CARE Ratings
Professional Risk Opinion

S. Chand and Company Ltd.

May 7, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities (Fund-based)	107	**CARE A; Negative (Single A; Outlook: Negative)**	**Ratings reaffirmed and outlook revised from Stable to Negative**
Short-term Bank Facilities (Non-fund based)	3	**CARE A1 [A One]**	**Reaffirmed**
Total Facilities	**110 (Rupees one hundred and ten crore only)**		
Proposed Commercial Paper	25*	**CARE A1 [A One]**	**Reaffirmed**

**carved out of the sanctioned working capital limits of the company*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers
The reaffirmation of the ratings assigned to the bank facilities and instrument 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, seasonal nature of business and moderation in the financial performance in FY19 (refers to the period from April 1 to March 31) as reflected in the decline in revenues, stressed profitability and elongated operating cycle.
SCCL (along with its subsidiaries) has applied to avail a moratorium on its scheduled repayments & interest from its lenders as a part of the COVID-19 – Regulatory Package announced by the RBI on March 27, 2020. As informed to CARE, the Group has paid all the outstanding dues for the month of March 2020 and has sought moratorium for the months of April and May 2020. The Group has received the formal approval from the lenders allowing for the deferment of the payments for the aforementioned months with the exception for the deferment of the interest servicing on term loan availed by SCCL and working capital limits in one of the subsidiaries, for which the approval is under process and is still awaited. The non-recognition of default for the payment of interest in this case will be as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Rating Sensitivities
Positive Factors
- 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 controlling its operational cost 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
- Sustained pressure on the cash flows of the company due to the impact of corona virus leading to deterioration in its liquidity profile.
- Any increase in the collection period leading to elongation in the operating cycle of more than 300 days on a sustained basis.
- Any sizeable capex or acquisition undertaken by the company adversely impacting the capital structure with the overall gearing exceeding 1x.

Outlook: Negative
The revision in the outlook from Stable to Negative is on account of expected deterioration in the consolidated financial profile of SCCL due to the outbreak of COVID-19 and the subsequent shutdown of the educational institutions. CARE

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

expects that the operational and financial performance of SCCL for FY20 would be lower than envisaged earlier owing to the shutdown of the educational institutions followed by a nationwide lockdown in March 2020 which is the peak season for SCCL. CARE believes that the operating cycle of the company may get elongated in the near to medium term due to slower off-take of sales and muted collections received from the distributors in view of the lockdown. The ability of the Group as a whole to effectively manage its costs and operating cycle to augment its liquidity will be a key rating monitorable.

The outlook may be revised back to Stable depending on the ability of the company to recoup the deferred sales in Q1FY21, receive timely collections from the distributors, ability to improve the seasonality of its sales pattern, reduce cost and to improve the contribution from the digital segment.

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, competitive examination market and higher education institutions 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, Chhaya Prakashani, Destination Success, Mylestone, Learnflix 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.

Adequate Liquidity

SCCL presently has liquidity in the form of cash and bank balances, undrawn committed bank lines and other liquid investments, which should be sufficient to meet its curtailed operating cost and debt obligation for the next few months despite the muted collections and cash flows due to COVID-19. The group is proactively reducing its cost and augmenting its liquidity with no major capex commitments in the near term.

Further, SCCL and its subsidiaries have availed moratorium on some of the scheduled payments from its lenders as part of COVID-19 - Regulatory Package announced by the RBI on March 27, 2020. The Group has duly paid all the dues outstanding for the month of March 2020 and has sought moratorium for the months of April and May 2020. The Group has received the formal approval from the lenders allowing for a payment relief with the exception for the deferment of interest servicing on a term loan availed by SCCL and working capital limits in one of the subsidiaries, for which the approval is under process and is still awaited. The working capital limits have been utilized on an average to the extent of 61.82% and maximum utilization of 67.70% in the last 12 months ending March 2020.

Key Rating Weaknesses

Moderate financial risk profile marked by deterioration in financial performance during FY19

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 was 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. 101.53 cr during 9MFY20 as compared to Rs. 80.28 cr during 9MFY19. Further, the

operational losses of the company reduced to Rs. 172.64 cr during 9MFY20 as compared to Rs. 206.50 cr during 9MFY19 on account of the continued 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. 225.33 cr as on December 31, 2019 as compared to Rs. 255.44 cr as on March 31, 2019. The overall gearing of the company continued to be comfortable and stood at 0.30x as on March 31, 2019.

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. However, with the outbreak of COVID-19 and the subsequent lockdown restrictions, the ability of the company to execute its sales orders, reduce costs and timely receive the collections from the distributors shall remain a key rating sensitivity.

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. 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.
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 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 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
*S*CCL'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

S. No.	Subsidiary	SCCL's Stake (directly or indirectly)
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 Pvt. Ltd	100.0
10	Chhaya Prakashani Pvt. 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
Criteria for Short-term Instruments
Rating Methodology - Manufacturing Companies
Financial Ratios - Non-Financial Sector
Rating Methodology: Consolidation and 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 and apps for school and test preparation segment.

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; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	3.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	67.50	CARE A; Negative
Commercial Paper	-	-	-	25.00	CARE A1

Annexure-2: Rating History of last three years

Sr.	Name of the	Current Ratings	Rating history

No.	Instrument/Bank Facilities	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-Cash Credit	LT	39.50	CARE A; Negative	-	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)	1)CARE AA-; Stable (07-Nov-17)
2.	Non-fund-based - ST-Bank Guarantees	ST	3.00	CARE A1	-	1)CARE A1 (06-Feb-20) 2)CARE A1 (22-Jul-19) 3)CARE A1 (06-Jun-19)	1)CARE A1+ (31-Dec-18)	1)CARE A1+ (07-Nov-17)
3.	Fund-based - LT-Cash Credit	LT	67.50	CARE A; Negative	-	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)	1)CARE AA-; Stable (07-Nov-17)
4.	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)

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 90/180 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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