

May 09, 2023

## Sakal Media Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash credit	84.0	84.0	[ICRA]A- (Stable) reaffirmed
Fund based – Term loan	28.8	-	-
Non-fund based	9.0	9.0	[ICRA]A2+ reaffirmed
Unallocated limits	48.2	27.0	[ICRA]A- (Stable)/[ICRA]A2+ reaffirmed
<b>Total</b>	<b>170.00</b>	<b>120.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

ICRA has taken a consolidated view of Sakal Media Private Limited (SMPL) and Sakal Papers Private Limited (SPPL), which is an asset-holding entity, while arriving at the ratings (together referred to as SMPL or the company). SMPL was formed by demerging the print media business of SPPL, effective from March 31, 2017. After the demerger, the land and buildings are held by SPPL, and SMPL utilises these fixed assets on a lease basis. Further, the two companies have a common management and derive significant operational and financial synergies. Moreover, SPPL has provided collateral and given guarantees for SMPL's debt.

The ratings reaffirmation continues to reflect the strong brand recognition of SMPL's flagship publication, *Sakal*, a leading Marathi newspaper, and its leadership position in the Pune market. The company benefits from its experienced management and editorial teams. The company also has a presence in broadcasting (Saam TV channel – Marathi news channel) and events business, though the contribution of these segments to the revenue has been low. ICRA's ratings also factor in SMPL's comfortable financial risk profile, characterised by marginal external debt and comfortable debt coverage indicators.

ICRA notes that SMPL's operating performance had deteriorated over the past three years owing to a weak macroeconomic environment affecting advertisement revenues, with the pandemic exacerbating the impact. While the company's revenue recovered in FY2023, with a 40% YoY growth to Rs. 485 crore (provisional figures), its scale of operations is yet to revert to pre-pandemic levels. The company's print business saw an increase in circulation revenues, led by an increase in volumes per day and a hike in cover price. The advertisement volumes also recovered, even as yields continued to lag vis-à-vis pre-pandemic levels. ICRA notes that the company's profitability margins were further impacted in FY2023 (profit before tax margin of 7.1% vs 8.7% in FY2022) due to increase in newsprint prices and exceptional loss, on account of merger of Agrowon Agrotech Industries Pvt Ltd with SMPL. While a run-up to general elections in April-May 2024 could provide a boost to advertisement revenues, ICRA expects the company's profit margins to remain constrained (around 9-10%) in FY2024, considering the elevated newsprint prices.

The ratings remain constrained by SMPL's concentration on a single publication with '*Sakal*' deriving around 85% of the circulation revenues and its high dependence on the Pune market. SMPL's geographical concentration makes it vulnerable to the risks related to the micro-market. Moreover, the company's profitability remains susceptible to any adverse movements in global newsprint prices and foreign exchange fluctuations. ICRA also notes that the company's advertisement revenues remain susceptible to various exogenous factors such as socio-political events and economic cycles. Further, SMPL's operations have remained working capital intensive in nature, owing to elevated receivables and high inventory holding. Thus, timely recoverability from debtors remains a key monitorable. The ratings also remain constrained by substantial investments made by the Group in real estate and other Group companies, the quantum and recoverability of which remain a key monitorable.

Any major write-off in non-core investments could have a bearing on the profitability and capital structure and will be a credit negative.

The Stable outlook on the long-term rating reflects ICRA's opinion that SMPL will keep benefiting from its established market position and healthy brand recognition among the leading Marathi dailies.

## Key rating drivers and their description

### Credit strengths

**Established market position in Maharashtra** - *Sakal*, the flagship publication of SMPL, enjoys a strong market position and brand recall in Maharashtra and remains the most widely read Marathi daily as per the Audit Bureau of Circulation (July-December 2022 data). The strong brand recall of its publications is attributable to their established presence (since 1932) and experienced management.

**Diversified presence across media platforms** - SMPL has presence across multiple media platforms – Marathi and English print, television (through Saam TV), digital news (E-Sakal) and events. This provides operational synergies through leveraging the Sakal brand with access to advanced technology and infrastructure, along with common marketing teams.

**Healthy financial risk profile** – SMPL's capital structure remains healthy, despite pressure on operating performance over the past three years, with lower earnings and profit margins due to the high newsprint prices. This is reflected in a strong equity base and limited external debt, resulting in gearing of 0.1 times and interest cover of 5.5 times as on March 31, 2023 (provisional financials). With all external term debts repaid/pre-paid as of March 31, 2023, and steady operations, ICRA expects its credit profile to remain comfortable going forward.

### Credit challenges

**High geographical concentration; large dependence on single publication** - SMPL has a sizeable concentration in the Pune region. It also derives significant advertisement revenue from the Pune market, making it vulnerable to the risks associated with the micro-market. The company publishes three to four dailies in Marathi and English with distribution mainly in Maharashtra and Goa. However, *Sakal*, the Marathi daily, generates about 85% of the total revenue. Further, dependence on a single publication limits its bargaining power.

