

## Dempo Industries Private Limited

July 13, 2018

### Summary of rated instruments

| Instrument*             | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                  |
|-------------------------|--------------------------------------|-------------------------------------|--------------------------------|
| Fund-based -Term Loan   | 5.50                                 | 3.50                                | [ICRA]BB+ (Stable); reaffirmed |
| Long Term - Unallocated | -                                    | 2.00                                | [ICRA]BB+ (Stable); reaffirmed |
| <b>Total</b>            | <b>5.50</b>                          | <b>5.50</b>                         |                                |

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) to the Rs. 3.50-crore<sup>1</sup> term loan and the Rs. 2.00-crore unallocated limits of Dempo Industries Private Limited (DIPL)<sup>2</sup>. The outlook on the long-term rating is Stable.

### Rationale

The rating reaffirmation takes into consideration the financial support extended by the parent company, V S Dempo Holdings Private Limited (VSDHPL), in the form of regular funds infusion, and DIPL's healthy capital structure and interest coverage ratio at a standalone level. The rating also factors in long experience of the promoters in the newspaper publishing business and DIPL's significant investments in bonds and mutual funds, which act as an additional income source.

The rating, however, remains constrained by the weak financial profile of DIPL's Singapore-based wholly-owned subsidiary, Dempo Global Corporation Pte Limited (DGCPL), which is a holding company for its overseas investments. Given that the investments in DGCPL are yet to fructify, DIPL's business return indicators remain weak as evident from return on capital employed of 2.2% in FY2018. The ratings also take into account DIPL's stretched receivables on account of delay in payments from some of the government entities, which lead to high working capital intensity of operations in FY2018. The rating also take into consideration the geographical concentration risks faced by the company as its operations are confined to the state of Goa.

### Outlook: Stable

ICRA believes DIPL will continue to benefit from the extensive experience of its promoters in the newspaper publishing business and financial support extended by its parent company. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' in case of any impairment of investments in overseas subsidiary or a further pile-up of receivables in its domestic operations.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Status of DIPL as a part of the Dempo Group** - DIPL is a part of the Dempo Group, which has interests across mining, ship building, media, food and beverage, travel and sports. The parent company, VSDHPL has provided support in the form of equity as well as debt.

**Comfortable capital structure and coverage indicators at standalone level** - The gearing of the company declined from 0.7 times in as on March 31, 2017 to 0.6 times as on March 31, 2018 on the back of repayment of term loans and unsecured loans. Also, the coverage metrics improved with interest coverage ratio increasing to 6.2 times in FY2018 from 3.5 times in FY2017. However, the gearing at consolidated level remained high at 2.2 times in FY2018 and 2.6 times in FY2017.

**Additional income through investment in mutual funds** – DIPL’s investment in mutual funds and bonds, which stood at Rs. 26.4 crore in FY2016, increased to Rs. 82.1 crore in FY2017, on the back of fresh infusion of fund from the parent company, VSDHPL, and stood at Rs. 76 crore in FY2018 . These investments provide additional source of income to DIPL and also act as a security for the debt contracted by the overseas subsidiary company, DGCPL.

**Long experience of the promoters in the newspaper publishing business** – Incorporated in 1963, long experience of the promoters has facilitated in establishing its English Daily, Navhind Times, as one of the leading newspapers with a market share of 35% in the state of Goa.

### Credit challenges

**Weak financial profile of Singapore-based subsidiary company** – As on March 31, 2018, DIPL has invested Rs. 104.6 crore in its wholly-owned subsidiary, DGCPL, which acts as a holding company for its overseas investments. DGCPL also generates revenue from leasing of its oil tanker and its subsidiary, Vena.tv, a software company in mobile advertising technology. Notwithstanding increased revenues from Vena.tv, DGCPL continues to remain loss making with net loss of US\$ 0.4 million in FY2018 as against a net loss of US\$ 1.9 million in FY2017. Besides, DGCPL has an outstanding loan of US\$ 4.1 million as on March 31, 2018, for which DIPL has extended corporate guarantee. Consequently, any deterioration in the operating performance of DGCPL would adversely impact DIPL’s consolidated risk profile.

**High working capital intensity of operations on account of elongated receivables** - DIPL extends credit period of around one month to advertisers. However, the receivables have remained high due to delayed payment, particularly from the government owned entities. This has resulted in an increase in working capital intensity as the net working capital-to-operating income rose to 38.3% in as on March 31, 2018 from 25.4% as on March 31, 2017.

