Rating Rationale for Ushodaya Enterprises Pvt. Ltd.'s (UEPL) proposed secured Non Convertible Debenture (NCD) Issue of INR 600 Crore or INR 6 billion

NCD Issue Rating: BWR AA-	Outlook : Stable

Brickwork Ratings (BWR) has assigned BWR AA- (Pronounced BWR Double A Minus) Rating for **Ushodaya Enterprises Pvt. Ltd.'s (UEPL)** proposed Rs.600 crore secured NCD Issue. 'BWR AA-' stands for an instrument that is considered to offer the High credit quality / safety in terms of timely servicing of principal and interest obligations. The rating factors, inter alia, UEPL's strong presence in Print and Television segment, management quality and the credit enhancement in form of charge over certain assets of the Company to secure the proposed NCD Issue.

Background

Ushodaya Enterprises Pvt Ltd (UEPL) incorporated in 1974, is a part of Eenadu- Margadarsi group promoted by Sri Ramoji Rao. Some of the prominent companies in the group are Ushodaya Enterprises Private Limited (UEPL), Margadarsi Chit Funds Limited and Dolphin Hotels Limited, Ushakiron Movies Ltd and Margadarsi Marketing Pvt Ltd. In UEPL Mr. Ramoji Rao with his family members holds 61% of the stake, balance 39% is held by M/s Equator Trading Enterprises Private Limited (21.77%) and Anu Trading Private Limited (17.22%). Eenadu – Margadarsi group is "The Ramoji Hindu Undivided Family" (Ramoji HUF) and consists of Mr. Ramoji Rao, aged about 73 years, who is the Karta of the Ramoji HUF while the other members of the HUF comprises of Smt. Rama Devi, wife of Mr. Ramoji Rao, his two sons Ch. Kiron and Ch. Suman, their wives and their children.

UEPL has five directors, Chairman Mr. Ramoji Rao, Ch Kiron – MD, Ch Suman – MD, Mr. A. Ramamohan Rao and Mr. I Venkat. Mr Ramamohan Rao was the MD of UEPL till 1989 and presently MD of Ushakiron Movies Ltd; he is not involved in day to day business of UEPL. Mr. I Venkat is an advertising and marketing professional with 35 years experience and maintains excellent rapport with top agencies.

UEPL has three divisions, Eenadu Publications (Newspaper) where Mr. Ramoji Rao himself is Chief Editor, ETV Network (Broadcasting) & Priya Foods (pickles/ spices/ready to eat/oil marketing and branded commodities marketing), contributing 40%, 36% and 24% respectively to total revenues (as on March 2009). UEPL publishes a regional language newspaper 'Eenadu' in the State of Andhra Pradesh. Eenadu has been in circulation for more than 35 years and is the largest read newspaper in Andhra Pradesh with a circulation of 1.3 mn -10th Largest Circulated Paper in India as per ABC for Jan-June 2009, 11th largest read in the country as per Indian Readership Survey (IRS, 2009). In Television business, UEPL broadcasts 12 TV channels - 6 general entertainment channels in regional languages, one News Channel in Telugu, one Urdu Channel and 4 news channels in Hindi which carry State specific regional news. Eenadu TV or ETV ranks among the top three channels in these 6 markets (Telugu, Bangla, Kannada, Marathi, Gujarati, and Oriya).

UEPL's Priya Foods produces pickles, spices, masala powder, instant mixes and Ready to Eat Food items etc. under the brand name 'Priya' and markets edible oils and other commodities. The food products are also exported to more than 20 countries.

The Company has a small paid up share capital of Rs.1.26 crore but has good market valuations, evident from 21% stake purchase at Rs.1424 Crore by M/s Equator Trading Enterprises Pvt Ltd in Jan 2008.

Security for the NCD issue and use of funds

The issuers will provide security by way of first charge on Land near Hyderabad which is valued more than the proposed Rs.600 crore NCD issue and further by second charge on fixed assets of the company which also have substantial residual value after considering the security cover for existing debt. Together, the approximate value of the securities is said to be about 2 times the amount of proposed issue of NCD of Rs.600 Crore. BWR has relied upon the company's declaration as regards the description, titles, value of assets and nature of charges to secure the proposed NCD issue and no independent verification or assessments thereof have been made by BWR. The company will be appointing a SEBI registered Debenture Trustee who will be vested with appropriate powers and authority to create necessary charge over the assets to secure the NCDs and to take all such steps to protect the interests of the debenture holders.

Funds raised through the NCD issue will be used towards meeting the Company's capital expenditure, and for other general corporate purposes.

Company's Performance

Publications Division: The division contributes 40% to company revenues, generating 80% from Ad revenues and 20% from circulation. Company is expecting revenues to grow at modest 10.3% YoY and on other hand; costs are expected to increase just by 2.5% YoY. The company enjoys fixed cost leverage here. The Company expects operating profits to grow by 55% in 2010-11 and thereafter on an average of 24% every year till 2015. With high entry barriers in newspaper industry (amongst top 20 newspapers in country only 3 were launched in last 20 years), "Eenadu" has readership of 14 mn and circulation of 1.32mn. It has 5 regions consisting of 23 different editions and 31 different regional supplements with focus on 294 constituencies that advertisers can choose to advertise in. This has helped in getting 30% of revenues from local advertisers (local shops, personal ads, classifieds etc). Already a leader in Andhra print market, the company still has huge scope for further penetration in Andhra Pradesh. The population of Andhra Pradesh is approximately 76.2mn with 60% literacy rate making a possible target market of approximately 45mn. The Eenadu's current penetration stands at 14.5 percent giving room for further penetration and growth. The most significant expense in print business is of Newsprint, forming about 44% of core income from print business. 60% of newsprint is imported while 40% is procured domestically. The cost of newsprint is expected to decline giving better margins for print business. Further, last year's recessionary conditions affected subscription revenues; but with recovery on path more stable advertising revenue is expected.

In line with demographic change in country, company has initiated/ proposes to go in for following innovations in print segment:

- Started with Free Online edition, a Matrimonial Portal and Online Education Portal, in line with rising internet penetration
- New initiative to teach Telgu through online education portal, mainly focused towards youth migrating to US
- Looking at increasing women literacy and youth population, planning to start additional supplements, one completely focused towards Women and another towards youth

Broadcasting Division: The division contributes 36% to company revenues, generating 75% from advertising and 25% from subscriptions; this is against industry average of 34% from advertising and 66% from subscriptions. ETV Collectively accounts for 35% of India's cable TV viewer ship. In FY 2009-10 the advertising & subscription revenues are expected to increase at 12.5% & 10% respectively, which is in line with industry average growth rate. According to TAM (television audience measurement) survey, digital TV households are expected to increase by approximately 28% in FY 2010. The company has also converted all its channels from free to air to subscription mode and expects an increase in share of subscription revenues thus reducing volatility in earnings, caused by higher proportion of advertising revenues. Company has 12 channels under its umbrella, in 8 languages. It is ranked 1st or 2nd across regional mainstream channels in 4 of 6 markets it operates in (1st in Gujarat, 2nd in Maharashtra, AP, Karnataka & