

Sakal Media Private Limited

April 15, 2019

Summary of Rated Instrument:

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based – Term Loans	80.00	80.00	Provisional [ICRA]A- (Stable); Rating outstanding
Long Term - Fund Based – Cash Credit	100.00	100.00	Provisional [ICRA]A- (Stable); Rating outstanding
Short Term – Non-Fund Based	61.00	61.00	Provisional [ICRA]A2+; Rating Outstanding
Total	241.00	241.00	

ICRA has a rating outstanding of Provisional [ICRA]A- (pronounced as provisional ICRA A minus) for the Rs. 80.0- crore long-term fund-based term loan facilities and the Rs. 100.0- crore cash credit facilities of Sakal Media Private Limited ('SMPL' or the company). ICRA has also a rating outstanding of Provisional [ICRA]A2+ (pronounced as ICRA A two plus) for the Rs. 61.0- crore short term non-fund-based facilities of the company. The outlook on the long-term rating is Stable. The assigned ratings were provisional (as denoted by the prefix 'Provisional' before the rating symbol) and subject to fulfilment and review of all pending actions/documentation pertaining to the facility rated by ICRA.

Based on the latest developments and information provided by the company, ICRA takes note that not all the conditions indicated at the time of assigning the provisional rating are yet fulfilled. The provisional ratings would be converted into final upon execution of the necessary transaction documents being in line with ICRA's expectations.

Rationale

ICRA has taken a consolidated view of SMPL and Sakal Papers Private Limited (SPPL), which is an asset holding entity, while arriving at the ratings. SMPL was formed by demerging print media business of SPPL effective March 31, 2017. After the demerger, the printing assets are held by SPPL. SMPL utilises SPPL's fixed assets on lease basis for its print media business. Further both the companies have common management and derive significant business and financial synergies from each other.

The assigned ratings take into consideration strong brand recognition of SMPL's flagship publication Sakal – a leading Marathi newspaper and its leadership position in the Pune market. Sakal is also the second largest Marathi newspaper in Maharashtra as per Indian Readership Survey (IRS) 2017. SMPL has experienced management and editorial teams which ensure quality content. The same is reflected in steady circulation volumes amid intense competition in the print media industry. The ratings also take into consideration comfortable financial risk profile of SMPL, characterised by low gearing and healthy debt coverage indicators.

The ratings remain constrained by SMPL's concentration on single publication where Sakal contributes to over 90% of the circulation revenues over the years as well as high dependence on Pune market which derives 45% of circulation revenue. Geographical concentration of the company makes it vulnerable to the risks related to the micro market. Further, the revenue growth of the company and profitability remain susceptible to geo-political events on account of an advertising revenue driven business model. The same is reflected in subdued performance of SMPL over the last two years due to events like demonetisation, Real Estate Regulatory Authority (RERA) and Goods and Services Tax (GST) implementation. Additionally, SMPL's underperformance was further accentuated due to sizeable dependence of the advertising revenue on the Pune real estate market. Though the company managed to compensate the

underperformance by generating revenue from other sectors, which restricted the revenue decline, the ability of SMPL to diversify its readership base across publication as well as geography remains important from the credit perspective.

Susceptibility of SMPL's profitability to volatility in the newsprint prices as well as performance of the loss-making broadcasting division remain key concerns. The ratings are also constrained due to modest liquidity position of the company as evident from high utilisation of the working capital facilities, which can also be partially attributed to substantial investments made by the group in non-core assets like real estate and gold. Quantum of such investments in future will remain a key monitorable. ICRA also notes that the print media industry is characterised by declining readership base owing to increasing competition from the digital media space and long-term growth prospects of the industry remain muted.

The assigned ratings are provisional and would be converted into final upon fulfilment of following conditions -

- Execution and verification of documents pertaining to a strong, irrevocable and unconditional corporate guarantee given by SPPL to SMPL's all the debt facilities
- Transfer of all the debt facilities on the name of SMPL and execution of related documentation
- Receipt of FY2018 audited financials of SMPL as well as SPPL

Outlook: Stable

ICRA expects SMPL's revenue growth in the near term to remain modest, supported to an extent by an incremental push from the upcoming general and state elections in the calendar year 2019. Though the profitability from media business is expected to remain flat owing to prevailing competitive pressure, the expected better performance of the broadcasting division in near to medium term is likely to support the overall profitability of the company. SMPL's credit profile is also likely to remain adequate, considering it does not have any major capex plans over the medium term.

The outlook may be revised to 'Positive' if SMPL's business risk profile improves considerably through diversification of revenue streams and geography. Further, hedging of foreign currency exposure would be essential for protecting the profitability. Sustainable improvement in the liquidity position also remains critical for any positive change in the rating. The outlook may be revised to 'Negative' if any significant unanticipated investment further stretches the liquidity position. ICRA will continue to monitor investment in non-core assets and any investment more than Rs. 15 crore per annum (as per the guidance provided by the management) without any matching fund infusion would warrant a review of the ratings. Underutilisation of the capacity and resultant pressure on profitability and return indicators will also put downward pressure on the rating.

Key Rating Drivers

Credit strengths

Established market position with a leading brand position - 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 as per IRS 2017. At the national level, Sakal was in top 20 publications in terms of total readership whereas it held the top position in Pune with a circulation of ~6.3 lakh copies per day in FY2018. It is also ranked second in Kolhapur and Aurangabad editions with circulation of 2.1 lakh and 1.6 lakh copies per day respectively.

