The Sandesh Limited

September 01, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	60.00	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	35.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Facilities	**95.00 (Rs. Ninety five crore only)**		

Detail of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of The Sandesh Limited (TSL) continue to derive strength from its established position and long-standing track record in the regional newsprint media aided by strong presence of the brand 'Sandesh' in Gujarat with its largely stable market share. The ratings also draw comfort from wide experience of the promoters in the print media industry, its healthy profitability, comfortable capital structure and debt coverage along with strong liquidity indicators.

The long-term rating is, however, constrained by TSL's moderate scale of operations due to its limited geographical presence in the highly competitive Gujarat market. TSL's total operating income (TOI) further dipped during FY21 (refers to the period April 1 to March 31) due to adverse impact of Covid-19 pandemic on both its circulation as well as advertisement revenue; albeit it is expected to improve in FY22. Increasing competition from alternate media platforms (especially digital), high correlation of its advertisement income to economic cycles and susceptibility of its operating profitability to volatile newsprint prices further constrain its ratings. Furthermore, TSL's long-term rating continues to be constrained by its large exposure to the group's real estate venture and risks associated with its aggressive investment policy as reflected from its extension of inter-corporate deposits (ICDs) and exposure to equity market investments.

Rating Sensitivities

Positive Factors (Factors that could lead to positive rating action / upgrade)

- Significant increase in its circulation and readership base and in turn advertisement income on a sustained basis
- Geographically diversify its print media operations

Negative Factors (Factors that could lead to negative rating action / downgrade)

- Significant increase in the exposure of TSL to the real estate activity of the group or any activity unrelated to its core operations
- Adverse impact of migration of readership from print media to digital media leading to sustained pressure on its advertisement income
- Inability to realise adequate returns from its investments in the real estate project and ICDs or erosion in their value/write-offs
- Significant moderation in its liquidity

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations in print media

TSL was promoted by late Mr Chimanbhai Patel more than seven decades ago and is now being managed by the next generation promoters. TSL has, over a period of time, evolved itself as one of the prominent print media players in the state of Gujarat.

Strong presence of the brand 'Sandesh' in Gujarat

'*Sandesh'* has a strong brand presence in the state of Gujarat and is one of the most widely-read Gujarati language newspapers in the state. There has been largely steady circulation of TSL's daily newspaper over the years; albeit it declined during FY21 and Q1FY22 due to distribution challenges amidst the outbreak of covid-19 pandemic. The advertisement income of TSL, which constitutes around 60%-70% of its TOI, is well-diversified amongst local advertiser, national advertiser, government business and direct party. Besides, to leverage its strong brand presence in the state and further increase its

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

reach amongst its target audience, TSL had started its Gujarati TV News Channel 'Sandesh News' during FY13. It also provides E-paper on its web portal and mobile application.

Strong financial risk profile marked by healthy profitability along with comfortable leverage and debt coverage indicators

The TOI of TSL moderated from Rs.341 crore during FY20 to Rs.250 crore (excluding trading revenue) during FY21 due to decline in the circulation of its daily newspaper amidst distribution challenges caused by covid-19, as well as lower advertisement income on the back of overall decline in advertisement spending of corporate and government entities due to subdued economic environment. However, its TOI is expected to improve in FY22 on a y-o-y basis on the back of improved economic scenario post Q1FY22.

TSL's PBILDT margin improved from 20.60% during FY20 to 28.25% during FY21 due to softening of newsprint prices, its key raw material, which is, however, expected to moderate in FY22 as newsprint prices have shown an upward trend.

TSL has a long track record of not using any external debt and accordingly yearly cash accruals after dividend pay-out are deployed in the form of various investments. Accordingly, TSL had nil debt along with healthy cash and liquid investments of Rs.401 crore as on March 31, 2021.

Liquidity: Strong

TSL's strong liquidity is marked by nil utilization of its fund-based working capital limit during last 12 months ended June 2021 aided by healthy cash flow from operations. With nil leverage, TSL has sufficient gearing headroom, to raise any debt, if required. TSL's healthy investment portfolio also strengthens its liquidity.

Key Rating Weaknesses

Susceptibility of operating profit margin to volatility in newsprint prices

Newsprint constitutes the key raw material for TSL. It procures newsprint through a mix of local suppliers and imports. During FY21, TSL imported 95% of its total newsprint consumed, while the rest was procured from domestic market, which also exposes it to any adverse movement in foreign exchange rates. Average cost of TSL's newsprint consumption declined from Rs.39,006/MT during FY20 to Rs.34,784/MT during FY21 which led to improvement in profitability. However, TSL's average newsprint cost has again increased to Rs.36,038/MT in Q1FY22. Any unprecedented increase in the newsprint prices going forward could impact profitability of TSL; albeit it has sufficient cushion to absorb such volatility due to its strong liquidity.

