D. B. Corp Limited

May 29, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	135.00	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	Revised from CARE AAA; Stable [Triple A; Outlook: Stable]
Long-term / Short-term Bank Facilities	185.00	**CARE AA+; Stable/ CARE A1+ [(Double A Plus; Outlook: Stable)/ A One Plus]**	Revised from CARE AAA; Stable / CARE A1+[(Triple A; Outlook: Stable)/A One Plus]
Total Facilities	**320.00 (Rs. Three hundred and twenty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of D. B. Corp Limited (DBCL; CIN No. L22210GJ1995PLC047208) factors in CARE's belief that advertisement income (which constituted around 70% of DBCL's Total Operating Income in FY19 and 9MFY20) of DBCL would be to be notably weaker for Q1FY21, and same is expected to remain muted for rest of the financial year (FY21). The advertisement income for print media industry has strong correlation with general economic growth, which is expected to witness significant deterioration during FY21. CARE Rating believes that the economic recovery is expected to be slow & prolonged and may significantly vary across the sectors. The key advertisement-providing sector like Automobiles, Real-estate and other lifestyle segments are expected to witness a curtailment in their advertisement budgets in the medium term. Government spending on advertisement may also remain subdued in medium term, as states too are facing challenging times managing their deficit.

The circulation income is also expected to be impacted to a certain extent, as the country witnessed CoVID-19 lockdown since end of March 2020. CARE believes, the decline in circulation income for Q1FY21 and rest of the year would be limited, as DBCL has substantial presence in Tier 2 and Tier 3 cities, where newspapers were circulated to retail customers (except for bulk sales to public places like Airports, Train platforms, Bus stations and commercial customers) even during lockdown. Further, the lockdown relaxation in those regions is expected to be earlier than metro cities, which would support the expansion in circulation to normal levels.

CARE also believes decline in advertisement income would adversely affect the operating profit margin of DBCL in medium term. CARE notes that, the management has already initiated cost rationalization measures, which may translate into tangible cost savings. Further, the volume of news-paper (number of pages) has also been reduced without changing the cover price, which would provide support to operating profit margin. The ratings also take cognizance of the stretched receivable position of DBCL with ~40% of the total receivables being outstanding for more than 6 months as on December 31, 2019. CARE believes that the receivable position is expected to remain stretched in the current financial year as well on account of stressed economic scenario.

The revision in ratings also factors in the continuous increase in pledge of the shares held by the promoters of DBCL for debt raised by its group entity Writers and Publishers Private Limited (WPPL). Although, the quantum of debt at WPPL in absolute terms has declined on back of repayments made, the share pledge percentage continued to surge with decline in share price of DBCL. As on May 22, 2020 the number of promoter shares pledged as a % of their total shareholding stood at 52.24%. The declining share price has also resulted in overall market capitalization reducing from Rs.3,269.97 crore as on March 31, 2019 (share pledge was 39.88% then) to Rs.1,047.10 crore as on May 22, 2020. Management has indicated (on May 29, 2020) that they have made certain prepayments towards the debt raised by WPPL, however, despite the prepayment, percentage of shares pledged by the promoters continues to remain elevated.

The ratings however, continue to derive strength from DBCL's leadership position in Hindi print media industry under its flagship brand "Dainik Bhaskar" (DB). DBCL through its various publications has the largest readership base and the same is diversified across Hindi dominant states. It continues to maintain leading position in old geographies, while continues to gain market share from other Hindi newspapers, in newly entered geographies.

The ratings also positively factor in the comfortable financial risk profile of DBCL characterized by low leverage, comfortable debt coverage indicators and liquidity position. As DBCL now has presence in most of the Hindi dominant region, the requirement of any further debt funded capex is minimal. Thus, CARE believes, the leverage and debt coverage indicators are expected to remain comfortable in medium term.

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

The above rating strengths are, however, partially tempered by susceptibility of its operating profit margins to newsprint prices and economic cycles

Rating sensitivities:

Positive factors:

- Decline in pledged shareholding below 10% of promoters shareholding
- Decline in debtor days / Debtor Cycle below 50 days
- Maintenance of comfortable leverage marked by Total Debt to Cash Flow from Operations below 0.40x

Negative factors:

- PBILDT margin on quarterly basis declining below 16% on a sustained basis
- Decline in interest cover below 16x on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters & strong execution skills

The promoters of DBCL have been in the print media business for more than five decades, since the first edition of Dainik Bhaskar (DB) was launched in 1958. Mr. Sudhir Agarwal, promoter and managing director of DBCL, has been instrumental in pursuing growth opportunities and has demonstrated strong execution skills while expanding into new markets and launch of new editions. DBCL with its various publications has presence in 12 states in North, Central & West India and across three languages (Hindi, Gujarati and Marathi).

