The Sandesh Limited

August 31, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	60.00	CARE AA; Stable	Reaffirmed
Short-term bank facilities	35.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 supported by larger advertisement revenue, 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, and the increasing competition from alternate media platforms (especially digital). It is further constrained due to 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: Factors likely to lead to rating actions

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 and subsequent moderation in operating profitability below 18% on a sustained basis.
- 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.

Analytical approach: Standalone

Outlook: Stable.

CARE Ratings Limited (CARE Ratings) expects that TSL is likely to sustain its business and financial risk profiles over the medium term supported by its established position and long-standing track record in newsprint media apart from its strong liquidity.

Detailed description of the key rating drivers:

Key strengths

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. TSL has managed to maintain its market position amongst the top three print media players in the Gujarat region. There has been a declining circulation of TSL's daily newspaper over the past few years which is an industry-wide phenomenon due to shift in consumer preference towards digital media. However, vernacular language newspapers have seen a lesser decline as compared to the English Newspapers, and CARE ratings Limited (CARE Ratings) expects this to continue to have a decent readership in the years to come. The declining circulations are largely offset by improving advertisement income of TSL, which constitutes around 60-70% of its total operating income (TOI), which is also 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 (refers to period April 01 to March 31). It also provides e-paper on its web portal and mobile application.

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

Strong financial risk profile, marked by strong net worth base, healthy profitability and absence of external debt
The TOI of TSL improved to ₹323 crore during FY23 from ₹286 crore during FY22 due to 30% growth in advertisement income. TSL's PBILDT margin improved by 526 bps and stood healthy, at 24.56% during FY23 supported by increased share of high margin advertainment income. CARE Ratings expects advertisement revenue to further improve in FY24 as it is being a central election year. Additionally, TSL's other media sources such as TV news channel and E-paper has started to contribute revenue. Advertisement income from telecast & digital media was around ₹27 crore for FY23 as against around ₹18 crore for FY22. CARE Ratings notes that this indicates a positive trend in revenue generation from diverse media sources as well.
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 as on March 31, 2023.

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. Over a period of time, TSL has evolved itself as one of the prominent print media players in the state of Gujarat.

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, 2023, 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 of ₹562 crore and ₹552 crore as on March 31, 2023, and June 30, 2023, respectively, also strengthens its liquidity.

Key weaknesses
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, since its incorporation, TSL has focused only on the local market of Gujarat. This has restricted its scale to a moderate level. 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. TSL has diversified its presence in alternate media platforms, viz., 'Sandesh News' TV channel and E-paper which reduces the risk associated with migration of readers to alternate platforms to an extent. However, revenue contribution from these platforms remains low over the years.

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 FY23, TSL largely procured its newsprint requirement from the domestic market. The average cost of TSL's newsprint consumption increased from ₹41,030 per MT during FY22 to ₹60,699 per MT which has moderated to ₹58,910 per MT during Q1FY24. Although the Company does not expect a further upward price movement in newsprint prices in short to medium term, 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.

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. High inflationary environment and volatility in commodity prices could cause businesses to trim the advertisement spending to offset rising costs in their operations, which could thus impact TSL's advertisement revenues. Nonetheless, CARE Ratings observes that additional contribution from increase in government ad spending in view of upcoming election year may support the overall advertisement income in FY24.

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 ₹211 crore, as on March 31, 2023. However, no financial support has been extended by TSL to this venture during the last nine years ended FY23. Also, AEPL did not have any debt on its books as on March 31, 2023, 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 major further investments in AEPL, since its real estate project is self-sustainable and AEPL itself had healthy liquidity as on March 31, 2023. TSL received a dividend of Rs.10 per share for its 4.1 lakh shares having face value of Rs.10 each which translates into 100% dividend on face value investment. TSL has only realised insignificant dividend in from its investments more than Rs.200 crore in AEPL, 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 ₹146 crore (₹136 crore as on March 31, 2022), apart from investments in quoted equity shares of ₹115 crore as on March 31, 2023. 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 and provides a return of 12% per annum, 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, CARE Ratings will continue to monitor 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.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Media, Entertainment & Publication	Media	Print Media

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)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	286	323	72
PBILDT	55	79	16
PAT	90	102	33
Overall gearing (times)	0.00	0.00	0.00
Interest coverage (times)	Very High	Very High	Very High

A: Audited; UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	60.00	CARE AA; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	35.00	CARE A1+

CareEdge RATINGS

Annexure-2: Rating history for the 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 2023-2024	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
1	Non-fund-based - ST-Letter of credit	ST	35.00	CARE A1+	-	1)CARE A1+ (06-Sep-22)	1)CARE A1+ (01-Sep-21)	1)CARE A1+ (25-Aug-20)
2	Fund-based - LT-Cash credit	LT	60.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Sep-22)	1)CARE AA; Stable (01-Sep-21)	1)CARE AA; Stable (25-Aug-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

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-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Deepak Purshottambhai Prajapati Senior Director **CARE Ratings Limited** Phone: +91-79-4026 5656 E-mail: deepak.prajapati@careedge.in	Name: Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3453 E-mail: Ranjan.sharma@careedge.in Name: Hardik Shah Director **CARE Ratings Limited** Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in Name: Krunal Pankajkumar Modi Associate Director **CARE Ratings Limited** Phone: +91-79-4026 5614 E-mail: krunal.modi@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in