

Ushodaya Enterprises Private Limited

Instrument	Amount	Rating Action
Long-term loans	Rs. 268.62 (enhanced from Rs. 208.62 crore)	[ICRA]AA (stable) assigned/ outstanding
Short-term, fund-based facilities	Rs. 110.00 crore	[ICRA]AA (stable) outstanding
Short-term, non-fund based facilities	Rs. 10.00 crore	[ICRA]A1+ outstanding
Long-term/ short-term, unallocated	Rs. 0.48 crore	[ICRA]AA (stable)/ [ICRA]A1+ assigned

ICRA has assigned an [ICRA]AA (pronounced ICRA double A) rating to the Rs. 60.0 crore¹, long-term loans of Ushodaya Enterprises Private Limited (UEPL)². ICRA has also assigned an [ICRA]AA/ [ICRA]A1+ (pronounced ICRA A one plus) rating to the Rs. 0.48 crore, long-term/ short-term, unallocated bank facilities of UEPL. The outlook on the long-term rating is stable. ICRA also has an [ICRA]AA rating with a stable outlook outstanding on the Rs. 208.62 crore, long-term loans and an [ICRA]A1+ rating outstanding on the Rs. 110.00 crore, short-term, fund-based bank facilities and the Rs. 10.00 crore, short-term, non-fund based bank facilities of UEPL.

The ratings take into account the healthy financial profile of the company characterised by robust debt servicing indicators and strong liquidity position. The company enjoys significant cash and bank balances because of the consistent improvement in cash flow generation, despite the considerable capital expenditure being undertaken over the past few years. The ratings continue to reflect Eenadu's leadership position in the Telugu newspaper industry, facilitating a strong 14.6% yoy growth in advertisement revenues in FY2016. This was also partly supported by increased colour printing on the back of ongoing modernisation initiatives. Despite a decline in the number of copies circulated in FY2016, due to the high base of FY2015 that had witnessed a spurt due to elections during the year, Eenadu reported a strong 11.2% improvement in operating margin to 33.3% in FY2016. This was owing to the increase in advertisement revenues, overall decline in newsprint cost on the back of low cost inventory available with the company, and the improved yield. With newsprint prices expected to remain benign in the current year, and the ongoing modernisation and expansion project aimed at converting the balance 50% of the pages in district supplements at the remaining seven centres to colour, ICRA expects Eenadu to sustain its operating margin improvement. This is a key rating sensitivity.

The ratings also take into account the sustained improvement in the performance of the Priya Foods division, which continues to enjoy a strong market position in Andhra Pradesh. ICRA notes that the division has reported de-growth in revenues over the last two years in an effort to reduce low margin palm oil sales, improving the operating margin for the division.

The ratings are, however, constrained by the lack of geographic diversity (UEPL is present only in two states); the vulnerability of advertisement revenues to cyclical downturns; and the susceptibility of the newspaper business to volatility in newsprint costs. The ratings also factor in the structural challenges faced by newspaper publications, where advertisers have been moving to online channels and new media formats from newspapers.

ICRA also takes note of the company's increased investments in the renewable energy space-setting up wind power and solar power plants. While a part of the power generated is used to meet in-house requirements, the rest is sold to the State Grids or other companies through power purchase agreements (PPAs). The company is expected to make further investments in the sector in the current year. Despite the expected increase in debt to fund the capital expenditure towards the second phase of the modernisation/expansion project for Eenadu and the setting up of additional solar and wind power plants in the current year, the robust annual cash accruals are expected to result in an improvement in UEPL's credit profile, going forward.

ICRA also takes note of the various contingent liabilities in respect of direct taxes, which are under appeal. While the company has paid majority of them under protest, it also has sufficient cash and bank balance to

¹ 100 Lakh = 1 Crore = 10 Million

² For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA Rating Publications

meet the remaining liability if the appeals go against the company. ICRA will continue to monitor the developments in this regard.

Company Profile

Originally incorporated in 1974, Ushodaya Enterprises Private Limited (UEPL) was formed from the merger of Ushodaya Publications (started in 1974 with the launch of Eenadu – a Telugu daily) and Priya Foods (started in 1980 with the main objective of manufacturing and exporting pickles). In 1995, UEPL ventured into television broadcasting and launched ETV Telugu, and gradually a bouquet of 12 regional channels.

In January 2008, private equity (PE) investor, Equator Trading Enterprises Private Limited, infused Rs. 1,424 crore in the company for a 21% stake and paid Rs. 1,176 crore to promoters for acquiring an additional 18% stake by way of secondary purchase.

Vide an order dated January 27, 2011, UEPL demerged its television broadcasting business with effect from April 1, 2010. Currently, UEPL has three divisions-Eenadu Publications (newspaper), Priya Foods (pickles / spices / instant mixes, branded edible oil marketing and branded commodities marketing), and renewable energy (wind and solar power plants). Eenadu accounted for 64% of the company's total revenues in FY2016 (on a provisional basis), Priya Foods (35%), and renewable energy (1%).

At present, the Ramoji Group holds 97.56% stake in UEPL, with Equator holding 2.44%. The Ramoji Group, to which UEPL belongs, has diversified its business, with huge asset holdings in various companies such as the 1,700-acres land holding in Ramoji Film City. Currently, the group consists of UEPL, Ushakiron Movies Limited (Ramoji Film City), Dolphin Group of Hotels, Kalanjali (Indian arts, crafts and textiles), Margadarsi Chit Fund Limited (financial services) and Mayuri Film Distributors (film distribution).

Recent Results

For the twelve months ended March 31, 2016 (provisional), UEPL reported a profit before tax (PBT) of Rs. 326.4 crore on an operating income of Rs. 1,550.7 crore as against a profit after tax (PAT) of Rs. 113.0 crore on an operating income of Rs. 1,520.6 crore for the twelve months ended March 31, 2015.

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