Strong brand presence and leadership position

DBCL is one of the leading print media group amongst national dailies in terms of readership with a total readership of ~69 million readers across its various publications. DBCL's flagship newspaper Dainik Bhaskar is the most widely read Hindi newspaper in India. While Dainik Bhaskar has maintained its leadership position in the legacy markets, it has increased its presence in the newer markets of Bihar, Rajasthan, Chhattisgarh and Gujarat.

DBCL acquired 13 radio frequencies in FY17 in the Phase III auction in Ahmednagar, Akola, Aurangabad, Bikaner, Dhule, Hissar, Jalgaon, Karnal, Nanded, Nashik, Rajkot, Sangli and Solapur totaling the overall 30 stations under the frequency 94.3 "MY FM". The radio business maintained its leadership position across Chandigarh, Punjab, Haryana, Madhya Pradesh, Chhattisgarh and Rajasthan. It is the largest player in rest of Maharashtra.

DB Digital has 5 portals and 3 mobile apps which provide content across genres such as news, sports and entertainment. DB digital provides tailored content relevant for the Tier II and Tier III cities of India in four languages. As per the latest comScore report (December 2019), DainikBhaskar.com is still holding the dominance with 37 million unique visitors and has emerged as India's No.1 Hindi news site. Also, DainikBhaskar.com site has secured number 1 position in the following categories: Daily Active users, Visits, and Total time spent. Also, www.divyabhaskar.com continues to remain No.1 Gujarati website. DBCL launched "Dainik Bhaskar+" App – a new app that is set to provide news in the Hindi speaking markets. It also launched a new version of Divya Bhaskar Plus App to strengthen its leadership position in Gujarat.

Advertisement income is expected to remain muted for FY21

DBCL has a diversified source of advertising revenue with Government, education, automobile and healthcare being the top contributing segments. In FY19, advertising revenue from Government and political parties saw a surge on account of general elections. However, slowdown in certain key sectors coupled with lower advertising spends by Central and State Governments led to a decline in advertisement revenue in 9MFY20 on a Y-o-Y basis. CARE believes that advertisement revenue is expected to be notably weaker for Q1FY20 and is expected to remain muted of the rest of the financial year (FY21). Advertisement income for print media industry has strong correlation with general economic growth, which is expected to witness significant deterioration during FY21. The economic recovery is expected to be slow & prolonged and may vary significantly across the sectors. The key advertisement-providing sector like Automobiles, Real-estate and other lifestyle segment are already facing challenging times, thus their advertisement budgets may witness curtailment in the medium term. Government spending on advertisement may also remain subdued in medium term, as states too are facing challenging times managing their deficit.

The circulation income is also expected to be impacted to a certain extent, as the country witnessed CoVID-19 lockdown since fag end of March 2020. CARE believes, the decline in circulation income for Q1FY21 and rest of the year would be limited as DBCL has substantial presence in Tier 2 and Tier 3 cities, where newspapers were circulated to retail customers (except for bulk sales to public places like Airports, Train platforms, Bus stations and commercial customers) even during lockdown. Further, the lockdown relaxation in those regions is expected to be earlier than metro cities, which would support the expansion in circulation to normal levels.

CARE also believes decline in advertisement income would adversely affect the operating profit margin of DBCL in medium term. CARE notes that, the management has already initiated cost rationalization measures, which may translate into tangible cost savings. Further, the size of news-paper (no of pages) has also been reduced without changing the cover price, which would provide support to the operating profit margins.

Comfortable leverage and debt coverage indicators, however pledge of shares held by the promoters to raise debt in a group entity remains high and has been continuously increasing on the back of decline in DBCL's share price

DBCL's gearing remains comfortable at 0.03x as on September 30, 2019 due to absence of long term debt, low utilization of working capital limits and healthy accretion to reserves. Debt coverage indicators such as Total Debt / PBILDT also remained comfortable at 0.19x as on September 30, 2019. In the absence of any planned debt funded capex in the near future, DBCL's gearing and coverage indicators are likely to remain comfortable.

