

Indiannica Learning Private Limited

January 08, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term / Short Term Bank Facilities	40.00 (Enhanced from 30.00)	CARE AA+ (CE@); Negative / CARE A1+ (CE) [Double A Plus (Credit Enhancement) ; Outlook: Negative/ A One Plus (Credit Enhancement)]	Reaffirmed; Outlook revised from Stable
Total Bank Facilities	40.00 (Rs. Forty Crore Only)		

Details of facilities in Annexure-1

@Credit enhancement in the form of an unconditional, irrevocable and continuing corporate guarantee extended by Navneet Education Limited (NEL, rated CARE AA+; Negative/CARE A1+)

Unsupported Rating

As stipulated vide SEBI circular dated June 13, 2019

CARE BBB / CARE A3 [Reaffirmed]

Detailed Rationale & Key Rating Drivers of Credit Enhancement provider- Navneet Education limited

The reaffirmation of ratings assigned to bank facilities of Navneet Education Limited (NEL) continues to factor in long standing experience of its promoters, NEL's well-established market presence and strong brand recognition in the states of Maharashtra and Gujarat towards publication of educational books related to State Secondary Certificate (SSC) board, robust capital structure despite working capital intensive nature of business. The ratings also factor in the healthy profitability maintained by the company; albeit decline in PBILDT margins during H1FY21.

The above rating strengths are, however, partially offset by high dependence on syllabus change for revenue growth in publication segment, revenue concentration in the states of Maharashtra and Gujarat, seasonality of business operations, highly competitive and fragmented stationery industry segment and volatility in margins due to forex fluctuation. The ratings also take into consideration the slowdown in the publication business impacted by outbreak of pandemic Covid-19. Due to the impact of Covid-19, all schools are currently shutdown nationwide and with no clarity on when the schools would resume.

Key Rating Drivers of Indiannica Learning Private Limited (ILPL) i.e. for Unsupported Rating

The unsupported rating assigned to the bank facility of ILPL factors in the long standing experience of the parent and their continuous support by way of infusion of equity in the company, strong brand recognition of the parent in the states of Maharashtra and Gujarat and growing demands for the supplementary for CBSE and ICSE boards on account of increasing penetration of schools from SSC board to CBSE and ICSE boards. The above strengths are however, constrained by continuing losses depleting the networth of the company, moderately levered capital structure with weak interest coverage indicators, return on capital indicators and working capital intensive nature of business.

Rating Sensitivities

Positive factors

- NEL's ability to significantly expand its footprint in states other than Maharashtra and Gujarat and make inroads in other national (CBSE and ICSE) and state level boards amidst the competitive business environment will be the key positives.
- Ability of the company to stabilize the business operations of the subsidiaries and increase its exposure from the digital segment.
- Working capital cycle below 150 days on sustained basis

Negative factors

- Any significant support/investment to group/associate companies impacting NEL's overall financial risk profile.

- Prolonged closure of schools impacting financials risk profile of the company.

Outlook: Negative

The revision in outlook from stable to negative factors in the significant decline in revenue and profitability of the high margin publication segment (representing about 55% of revenue) in FY20 and H1FY21, led by nationwide shut down of schools and no change in syllabus. Further, prolonged closure of schools might impact the publication revenue and profitability, thus impacting the overall risk profile of NEL. The outlook may be revised to 'Stable' in case of faster than anticipated recovery in demand resulting in sustained improvement in the company's business and financial risk profile.

Detailed description of the key rating drivers**Key Rating Strengths****Long standing experience of promoters**

NEL has been operating in the field of educational publications for more than five decades. The company is presently being managed by five brothers (the Gala family) who are second generation entrepreneurs. Over the years, the company's promoters and the management have managed to build strong brand image and market acceptance in the states of Maharashtra and Gujarat for its various publications viz Navneet, Vikas, Gala etc.

Well established market presence and strong brand recognition in the states of Maharashtra and Gujarat

NEL has developed good relations with schools over the years, many of which allow them to showcase their products. Also, NEL's books are generally used/ recommended by the school faculty ensuring high acceptance among students and parents. According to the company, it takes utmost care to ensure superior content quality in order to maintain confidence of teachers and parents in its products.

