

Rating Rationale

July 30, 2022 | Mumbai

Arihant Publications India Limited

Rating Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.43 Crore
Long Term Rating	CRISIL BBB-/Stable (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed rationale

CRISIL Ratings has reaffirmed its rating on the long-term bank facilities of Arihant Publications India Limited (APIL; part of the Arihant group) at 'CRISIL BBB-/Stable'.

The rating continues to reflect the established market position of the group, extensive experience of the promoters and comfortable financial risk profile. These strengths are partially offset by exposure to intense competition and moderately stretched working capital cycle.

Analytical approach

CRISIL Ratings has combined the business and financial risk profiles of Arihant Prakashan (AP) and APIL. This is because both these entities, together referred to as the Arihant group, have operational and financial linkages; and common management, manufacturing facility and marketing team.

Unsecured loans (Rs 10.12 crore as on March 31, 2021) extended by the promoters have been treated as 75% equity and 25% debt because these loans are subordinate to bank debt and should remain in the business.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key rating drivers & detailed description

Strengths:

Established market position supported by extensive experience of the promoters:

Presence of around two decades in the publishing industry has enabled the promoters to develop a strong understanding of local market dynamics and establish healthy relationships with authors and customers. The group operates across India and has significantly increased subject offerings and widened portfolio to introduce new categories comprising books of various competitive exams. Revenue is estimated to grow 8% to around Rs 250 crore in fiscal 2022, and is expected to improve further to Rs 280-300 crore in fiscal 2023 on the back of steady demand from distributors.

The Arihant brand is well known across India among students appearing for competitive exams. The group has over 2,100 running titles and publishes books for IIT-JEE, Polytechnic, CBSE, Uttar Pradesh Board, IAS, PCS, NDA, CDS, CAT, MAT, Bank PO, GATE, board exams and other general reading books. All these are widely accepted, thereby assuring repeat orders. Strong market position backed by a wide clientele, large dealer network and robust marketing team also support operations.

Comfortable financial risk profile:

Networth is estimated at more than Rs 62.0 crore and gearing at 1.50 times, as on March 31, 2022. Networth is expected to improve to over Rs 65 crore as on March 31, 2024. Debt protection metrics were adequate, with interest coverage and net cash accrual to adjusted debt ratios of over 2.1 times and 0.07 time, respectively, in fiscal 2022 (2.3 times and 0.07 time, respectively, in the previous fiscal). With no major, debt-funded capital expenditure (capex) planned for the medium term and absence of any capital withdrawal, financial risk profile will remain stable. Furthermore, the promoters are likely to continue to provide need-based funds to support the business.

Weaknesses:

Exposure to intense competition:

The group remains exposed to competition from large and established players. Moreover, it is a relatively small player with turnover of Rs 250-300 crore, which gives it limited pricing flexibility. Also, in the publishing industry, second-hand books have a prominent market share and constrain sales when there is no change in syllabus.

Moderately stretched working capital cycle:

Gross current assets (GCAs) were around 250 days as on March 31, 2022 (180 days as on March 31, 2020), because of large inventory of 140 days following a sizeable product portfolio; receivables remained moderate at 50-60 days. However, working capital is partially supported by credit of 60-70 days from the suppliers and funding support from the promoters. Absence of any yearly debt obligation and nil capex also aid working capital cycle.

Liquidity: Adequate

Bank limit utilisation averaged 72% (54% utilisation in APIL) for the 12 months through April 2022. Cash accrual is estimated at Rs 7 crore against debt obligation of Rs 1-2 crore in fiscal 2022. Accrual is expected to be Rs 8-10 crore against debt repayment of Rs 2-3 crore per annum, over the medium term. Cash and equivalent were healthy at around Rs 25 crore while current ratio was moderate at around 1.2 times, as on March 31, 2022. Timely funding from the promoters will continue to support liquidity and help meet working capital and debt obligation.

Outlook: Stable

The Arihant group will continue to benefit from the extensive experience of its promoters and established market position and brand presence.

Rating sensitivity factors**Upward factors**

- Increase in revenue to over Rs 350 crore while maintaining profitability at 6-7%, leading to better cash accrual
- Sustained improvement in working capital cycle leading to moderation in GCAs below 180 days
- Better capital structure and debt protection metrics

Downward factors

- Decline in operating margin below 5.0% and sustained decrease in revenue under Rs 250 crore impacting accrual
- Further stretch in working capital cycle leading to GCAs of more than 220 days, thereby impacting financial risk profile, especially liquidity
- Bank limit utilisation increasing to more than 80%

About the group

The Arihant group was established in 1997 by Mr Yogesh Jain (founder and chairperson) and comprises AP, APIL, Arihant Media Promoters, Arihant Edu Web Pvt Ltd and Arihant Print Solutions. The group publishes books for IIT-JEE, Polytechnic, CBSE, and has over 2,100 running titles related to IAS, PCS, NDA, CDS, CAT, MAT, Bank PO, GATE, board exams and other general reading books.

APIL was incorporated in 2004 and was reconstituted as a closely held public limited company in 2011. Promoted by Mr Reetesh Jain, Mr Deepesh Jain and Mr Parvesh Jain, the Meerut (Uttar Pradesh)-based company publishes general knowledge and competitive exam books.

AP was set up in 1997 as a proprietorship firm by Ms Beena Jain. It retails and wholesales books for schools and colleges and also sells those published by APIL.

Key financial indicators- Standalone

As on / for the period ended March 31		2021	2020
Operating income	Rs crore	215.2	270.8
Reported profit after tax (PAT)	Rs crore	1.90	1.98
PAT margin	%	0.9	0.7
Adjusted debt/adjusted networth	Times	2.22	1.92
Interest coverage	Times	3.02	2.48

Status of non-cooperation with previous CRA:

APIL has not cooperated with Brickwork Ratings, which has classified it as issuer not cooperative vide release dated January 27, 2020. The reason provided by Brickwork is non-furnishing of information.

Any other information: Not applicable**Note on complexity levels of the rated instrument:**

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	40.0	NA	CRISIL BBB-/Stable
NA	Term Loan	NA	NA	Mar-23	3.0	NA	CRISIL BBB-/Stable

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Arihant Publications India Ltd	Full	Common promoters and significant operational and financial linkages
Arihant Prakashan	Full	Common promoters and significant operational and financial linkages

Annexure - Rating History for last 3 Years

Current		2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	43.0	CRISIL BBB-/Stable		--	01-06-21	CRISIL BBB-/Stable	22-07-20	CRISIL BBB-/Negative	CRISIL BBB-/Stable
			--		--		--	29-01-20	CRISIL BBB-/Negative	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	40	Punjab National Bank	CRISIL BBB-/Stable
Term Loan	3	Punjab National Bank	CRISIL BBB-/Stable

This Annexure has been updated on 27-Feb-23 in line with the lender-wise facility details as on 14-Feb-23 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for Consolidation

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