Decline in its already moderate scale of operations along with strong competition from other print media players in Gujarat

Unlike many large print media companies having presence in multiple states and languages across the country, TSL, since its incorporation, has focused only on the local market of Gujarat which has restricted its scale to a moderate level which declined further during FY20 and FY21 on the back of Covid-19 pandemic. However, it has established itself as one of the leading print media players in Gujarat. Upon entry of Divya Bhaskar in the Gujarati print media, existing market share of TSL and Gujarat Samachar reduced to some extent and since then there has been intense competition amongst these three leading players to increase their reach and readership which limits the growth in newspaper circulation.

Volatility of advertisement revenue amidst increasing competition from alternate media platforms

The advertisement revenue remains vulnerable to factors like readership base of the newspaper, market competition led advertisement-rate movements and the level of economic activity in general. Covid-19 pandemic-related disruptions had adversely affected print media industry's advertisement revenue due to cut down of discretionary advertising spends by corporates along with decline in the advertisement rates due to intense competition amongst major print media players which has been further exacerbated by the growing presence of TV/digital media platforms. However, with gradual ramp-up in economic activity, the advertising environment is expected to revive going forward. Consequently, print media industry is expected to grow by around 10%-15% y-o-y during FY22; which is also expected to be aided by normalization of newspaper circulation from Q2FY22 onwards.

Exposure to group's real estate venture

In 2011, the promoters of the Sandesh group had commenced a phase-wise development of an integrated township project in Ahmedabad under its group company named Applewoods Estate Private Limited (AEPL). TSL's equity investment in AEPL stood at Rs.228.17 crore as on March 31, 2021. However, no major financial support has been extended by TSL to this venture during last seven years ended FY21. Also, AEPL did not have any debt on its books as on March 31, 2021, aided by comfortable booking status of its constructed residential and commercial units. Furthermore, TSL's management has articulated that it has no plans to make any further investment in AEPL since its real estate project is self-sustainable and AEPL itself had healthy liquidity marked by cash and liquid investments of around Rs.585 crore as on March 31, 2021.

However, TSL has not realised any dividend from its investment in AEPL since long which is adversely impacting its overall return on capital employed (ROCE).

Aggressive investment policy

Till FY19, TSL largely used to invest its surplus funds generated from its core print media operations in liquid mutual funds and bank fixed deposits only. However, from FY20 onwards, it adopted an aggressive investment policy whereby it had extended ICDs of Rs.89 crore (Rs.145 crore as on March 31, 2020) apart from investment in quoted equity shares of Rs.30 crore as on March 31, 2021. Extension of ICDs and direct investing in equity shares increases overall risk associated with its investment portfolio. However, TSL's management has articulated that these have been extended to reputed developers and are fully secured by tangible security with good asset coverage; albeit names of parties to whom such ICDs have been extended have not been shared by the company citing reasons of confidentiality. Also, according to the company management, till date the realization of payments against these ICDs is as per schedule. However, any significant erosion in value of such investments due to market risk or write-off of ICDs and inability to realise adequate returns from such investments will be a key negative rating sensitivity.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings

CARE's Policy of Default Recognition

Rating Methodology – Manufacturing Companies

Financial Ratios – Non-Financial Sector

Liquidity Analysis of Non-Financial Sector Entities

Criteria for Short Term Instruments

About the Company

Promoted by late Mr Chimanbhai Patel in 1943, TSL is one of the leading print media companies in Gujarat, having presence for more than seven decades in Gujarati print media through its newspaper *'Sandesh'*. It came out with an IPO in 1994. TSL has its printing press at Ahmedabad, Vadodara, Surat, Rajkot, Bhavnagar and Bhuj covering circulation across the state of Gujarat as well as in Mumbai.

Brief Financials (Rs. Crore)	FY20 (A)	# FY21 (A)
Total operating income	341.78	274.10
PBILDT	70.41	77.43
PAT	58.36	89.31
Overall Gearing (times)	0.00	0.00
Interest coverage (times)	168.85	167.95

A: Audited; # abridged audited financials published on stock exchange

As per the published results for Q1FY22, TSL reported TOI of Rs.61.68 crore (Q1FY21: Rs.58.59 crore) with a PAT of Rs.14.96 crore (Q1FY21: Rs.14.35 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Please refer Annexure-3

Bank lender details: Please refer Annexure-4

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Letter of credit	-	-	-	35.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	60.00	CARE AA; 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - ST-Letter of credit	ST	35.00	CARE A1+	-	1)CARE A1+ (25-Aug-20)	1)CARE A1+ (06-Aug-19)	1)CARE A1+; Stable (08-Oct-18)
2.	Fund-based - LT-Cash Credit	LT	60.00	CARE AA; Stable	-	1)CARE AA; Stable (25-Aug-20)	1)CARE AA; Stable (06-Aug-19)	1)CARE AA; Stable (08-Oct-18)

Annexure – 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-Letter of credit	Simple

Annexure – 4: Bank Lender Details: Click here to view Bank Lender Details

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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