S. Chand and Company Limited

March 21, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	70.00 (Enhanced from 65.00)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	7.50	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Assigned
Short Term Bank Facilities	3.00	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**80.50 (Rs. Eighty Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of S Chand & Company Limited (SCCL) factors in deteriorating SCCL's consolidated operational performance on account of higher than envisaged operational loss during 9MFY22 (refers to the period from April 1, 2021, to December 31, 2021) owing to higher level of sales returns compared to 9MFY21 coupled with higher fixed overheads and limited ability to achieve envisaged profitability and cash accruals for the current year. The ratings further continue to remain constrained by seasonality of the business leading to long operating cycle, susceptibility of profitability margins to volatility in raw material prices, competitive and fragmented industry, exposure to digital transformation and government regulations. The ratings, however, continue to derive strength from the wide experience of promoters and proficient management. The rating also factors in its established brand name in the publishing industry with long track record of operations, adequate liquidity position, long-lasting relationships with eminent authors and strong distribution network.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Ability of the company to increase its scale of operations and enhance its profitability margins to 25-30% similar to the past trends 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.
- Ability of the company to stabilize the business operations of the companies acquired and increase profitable contribution from its digital ventures.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- 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 once National Education Policy (NEP) is implemented, adversely impacting the profitability of the company.

Detailed description of the key rating drivers

Key Rating Strengths

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 8 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 22 years of experience in the knowledge products and services industry. Besides, the other key management personnel, namely, Mr. Dinesh Kumar Jhunjhnuwala (Whole Time Director) possess significant experience in the publishing industry. Further, the board is represented by independent directors with rich experience in diverse industries. They are ably supported by a team of well-qualified professionals in the day-to-day affairs.

Well established market position and strong brand recognition with long lasting relationships with eminent authors: 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 takes utmost care to ensure superior quality content in order to maintain confidence of teachers and parents in its products 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

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

competitive CBSE segment. The company has arrangements with multiple best-sellers and has ~2400 author relationships, which ensures good quality content of the books according to the specific requirements of the students. The Group is one of the market leaders in K-12 segment catering to books and other publications (primarily core subject offerings like mathematics, science etc.) 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 over the years to consolidate existing K-12 publishing segment and expansion of product portfolio through digital learning solutions: 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.
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, OnlineTyari, Testbook and Ignitor. 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. Further, SCCL has invested in EdTech startup named iNeuron Intelligence Private Limited, which is engaged in offering affordable online courses, live projects to college students and working professionals in the field of data sciences, artificial intelligence, machine learning etc. The said investment is a strategic investment for company as it provides S Chand group with a B2B distribution and content partner. The company will also get access to content for future technologies which company can leverage for its school and higher educational division.

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, helps in content developments 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 more than 3500 dealers, with majority of the Group sales (~90%) being done through dealers.

Key Rating Weaknesses

Deteriorating operational performance albeit moderate financial risk profile

During 9MFY22, operational performance of company remained subdued and deteriorated on account of higher than envisaged operational loss during 9MFY22 owing to slightly lower total operating income coupled with higher fixed overheads and limited ability to achieve envisaged profitability and cash accruals for the current year. The sales returns of company were lower during 9MFY21 since owing to lockdown in country, sales return during FY21 were deferred to Q4FY21. Company reported a total operating income Rs. 148.57 crore as against Rs. 152.95 crore in 9MFY21 on account of slowdown in the market due to COVID-19 which resulted in closure of educational institutions. Further, company reported operational losses of ~Rs. 71 crores during 9MFY22 (PY: Rs. 59.24 cr.).
The debt coverage indicators of company also remained stretched during 9MFY22 with negative interest coverage and negative cash accruals which was owing to seasonal nature of business wherein majority revenue is booked during Q4 of each fiscal year. The company has repaid all the debt obligations in a timely manner using operational cash flows. The inventory and debtor level has reduced significantly from Rs. 322 crore and Rs. 138 crore as on March 31, 2021 to Rs. 176 crore and Rs. 173 crores as on December 31, 2021, respectively, thus resulting in improved operating cycle & cash flow from operations. The company had further, reduced its interest cost by replacing high-cost debt with debt having low interest rate. The overall gearing of company remains comfortable 0.34x as on March 31, 2021, and 0.30x as on September 30, 2021.

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 in H2 leading to substantially stretched operating cycle of 300-400 days at the end of the financial year. The seasonal nature also causes the collection period to rise significantly high (more than 300 days) and consequently borrowing levels also remain elevated as on the balance sheet date which subsequently tapers down during ensuing quarter/next financial year as the debtors start realizing the payments. However, during FY20 & FY21, better inventory and debtor management led to fewer blockages of funds in the operating cycle resulted in higher cash flow generation for the Group and reduced dependence on the cash credit limits despite lower sales. The total operating cycle although reduced to 333 days in FY21 as compared to 376 days in FY20, continues to be high.

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 also remains to be seen.

