

The Sandesh Limited

October 06, 2017

Ratings

Facilities/Instruments	Amount (Rs. 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	95.00 (Rupees Ninety five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of The Sandesh Limited (TSL) continue to take into consideration 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 circulation base and steady advertisement income; along with wide experience of the promoters in the print media industry. The ratings continue to take into account TSL's healthy profitability, comfortable leverage and strong debt coverage as well as liquidity indicators.

The long-term rating is, however, constrained by TSL's limited geographical presence in the highly competitive Gujarat market, its exposure to volatility associated with the newsprint prices and high correlation of its advertisement income with economic cycle.

The 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 monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations

TSL was promoted by the late Mr. Chimanbhai Patel six 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 FY17 (refers to the period April 1 to March 31).

The revenue from publication and advertisement remained stable during FY17. The advertisement income of TSL, which stood at 65% of its TOI during FY17, 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 via-a-vis national advertiser. 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 FY17 revenue from its 'news channel' grew to Rs.10.00 crore.

Strong financial risk profile marked by healthy profitability, comfortable leverage and strong liquidity

The total operating income of TSL registered minor de-growth of 3% to Rs.362.16 crore during FY17 from Rs.373.82 crore during FY16 on account of the flattish revenue from publication and advertisement segment. However, profitability of TSL continued to remain healthy marked by PBILDT margins of 31.47% during FY17. Minimal use of debt and healthy profitability led to strong debt coverage indicators of TSL. In addition TSL had healthy liquidity position as on March 31, 2017 as evident from liquid investments and cash & bank balance of Rs.177.95 crore.

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

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 FY17, the company purchased 25% of total newsprint consumed from local suppliers, while the rest of 75% were imported. Although there has not been much increase in the prices, any unprecedented change in the newsprint price going forward 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, TSL, since its incorporation, has focused only on the domestic 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; however the market share of these three players is largely evenly distributed.

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, 2017 the investment 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 four years ended FY17. Furthermore, AEPL didn't have any major debt on its books on March 31, 2017 and its performance has exhibited improvement over the past two years with comfortable booking status of residential units. Also, TSL's management has articulated that it has no plans to make any further investment in AEPL since project is now self-sustainable as there is satisfactory progress on the project; and receipt of booking advances 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 Rating](#)

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

[Criteria for Short Term Instruments](#)

[Financial Ratios-Non Financial Sectors](#)

[Rating Methodology Manufacturing Companies](#)

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 advertisements published in the newspaper along-with investment income.

Brief Financials (Rs. Crore)	FY16 (A)*	FY17 (A)*
Total operating income	373.82	362.16
PBILDT	127.83	113.98
PAT	87.87	70.95
Overall Gearing (times)	0.03	0.00
Interest coverage (times)	72.07	107.95

A: Audited; * as per IND AS

During Q1FY18 (refers to the period from April 01 to June 30) TSL reported TOI of Rs.101.60 crore and profit after tax (PAT) of Rs.23.31 crore as against TOI of Rs.99.01 crore and PAT of Rs.24.03 crore during Q1FY17.

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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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
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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - ST-Letter of credit	ST	35.00	CARE A1+	-	1)CARE A1+ (20-Sep-16)	1)CARE A1+ (18-Nov-15)	1)CARE A1+ (08-Dec-14)
2.	Fund-based - LT-Cash Credit	LT	60.00	CARE AA; Stable	-	1)CARE AA (20-Sep-16)	1)CARE AA- (18-Nov-15)	1)CARE AA- (08-Dec-14)

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