

August 13, 2020

School Book Company: [ICRA]B+(Stable); rating reaffirmed and removed from Issuer Not-Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund Based / TL	3.00	3.00	[ICRA]B+(Stable); reaffirmed and removed from “Issuer Not- Cooperating” category
Long term – Fund based / CC	6.00	6.00	[ICRA]B+(Stable); reaffirmed and removed from “Issuer Not- cooperating” category
Total	9.00	9.00	

*Instrument details are provided in Annexure-1

Rationale

The rating factors in the company’s moderate scale of operations with revenues of Rs. 63.2 crore in FY2020, Besides, the company’s revenues are expected to be impacted by the Covid-19 pandemic in the near term. The rating considers School Book Company’s (SBC) presence in limited geographical area of Dakshin Kannada district and a fragmented stationery industry with presence of a large number of players. The rating is also constrained by the moderate financial risk, characterised by a high gearing and moderate debt protection metrics in FY2020. Further, the rating considers the seasonality in SBC’s turnover as a large portion of demand comes from students and academic institutions, which results in higher working capital requirement between March and July. However, such demand has been impacted in FY2021 due to the Covid-19 lockdown. ICRA notes the firm’s leveraged balance sheet on account of a low net worth base due to regular capital withdrawals by the partners. However, the capital structure is likely to improve with the expected capital infusion in FY2021.

The rating derives comfort from the long track record of the firm’s operations and significant experience of the partners in the trading of notebooks, stationery paper, other stationery items and textbooks. The rating also factors in SBC’s established brand presence in the region where it operates, which resulted in a diversified customer base.

The Stable outlook on the [ICRA]B+ rating reflects ICRA’s opinion that SBC will continue to maintain its revenue growth on the back of new customer addition and an established brand.

Key rating drivers and their description

Credit strengths

Long presence of the firm in trading of notebooks, textbooks, stationery items and paper – The partners have extensive experience in trading of notebooks, stationery items and textbooks, which enabled them to build strong customer and supplier bases. Moreover, SBC benefits from its long presence in Mangalore, which is an educational centre for a large catchment area. The major cities are located substantially far, with Bangalore 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, stationery paper and other stationery items contributed the bulk portion (~65.0%) to the total revenues, followed by the trading in textbooks (~30.0%) and printing (~5.0%).

Diversified customer base – The customer diversification has been relatively high with the top five customers contributing only about 5.5% to the overall sales in 11M FY2020. Moreover, the firm took dealership of JK Papers Limited for Mangalore and nearby region in FY2020, which is expected to support its revenue growth in the near term.

Credit challenges

Modest scale of operations with high geographical concentration – The firm's scale of operations is moderate with revenue of Rs. 63.2 crore in FY2020. The firm witnessed a 15% revenue growth in FY2020. However, the revenues would be impacted in FY2021 because of the Covid-19 pandemic. Further, SBC's sales are limited to Mangalore, Udupi and nearby regions.

Highly fragmented industry due to absence of 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 and puts pressure on its revenues and margins.

Seasonality in business operations – The firm's turnover is exposed to the seasonality in business as a large portion of demand comes from students and academic institutions (schools and colleges), which results in higher working capital requirement between March and July. Further, the firm maintains sufficient inventory during the peak season. However, its revenues were impacted due to lockdown imposed in March, April and May.

Moderate financial risk profile – The firm's financial risk profile remained moderate with a high gearing of 17.9 times and TOL/TNW of 27.7 times as on March 31, 2020. The coverage indicators were also moderate with an interest cover of 2.5 times, Total debt/OPBDITA at 3.7 times, and NCA/total at 15.9% in FY2020. Low net worth because of regular capital withdrawals impacted the firm's capital structure and coverage indicators.

Risks 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. 2.7 crore of capital in FY2019. However, the firm is planning to infuse a capital of Rs.2.0 crore in FY2021.

Liquidity position: Stretched

The liquidity of the firm is **stretched** with limited buffer in working capital limits alongwith low retained cash flows.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating of SBC if there is a significant improvement in its net worth, which will lead to an improvement in its capitalisation metrics. Specific credit metrics that could lead to an upgrade in ratings include TOL/TNW of less than 3.0 times on a sustained basis.

Negative triggers – Pressure could arise on SBC's rating if its scale of operations or profitability is significantly impacted by the Covid-19 pandemic, affecting its financial profile and weakening its liquidity position. Specific credit metrics that could lead to a rating downgrade include interest coverage ratio of less than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

School Book Company (SBC) is based in Mangalore and trades in notebooks, stationery paper, other stationery items (normally used in offices and schools) and textbooks (school and general). It also has a digital printing solution. The firm was established in 1922 and has a multi-storied central warehouse in Mangalore for its trading and distribution operations, two retail shops in Mangalore (Car Street and KS Rao Road) and a digital printing press. It is managed by 10 partners of the Bhandary family.

In FY2020, on a provisional basis, the company reported a net profit of Rs. 1.7 crore on an operating income of Rs. 63.2 crore compared to a net profit of Rs. 2.1 crore on an operating income of Rs. 55.0 crore in the previous year.

Key financial indicators

	FY2019	FY2020*
Operating Income (Rs. crore)	54.99	63.24
PAT (Rs. crore)	2.05	1.66
OPBDIT/OI (%)	8.13%	5.74%
PAT/OI (%)	3.73%	2.62%
Total Outside Liabilities/Tangible Net Worth (times)	(32.96)	27.73
Total Debt/OPBDIT (times)	3.26	3.71
Interest Coverage (times)	3.49	2.46

*Provisional numbers for FY2020

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Rating (FY2021)			Current Rating 13-Aug-2020	Earlier Rating 29-Jun-2020	Rating History for the Past 3 Years		
	Type	Amount Rated	Amount Outstanding			FY2020 -	FY2019 26-Dec-2018	FY2018 26-Jul-2017
1 Term Loan	Long Term	3.0	2.3	[ICRA]B+(Stable)	[ICRA]B+(Stable); ISSUER NOT-COOPERATING	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)
2 Cash Credit	Long Term	6.0	-	[ICRA]B+(Stable)	[ICRA]B+(Stable); ISSUER NOT-COOPERATING	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)

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 [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	April 2017	NA	March 2024	3.00	[ICRA]B+(Stable)
NA	Cash Credit	NA	NA	NA	6.00	[ICRA]B+(Stable)

Source: School Book Company

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