

Vikas Publishing House Private Limited

November 10, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities (Term loan)	-	-	Withdrawn [@]
Long-term Bank Facilities (Cash Credit)	67 (enhanced from 65)	CARE AA- (SO)*; Stable [Double A Minus (Structured Obligation); Outlook: Stable]	Revised from CARE A+ (SO) [Single A Plus (Structured Obligation)]
Short-term Bank Facilities	12	CARE A1+ [A One Plus]	Assigned
Total Facilities	79 (Rupees seventy nine crore only)		

Details of instruments/facilities in Annexure-1

* The ratings are based on the credit enhancement in the form of an unconditional and irrevocable Corporate Guarantee from S. Chand And Company Ltd. (SCCL - rated 'CARE AA-' (Stable)/ 'CARE A1+').

@ The ratings with respect to the term loans from banks have been withdrawn as the company has fully repaid the term loans and there is no outstanding under these facilities.

Detailed Rationale & Key Rating Drivers

The above ratings are based on the credit enhancement in the form of an unconditional and irrevocable corporate guarantee provided by S. Chand And Company Limited (SCCL) for the bank facilities of Vikas Publishing House P Ltd (VPHPL).

The rating revision for the facilities/instruments of the SCCL factors in the improvement in its capital structure after the company successfully raised funds from the Initial Public Offer to deleverage its balance sheet in Q1FY18 (refers to the period from April 1 to June 30). Furthermore, the ratings derive strength from wide experience of the promoters and proficient management, established track record, consistent growth in the scale of operations including key acquisitions, favourable financial risk profile underpinned by high profitability and low gearing, established brand name and its strong market position. However, these rating strengths are partially offset on account of its exposure to volatile raw material prices, elongated operating cycle and fragmented industry structure.

Going forward, SCCL's ability to establish its position in new markets (state boards), funding of new acquisitions, stabilization of business operations of companies acquired, maintain its profitability and growth in scale of operations without any adverse impact on its capital structure shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Consistent and profitable growth with successful IPO leading to comfortable capital structure: SCCL on a consolidated basis has reported y-o-y growth of 27% in FY17 of which 20% revenue growth has been contributed organically. The growth is attributable to the higher number of students enrolling and shifting to private schools (as compared to government schools) over the past few years with central curriculum (CBSE/ICSE). The growth has additionally come from the strategic expansion of the group into new geographies and markets which covers state boards. The PBILDT margin has also improved from 23.12% in FY13 to 24.91% in FY17 in line with the growing scale and integrated paper purchases for the group which helps better price negotiation with the suppliers with lower average cost of procurement and economies of scale. The PAT margin improved from 8.68% in FY16 to 9.32% in FY17 driven by healthy and stable operational profit and prudent working capital management which resulted in relatively lower interest cost on working capital borrowing. The cash accruals of the company have grown from Rs.70.25 crore in FY16 to Rs.93.41 crore in FY17. The debt level peaked as on March 31, 2017 on account of fresh term borrowing availed to the tune of Rs.152 crore for acquisition of

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

74% stake in CPPL. The company raised Rs.325 crore from the IPO which were largely utilized for reduction of long borrowing. The loan availed for acquisition of CPPL was fully repaid out of the IPO proceeds in May 2017 along with other term borrowing of the subsidiaries. The debt position has significantly improved from Rs.398.64 crore (including working capital loan of Rs.165.34 crore) as on March 31, 2017 to Rs. 141.37 crore (of which working capital loan stood at Rs.131.51 crore) as on June 30, 2017.

Long track record and established brand name: S. Chand And Company Limited (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 a 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 increasing presence in state board affiliated schools across India. The product offering comprises 53 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 latest acquisition of Chhaya Prakashani Private Limited (CPPL) has enhanced the product offering thus broadening the target segment. SCCL has a wide network of 4907 distributors and 58 branches spread across India.

Key Rating Weaknesses

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 35%-40% 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 enables the company to achieve economies of scale with better bargaining power with the suppliers.

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 70% of SCCL's annual revenue comes in the last quarter itself. The seasonal nature also causes SCCL's collection period to rise significantly high (more than 200 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 company start realizing the payments.

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.

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 is not known. 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. 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. The government may also limit the consumption of privately published books by a certain section of schools, which may adversely impact the group's revenue and profitability in the short to medium term.

Analytical approach: Consolidated – S Chand and Company limited has extended corporate guarantee for the debt availed by Vikas Publishing House Private Ltd and hence the rating is based on the consolidated financials of S Chand & Co group comprising of 14 subsidiaries which are either wholly owned or the company exercises significant control.

Applicable Criteria

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

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

[CARE's methodology for Short-term Instruments](#)

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

[CARE's Methodology for factoring linkages in ratings](#)

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

About the Company

Vikas Publishing House Private Limited (VPHPL) was promoted in 1971 by the late Mr C M Chawla. The company was acquired by the S. Chand group in FY13. Presently, SCCL holds 98% stake and Nirja Publishers and Printers Private Limited, a wholly-owned subsidiary of SCCL holds the balance 2% stake in VPHPL. VPHPL is engaged in the publication of college textbooks, school textbooks and books for Universities. It has also undertaken custom publishing for universities. VPHPL publishes school books under the "Madhubun" brand.

VPHPL had a total income of Rs.246.16 crore with PAT of Rs.17.96 crore on a standalone basis in FY17.

About the Guarantor

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.

Brief Financials (Consolidated Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	536.37	683.26
PBILDT	123.99	170.18
PAT	46.58	63.66
Overall gearing (times)	0.37	0.65
Interest coverage (times)	4.05	4.78

A: 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

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:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is 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.

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-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	67.00	CARE AA- (SO); Stable
Non-fund-based - ST-BG/LC	-	-	-	12.00	CARE A1+ (SO)

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A+ (SO); Stable (25-Jan-17) 2)CARE A+ (SO) (20-Apr-16)	1)CARE A+ (SO) (15-Apr-15)	-
2.	Fund-based - LT-Cash Credit	LT	67.00	CARE AA- (SO); Stable	-	1)CARE A+ (SO); Stable (25-Jan-17) 2)CARE A+ (SO) (20-Apr-16)	1)CARE A+ (SO) (15-Apr-15)	-
3.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	1)Withdrawn (25-Jan-17) 2)CARE A1 (SO) (20-Apr-16)	1)CARE A1 (SO) (15-Apr-15)	-
4.	Non-fund-based - ST-BG/LC	ST	12.00	CARE A1+ (SO)	-	-	-	-

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