Stable operational performance in FY20 led by growth in its stationary segment, albeit closure of schools continues to impact performance in H1FY21

During FY20 NEL Reported 5% increase in TOI on Y-o-Y basis to Rs.1532crore (PY: Rs.1466crore), despite decline in revenue from publication segment. Further the TOI grew due to increase in high margin export sales. This has resulted in increase in PBILDT margin by 187bps and PAT margin by 245bps. Moreover PAT margin was also supported by company's decision to exercise the option permitted under section 115BAA of the Income Tax Act, 1961 as introduced by the Taxation Laws (Amendment) Ordinance, 2019. Accordingly, the applicable corporate income tax rate for the Company for the year ended 31st March, 2020 and 31st March, 2019 is 25.17% and 34.94%, respectively. Increase in PAT levels has resulted improvement in debt coverage indicators.

During H1FY21 NEL reported 53.45% decline in TOI to Rs.501.8crore, Primarily on account of closure of schools due to pandemic. Decline in revenue has resulted in significant decline in margins, as company had to bear entire fixed cost. During H1FY21 PBILDT margins stood at 14.90% (H1FY20: 24.69%).

Robust capital structure despite working capital intensive nature of business

NEL's borrowing levels continues to be low despite highly working capital intensive nature, as NEL has invested substantial portion of its equity in financing its working capital coupled with strong GCA. Overall gearing stood at 0.36 times as on March 31, 2020 (as against 0.47 times as on March 31, 2019). Owing to its seasonal nature of business, the company's inventory piles up in the months of January to June leading to substantially stretched operating cycle of about 200 to 230 days at the end of financial year. During this period, the company resorts to short term borrowings to part fund its working capital requirements. However, as inventory levels ease post June, operating cycle reduces to about 150 days as at end of H1 and NEL's borrowings drop substantially for the rest of the year (July-December) as the company manages its working capital requirements predominantly through internal accruals during the period. Interest coverage ratio remained stable at 17.63x (PY: 17.45x). TDGCA improved to 1.16x (PY: 1.84x), During H1FY21 debt coverage ratios weakened due to loss in revenue on closure of schools, overall gearing stood at 0.08x interest coverage ratio declined to 10.92x(H1FY20:24.4x), TDGCA deteriorated to 0.81x(H1FY20: 0.23x).

Key Rating Weaknesses**Concentrated revenue streams**

NEL has traditionally been operating in the markets of Maharashtra and Gujarat and derives major part of its income from the two states. NEL's key profit contributor - publication segment - derives almost its entire income through study material for the two state boards (SSC) leading to considerable concentration of revenues. At the same time, growing trend of schools switching from traditional state boards to CBSE boards poses challenge to NEL's publication business in the long term. To offset concentration risk, NEL in past 3-4 years has started to diversify by way of organic and inorganic routes NEL acquired Indiannica Learning Pvt. Ltd. (ILPL, formerly known as Encyclopedia Britannica (India) Pvt. Ltd.,; rated CARE AA+ (CE); Negative/CARE A1+ (CE)) to enter into

nationwide offering of CBSE and ICSE curriculum. NEL has developed own E-learning platform which is run through eSense learning Private Limited (ELPL; rated CARE AA+ (CE); Negative/CARE A1+ (CE)). However both the subsidiary still requires support from NEL by way of corporate guarantees for their working capital bank lines and investment through preference share. Any support/investment to group/associate companies impacting NEL's overall financial risk profile and continues losses from subsidiaries dragging NEL's profitability - margins will be the key rating sensitivities.

Seasonal nature of business

As NEL predominantly caters to the education sector, it witnesses maximum demand during the first quarter of the financial year (which precedes start of an academic year). The company's profitability also spikes up during that quarter as publication segment generates higher margin. The seasonal nature also causes NEL's inventory and consequently borrowing levels to rise during Q4 and Q1 (January – June) of the financial year.

Investment in subsidiary/associate companies and extension of financial support

NEL's total investments in subsidiaries companies (at standalone level) increased from Rs.196.03 crore as on March 31, 2019 to Rs.261.74.80 crore as on March 31, 2020, which further increased to Rs.291.52crore in H1FY21. The investments are attributed towards increase in partner's capital in Navneet Education LLP and Investment in preference shares in ELPL and ILPL.

