S. Chand and Company Limited

August 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	106.74 (Enhanced from 99.18)	CARE A-; Stable	Revised from CARE BBB+; Positive
Long Term / Short Term Bank Facilities	12.50 (Enhanced from 7.50)	CARE A-; Stable / CARE A2+	Revised from CARE BBB+; Positive / CARE A2
Short Term Bank Facilities	3.00	CARE A2+	Revised from CARE A2

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating assigned to the bank facilities of S. Chand and Company Limited (SCCL) takes into account improvement in operational and financial performance of the group marked by growth in scale of operations in FY23 (refers to the period from April 1 to March 31) supported by steady demand for reference books emanating from reopening of schools and colleges and healthy profitability margins. The favourable financial risk profile is underpinned by improving and low overall gearing ratio, adequate liquidity, sequential improvement in operating cycle over the period, albeit elongated as a result of collection efficiency, better inventory management leading to healthy cash flow generation and lower reliance on external debt. The ratings also factor in wide experience of promoters and proficient management, its established brand name in the publishing industry with long track record of operations, long-lasting relationships with eminent authors and strong distribution network. However, the ratings are constrained by seasonality of the business with skewed revenues in the last quarter of any fiscal, susceptibility of profitability margins to volatility in raw material prices, competitive and fragmented industry, exposure to digital transformation and government regulations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- A sustainable growth in operations with profitability margins between 25%-30% while effectively managing the operating cycle with sustained improvement in operational cash flows.
- Ability of the company to reduce its dependence on the sales from the last quarter of the financial year and introduce strategies to combat the seasonality of business.

Negative factors

- Sustained pressure on the cash flows of the company and elongation of operating cycle leading to deterioration in its liquidity profile.
- Any sizeable capex or acquisition undertaken by the company adversely impacting the capital structure with the overall gearing exceeding 1x.
- Any significant inventory/debtor write-offs adversely impacting the profitability of the company.

Analytical approach: Consolidated - The rating is based on the consolidated financials of S Chand Group along with its subsidiaries owing to strong operational & business linkages and also under a common management. The list of group companies and subsidiaries considered for consolidated financial statements in FY23 are as under:

S. No.	Subsidiary	SCCL's Stake (directly or indirectly) (%)
1	Blackie and Sons (Calcutta) Pvt. Ltd. (Blackie)*	100
2	Nirja Publishers & Printers Pvt. Ltd. (Nirja)*	100
3	Vikas Publishing House Private Limited (VPHPL)	100
4	Safari Digital Education Initiative Pvt Ltd (Safari)	100
5	S Chand Edutech Pvt. Ltd. (Edutech)	100
6	BPI India Pvt. Ltd. (BPI)	51
7	DS Digital Private Limited (DS Digital)*	99.99
8	New Saraswati House Private Limited (NSHPL)	100

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

S. No.	Subsidiary	SCCL's Stake (directly or indirectly) (%)
9	Chhaya Prakashani Pvt. Ltd. (CPPL)	100
10	Indian Progressive Publishing Co. Pvt. Ltd. (IPPCPL)	100
11	Edutor Technologies India Private Limited	54.86
12	Convergia Digital Education Private Limited (w.e.f. July 1, 2021)	90
	Associate Companies:	
1	Smartivity Labs Private Limited (upto June 21, 2022)	16.24

** As per the Hon'ble National Company Law Tribunal order dated July 24, 2023, approving the composite Scheme of Arrangement, Blackie and Sons (Calcutta) Pvt. Ltd., Nirja Publishers & Printers Pvt. Ltd. And education business of DS Digital Private Limited have been merged into S Chand and Company Limited and residual business remaining in DS Digital Private Limited have been merged into Safari Digital Education Initiative Pvt Ltd.*

Outlook: Stable

CARE Ratings believes that the entity shall sustain its growth in operating performance supported by expectation of healthy demand arising from implementation of New Curriculum Framework in line with New Education Policy (NEP), higher adoption of book titles published by S Chand Group and management's focus on reduction in sales return along with sustainable cash flows from operations.

