January 29, 2024

Ushodaya Enterprises Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loans	79.63	48.38	[ICRA]AA(Stable); reaffirmed
Short-term – Fund-based limits	135.00	135.00	[ICRA]A1+; reaffirmed
Short-term – Non-fund based limits	10.00	10.00	[ICRA]A1+; reaffirmed
Total	**224.63**	**193.38**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings for Ushodaya Enterprises Private Limited (UEPL) factors in its strong financial risk profile, characterised by robust debt protection metrics and strong liquidity position. The company is projected to have low leverage with Total Debt/EBITDA at 0.2-0.25 times as on March 31, 2024, and robust coverage metrics with interest coverage and debt service coverage ratio (DSCR) at 18-20 times and 5-5.5 times, respectively, in FY2024. UEPL's operating income (OI) grew by 17% in FY2023 to Rs. 1,450 crore, backed by improvement in advertisement revenues from the print division. Despite the likely moderation in revenues to Rs. 1,350-1,400 crore in FY2024 due to lower advertisement revenues from the Government and decline in operating profitability to 14-16% (PY: 19.5%) owing to high-cost newsprint inventory, the debt protection metrics are expected to remain robust in the medium term. In addition, UEPL has sizeable, unencumbered cash and liquid investments of Rs. 951.9 crore as on March 31, 2023, against a total debt of Rs. 138.7 crore (includes lease liability of Rs. 34.8 crore). The ratings note the established and strong market position in the Telugu newspaper publishing business in Andhra Pradesh (AP) and Telangana, its healthy presence in food products under Priya foods brand in AP and Telangana, along with strong financial flexibility enjoyed by UEPL as a part of Ramoji Group and its majority stake in Eenadu Television Private Limited (ETPL). UEPL's newspaper, Eenadu, is the leading Telugu vernacular daily in both the states.

The ratings, however, remain constrained by volatility in earnings as reflected in operating margins ranging within 3.3% - 23.9% during FY2018 – FY2023 and core RoCE[1] being affected due to losses from ETV Bharat division. It faces high volatility in newsprint cost and advertisement revenues owing to any unexpected economic downturn. The newspaper's publication remains exposed to concentration risks as the operations are limited to AP and Telangana. The newspaper circulation is expected to remain below the pre-Covid level in the medium term on account of increasing penetration of the digital medium and changing media consumption habits. With increase in digital penetration, the print media is witnessing a structural challenge. However, the extent of impact remains to be seen. The ratings consider the high operating losses from ETV Bharat business division, a digital platform for news and infotainment in nine languages, which was launched in March 2019. UEPL made significant investments in this division and has reported cumulative operating losses of Rs. 260-270 crore over the last four years. It is likely to achieve EBITDA breakeven over the medium term. ICRA would continue to monitor the turnaround in operations and profitability of loss-making business divisions.

The Stable outlook reflects ICRA's belief that the company would continue to benefit from Eenadu's leadership position in print division, robust debt protection metrics, and strong liquidity position.

[1] Core RoCE = (PBIT – non operating income/expense – extraordinary gain)/Average of current year and last year (TNW + Total debt – capital work in progress – capital advances – investments and loans and advances to group companies – cash and liquid investments)

Key rating drivers and their description

Credit strengths

Strong market position of Eenadu newspaper AP and Telangana – UEPL, through its Telugu newspaper, Eenadu, leads the print medium in AP and Telangana. In addition, with presence in food products across pickles, spices, instant mixes, commodities trading, edible oil trading, among others, Priya Foods has healthy presence in the food products industry in AP and Telangana. It, however, continues to face competition from the unorganised segment in food division.

Strong financial profile and liquidity position – UEPL's financial profile is strong, characterised by robust debt protection metrics and strong liquidity position. The company is projected to have low leverage with Total Debt/EBITDA at 0.2-0.25 times as on March 31, 2024, and robust coverage metrics with interest coverage and debt service coverage ratio (DSCR) at 18-20 times and 5-5.5 times, respectively, in FY2024. Its OI grew by 17% in FY2023 to Rs. 1,450 crore, backed by improvement in advertisement revenues from the print division. Despite the expected moderation in revenues to Rs. 1,350-1,400 crore in FY2024 due to lower advertisement revenues from the Government and decline in operating profitability to 14-16% (PY: 19.5%) owing to high-cost newsprint inventory, the debt protection metrics are likely to remain robust in the medium term. In addition, UEPL has sizeable, unencumbered cash and liquid investments of Rs. 951.9 crore as on March 31, 2023, against a total debt of Rs. 138.7 crore (includes lease liability of Rs. 34.8 crore).

