The Sandesh Limited

August 25, 2020

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 (Rupees 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 news print media with strong presence of the brand 'Sandesh' in Gujarat with its largely stable market share 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 has moderated in the last two years.

The long-term rating is, however, constrained by TSL's moderate scale of operations, susceptibility of its operating profitability to volatile newsprint prices, limited geographical presence in the highly competitive Gujarat market, high correlation of its advertisement income with economic cycle, exposure to group's real estate venture and risks associated with its aggressive investment policy reflected from extension of inter-corporate deposits (ICDs) & equity market investments. The ratings also factor expected adverse impact of Covid 19 pandemic on the circulation & advertisement income of TSL during FY21 (refers to the period from April 1 to March 31).

Rating Sensitivities

Positive Factors

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

Negative Factors

- Any significant increase in exposure of TSL to the real estate activity of the group or any activity unrelated to its core operations
- Negative impact of migration of readership from print media to digital media leading to sustained pressure on its advertisement income
- More than envisaged adverse impact on its TOI and profitability during FY21/part thereof due to the impact of Covid-19 pandemic; and/or inability to improve its PBILDT margin to more than 20% in the medium-term
- Inability to realise adequate returns from its investments in the real estate project & inter-corporate deposits 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 steady circulation of TSL's daily newspaper over the last five years; albeit with marginal decline over the years.

The revenue from publication and advertisement slightly moderated during FY20. The advertisement income of TSL, which stood at 67% of its TOI during FY20, is well-diversified amongst local advertiser, national advertiser, govt. business and direct party. 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 TV News Channel 'Sandesh News' with an initial investment of around Rs.3.00 crore during FY13.

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

Strong financial risk profile marked by comfortable capital structure and debt coverage indicators along with healthy profitability; albeit its profitability has witnessed moderation during the last two years

The total operating income (TOI) of TSL slightly moderated during FY20 to Rs.351.57 as against TOI of Rs.382.84 crore (excluding revenue from trading of securities of Rs.32.45 crore) during FY19 which was mainly attributed to moderation in its advertisement income by 10.16% to Rs.235.42 crore as against Rs.262.04 crore during FY19. Advertisement revenue from local advertisers and government business generally comes in last week of the month. However, on account of imposition of nationwide lockdown from March 24, 2020, company could not secure much advertisement income for the month of March 2020. Also, print media industry faced headwinds on account of slowdown in key advertisement sectors such as automobile, consumer durable and real estate.

Despite reduction in advertisement revenue by 10.16% during FY20, PBILDT margin of the company improved from 21.10% during FY19 to 22.81% during FY20 mainly on account of softening of newsprint prices which is a key raw material. However, its profitability margins have reduced during FY19 & FY20 compared to earlier years. TSL has nil outstanding external borrowing as on March 31, 2020 which has resulted in minimal finance cost and hence TSL had healthy interest coverage of 192 times during FY20.

Liquidity: Strong

Liquidity of TSL is strong and is marked by healthy accruals of Rs.59.11 crore during FY20 against nil term debt repayment obligations. Company has a long track record of not using any external debt and accordingly cash accruals of every year after dividend pay-out is accumulated and invested in the form of various investments. TSL had outstanding investments in liquid mutual funds to the tune of Rs.156 crore as on March 31, 2020 as per its audited annual report for FY20, reflecting its strong liquidity. With nil leverage, the issuer has sufficient gearing headroom, to raise any debt, if required. Also, TSL didn't utilize its working capital limits (fund-based and non-fund based) during the last 12 months ended June 2020 which imparts further comfort to its liquidity. Also, it has not availed any moratorium on its debt obligations from its banks, the option for which was available to it as a Covid-relief measure as per RBI's circular.

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 FY20, the company imported 89% of total newsprint consumed, while the rest was procured from domestic market. Average price of newsprint consumed by TSL declined by 10.82% to Rs.39,006/MT during FY20 as against price of Rs.43,740/MT during FY19 which consequently improved the operating profitability of TSL. Newsprint prices have further reduced to Rs.34,074/MT in Q1FY21. Any unprecedented increase in the newsprint price going forward could directly impact profitability of TSL; albeit it has sufficient cushion to absorb any such volatility. Further, TSL is also susceptible to any adverse movement in foreign exchange rates on its imports.

Moderate scale of operations along with 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 players 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.

Envisaged adverse impact of Covid-19 pandemic on the circulation & advertisement income

Due to Covid-19 pandemic led lockdowns from the end of March 2020, there had been significant decline in circulation of newspaper affecting TSL's circulation and advertisement income. However, the same was compensated to an extent by the decline in newsprint cost and cutting down on the number of pages of its daily subscription and merging of supplements, while keeping the cover price unchanged. The major adverse impact of Covid-19 pandemic is expected on the advertisement income of TSL during FY21 as the key advertisement sectors 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 in managing their deficit.

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, 2020 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 six years ended FY20. Also, AEPL didn't have any debt on its books on March 31, 2020 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 and has healthy liquidity position of its own with liquid investments of nearly ~Rs.250 crore as on March 31, 2020. However, TSL has not realised any dividend income from its investment in AEPL since long which is adversely impacting its overall 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, during FY20, it has adopted an aggressive investment policy whereby it has extended inter-corporate deposits (ICDs) of Rs.145 crore and invested in quoted equity shares for Rs.30 crore from part of its surplus funds. Extension of ICDs and investing in equity shares are relatively riskier investment decisions. However, TSL's management has articulated that these have been extended to certain reputed developers and are fully secured by tangible security; 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 on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector
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 as well as in Mumbai. TSL derives its revenue mainly from sale of publications and advertisement published in the newspaper along-with investment income.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total operating income	382.84*	351.57
PBILDT	80.79	80.20
PAT	63.11	58.36
Overall Gearing (times)	0.00	0.00
Interest coverage (times)	195.33	192.33

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

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 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.	Non-fund-based - ST-Letter of credit	ST	35.00	CARE A1+	-	1)CARE A1+ (06-Aug-19)	1)CARE A1+; Stable (08-Oct-18)	1)CARE A1+ (06-Oct-17)
2.	Fund-based - LT-Cash Credit	LT	60.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Aug-19)	1)CARE AA; Stable (08-Oct-18)	1)CARE AA; Stable (06-Oct-17)

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

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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