

The Sandesh Limited

September 06, 2022

Ratings

Facilities	Amount (₹ crore)	Rating 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 (₹ Ninety-five crore only)		

Details of facilities in Annexure-1

Detailed rationale and 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 the strong presence of the brand 'Sandesh' in Gujarat, with its largely stable market share. The ratings also draw comfort from the wide experience of the promoters in the print media industry, its healthy profitability, comfortable capital structure, and debt coverage indicators, along with strong liquidity.

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, the increasing competition from alternate media platforms (especially digital), the high correlation of its advertisement income to economic cycles, and the susceptibility of its operating profitability to volatile newsprint prices. 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.
- Geographical diversification of 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 projects and ICDs or erosion in their value or 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 the late 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 a largely steady circulation of TSL's daily newspaper over the years, albeit declined during FY21 (FY refers to the period April 1 to March 31) and FY22 on the back of gradual migration from print media to digital media. The advertisement income of TSL, which constitutes around 60-70% of its total operating income (TOI), is well-diversified among local advertisers, national advertisers, government businesses, and direct parties. This apart, to leverage its strong brand presence in the state and further increase its reach among 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 improved to ₹285.79 crore during FY22 from ₹248.73 crore during FY21 due to improvement in advertisement income after a sub-optimal performance in FY21 due to the COVID pandemic. Its TOI further improved to ₹85.54 crore in Q1FY23 with the return of normalcy post COVID. TSL's PBILDT margin continued to remain healthy, at 19.30% during FY22.

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 ₹354 crore as on March 31, 2022.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Liquidity: Strong

TSL's strong liquidity is marked by nil utilisation of its fund-based working capital limit during the last 12 months ended July 31, 2022, 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 FY22, TSL largely procured its newsprint requirement from the domestic market. The average cost of TSL's newsprint consumption increased from ₹34,784 per metric tonne (MT) during FY21 to ₹41,030 per MT during FY22. Any unprecedented increase in the newsprint prices going forward can impact the profitability of TSL, albeit it has sufficient cushion to absorb such volatility due to its strong liquidity.

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 had declined further during FY20 and FY21 on the back of the COVID-19 pandemic and could recover only partly during FY22. 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, the existing market share of TSL and Gujarat Samachar reduced to some extent, and since then, there has been intense competition among these three leading players to increase their reach and readership, which limits the growth in newspaper circulation.

Volatility of advertisement revenue amid 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. The COVID-19 pandemic-related disruptions had adversely affected the print media industry's advertisement revenue due to the cut-down of discretionary advertising spends by corporates along with a decline in the advertisement rates due to the intense competition among major print media players, which has been further exacerbated by the growing presence of TV and digital media platforms. However, with a gradual ramp-up in economic activity, the advertising environment is expected to revive, going forward. Consequently, the print media industry is expected to grow during FY23, which is also expected to be aided by the normalisation of newspaper circulation.

Exposure to the 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 ₹204 crore, as on March 31, 2022 (declined from ₹228 crore on March 31, 2021). However, no major financial support has been extended by TSL to this venture during the last eight years ended FY22. Also, AEPL did not have any debt on its books as on March 31, 2022, 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 investments in AEPL, since its real estate project is self-sustainable and AEPL itself had healthy liquidity as on March 31, 2022. However, TSL has not realised any dividend from its investments in AEPL since long, which is adversely impacting its overall return on capital employed (ROCE).

Aggressive investment policy: Until 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 ₹136 crore (₹89 crore as on March 31, 2021), apart from investments in quoted equity shares of ₹96 crore as on March 31, 2022. The extension of ICDs and direct investing in equity shares increases the overall risks associated with its investment portfolio. However, TSL's management has articulated that these ICDs have been extended to reputed developers and are fully secured by tangible security with good asset coverage, albeit names of the 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, until date, the realisation of payments against these ICDs is as per schedule. However, any significant erosion in value of such investments due to market risk or the write-off of ICDs and the 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 Ratings' 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 the late Chimanbhai Patel in 1943, TSL is one of the leading print media companies in Gujarat, having presence for more than seven decades in the Gujarati print media, through its newspaper 'Sandesh'. It came out with an initial public offering (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 (₹ crore)	FY21(A)	FY22 (A)	Q1FY23 (Prov)
TOI	248.73	285.79	85.54
PBILDT	52.06	55.16	20.89
PAT	89.31	89.56	13.49
Overall gearing (times)	0.00	0.00	NA
Interest coverage (times)	112.93	275.54	522.25

A: Audited; Prov.: Provisional; NA: Not available; Financials are classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument/facility: Not applicable

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

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ 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 (Last three years)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Non-fund-based - ST-Letter of credit	ST	35.00	CARE A1+	-	1)CARE A1+ (September 01, 2021)	1)CARE A1+ (August 25, 2020)	1)CARE A1+ (August 06, 2019)
2.	Fund-based - LT-Cash credit	LT	60.00	CARE AA; Stable	-	1)CARE AA; Stable (September 01, 2021)	1)CARE AA; Stable (August 25, 2020)	1)CARE AA; Stable (August 06, 2019)

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

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

Annexure-4: Bank Lender Details for this Company

To view the lender-wise details of the bank facilities, please [click here](#).

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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