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 during mid-March 2020 and the subsequent shutdown of educational institutes has also led to major innovation and behavior changes with schools adapting to digital classrooms, given the uncertainty regarding the classroom learning opportunity. 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 especially with the emergence of Covid-19 making it a necessity. 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.

Liquidity: Adequate
The liquidity profile of SCCL is adequate with current ratio of 1.87x (PY: 1.59x) and with unencumbered cash and liquid investments of Rs. 32.45 crore as on December 31, 2021. The Group is proactively reducing its operational cost and augmenting its liquidity with no major capex commitments in the near term. Further, the Group has scheduled repayments of ~Rs. 4 crores during Q4FY22 out of which ~Rs. 3 crore is paid by company during February 2022.
The operating cycle of the Group 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 9M as the Group needs to undertake printing and other manufacturing activities upfront and the receivables peak in H2 leading to substantially stretched operating cycle of 300-400 days at the end of the financial year. The cash flow from operations stood at Rs. 11.2 crore during 9MFY22 as against ~Rs. 25 crores during 9MFY21. The working capital rationalisation of company is also expected to support the cash flows. Further, the average utilization of the working capital limits stood moderate at ~71% during trailing 12 months ended December 2021.

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 FY21 are as under:

S. No.	Subsidiary	SCCL's Stake (directly or indirectly)
1	Blackie and Sons Private Limited (BSPL)	100.00
2	Nirja Publishers & Printers Private Limited (NPPPL)	100.00
3	Eurasia Publishing House Private Limited (EPHPL)	100.00
4	Vikas Publishing House Private Limited (VPHPL)	100.00
5	Safari Digital Education Initiative P Ltd (SDIPL)	100.00
6	S Chand Edutech P Ltd (SCEPL)	100.00
7	BPI India P Ltd (BPI)	51.00
8	DS Digital P Ltd (DSDPL)	99.93
9	New Saraswati House India Pvt. Ltd	100.00
10	Chhaya Prakashani Pvt. Ltd	100.00
11	Indian Progressive Publishing Co P Ltd	100.00
12	Edutor Technologies India Private Limited	54.86
13	Smartivity Labs Private Limited	16.24
14	Convergia Digital Education Pvt. Ltd.	90.00

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial Ratios - Non-Financial Sector]
[Liquidity Analysis of Non-Financial Sector Analysis]
[Rating Methodology - Manufacturing Companies]
[Criteria for Short term Instruments]
[Rating Methodology: Consolidation]

About the Company
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 (Rs. crore)- Consolidated	31-03-2020 (A)	31-03-2021 (A)	9MFY22
Total operating income	434.50	439.28	148.57
PBILDT	-16.60	69.13	-71.35
PAT	-111.47	-6.49	-117.29
Overall gearing (times)	0.36	0.33	-
Interest coverage (times)	-0.48	2.14	NM

A: Audited; NM: Not meaningful

Status of non-cooperation with previous CRA: Not applicable

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	50.00	CARE BBB+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	3.00	CARE A2
Fund-based - LT-Cash Credit		-	-	-	20.00	CARE BBB+; Stable
Fund-based - LT/ ST-Vendor financing		-	-	-	7.50	CARE BBB+; Stable / CARE A2

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB+; Stable	1)CARE BBB+; Stable (28-Feb-22) 2)CARE A-; Negative (23-Aug-21)	1)CARE A-; Negative (31-Aug-20) 2)CARE A; Negative (07-May-20)	1)CARE A; Stable (06-Feb-20) 2)CARE A; Stable (22-Jul-19) 3)CARE A; Stable (06-Jun-19)	1)CARE AA-; Stable (31-Dec-18)
2	Non-fund-based - ST-Bank Guarantee	ST	3.00	CARE A2	1)CARE A2 (28-Feb-22) 2)CARE A2+ (23-Aug-21)	1)CARE A2+ (31-Aug-20) 2)CARE A1 (07-May-20)	1)CARE A1 (06-Feb-20) 2)CARE A1 (22-Jul-19) 3)CARE A1 (06-Jun-19)	1)CARE A1+ (31-Dec-18)
3	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB+; Stable	1)CARE BBB+; Stable (28-Feb-22) 2)CARE A-; Negative (23-Aug-21)	1)CARE A-; Negative (31-Aug-20) 2)CARE A; Negative (07-May-20)	1)CARE A; Stable (06-Feb-20) 2)CARE A; Stable (22-Jul-19) 3)CARE A; Stable (06-Jun-19)	1)CARE AA-; Stable (31-Dec-18)
4	Commercial Paper	ST	-	-	-	1)Withdrawn (26-Aug-20) 2)CARE A1 (07-May-20)	1)CARE A1 (06-Jun-19)	1)CARE A1+ (31-Dec-18)
5	Fund-based - LT/ ST-Vendor financing	LT/ST*	7.50	CARE BBB+; Stable / CARE A2	-	-	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT/ ST-Vendor financing	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
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