Detailed description of the key rating drivers:

Key strengths

Improvement in operational performance with comfortable financial risk profile: During FY23, the total operating income of the group improved by around 27% to Rs. 610.54 crore as against Rs. 481.22 crore in FY22. The reopening of schools and increase in enrolment of students in schools post Covid-19 recovery has led to 9% volume and ~18% value growth. Further, the PBILDT margin of the group also improved to 16.36% during FY23 (PY: 13.21%) on back of price revisions leading to increase in sales realisation, reduction in sale return by ~5% and lesser discount offered to the dealers. Better PBILDT coupled with ~24% reduction in interest cost (due to lower working capital borrowings, coupled with repayment and prepayment of the term debt), along with profit from non-current investments led to significant improvement in PAT margin to 9.43% (PY: 1.67%). The overall gearing after adjusting investments in group companies stood at 0.19x as on March 31, 2023 (PY: 0.25x) which has improved. CARE expects 15% growth in revenues and profitability range over the next 2- 3 fiscals.
The company reported a total operating income of Rs. 113.88 cr. during Q1FY24 (refer to the period from April 1 to June 30) with PBILDT and PAT margin of 14.35% and 0.95%, respectively.
Well established market position with strong brand recognition: S. Chand Group, with its existence in the publishing industry for around 8 decades, has developed good and robust relations with schools over the years. The Group also focus on improving quality content in order to maintain confidence of teachers and parents for their continued patronage by ensuring minimum errors and continuous efforts towards content development by collecting regular feedback from teachers. This has enabled it to successfully build the brand of "S. Chand" in a competitive CBSE segment. The company has multiple best-sellers in its portfolio and has established and long-lasting relationship with ~2400 authors. The Group is one of the market leaders in K-12 segment catering to books and other publications (primarily core subject offerings including mathematics, science) in accordance with CBSE/ICSE curriculum, out of which the contribution from the K-8 segment is higher at ~70%, with 9th to 12th classes contributing ~30%.
Strategic acquisitions leading to consolidated K-12 publishing segment and expansion of product portfolio: SCCL has a strong presence in CBSE/ICSE affiliated schools along with state board affiliated schools and currently covers around 40,000 schools across India. The product offering comprises 55 consumer brands in its repertoire including S.Chand, Vikas, Madhubun, Saraswati, Destination Success and Ignitor. The company has grown organically through development of subject best sellers and introducing new titles to fill portfolio gaps. The inorganic growth through key acquisitions including Vikas Publishing House Private Ltd (VPHPL), New Saraswati House (India) Private Ltd. (NSHIPL) and Chhaya Prakashani Pvt. Ltd (CPPL) has enhanced the product offering thus broadening the target segment. SCCL sold around 30 million copies of more than 10,000 active titles across its various brands. All the acquisitions made by the company thus far have augmented its product portfolio and marketing reach. During July 2022, the group liquidated its investment in Testbook Edu Solutions Private Limited at an aggregate amount of ~Rs. 17.90 Crores, which amounts to a return of almost 7.8x on the initially invested amount. The group also liquidated its investment

in Ineuron Intelligence Private Limited at an aggregate amount of Rs. 13.80 Crores, which amounts to a return of 2.1x on the initially invested amount.
With the advent of digital media, SCCL has also increased its digital offerings during the recent years. The in-house digital and services platforms include Mylestone, Mystudygear, Destination Success, and Intellitab. The company has also made strategic investments in key digital platforms which include brands like Smartivity, Ignitor, etc. During January 2020, the Group has also launched Learnflix application, an affordable digital learning platform, which has witnessed 230k+ downloads and has ~21,000 paid subscribers. During April 2023, the group acquired ~4.3% in Ixambee- company helping graduates and undergraduates prepare effectively for Government examinations like banks, insurance companies, Railways etc.

Long track record of operations and proficient management: SCCL belongs to S. Chand Group (SCCL & other group companies) of companies which was started in 1937 by Late Mr. Shyam Lal Gupta and is one of the leading schoolbook and technical book publishers in India. SCCL is primarily engaged in publishing and distribution of books for K-12 segment. It was incorporated as a private limited company on September 9, 1970 and has been operational in this segment for more than 5 decades. The day-to-day operations of the company are headed by Mr. Himanshu Gupta, Managing Director, who has been associated with the Group since 2000 and has over 23 years of experience in the knowledge products and services industry. They are ably supported by a team of well-qualified professionals in the day-to-day affairs.

Strong distribution network: The Group has strong marketing team, who stay in regular touch with school principals and teachers for promotion by conducting teacher conferences and conclaves, which also helps in content development of the books through regular feedback and also helps in assessing the demand for the books to facilitate the planning of the production activities accordingly. The Group's marketing efforts are supported by an extensive pan India distribution network of approximately 3000 dealers, with majority of the Group sales (~90%) being done through dealers.