Strong financial flexibility by virtue of being part of the Ramoji Group – The Ramoji Group, of which UEPL is a part, has diversified its business interests, with huge asset holdings in various companies such as the 1,700-acre land holding in Ramoji Film City. It enjoys strong financial flexibility as a part of the Group and has majority stake in ETPL, with a professional and experienced management team.

Credit challenges

Volatility in earnings to fluctuations in newsprint prices – The profitability of the print business remains susceptible to newsprint prices and advertisement revenues. The main cost element for a newspaper company is the newsprint cost, which has been volatile in the past, and it may not always be possible to pass on the increase to the customers. This along with volatile advertisement revenues due to economic downturn and losses from ETV Bharat division resulted in volatility in earnings as reflected in with operating margins ranging within 3.3% - 21.7% during FY2019 – FY2024 and the core RoCE being impacted. The newspaper's publication remains exposed to concentration risks as the operations are limited to AP and Telangana.

Continued operating losses in ETV Bharat impacting overall profits – ETV Bharat, a digital platform for news and infotainment in 9 languages, was launched in March 2019. The company made significant investments in this division and has reported cumulative operating losses of Rs. 270-280 crore over the last four years. It is expected to achieve EBITDA breakeven over the medium term. ICRA would continue to monitor the turnaround in operations and profitability of the loss-making business divisions.

Liquidity position: Strong

UEPL's liquidity position is strong with unencumbered cash and liquid investments of Rs. 951.9 crore as on March 31, 2023. Further, the company has fund-based limits of Rs. 135 crore with low average utilisation of 13% in the last 12 months ending August 2023. It has debt repayment obligations of Rs. 25 crore in FY2024 and FY2025, which can be comfortably serviced through its estimated cash flow from operations. It has capex plans of around Rs. 140 crore for the food division to build a new plant in Hyderabad during FY2024-FY2025, which will be entirely funded through its internal accruals. The existing plant, under the food division in AP, will be closed once the new plant becomes operational.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company witnesses a significant increase in revenues and earnings, along with its ability to maintain the leadership position in the print division and improvement in market share in AP and Telangana. Specific credit metrics that could result in a rating upgrade include core RoCE of more than 25% on a sustained basis.

Negative factors – Negative pressure on UEPL's ratings may arise if there is a significant decline in revenues, or operating margins, or a significant debt-funded capex resulting in weakening of the debt coverage metrics on a sustained basis. Any substantial depletion in UEPL's liquidity will be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Print Media
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1974, UEPL has five divisions—Eenadu newspaper publication, Priya Foods (sale of pickles, spices, instant mixes and ready-to-eat products, commodities trading, branded edible oil trading, etc), renewable energy (wind and solar power plants), Eenadu digital (ETV Bharat, a digital platform for news and infotainment in nine languages) and radio (four radio FM channels in Vijayawada, Rajahmundry, Tirupati and Warangal). UEPL holds majority stake of 50.94% in ETPL as on March 31, 2022.

At present, the Ramoji Group holds 97.56% stake in UEPL, while the remaining 2.44% stake is held by the Reliance Group. The Ramoji Group consists of UEPL, Ushakiron Movies Limited (Ramoji Film City, 1,700-acre land holding), Dolphin Group of Hotels, Kalanjali (Indian arts, crafts and textiles), Margadarsi Chit Fund Limited (financial services) and Mayuri Film Distributors (film distribution).

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	1243.7	1449.5
PAT	162.3	204.7
OPBDIT/OI	21.7%	19.5%
PAT/OI	13.0%	14.1%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.5	0.5
Interest coverage (times)	19.5	23.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					January 29, 2024	Nov 30, 2022	Sep 30, 2021	July 16, 2020
1	**Term loan**	Long term	48.38	48.38	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
2	**Fund-based limits**	Short term	135.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	**Non-fund based limits**	Short term	10.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Term loan	Simple
Short-term – Fund-based limits	Simple
Short-term – Non-fund based limits	Very Simple

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	**Term loan**	Feb-2019	NA	Feb-2026	48.38	[ICRA]AA(Stable)
NA	**Fund-based limit**	NA	NA	NA	135.00	[ICRA]A1+
NA	**Non-fund based limit**	NA	NA	NA	10.00	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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