S Chand and Company Ltd

February 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	107 (enhanced from 105)	**CARE A; Stable [Single A; Outlook: Stable]**	Reaffirmed
Short-term Bank Facilities	3	**CARE A1 [A One]**	Reaffirmed
Total Facilities	**110 (Rupees one hundred and ten crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of S Chand and Company Limited (SCCL) takes into account the wide experience of promoters, proficient management, established brand name with long track record and strong market position of the company. The ratings are, however, constrained by its susceptibility to the change in the government regulations, volatile raw material prices, fragmented industry structure and moderation in the financial performance in FY19 (refers to the period from April to March 31) as reflected in the decline in revenues, stressed profitability and elongated operating cycle.

Rating Sensitivities

Positive Factors

- Ability of the company to increase its scale of operations by 20-25% annually and enhance its profitability margins to 25-30% similar to the past trends on a sustained basis going forward.
- 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 its exposure from the digital segment.

Negative Factors

- Inability of the company to achieve its envisaged revenue and operational profitability margins for FY20.
- Any sizeable capex or acquisition undertaken by the company adversely impacting the capital structure with the overall gearing exceeding 1x.
- Any increase in the collection period leading to elongation in the operating cycle of more than 300 days on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record and established brand name

SCCL is primarily engaged in publishing and distribution of books. SCCL belongs to S. Chand Group, founded by Late Mr Shyam Lal Gupta has been operational in this segment for past few decades to become one of the leading book publishers in India. SCCL was incorporated as a private limited company on September 9, 1970 and is now headed by Mr Himanshu Gupta, Managing Director. The key management personnel possess significant experience in the Publishing Industry. The day-to-day affairs of the company are looked after by Mr Himanshu Gupta, Managing Director and Mr Dinesh Kumar Jhunjhnuwala, Whole Time Director. SCCL has a well-established market position with a pan India branch network supported by a strong sales team. The company caters to ICSE/ CBSE schools through a pan India network of dealers.

Strategic acquisitions to consolidate existing K-12 publishing segment

SCCL has a strong presence in CBSE/ICSE affiliated schools and growing presence in state board affiliated schools across India. The product offering comprises 59 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, New Saraswati House (India) Private Ltd. and the recent 100% acquisition of Chhaya Prakashani Pvt. Ltd. has enhanced the product offering, thus broadening the target segment.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Liquidity: Adequate

The liquidity of the company is adequate with the current ratio at 1.74x and unencumbered cash and cash equivalents (including mutual fund investments) of Rs. 34.29 cr as on September 30, 2019. The working capital limits have been utilized on an average to the extent of 71% and maximum utilization of 77% in the last 12 months ending November 2019. The average working capital utilization of the company during Q4 (refers to the period from January 1 to March 31) remains between 80%-85% as the sales and debtors peak during this period blocking company's funds towards working capital.

Key Rating Weaknesses

Deterioration in financial performance

SCCL, on a consolidated basis has reported a significant y-o-y decline of 33% in the total operating income of FY19 at Rs. 533.64 cr. The decline is attributable to the slower off take of sales in Q3FY19 which continued in Q4FY19 (usually a peak season), which witnessed sales of Rs. 453.36 cr as compared to Rs. 661.35 during Q4FY18. The reduced sales velocity was on account of dealers maintaining lower levels of inventory in view of expected implementation of New Education Policy (NEP) in FY20. In addition to this, the change in the management's strategy from pushing sales to limiting copies in accordance with the market demand through preferred channel sales partners further impacted the sales. The sluggish sales coupled with the elevated cost structure built in FY18 for higher envisaged growth post the IPO issue led to operational losses for the company in FY19. Further, with the higher interest cost, provision made for doubtful debts and adjustment accounted for the loss of inventory resulted in net losses in FY19.

However, with the continued focus of the management to curtail sales return and to deal only with the preferred channel sales partners with an established track record of making timely payments and less sales returns, the total operating income increased 26% to Rs. 91.25 cr during H1FY20 as compared to Rs. 72.45 cr during H1FY19. Further, the operational losses of the company reduced to Rs. 125.99 cr during H1FY20 as compared to Rs. 153.46 cr during H1FY19 on account of the several cost saving measures undertook by the management including rightsizing the employee strength, consolidating the warehouses and office locations and eliminating other internal dispensable spends.

The total debt stood at Rs. 242.67 cr [including working capital loan (CC and WCDL) of Rs.138.58 cr] as on September 30, 2019 as compared to Rs. 255.44 cr [of which working capital loan (CC and WCDL) stood at Rs.148.40 cr] as on March 31, 2019. The overall gearing of the company increased marginally to 0.36x as on September 30, 2019 from 0.30x as on March 31, 2019, however, continues to be comfortable.

Seasonality of business leading to high operating cycle

As SCCL 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. The seasonal nature of business coupled with the push sales strategy of the management through all kinds of distributors caused SCCL's collection period to rise significantly high to 363 days (PY: 250 days) during FY19. In addition to this, the elevated inventory holding period of 117 days (PY: 108 days) on account of sluggish sales and higher sales return in FY19 led to stretched operating cycle of 352 days (PY: 240 days) for FY19. Consequently, the borrowing levels also remain elevated as on the balance sheet date which subsequently tapers down during ensuing quarter/next financial year as the company start realizing the payments.