Key weaknesses

Seasonality of business leading to high operating cycle: As the Group predominantly caters to the education sector, it witnesses maximum demand during the Q4 of the financial year (which precedes start of an academic year in CBSE/ICSE affiliated schools). Consequently, more than 80% of SCCL's annual revenue comes in the last quarter itself. Due to this, the Group's inventory piles up in H1 as the Group needs to undertake printing and other manufacturing activities upfront and the receivables peak at year end leading to substantially stretched operating cycle of more than 300 days at the end of the financial year. However, with continuous efforts of the management, the company has reduced its inventory and debtor holding period, resulting in improvement in working capital operating cycle to 192 days as on March 31, 2023. (PY: 252 days). The collection period of the company has improved to 164 days in FY23 from 230 days in FY22. With better inventory and debtor management led to fewer blockages of funds in the operating cycle resulting in higher cash flow generation for the Group and reduced dependence on the cash credit limits despite increase in scale of operations during FY23.

Competitive and fragmented industry: SCCL's primary segment is K-12 which accounts for around 80% of the operating income for the group. However, this segment is diverse and intensely competitive due to presence of various state boards and Central Board of Secondary Education (CBSE) and the Indian Certificate of Secondary Education (ICSE). A separate body governing each board with a different syllabus provides opportunity to regional, state and local content providers to cater to the respective affiliated schools. There are other established content providers like National Council of Educational Research and Training (NCERT) and the State Council of Educational Research and Training (SCERT) which also publish subsidized books which are prescribed by schools, especially government schools. The Group has been able to expand its share organically through robust and wide distribution network and inorganically through strategic acquisitions. Moreover, in the past decade the industry has witnessed shift in enrolment from government schools to private schools, which is likely to benefit the Group as its penetration level is relatively high with established distribution network and pan India presence and augurs well for the future growth prospects.

Exposure to digital transformation and government regulations: The digital transformation requires a significant change in content distribution and the content provider's position between retailers and authors. The digital segment is highly dynamic, and the exact trajectory of movement remains uncertain. The inability of SCCL to adapt to the transition faster than its competitors may render its products obsolete or it may lose its competitive edge and market share. Moreover, with the outbreak of Covid-19 crisis, major innovation and behavior changes are observed with schools increasingly adapting to digital content and classrooms, given the uncertainty regarding the classroom learning opportunity at the beginning of the new academic year. Consequently, increased efforts and measures are being undertaken by SCCL to promote its affordable learning application called Learnflix launched during January 2020 to increase the enrollment rate and subscription base by providing easy access to educational

content to the students amidst the lockdown. The Group is also in the process of launching other digital applications in order to leverage the increased adoption of digital mediums by schools and students amidst the pandemic.
In addition to this, SCCL's operations continue to be affected by the changes in the educational policies and regulations of the government. The government circulars in the recent past to reduce the bag weight for children, increased pressure of schools to adopt NCERT books and reduction in certain non-core subjects may continue to impact the Group's revenue and profitability. In addition to this, with the announcement of New Education Policy (NEP) in July 2020, it is envisaged that since the new curriculum is being developed after gap of 15 years, thus it 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 SCCL's ability to liquidate inventory pertaining to old curriculum, before full impact of NEP kicks in, so as to reduce inventory write-off will remain a key monitorable.

Susceptibility of profitability margins to volatility in raw material prices: The main raw material for the Group is paper, whose prices have been volatile. The raw material cost (including purchase of traded goods, publication cost and royalty) accounts for around 40%-45% of the total operating income. Thus, the profitability margins of the Group remain susceptible to the prices of paper, the production of which is highly dependent on agro cultivation of pulp and paper being the global commodity is also affected by global demand supply mismatch. 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 whom it has long term relationships.

Industry Outlook
India's education industry offers a huge market opportunity to private players making it one of the largest markets for education in the world. In India, the education industry is highly competitive and fragmented in nature with presence of several private schools, colleges and institutes all over India. Importantly, over the years, the role of private sector in education has increased with the setting-up of institutes especially in the K-12 and Higher Education segment. Moreover, with rising income levels, rapid urbanization, increasing number of working women along with increasing awareness about importance of quality education will result in robust growth of the Indian education sector which in turn will help in the growth of educational books. With the emergence of coronavirus pandemic in India, the digital education offerings are increasingly being seen as an important medium to supplement existing education content for both the formal and the informal education segments. The digital education market in India has witnessed rapid growth in the last few years and educational services are increasingly being consumed digitally. Along with COVID-19, several other factors are also responsible for this phenomenon — rise in ownership of mobile phones and electronic gadgets, especially among the young age group, increased parent spending on child's education, governmental efforts, growing preference for practical and hands on learning and an enabling ecosystem with ever decreasing prices of both hardware and internet usage of digital classroom solutions, tablets and virtual simulators has risen tremendously in schools leading to an increased dependency on technology in teaching methods.

