

## The Sandesh Limited

August 06, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long- Term Bank Facilities	60.00	<b>CARE AA; Stable (Double A; Outlook: Stable)</b>	Reaffirmed
Short-Term Bank Facilities	35.00	<b>CARE A1+ (A One Plus)</b>	Reaffirmed
<b>Total</b>	<b>95.00 (Rupees Ninety five crore only)</b>		

*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 take into consideration the established position and long standing track record in the regional news print media with strong presence of the brand 'Sandesh' in Gujarat with its largely stable circulation base and steady advertisement income; along with wide experience of the promoters in the print media industry. The ratings also continue to factor its comfortable leverage, debt coverage and liquidity indicators apart from its healthy profitability; albeit its profitability moderated during FY19 (refers to the period from April 1 to March 31).

The long-term rating is, however, constrained by susceptibility of TSL's operating profitability to volatile newsprint prices, limited geographical presence in the highly competitive Gujarat market, high correlation of its advertisement income with economic cycle and exposure to group's real estate venture.

Ability of TSL to significantly improve its circulation and readership base and in turn advertisement income, geographically diversify its news print media operations and ensure timely receipt of envisaged returns from its past investment in the real estate project would be the key rating sensitivities. Any significant increase in exposure of TSL to the real estate activity of the group or any activity unrelated to its core operations which could have an adverse impact on its liquidity or debt coverage indicators would also be key rating monitorables.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Experienced promoters with long track record of operations**

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 player 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 steady circulation of TSL's daily newspaper over the last five years; albeit with marginal decline in FY19.

The revenue from publication and advertisement remained stable during FY19. The advertisement income of TSL, which stood at 63% of its TOI during FY19, is well-diversified amongst local advertiser, national advertiser, govt. business and direct party with major contributor being local advertisers which are less prone to economic fluctuations vis-a-vis national advertisers. Besides, to take advantage of its strong brand presence in the State and further increase its reach amongst its target audience, TSL had started its Gujarati News Channel 'Sandesh News' with an initial investment of around Rs.3.00 crore during FY13. During FY19 company achieved revenue from its news channel to the tune of Rs.17.00 crore.

##### **Strong financial risk profile marked by comfortable capital structure and debt coverage indicators along with healthy profitability; albeit the same witnessed moderation during FY19**

The total operating income of TSL remained stable at Rs.382.84 crore (excluding revenue from trading of securities of Rs.32.45 crore) during FY19 compared to Rs.382.19 crore during FY18 on account of stable revenue from publication and advertisement segments. Profitability of TSL declined marked by PBILDT margins of 21.10% during FY19 as against PBILDT margin of 32.76% during FY18 mainly attributable to spike in prices for its key raw material viz. newsprint. In-spite of

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

significant moderation in its PBILDT margin, its PAT margin declined from 20.86% in FY18 to 16.49% in FY19 mainly because of reversal of provisions to the extent of Rs.20.58 crore during FY19. Non utilisation of external debt and healthy profitability has led to comfortable leverage and debt coverage indicators for TSL.

### **Liquidity Analysis**

TSL has track record of not using any external debt and accordingly cash accruals of every year after dividend payout is accumulated and invested in the form of liquid mutual funds and/ or bank fixed deposits. TSL had outstanding liquid investments and free cash and bank balance to the tune of Rs.300.12 crore as on March 31, 2019 as per its audited annual report for FY19, reflecting its strong liquidity position. The operating cycle of TSL continued to remain steady at around 100 days during the last three years reflecting no funds blockage in its working capital cycle. Also, TSL didn't utilize its working capital limits (fund based and non-fund based) during the last 12 months ended June 2019 which imparts further comfort to its liquidity.

### **Key Rating Weaknesses**

#### ***Susceptibility of operating profit margin to volatility in newsprint prices***

Newsprint constitutes the key raw material for TSL. TSL procures its newsprint through a mix of local suppliers and imports. During FY19, the company purchased 65% of its total newsprint consumed from local suppliers while the balance was imported. The average price of newsprint consumed by TSL increased to Rs.43,740/MT during FY19 as against price of Rs.34,356/MT during FY18 which consequently impacted the profitability of TSL. However, the prices of newsprint has started declining from March 2019 and normalised by June 2019. Also, Govt. of India has imposed 10% import duty on import of newsprint in India which is expected to result in some increase in cost of imported newsprint compared to the trend in past few months; albeit the same is still expected to be lower in FY20 compared to FY19. Going forward, any unprecedented increase in the newsprint price without commensurate increase in revenue could directly impact profitability of TSL. Further, TSL is also susceptible any adverse movement in foreign exchange rates on its imports.

#### ***Strong competition from other media players in Gujarat***

Unlike many large news print media companies having presence in multiple states 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; however, it has established itself as one of the leading news print media player in Gujarat. From the readership point of view, Gujarat is amongst the top 10 states of India. Upon entry of Divya Bhaskar in the Gujarati new print media, existing market share of TSL and Gujarat Samachar reduced to some extent to absorb the additional player in the market and since then there has been intense competition amongst these three leading players to increase their reach and readership which limits the growth in income from newspaper circulation.

#### ***Exposure to group's real estate venture***

In 2011, the promoters of Sandesh group had commenced a phase-wise development of an integrated township project in Ahmedabad named Applewoods Estate Private Limited (AEPL). As on March 31, 2019 the investment of TSL in AEPL in the form of equity stood at Rs.232.63 crore. However, no major financial support has been extended to this venture by TSL during last five years ended FY19. Also, as articulated by management, AEPL didn't have any debt on its books on March 31, 2019 with comfortable booking status of residential units. Further, TSL's management has articulated that it has no plans to make any further investment in AEPL since the project is now self-sustainable as there is satisfactory progress on the project; and receipt of booking advances from its customers is expected to be utilised for completion of balance part of the project. However, any significant increase in exposure of TSL to the real estate activity of the group or any activity unrelated to its core operations which could have an adverse impact on its liquidity or debt coverage indicators would be a key rating monitorable.

**Analytical Approach:** – Standalone

### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Manufacturing Companies](#)

[Financial ratios - Non- Financial Sector](#)

### **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. Sandesh currently occupies one of the leading positions in Gujarati print media. TSL has its printing press at Ahmedabad, Vadodara, Surat, Rajkot, Bhavnagar and Bhuj covering circulation across the state of Gujarat and Mumbai. TSL derives its revenue mainly from sale of publications and advertisement published in the newspaper along-with investment income.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	382.19	382.84*
PBILDT	125.19	80.79
PAT	79.72	63.11
Overall gearing (times)	0.00	0.00
Interest coverage (times)	311.04	195.33

A – Audited; \* excluding trading of securities amounting to Rs.32.45 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**

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

#### 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-Letter of credit	ST	35.00	CARE A1+	-	1)CARE A1+; Stable (08-Oct-18)	1)CARE A1+ (06-Oct-17)	1)CARE A1+ (20-Sep-16)
2.	Fund-based - LT-Cash Credit	LT	60.00	CARE AA; Stable	-	1)CARE AA; Stable (08-Oct-18)	1)CARE AA; Stable (06-Oct-17)	1)CARE AA (20-Sep-16)

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### About CARE Ratings:

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