CARE notes that there has been a continuous increase in the pledge of the shares held by the promoters of DBCL for debt raised by its group entity Writers and Publishers Private Limited (WPPL). The pledge percentage has been increasing continuously on the back of decline in share price of DBCL. As on May 22, 2020 the number of promoter shares pledged as a % of their total shareholding stood at 52.24%.

Key Rating Weaknesses

Operating profitability susceptible to fluctuation in newsprint prices and economic cycles

Newsprint constitutes a key raw material accounting for ~40-45% of the operating cost for DBCL. DBCL sources newsprint through a mix of domestic suppliers (65%-70%) and imports (30%-35%). Thus, apart from volatility in newsprint prices, rupee dollar fluctuations could also impact the company's profitability. Furthermore, operating margin of media houses remains vulnerable to economic downturns as advertisement revenue is linked to economic conditions.

Liquidity: Strong

The liquidity position of DBCL is strong as reflected by cash and cash equivalents of Rs. 100 crore as on March 31, 2020, absence of long term debt and low average fund based working capital utilization of 36% in the 12 months ended March 2020. However, CARE notes that the working capital utilization went up in the month of March 2020 on the back of slightly stretched debtors cycle resulting in positive net debt position as on March 31, 2020 as against negative net debt position on March 31, 2019.

Analytical approach:

CARE has considered consolidated financials of DBCL and its subsidiaries as subsidiaries are in a similar line of business. The list of entities which have been consolidated are placed in Annexure 4.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
CARE's methodology for financial ratios (Non-Financial Sector)
Rating Methodology for Manufacturing companies
Rating Methodology: Factoring Linkages in Ratings

About the Company

DB Corp Ltd (DBCL) is one of the leading print media companies in India, which started operations in 1958 with the launch of its first edition of Hindi newspaper in Bhopal, Madhya Pradesh. Currently, the company publishes five newspapers with 65 editions and 221 sub-editions in three languages i.e. Hindi, Gujarati and Marathi across 12 states in India. DBCL's newspaper portfolio includes Dainik Bhaskar (DB- 6 editions), Divya Bhaskar (8 editions), Divya Marathi (46 editions), Saurashtra Samachar (1 edition) and DB Star (4 editions). DB Post, the English newspaper was discontinued by DBCL in Q3FY19 and the English content is now provided on its digital platform. Other than newspapers, DBCL also publishes certain periodicals namely Aha! Zindagi, Bal Bhaskar and Young Bhaskar and circulates supplements such as Madhurima, Rasrang, Kalash, Rasik with its newspapers. DBCL has 54 printing units in the states of Rajasthan, Gujarat, Chandigarh, Punjab, Haryana, Himachal Pradesh, Madhya Pradesh, Chhattisgarh, Jharkhand, Maharashtra and Bihar.

DBCL also has radio licenses for 30 cities across 7 states, under brand name 'My FM'. Apart from printing, publishing and radio business, DBCL also has presence in the digital media with 5 portals and 3 mobile apps, wind energy and event management, however, these businesses form a very minor portion of the total revenue.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	9MFY20 (*)
Total operating income	2,331.28	2,477.55	1,746.56
PBILDT	584.64	520.82	424.94
PAT	323.97	273.84	250.93
Overall gearing (times)	0.02	0.03	Not Available
Interest coverage (times)	87.27	61.24	23.47#

*A: Audited; *Limited review & Published financial figures; # owing to implementation of IND-AS, same may not be comparable*

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	135.00	CARE AA+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	185.00	CARE AA+; Stable / CARE A1+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	135.00	CARE AA+; Stable	-	1)CARE AAA; Stable (11-Sep-19)	1)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (28-Sep-17)
2.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (03-Oct-18)	1)CARE AAA; Stable (28-Sep-17)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	185.00	CARE AA+; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (11-Sep-19)	1)CARE A1+ (03-Oct-18)	1)CARE A1+ (28-Sep-17)
4.	Non-fund-based - LT-Bank Guarantees	-	-	-	-	-	1)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (28-Sep-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

Annexure 4: List of subsidiaries which are consolidated

Sl. No.	Name of the company	% shareholding
1	I Media Corp Limited	100%
2	DB Infomedia Private Limited	100%

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:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.