These subsidiaries are into the business of providing educational services. ELPL is into providing online education support services towards SSC and CBSE curriculum students. ILPL is into publishing of text books and supplementary books for CBSE, ICSE and IB curriculum. Navneet Education LLP through its step down subsidiary is into K12 business. The subsidiary operates school based on CBSE curriculum under the Orchids-The International School in Pune, Bangalore, Mumbai and Hyderabad. There are 39 operational schools with around 73% occupancy.

As these companies now in stabilizing phase of business operations, the requirement of financial support in form of loans & advances or equity is expected to reduce gradually. However, any extension of support to these subsidiaries impacting the overall financial risk profile of the company would be key rating monitorable.

Susceptible to volatility in foreign exchange rate

NEL does business in over 30 countries, mainly comprises of export of stationery products. NEL generates approximately 30% of revenue from export market which exposes NEL to forex fluctuation risk. NEL uses forward contracts and options to hedge its entire forex exposure. NEL recorded Rs.10.31crore of gain due to forex fluctuations in FY20 (PY: 6.16crore).

Demand outlook remain muted for publication segment in the short term while stationary segment to show steady growth

The education sector continues to remain one of the fastest growing sectors world wide and is expected to reach US \$8 trillion by 2025 globally. Though, there has been a steady growth in revenue over last few years, the sector has undergone significant transformation in recent years with digitization has been in the forefront. While some developed countries have successfully made the transition, developing countries like India are catching up at a faster pace. Furthermore, the long term growth trajectory for the segment remains steady for the publication segment in the long run. However, the growth would largely dependent on how the companies operating in the segment keep pace with transformation.

NEL's key profit contributor - publication segment, which accounted for 51% of total operating income - derives almost its entire income through study material for the two state boards (SSC) leading to considerable concentration of revenues. Further, the publication revenue is dependent on school reopening as well as change in syllabus; as these revisions motivate students to buy latest books to keep themselves updated. Besides, NEL has traditionally been operating in the markets of Maharashtra and Gujarat and derives major part of its income from the two states. Also, NEL's 52% of publication revenue is received form standard 1-8, for which schools are unlikely to reopen in FY21 (in states of Gujarat and Maharashtra), hence there will be NIL or minimal revenue envisaged in H2 from these standard under publication segment. Furthermore, next change of syllabus for class IX and X is scheduled in FY23 the growth will remain muted in FY21 and FY22. Accordingly, the outlook for the publication continues to remain impacted by Covid-19.

Stationery Segment paper and non paper stationary products which accounted 49% of the total income on a consolidated basis for NEL during FY20, continued to witness a steady growth of 14% on YoY basis primarily led by addition of newer clients. The US continued to account for 60% of the total stationary revenue in FY20. With the outbreak of covi-19 the sales of stationary segment showed a decline of 58% on a YoY basis in H1FY21. However, the revenue from the exports are expected to remain steady in the short to medium term with

pick-up in demand from export markets especially US also with company having orders till June 2020, however, the domestic stationary segment is yet to pickup.

Liquidity analysis: Strong

Liquidity position is marked by strong accruals against negligible repayment obligations and bank balance to the tune of Rs.45crore (as on September 30, 2020). With a gearing of 0.08 times as on September 30, 2020, NEL has sufficient headroom, to raise additional debt for liquidity. Average utilization of past 12 months ending on September 30, 2020 was 18.4%. Furthermore, ability to raise short term money (commercial paper) from capital market at lower rates reflects that it has good access to the capital market.

Strong operating cash flow, cash and liquid investments and unutilised bank lines results in strong liquidity for the company.

Analytical approach: Consolidated

For arriving at the ratings, CARE has considered the audited consolidated financial statements published in the FY20 annual report. NEL has various subsidiaries, and associates and joint ventures. These companies are fully consolidated due to operational and financial linkages, fungible cash-flows and support provided by NEL to various subsidiaries/ associates/etc. List of companies that are consolidated to arrive at the ratings are given in

Annexure3 below.

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Loans by holding Companies](#)

[Criteria for Rating Credit Enhanced Debt](#)

[Short-term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for manufacturing companies](#)

[Liquidity analysis of non-financial sector entities](#)

About the company

ILPL is one of India's leading Pre K-12 curricular educational publishers; started publishing operations in India in 2009. The company has presence in 25 states with a strong foothold in in North and North-West India. The company caters to Central Board of Secondary Education (CBSE), Indian Certificate for School Examination (ICSE), and Secondary School Certificate (SSC) board curriculum.