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 s products obsolete or it may lose its competitive edge and market share. Further, free or relatively inexpensive educational products are becoming increasingly accessible, particularly in digital formats and through the internet and some governmental and regulatory agencies have increased the amount of information they make publicly available for free.

In addition to this, SCCL's operations continue to be affected by the changes in the educational policies and regulations of the government. During FY19, the peak season Q4 sales were adversely impacted due to reduced sales velocity and higher sales return from channel partners to prevent any obsolescence of inventory on account of possible implementation of NEP by government in FY20. Further, the recent government circulars 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 adversely impact the group's revenue and profitability in the short to medium term.

Volatile raw material prices

The main raw material for SCCL is paper, whose prices have been volatile. The RM cost (including purchase of traded goods) accounts for around 25%-30% of the total operating income. So, the profitability margins of SCCL remain susceptible to the raw material price volatility. SCCL has an integrated procurement process for paper and other raw materials which enable the company to achieve economies of scale with better bargaining power with the suppliers.

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.

Analytical approach

Consolidated - The rating is based on the consolidated financials of S Chand & Co group comprising of 11 subsidiaries which are either wholly owned or the company exercises significant control. The list of group companies and subsidiaries considered for consolidated financial statements in FY19 are as under:

S. No.	Subsidiary	SCCL's Stake (directly or indirectly)
1	Blackie and Sons Private Limited (BSPL)	100.0
2	Nirja Publishers & Printers Private Limited (NPPPL)	100.0
3	Eurasia Publishing House Private Limited (EPHPL)	100.0
4	Vikas Publishing House Private Limited (VPHPL)	100.0
5	Safari Digital Education Initiative P Ltd (SDIPL)	100.0
6	S Chand Edutech P Ltd (SCEPL)	100.0
7	BPI India P Ltd (BPI)	51.0
8	DS Digital P Ltd (DSDPL)	99.9
9	New Saraswati House India P Ltd	100.0
10	Chhaya Prakashani P Ltd	100.0
11	Indian Progressive Publishing Co P Ltd	100.0

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
CARE's methodology for manufacturing companies
Financial Ratios - Non-Financial Sector
CARE's Methodology for factoring linkages in ratings

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 school book 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. SCCL sells products in the categories of KG to 12th, Higher Education (Technical, Professional, Higher Academic and Competition books) and Early learning (Children). SCCL, through its subsidiaries Safari Digital Education Initiatives Private Limited and DS Digital Private Limited, also offers curriculum and digital learning solutions for private schools.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Consolidated Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	800.81	533.64
PBILDT	199.49	-19.53
PAT	107.08	-66.92
Overall gearing (times)	0.19	0.30
Interest coverage (times)	8.32	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

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-Cash Credit	-	-	-	39.50	CARE A; Stable
Non-fund-based-Short Term	-	-	-	3.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	67.50	CARE A; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	39.50	CARE A; Stable	1)CARE A; Stable (22-Jul-19) 2)CARE A; Stable (06-Jun-19)	1)CARE AA-; Stable (31-Dec-18)	1)CARE AA-; Stable (07-Nov-17)	1)CARE A+; Stable (25-Jan-17) 2)CARE A+ (20-Apr-16)
2.	Non-fund-based-Short Term	ST	3.00	CARE A1	1)CARE A1 (22-Jul-19) 2)CARE A1 (06-Jun-19)	1)CARE A1+ (31-Dec-18)	1)CARE A1+ (07-Nov-17)	1)CARE A1 (25-Jan-17) 2)CARE A1 (20-Apr-16)
3.	Fund-based - LT-Cash Credit	LT	67.50	CARE A; Stable	1)CARE A; Stable (22-Jul-19) 2)CARE A; Stable (06-Jun-19)	1)CARE AA-; Stable (31-Dec-18)	1)CARE AA-; Stable (07-Nov-17)	1)CARE A+; Stable (25-Jan-17) 2)CARE A+ (20-Apr-16)
4.	Fund-based - ST-Term loan	-	-	-	-	-	-	1)CARE A1 (20-Apr-16)
5.	Commercial Paper	ST	25.00	CARE A1	1)CARE A1 (06-Jun-19)	1)CARE A1+ (31-Dec-18)	1)CARE A1+ (07-Nov-17)	1)CARE A1 (25-Jan-17) 2)CARE A1 (20-Apr-16)

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
Cash Credit	The security for the limits include the following: • First pari passu charge over entire existing and future current assets • First pari passu charge over entire existing and future moveable fixed assets • Personal guarantee of Mr. Himanshu Gupta and Mr. Dinesh Jhunjhunwala
	The margin for the limits is 25% on inventory and book debts (debtors beyond 90 days to be excluded)
B. Non-financial covenants	
1. Bank Guarantee	The purpose of the bank guarantee to be issued is for the normal course of business with the cash margin to be maintained at 10% of the BG value in the form of FD.

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.*

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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.

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