

Janak Education Materials Centre Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Short Term Bank Facilities	750.00	CARE-NP A4+; ISSUER NOT COOPERATING* (A Four Plus; ISSUER NOT COOPERATING*)	“Issuer not cooperating; Based on best available information” (Notice of Withdrawal)
Total	750.00 (Seven Hundred Fifty Millions Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CRNL has been seeking information from Janak Education Materials Centre Limited (JEMC) to monitor the rating(s) vide e-mail communications/letters dated August 11, 2021 and September 05, 2021 along with numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant Securities Board of Nepal (SEBON) guidelines, CRNL has reviewed the rating on the basis of the best available information which however, in CRNL’s opinion is not sufficient to arrive at a fair rating. CRNL will monitor/watch the rating once for a minimum period of 6 months and notify the Securities Board of Nepal (SEBON) and public with regards to the withdrawal of rating. If after the monitoring of the rating there is no cooperation from the Client, then after, CRNL may withdraw the rating.

The rating of Janak Education Materials Centre Limited bank facilities will now be denoted as **CARE NP A4+: ISSUER NOT COOPERATING, (Notice of withdrawal)**.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Detailed description of the key rating drivers

At the time of last rating on December 02, 2020 the following were the rating strengths and weaknesses:

Key Rating Weaknesses

Concentration of major cash flows from operation of the company limited to few months

Major revenue of the company is generated through printing of textbooks for government schools which accounted for ~90% of the total income in FY20. Academic year in Nepal starts from mid- April every year and the textbooks are distributed to respective provincial offices for final distribution to the schools. The registered agents usually collect textbooks on cash basis from the company during the month of March to May every year. Due to the fact that production of textbooks is done throughout the year, but revenue generation being limited to 2-3 months coupled with huge inventory, the operating cycle of the company is high resulting in high working capital requirements.

Negative Net worth leading to leveraged capital structure

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications
*Issuer did not cooperate; Based on best available information

The financial risk profile of the company is below average marked with negative networth base which has been completely eroded on account of losses incurred by the company in the past. On account of negative networth base, the capital structure of the company continues to remain stressed. Further, JEMC is highly leveraged on account of high quantum of loans availed by the company to fund the past losses incurred by the company and to support the operations of the company. JEMC has been availing loan from government owned funds as well as directly from GoN for which debt repayment is not scheduled thereby providing financial comfort to the company.

Raw material price volatility risk with restricted authority to pass the increase in cost

JEMC procures required raw materials by way of competitive bidding from domestic market, where the price is market linked, thereby exposing the company to volatility in the price of raw materials which has a bearing on its profitability margins. The major raw material is printing paper which accounts for over 80% of total cost of production. Thus, any volatility in prices of the same impacts the profitability of the company. The ability of the company to pass through changes in raw material prices to the finished products and maintain profitability margins is limited as the market price of the textbooks is fixed by the Government.

Presence in competitive nature of textbook industry

The textbook industry is diverse and intensely competitive marked by presence of many players in the textbook printing market. The company has exclusive publishing rights with regard to printing of textbooks for classes V to X and no direct competition for security printing of sensitive materials which provides positive assurance regarding future prospects of the business in terms of revenue generation capability and offsetting competition risk to certain extent. However, the same cushion available to the company is dependent upon continued government support in the coming years. Furthermore, the operation of the company continues to be affected by changes in education policies and regulations of the government.

Key Rating Strengths

GoN ownership with continuous financial support for business operations

JEMC is the only government owned publishing house with the authority for printing textbooks for government schools. The company has been set up by the GoN as a service oriented entity with a motive to make textbooks available to all government schools in Nepal. Being a government entity, the operations of the company are highly controlled with respect to pricing of the books. However, continuous support has been extended by the government by way of granting exclusive publishing rights in relation to printing of textbooks for classes V to X and security printing of sensitive materials for different government departments coupled with providing continuous monetary support in form of soft loans at nominal rate of interest to run the operations of the company.

Long track record of operations and experienced board members from various offices of GoN

JEMC is involved in printing and distribution of textbooks and other related materials for over 51 years and enjoyed dominant position in the market with no competitors for almost three decades. JEMC has five members in its board who also hold notable positions in various offices of GoN. Board of directors are further supported by an experienced team across various functions and departments.

Exclusive publishing rights with diversified product portfolio

JEMC mainly generates its revenue from sale of textbooks to government schools where it has exclusive publishing rights for printing textbooks from Class V to X which eliminates competition from private entities to certain extent along

with a guaranteed source of revenue. Apart from selling textbooks, JEMC also generates revenue from security printing of sensitive materials like ballot papers for Office of Election Commission; exam question papers and answer sheets; and other documents for different government departments. Also, Government has mandated JEMC on August 2020 for printing 96.9 million pieces of excise duty stickers. This has enabled the company to diversify its product portfolio for revenue generation. However, it is imperative that JEMC gets continued support from the government in form of exclusive publishing rights to enable it to sustain in future.

Moderate counter party risk

Major revenue of JEMC is from government orders related to production and distribution of textbooks for government schools via registered agents. The counter party risk is moderated by the fact that the agents have to make payment in advance at the time of collection of textbooks thereby mitigating the risk of payment default. Further, with regard to printing of other documents for various government departments, the payments are realized in a timely manner.

Government support for education sector

Industry outlook of the education sector in Nepal looks positive with government prioritizing its development. Printing of textbooks comes under Schedule-1 of Value Added Tax (VAT) Act, 1996 where its manufacturers are exempt from levying VAT on textbooks. In recent Budget Announcement for FY2020/21 by Ministry of Finance, the government has proposed free education up to high school level (Class VI to XII). With respect to COVID-19 impact on education sector, government has proposed to start new academic year through television, radio, virtual class and online education. Government has made arrangements for printing and free distribution of text-books to reach all the schools before the commencement of the academic year. Also, Rs. 2.76 Bn was allocated for the distribution of free textbooks to 4.6 Mn students (approx.) including color text-books up to the primary level.

About the Company

JEMC is a undertaking of GoN, having registered office located at Bhaktapur, Nepal. The company was established in 1966 by GoN and later on converted to government owned public limited company in 1978. The company is mainly involved in printing of textbooks for government schools

Brief financials of JEMC for last three years ending FY20 are given below:

For the year ended Mid July	<i>(Rs. Million)</i>		
	2018 (12m, A)	2019 (12m, A)	2020 (12m, UA)
Income from Operations	1,227	1,044	1,384
PBILD T Margin(%)	251	161	433
PAT	87	21	264
Interest Coverage (times)	1.94	1.21	2.72
Overall Gearing (times)	NM	NM	NM

A: Audited, FY ended mid-July.

***Not Meaningful**

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating assigned along with Rating Outlook
Short Term Bank Facilities	Working Capital Loan	750.00	CARE-NP A4+: Issuer Not Cooperating* (Notice of Withdrawal)
Total		750.00	

**Issuer did not cooperate; based on best available information*

Contact Us

Analyst

Mr. Rabin Tamang
+977-01-4012629
rabin.tamang@careratingsnepal.com

Senior Analyst

Ms. Shalini Sanghai
+977-01-4012629
shalini.sanghai@careratingsnepal.com

Relationship Contact

Achin Nirwani
+977-9818832909
achin.nirwani@careratingsnepal.com

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