**Reduced profitability and weak business return indicators** –DIPL has made significant investments in its subsidiary, DGCLPL, and in mutual funds. However, its investments are yet to give commensurate returns resulting in weak business return indicators as evident from RoCE of 2.4% in FY2018 (2.2% in FY2017). ICRA also notes that the increase in employee cost following pay restructuring resulted in decline in operating margin from 21.8% in FY2017 to 12.9% in FY2018, and further impacted the return indicators of its core business.

**Small scale of operations due to geographical concentration in Goa** – DIPL publishes two newspapers, Navhind Times and Navprabha, together having a daily circulation of ~60,000 currently. The capacity utilization of its printing press has historically remained low in the range of 20% to 22%, and is unlikely to increase significantly in the medium term as the both the nespapers are largely confined to the state of Goa. Hence, the company has witnessed flat revenue growth in the last five years. The operating income stood at Rs. 26.5 crore in FY2018 as against Rs. 24.6 crore in FY2013.

**Analytical approach:** For arriving at the ratings, ICRA has taken a consolidated view of DIPL and its overseas subsidiary DGCPL and also applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology For Entities in the Print Media Industry](#)

## About the company:

Dempo Industries Private Limited (DIPL), a part of Dempo Group of companies, was incorporated in 1963. DIPL is in the business of printing and publishing of newspapers in the state of Goa and also has windmills in the state of Karnataka. DIPL publishes two newspapers: Navhind Times and Navprabha. The company has a single printing press in Panaji, Goa and the circulation of both the newspapers is largely confined to Goa. In 2008, DIPL set up a 0.8 MW windmill at Chitradurg, Karnataka. The power generated is sold to state utility firms through power purchase agreement. In 2016, DIPL acquired a local television news channel, Goa365, that was previously owned through a partnership. Dempo Global Corporation Pte. Limited (DGCPL) is a wholly owned subsidiary of DIPL. The company is incorporated in Singapore and it is a holding company for various overseas interests of DIPL.

V S Dempo Holdings Private Limited (VSDHPL) is the parent company of DIPL. It is also the holding company of Dempo Shipbuilding & Engineering Pvt. Ltd ([ICRA]B (Stable)/A4) and Modest Infrastructure Pvt. Ltd. ([ICRA]C+ (Stable)/A4).

In FY2018, on a provisional basis, DIPL reported a net profit of Rs. 3.7 crore on an operating income of Rs. 26.5 crore, as compared to a net profit of Rs. 2.4 crore on an operating income of Rs. 28.6 crore in the previous year at standalone level.

## Key financial indicators\*

|                              | FY2017A | FY2018P |
|------------------------------|---------|---------|
| Operating Income (Rs. crore) | 28.6    | 26.5    |
| PAT (Rs. crore)              | 2.4     | 3.7     |
| OPBDIT/OI (%)                | 21.8%   | 12.9%   |
| RoCE (%)                     | 2.4%    | 2.2%    |
| Total Debt/TNW (times)       | 0.6     | 0.6     |
| Total Debt/OPBDIT (times)    | 18.8    | 31.6    |
| Interest coverage (times)    | 3.5     | 6.1     |

\*Standalone; A – Audited; P – Provisional; Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; RoCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work -in Progress); NWC: Net Working-Capital; Source: DIPL

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

|            |             | Current Rating (FY2019)  |                                |                         | Chronology of Rating History for the Past 3 Years |                                  |                                  |  |
|------------|-------------|--------------------------|--------------------------------|-------------------------|---|----------------------------------|----------------------------------|--|
| Instrument | Type        | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating July 2018 | Date & Rating in FY2018 May 2017                  | Date & Rating in FY2016 Mar 2016 | Date & Rating in FY2015 Feb 2015 |  |
| 1          | Term Loan 1 | 3.50                     | 3.50                           | [ICRA]BB+ (Stable)      | [ICRA]BB+ (Stable)                                | [ICRA]BB+ (Stable)               | [ICRA]BB+ (Stable)               |  |
| 2          | Unallocated | 2.00                     | -                              | -                       | -   | -                                | -                                |  |

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|-----------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| NA      | Term Loan       | Jun-2014                    | 11.50%      | Sep- 2019     | 3.50                     | [ICRA]BB+ (Stable)         |

Source: DIPL

## ANALYST CONTACTS

**Jayanta Roy**

+91 33 7150 1100  
[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

**Anshuman Bharati**

+91 22 6169 3350  
[anshuman.bharati@icraindia.com](mailto:anshuman.bharati@icraindia.com)

**Adharsh Mani V S**

+91 22 6169 3358  
[adharsh.s@icraindia.com](mailto:adharsh.s@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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