

The Sandesh Limited

October 08, 2018

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)		

*Details of 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. Further, the ratings take cognizance of moderation in the operating profit margins of TSL during Q1FY19 (refers to period from April 2018 to June 2018) due to rise in newsprint prices.

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 monitorables.

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 FY18 (refers to the period April 1 to March 31).

The revenue from publication and advertisement exhibited a growth of 11.49% during FY18. The advertisement income of TSL, which stood at 69% of its TOI during FY18, 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 FY18 revenue from its 'news channel' grew to Rs.17.00 crore.

Strong financial risk profile marked by healthy profitability, comfortable leverage and strong liquidity: The total operating income of TSL registered a growth of 5.24% to Rs.382.19 crore during FY18 from Rs.362.16 crore during FY17 on account of healthy revenue growth in advertisement segment which has offset the flattish revenue growth from publication segment. Profitability of TSL continued to remain healthy during FY18 marked by PBILDT margins of 32.76%. Further, during Q1FY19, the total operating income of TSL registered a growth of 22.60% on a year-on-year basis, however, the PBILDT margins moderated to 28.41% (excluding trading income) from 37.55% achieved during Q1FY18 largely on account of higher newsprint cost during the period.

Minimal use of debt and healthy profitability led to strong debt coverage indicators of TSL. In addition TSL had healthy liquidity as on March 31, 2018 as evident from liquid investments and free cash & bank balance of Rs.237.24 crore.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in 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 FY18, the company purchased 67% of its total newsprint consumed from local suppliers while the balance was imported. The average price of newsprint consumed by TSL remained at Rs.34,356/MT during FY18 as against price of Rs.33,811/MT during FY17. However, the average price of newsprint consumed during Q1FY19 rose sharply to Rs.42,063/MT as against average price of Rs.33,881/MT during Q1FY18 which has resulted in moderation in its profitability during Q1FY19. The increase in prices of newsprint is due to the ban imposed on import of waste paper in China which has resulted in supply pressures which culminated into approximately 40% increase in newsprint prices. 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, 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, 2018 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 five years ended FY18. Furthermore, AEPL didn't have any major debt on its books on March 31, 2018 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 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)	FY17 (A)*	FY18 (A)*
Total operating income	362.16	382.19
PBILDT	113.98	125.19
PAT	70.95	79.72
Overall Gearing (times)	0.00	0.00
Interest coverage (times)	107.95	311.04

A: Audited; * as per IND AS

During Q1FY19 (refers to the period from April 01 to June 30) TSL reported TOI of Rs.124.56 crore and profit after tax (PAT) of Rs.17.19 crore as against TOI of Rs.101.60 crore and PAT of Rs.23.31 crore during Q1FY18.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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.

Analyst Contact

Name: Mr. Maulesh Desai

Tel: 079 – 4026 5605

Mobile: +91 85111 90079

Email: maulesh.desai@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	60.00	CARE AA; Stable
Non-fund-based - ST-Letter of credit	-	-	-	35.00	CARE A1+; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-Letter of credit	ST	35.00	CARE A1+; Stable	-	1)CARE A1+ (06-Oct-17)	1)CARE A1+ (20-Sep-16)	1)CARE A1+ (18-Nov-15)
2.	Fund-based - LT-Cash Credit	LT	60.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Oct-17)	1)CARE AA (20-Sep-16)	1)CARE AA- (18-Nov-15)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691