 0.91 crore on an operating income of Rs. 52.73 crore in FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S.No	Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month-year & Rating in FY2018	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
				July 2017	July 2016	June 2015	
1	Cash Credit	Long Term	5.00	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	-
3	Term Loan	Short Term	4.00	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	-

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

Annexure-1
Instruments details

Name of the instrument	Date of Issuance/Sanction	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	5.00	[ICRA]B+ (Stable)
Term Loan	-	-	FY2023	4.00	[ICRA]B+ (Stable)

Source: SBC



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