Liquidity: Adequate
The liquidity profile of S. Chand Group is adequate with current ratio of 2.09x as on March 31, 2023 (PY: 2.00x) and with unencumbered cash and liquid investments of Rs. 80.70 crore and Rs. 34.25 crore respectively as on March 31, 2023. The Group is proactively reducing its operational cost and augmenting its liquidity with no major capex commitments in the near term. Expected cash accruals for FY24 stood at Rs. 115.89 cr. as against debt repayment of Rs. 20.50 cr. The operating cycle, though improving, remains elongated with the seasonal nature of business and the Group witnessing more than 80% of its annual sales in Q4, whereby the inventory piles up in H1 as the Group needs to undertake printing and other manufacturing activities upfront and the receivables peak at the yearend leading to substantially stretched operating cycle of more than 300 days at the end of the financial year. The cash flow from operations remained healthy and stood at Rs. 70.57 crore in FY23 (PY: Rs. 107.02 crore). Further, the average utilization of the working capital limits stood moderate at ~47% during trailing 12 months ended July 2023

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Media, Entertainment & Publication	Printing & Publication	Printing & Publication

SCCL belongs to the S. Chand Group of companies which was founded by Late Mr Shyam Lal Gupta and is one of the leading schoolbook and technical book publishers in India. SCCL was incorporated as a private limited company in 1970. SCCL is engaged in the publishing of mainly academic books and other educational services through its subsidiaries. It sells products in the following categories- competitive exams & reference books, technical & professional books, KG to 12th schoolbooks, higher academic books, educational CDs and also invested in startups offering digital solutions in test preparations. The main product offering of SCCL is primarily in K-12 segment primarily towards the schools affiliated with Central Board of Secondary Education (CBSE). SCCL, over the years, has also grown inorganically by executing various key acquisitions to expand its product offerings and also enhance its digital learning solutions for government, private and engineering schools.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	481.22	610.54	113.88
PBILDT	63.58	99.87	16.34
PAT	8.04	57.59	1.08
Overall gearing (times)	0.25	0.19	NA
Interest coverage (times)	2.32	4.83	5.75

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: NA
Any other information: Not Applicable
Rating history for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of various instruments rated: Annexure-4
Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	80.00	CARE A-; Stable
Fund-based - LT-Cash Credit		-	-	-	20.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	31/03/2026	6.74	CARE A-; Stable
Fund-based - LT/ ST-Vendor financing		-	-	-	12.50	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Bank Guarantee		-	-	-	3.00	CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	80.00	CARE A-; Stable	-	1)CARE BBB+; Positive (28-Sep-22)	1)CARE BBB+; Stable (21-Mar-22) 2)CARE BBB+; Stable (28-Feb-22) 3)CARE A-; Negative (23-Aug-21)	1)CARE A-; Negative (31-Aug-20) 2)CARE A; Negative (07-May-20)
2	Non-fund-based - ST-Bank Guarantee	ST	3.00	CARE A2+	-	1)CARE A2 (28-Sep-22)	1)CARE A2 (21-Mar-22) 2)CARE A2 (28-Feb-22) 3)CARE A2+ (23-Aug-21)	1)CARE A2+ (31-Aug-20) 2)CARE A1 (07-May-20)
3	Fund-based - LT-Cash Credit	LT	20.00	CARE A-; Stable	-	1)CARE BBB+; Positive (28-Sep-22)	1)CARE BBB+; Stable (21-Mar-22) 2)CARE BBB+; Stable (28-Feb-22) 3)CARE A-; Negative (23-Aug-21)	1)CARE A-; Negative (31-Aug-20) 2)CARE A; Negative (07-May-20)
4	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (26-Aug-20) 2)CARE A1 (07-May-20)
5	Fund-based - LT/ ST-Vendor financing	LT/ST*	12.50	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Positive / CARE A2 (28-Sep-22)	1)CARE BBB+; Stable / CARE A2 (21-Mar-22)	-
6	Fund-based - LT-Term Loan	LT	6.74	CARE A-; Stable	-	1)CARE BBB+; Positive (28-Sep-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-Vendor financing	Simple
4	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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