**Susceptibility of operating profit margins to global newsprint prices and foreign exchange fluctuations; large part of net worth deployed in non-core assets drags return indicators** - The Group has invested ~Rs. 230 crore in real estate and other non-current investments (constituting around 50% of the consolidated net worth). The investments are done through optional convertible debentures, partnership stake and inter-corporate deposits. The quantum and recoverability of such investments remain key rating monitorables. Moreover, the company's profitability remains susceptible to any adverse movements in global newsprint prices and foreign exchange fluctuations. ICRA also notes that the company's advertisement revenues remain susceptible to various exogenous factors such as socio-political events and economic cycles.

**Competition from digital media, structural shift towards alternative media platforms** - The growing popularity of digital platforms, in line with changing media consumption habits, is likely to keep impacting the growth prospects of the company's Marathi daily – *Sakal* – the primary revenue driver. Although the company has digital presence - through E-Sakal, it is being offered free of charge at present and advertisement revenue contribution from the same is minimal. Its ability to scale-up alternate revenue streams – digital news, broadcasting, event business – is a key rating sensitivity for SMPL.

## Liquidity position: Adequate

SMPL's liquidity is likely to remain adequate, given the expectation of steady cash accruals, supported by free cash and liquid investments of ~Rs. 12 crore as on March 31, 2023. Its liquidity is further supported by the sanctioned working capital limits of Rs. 84 crore, which had remained largely unutilised over the trailing 12 months, as on Mar 31, 2023. In absence of any major capex/investment plans, the company's liquidity position is expected to remain at a comfortable level.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the company's ratings, in case of any significant increase in its scale of operations while maintaining its profitability indicators along with increased business diversification. Further, recoupment of investments in non-core assets would also be a rating positive.

**Negative factors** – Pressure on the company's ratings could arise, in case of lower-than-expected scale or profitability, impacting the cash accruals. Additionally, any major debt-funded capital expenditure or investment/write-offs in investments, which weakens its credit metrics could also put pressure on SMPL's ratings. A specific credit metric that could be a trigger is TOL/Adjusted TNW (viz. TNW adjusted for non-core investments) more than 1.5 times, on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Media - Print</a> <a href="#">Rating Approach - Consolidation</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of Sakal Media Private Limited and Sakal Papers Private Limited.

## About the company

Sakal Media Private Limited (SMPL) is a Maharashtra-based publishing house that publishes newspapers in Marathi and English. Its flagship publication, *Sakal*, is a daily Marathi newspaper with a strong presence across the state. Other publications of SMPL include *Sakal Times* (English newspaper), *Gomantak* and *Gomantak Times* (Marathi and English newspapers, respectively, published in Goa), *Agrowon* (Marathi newspaper for farmers), *Saptahik Sakal* (Marathi weekly magazine) and *Tanishka* (Marathi women's magazine). SMPL also operates a broadcasting media business under *Saam TV*, a Marathi news channel. Apart from the media business, SMPL organises events and exhibitions at different cities in Maharashtra, with *Sakal Utsav* organised in Pune, being a popular shopping event. In FY2022, the company had filed for a merger of an associate concern, Agrowon Agrotech Industries Pvt Ltd, which was originally involved in franchise mart business, however, the said entity has ceased to be a going concern. The transaction was completed in FY2023.

SMPL, incorporated in March 2017, is an entity demerged from SPPL. SPPL was initially involved in printing, newspaper publishing and broadcasting businesses. Following the demerger, the business activities of SPPL were transferred to SMPL, while SPPL remained the asset-holding company.

### Key financial indicators (audited)

SMPL + SPPL - Consolidated	FY2021	FY2022	FY2023 Prov
Operating income	238.3	345.7	485.2
PAT	23.1	25.6	34.5
OPBDIT/OI	18.2%	12.1%	10.3%
PAT/OI	9.7%	7.4%	7.1%
Total outside liabilities/Tangible net worth (times)	0.5	0.5	-
Total debt/OPBDIT (times)	2.0	1.1	1.3
Interest coverage (times)	3.7	7.6	5.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore;

Note: Line by line consolidation done by ICRA; the above financial numbers and ratios reflect the analytical adjustments made by ICRA and may not be comparable with the reported financials

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

### Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				May 09, 2023	May 06, 2022	-	Feb 22, 2021
1 Cash Credit	Long-term	84.0	--	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)
2 Term Loan	Long-term	-	--	-	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)
3 Non-Fund Based	Short-term	9.0	--	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2+
4 Unallocated Limits	Long-term/	27.0	--	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-	[ICRA]A- (Stable)/ [ICRA]A2+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund based Cash Credit	Simple
Short-term Non-fund based	Very Simple
Long-term/Short-term Unallocated Limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	84.0	[ICRA]A- (Stable)
NA	Non-Fund Based	NA	NA	NA	9.0	[ICRA]A2+
NA	Unallocated Limits	NA	NA	NA	27.0	[ICRA]A- (Stable)/[ICRA]A2+

Source: Sakal Media Private Limited

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company Name	SMPL Ownership	Consolidation Approach
Sakal Paper Private Limited	-	Full Consolidation

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