

May 06, 2022

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	96.0	84.0	[ICRA]A- (Stable) reaffirmed
Fund Based – Term Loan	28.8	28.8	[ICRA]A- (Stable) reaffirmed
Non-fund Based	9.0	9.0	[ICRA]A2+ reaffirmed
Unallocated Limits	36.2	48.2	[ICRA]A- (Stable)/[ICRA]A2+ reaffirmed
Total	170.0	170.0	

*Instrument details are provided in Annexure-1

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. SMPL was formed by demerging the print media business of SPPL, effective from March 31, 2017. After the demerger, the land and building were held by SPPL. SMPL utilises SPPL's 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 reflects 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 ratings also factor in the revival of the company's revenues in FY2022 with recovery in the circulation volumes and improvement in the performance of the broadcasting segment, post-conversion of the *Saam TV* channel from a general entertainment channel to a Marathi news channel in 2018. ICRA also notes that the company's overall profitability is supported by the cost-optimisation measures taken by the company in FY2021, apart from the moderation in newsprint prices which has led to an improvement in the operating margins by 790 bps in FY2021. Nevertheless, the upward movement in the newsprint prices will exert some pressure on the company's margins, going forward. The ratings also consider SMPL's comfortable financial risk profile, characterised by low external debt levels and comfortable debt coverage indicators.

The ratings, however, 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 (forex) 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 remains a key monitorable.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that SMPL will benefit 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 with a leading brand name - *Sakal*, the flagship publication of SMPL, enjoys a strong market position and brand recall in Maharashtra and remains the second-most widely read Marathi daily. The strong brand recall of its publications is attributable to their established presence (since 1932) and experienced management.

Healthy financial risk profile with majority of debt comprising unsecured loans from related party - SMPL's debt profile primarily comprises unsecured loans from related parties, with limited external debt of ~Rs. 12.0 crore as on March 31, 2022. At a consolidated level, its capital structure and debt protection metrics was healthy with a gearing estimated at 0.2 times and interest coverage of around 5 times in FY2022. With the overall debt levels expected to reduce, going forward, ICRA expects its credit profile to further improve, though the trajectory of debt reduction will remain dependent upon the quantum of withdrawals or investments in other promoter group entities.

Revamp in broadcasting segment and cost-optimisation measures supported profitability - SMPL had revamped *Saam TV* to a news channel from a general entertainment channel in FY2018 and brought in experienced professionals on board. This has resulted in an improved performance of the broadcasting division. Moreover, the company has undertaken significant cost-optimisation measures including reduced pagination, reduction in employees and temporary discontinuation of *Sakal Times* (English Daily), which has led to an improvement in the operating margins by 790 bps in FY2021. Nevertheless, the upward movement in newsprint prices will exert some pressure on the company's margins, going forward.

Credit challenges

Lower circulation impacted revenues in FY2021; though the same recovered partially in FY2022 - The Group's revenue moderated by 53% to Rs. 238 crore in FY2021 (compared with Rs. 511 crore in FY2020) with lockdown restrictions, along with curtailment of advertisement budgets by public and private players to conserve liquidity. With normalisation of the pandemic situation, it has improved by 40-45% in FY2022, though it continues to remain below the pre-Covid level and will take around two to three years for industry participants to reach the pre-Covid levels.

High concentration on Pune and dependence on single publication - SMPL has a sizeable concentration in the Pune region. The company also derives significant advertisement revenue from the Pune market, making it vulnerable to the risks associated with the micro-market. It publishes four to five 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.

Advertisement revenues susceptible to socio-political events, economic downturns and increasing competition - The business model for newspaper publishers is susceptible to advertisers' preference based on the consumption cycles of readers. These, in turn, are impacted by a multitude of socio-economic and political factors/events. In the past, the Pune real-estate market and the auto sector remained the major drivers of SMPL's advertising revenues and thus, any slowdown in these sectors can adversely affect the company's advertising revenue.

Large part of net worth deployed in non-core assets - The Group has invested around Rs. 260 crore in real estate and other non-current investments (constituting around 60% of the net worth) through SPPL. The investments are done through optional convertible debentures, partnership stake and inter-corporate deposits. The quantum and recoverability of such investments remains key rating monitorables. Further, in FY2022, the company has made investments of Rs. 32 crore in an associate concern, Agrowon Agrotech Industries Pvt Ltd (AAIPL), which is expected to be merged with SMPL. ICRA notes that AAIPL has ceased to be a going concern and consequently, significant diminution in the value of this investment is expected.

Liquidity position: Adequate

SMPL's liquidity is adequate, supported by adequate expected cash accruals against debt repayments along with cash and liquid investments of Rs. 8.7 crore as on March 31, 2022. Its liquidity is further supported by the sanctioned working capital limits of Rs. 84 crore, which remained largely unutilised over the past 12 months.

Rating sensitivities

Positive factors - ICRA could upgrade the company's ratings in case of a significant increase in scale while maintaining its profitability indicators along with increased business diversification. A specific credit metric could be RoCE above 15% on a sustained basis.

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 could be TD/OPBITDA more than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Media - Print Rating Approach - Consolidation
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), incorporated in March 2017, is an entity demerged from SPPL. It 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.

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 has filed 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.

Key financial indicators (audited)

Standalone	FY2020	FY2021
Operating Income (Rs. crore)	510.9	238.3
PAT (Rs. crore)	9.4	9.7
OPBDIT/OI (%)	6.9%	10.8%
PAT/OI (%)	1.8%	4.1%
Total Outside Liabilities/Tangible Net Worth (times)	5.9	4.4
Total Debt/OPBDIT (times)	3.2	4.2
Interest Coverage (times)	2.4	2.0

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 (FY2023)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar-22 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020			
				May 6, 2022			Feb 22, 2021	Dec 30, 2019	May 29, 2019	Apr 15, 2019
1 Cash Credit	Long-term	84.0	-	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	Provisional [ICRA]A-(Stable)
2 Term Loan	Long-term	28.8	10.6	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	Provisional [ICRA]A-(Stable)
3 Non-Fund Based	Short-term	9.0	-	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	Provisional [ICRA]A2+
4 Unallocated Limits	Long-term/Short-term	48.2	-	[ICRA]A-(Stable)/[ICRA]A2+	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	-	-	-

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund based Cash Credit	Simple
Long-term Fund based Term Loan	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: 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	Cash Credit	NA	NA	NA	84.0	[ICRA]A- (Stable)
NA	Term Loan-I	Mar-2017	9.75%	Mar-2022	18.3	[ICRA]A- (Stable)
NA	Term Loan-II	Jul-2017	10.0%	Jul-2024	10.5	[ICRA]A- (Stable)
NA	Non-Fund Based	NA	NA	NA	9.0	[ICRA]A2+
NA	Unallocated Limits	NA	NA	NA	48.2	[ICRA]A- (Stable)/[ICRA]A2+

Source: Sakal Media Private Limited

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

Annexure-2: List of entities considered for consolidated analysis

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

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