Brief Financials (Rs. crore) of ILPL	FY19 (A)	FY20 (A)
Total operating income	65	55
PBILDIT	-20	-7
PAT	-29	-18
Overall gearing (times)	NM	NM
Interest coverage (times)	NM	NM

A: Audited NM: Not Meaningful

About the Credit Enhancement provider (NEL)

Navneet Educated Limited (NEL) as founded by Gala family in 1959 by opening its first shop in Dhobi Talao called the College Book Depot Subsequently the company was incorporated in 1984; NEL (formerly Navneet Publications (India) Ltd) is an educational syllabus-based content provider in Print & Digital medium, a manufacturer of scholastic paper and non-paper stationery, and a publisher of children books. Having started its operations as a publishing house for educational & children books, NEL publishes supplementary educational books in five languages - English, Gujarati, Hindi, Marathi, and Urdu. The company also publishes various titles in the children and general books category such as coloring and activity books, board books, story books and books on health & hygiene, art & artist, cooking, mehendi, embroidery etc. The publication segment accounts for about 55-60% of the company's revenues.

In 1993, the company ventured into paper based stationery with products such as tight bound note books, long books, hard case bound books and drawing books; catering to domestic as well as overseas markets. Further in

2006, NEL diversified to non-paper based stationery such as pencils, erasers, sharpeners, rulers, compass boxes and art materials etc. Stationery segment (both paper as well as non-paper based) accounts for 40-45% of its revenues. Presently, the company has four manufacturing units in Maharashtra, Gujarat & Silvassa and more than 500 stock keeping units. Additionally, NEL has ventured into several education-related fields over the past few years. The company provides digital learning solutions through its subsidiary ELPL, designs and develops educational products (print and digital) for the Indian schools through ILPL and holds 36% stake in KTPL - through Navneet LLP, which is into School Management managing 33 Orchids The International schools in Bangalore, Hyderabad, Mumbai, Pune, Kolkata and one PUC and Degree college in Bangalore.

Brief Financials (Rs. crore)- Consolidated	FY19 (A)	FY20 (A)	H1FY21(UA)
Total operating income	1466	1532	502
PBILDT	293	335	75
PAT	153	242	60
Overall gearing (times)	0.47	0.36	0.08
Interest coverage (times)	17.45	17.63	10.92

A: Audited UA :Un-audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	40.00	CARE AA+ (CE); Negative / CARE A1+ (CE)
Un Supported Rating- Un Supported Rating (LT/ST)	-	-	-	0.00	CARE BBB / CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	40.00	CARE AA+ (CE); Negative / CARE A1+ (CE)	-	1)CARE AA+ (CE); Stable / CARE A1+ (CE) (22-Nov-19)	1)CARE AA+ (SO); Stable / CARE A1+ (SO) (25-Jan-19) 2)CARE AA+ (SO); Stable / CARE A1+ (SO) (15-Jun-18)	1)CARE AA+ (SO); Stable / CARE A1+ (SO) (11-Dec-17) 2)CARE AA+ (SO); Stable / CARE A1+ (SO) (24-Apr-17)
2.	Un Supported Rating- Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BBB / CARE A3	-	1)CARE BBB; Stable / CARE A3 (22-Nov-19)	-	-

Annexure -3: Details of the subsidiaries and associates which have been consolidated:

Sl. No.	Name of the Company	% of shareholding
Subsidiaries		
1.	eSense Learning Pvt Ltd	100
2.	Navneet (HK) Ltd	70
3.	Indiannica Learning Pvt. Ltd.	100
4.	Navneet Learning LLP	93
Associate		
	K12 Techno Services Pvt Ltd	27.69% stake in H1FY21*

During H1FY21 K12Techno Services Private Limited received fresh round of investment from Sofina capital(Rs.237.6crore for 16% ownership), which in-turn diluted the stack of existing investors. NEL stake got diluted to 27.69% in H1FY21 from 33.45% in FY20.

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Cash Credit	Simple
2.	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Mr. Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Mr. Pulkit Agarwal

Contact no. : +91-22-6754 3505

Email ID: pulkit.agarwal@careratings.com

Business Development Contact

Mr. Ankur Sachdeva

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**