

School Book Company

December 26, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Cash Credit	5.00	6.00	[ICRA]B+ (Stable); Reaffirmed
Long Term- Term Loan	4.00	3.00	[ICRA]B+ (stable); Reaffirmed
Total	9.00	9.00	

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]B+ (pronounced ICRA B plus) to the Rs. 9.00-crore¹ fund-based limits of School Book Company (SBC)². The outlook on the long-term rating is 'Stable'.

Rationale

The rating factors in the long track record of the firm's operations and the significant experience of the partners in the trading of notebooks, stationary paper, other stationary items and textbooks. The rating also draws comfort from SBC's established brand presence in the region it operates.

However, the rating is constrained by the moderate scale of operations with revenues of Rs. 56.7 crore in FY2018, 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 moderate financial risk characterised by high gearing and moderate debt protection metrics in FY2018. Further, the rating also considers 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 the months of March-May. ICRA takes note of the firm's leveraged balance sheet on account of the low net worth base due to regular capital withdrawals by the partners.

Outlook: Stable

ICRA believes SBC will continue to benefit from the extensive experience of its partners and established customer relationships. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens its liquidity.

Key rating drivers

Credit strengths

Significant Experience of partners - The partners have extensive experience in the trading of notebooks, stationary and textbooks which enables them to build strong customer and supplier base. Moreover, SBC benefits from its long presence in Mangalore city. Mangalore city acts as an educational centre for a large catchment area, as the nearest

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

major cities are substantially far, with Bangalore being 300 km away, Hubli-Dharwar 350 km away and Kozhikode 232 km away.

Established brand presence – SBC sells notebooks under its own brands such as Vindhya, Captain, Campus etc. which are well-established in the region. Notebook, stationary paper and other stationary contributed to bulk portion (~65.0%) of the total revenues in FY2018, followed by trading of textbooks (~30.0%) and printing (~5.0%).

Credit weaknesses

Modest scale of operations with high geographic concentration - The firm’s scale of operations is moderate with revenues of Rs. 56.7 crore in FY2018. The firm witnessed 1.6% revenue growth in FY2018. Further, the SBC’s sales are limited to Mangalore, Udupi and the nearby regions.

Highly fragmented industry, given the low entry barriers - The firm faces stiff competition from other organised and unorganised players in the absence of entry barriers, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins.

Moderate financial risk profile – The firm’s financial risk profile remained moderate with high gearing of 17111.1 times as on March 31, 2018 and moderate debt protection with Total debt/OPBDITA at 3.6 times, and NCA/total at 0.6% in FY2018.

Seasonality in business operations – The firm’s turnover is exposed to the seasonality in the business operations as a large portion of the demand comes from students and academic institutions (schools and colleges) which results in higher working capital requirement in the months of March-May. Further, the firm maintains sufficient inventory during the peak seasons.

Risk arising from partnership nature of the firm – Given the firm’s constitution as a partnership firm, it is exposed to risks including the possibility of withdrawal of capital by the partners as witnessed over the years. The partners have withdrawn Rs. 3.1 crore of capital in FY2017 and Rs. 2.8 crore in FY2018, which has limited growth in accruals.

Liquidity Position:

The firm’s liquidity position remains moderate given the comfortable average utilisation of working capital limits and the moderate term loan repayments in the coming years. The firm avails various vehicle loans and a term loan from Corporation Bank and has repayment obligations of Rs. 0.5 crore per year over the next 5 years.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on standalone financial statements

About the company:

School Book Company (SBC) is based in Mangalore and is engaged in the trading of notebooks, stationary paper, other stationary items (normally used in offices and schools) and textbooks (school and general). It also has a digital printing solution 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 shop in Mangalore (Car Street and KS Rao Road) and a digital printing press. It is being managed by 10 partners of Bhandary family.

In FY2018, the firm reported a net profit of Rs. 2.3 crore on an operating income of Rs. 56.7 crore in FY2018, as compared to a net profit of Rs. 2.5 crore on an operating income of Rs. 55.8 crore in FY2017.

Key Financial Indicators (Audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	55.8	56.7
PAT (Rs. crore)	2.5	2.3
OPBDIT/ OI (%)	8.6%	8.9%
RoCE (%)	30.8%	26.9%
Total Debt/ TNW (times)	30.2	17111.1
Total Debt/ OPBDIT (times)	3.2	3.6
Interest coverage (times)	3.4	3.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating December 2018	Date & Rating in FY2018 July 2017	Date & Rating in FY2017 July 2016	Date & Rating in FY2016 June 2015
1 Cash Credit	Long Term	6.00	NA	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+
2 Term Loans	Long Term	3.00	2.00	[ICRA]B+ (Stable)	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	6.00	[ICRA]B+ (Stable)
NA	Term Loan	April-2017	NA	March-2021	3.00	[ICRA]B+ (Stable)

Source: School Book Company

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