Healthy financial risk profile characterised by low gearing and strong coverage indicators - The capital structure remains comfortable with a gearing of 0.5 times as on March 31, 2018 owing to strong consolidated net worth position. The interest coverage indicators also remained comfortable at 4.6 times and TD/ OPBDITA remained at 2.2 times in FY2018. Going forward, with no anticipated debt funded capex coupled with expected steady accruals, the capitalisation and coverage indicators are expected to improve gradually over the medium term.

Experienced management and editorial teams ensure quality content - SMPL has experienced management and editorial teams which ensure good quality content. The same is reflected in a steady circulation volume amid intense competition in the Marathi print media industry. Further, deep presence in various micro markets along with localised content gives flexibility to the company to provide customised solutions to advertisers.

Revamp in broadcasting segment to support the profitability going forward - In FY2018, SMPL had revamped the Saam TV from general entertainment channel (GEC) to news channel and brought in experienced professionals on board. The same has resulted in improved revenue and profitability performance of the broadcasting division. Going forward, performance of the division is likely to improve due to various measures being taken. Further, the performance might be supported by upcoming general and state elections in the calendar year 2019.

Credit weaknesses

High concentration on Pune geography and dependence on single publication – SMPL has concentration on Pune region as reflected in sizeable share of the circulation revenue being derived from the Pune edition of Sakal. The same makes the company vulnerable to the risks associated with the micro market. The company has advertisement revenue driven business model as reflected in ~69% of revenue coming from advertisements over the years. In the past, Pune real estate segment remained one of the major contributors to the SMPL's advertising revenues and events like demonetisation, RERA and GST implementation impacted advertising revenue from real estate. The same is reflected in declining revenue of the company over the last three years. However, SMPL's focus on other segments has arrested the decline in overall revenue performance. Further, dependence on single publication limits the bargaining power of the company.

Vulnerability to newsprint paper prices – Newsprint cost is the single largest cost component for SMPL and comprises almost 80% of the total raw material consumption. Thus, newsprint price variations can significantly impact the company's margins given its limited flexibility to increase circulation price and advertisement rates. At present, around 35% of SMPL's newsprint requirement is met from domestic purchase whereas ~65% is met through the imports which further exposes the company to the risks associated with fluctuations in foreign exchange rates.

Liquidity Position:

SMPL's liquidity position is modest as reflected in high working capital utilisation with respect to its drawing power. Further, the Group has also made substantial investments in non-core assets like real estate and gold. The quantum of such investments and the impact on liquidity will remain key monitorable, going forward.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Print Media Industry
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on consolidated financial statements of the SMPL, Sakal Papers Private Limited (SPPL) and Foxberry Pte. Ltd.

About the company:

SMPL, incorporated in March 2017, is an entity de-merged from SPPL, which was initially engaged in the printing, publishing and broadcasting business of print media. Post de-merger, the business activities of SPPL were transferred to SMPL whereas SPPL remained the asset holding company.

SMPL is currently engaged in the printing, publishing and broadcasting business of print media. Its flagship publication is Sakal - a daily Marathi language newspaper with strong presence across Maharashtra. Other publications of SMPL include Sakal Times (an English newspaper), Gomantak and Gomantak Times (Marathi and English newspaper published in Goa region), Agrowon (a Marathi newspaper catering to farmers), Saptahik Sakal (a Marathi weekly magazine) and Tanishka (a Marathi women magazine). SMPL also operates broadcasting media business under the name Saam TV which is a Marathi news channel. Apart from the media business, SMPL also organizes events and exhibitions at different cities in Maharashtra, with Sakal Utsav organised in Pune being a popular shopping event

Key Financial Indicators – Consolidated (Audited)

	FY 2017	FY2018
Operating Income (Rs. crore)	547.1	558.5
PAT (Rs. crore)	31.2	36.7
OPBDIT/ OI (%)	13.7%	16.4%
RoCE (%)	14.0%	26.3%
Total Debt/ TNW (times)	0.6	0.5
Total Debt/ OPBDIT (times)	2.3	2.0
Interest coverage (times)	7.3	5.1
NWC/ OI (%)	16.2%	24.3%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	April 2019	December 2018	August 2018	FY2018
1 Fund Based – Term Loan	Long Term	80.0	58.7	Provisional [ICRA]A- (Stable)	Provisional [ICRA]A- (Stable)	Provisional [ICRA]A- (Stable)	-
2 Fund Based – Cash Credit	Long Term	100.0	-	Provisional [ICRA]A- (Stable)	Provisional [ICRA]A- (Stable)	Provisional [ICRA]A- (Stable)	-
3 Non Fund Based	Short Term	61.0	-	Provisional [ICRA]A2+	Provisional [ICRA]A2+	Provisional [ICRA]A2+	-

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

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 -I	01-07-2017	9.5%	30-06-2024	30.0	Provisional [ICRA]A- (Stable)
NA	Term Loan -II	20-03-2017	9.5%	01-03-2022	50.0	Provisional [ICRA]A- (Stable)
NA	Cash Credit	-	-	-	100.0	Provisional [ICRA]A- (Stable)
NA	Non fund based – LC/ BG/ LOC	-	-	-	61.0	Provisional [ICRA]A2+

Source: SMPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sakal Papers Private Limited	0.00%	Full Consolidation
Foxberry Pte. Ltd	100.00%	Full Consolidation

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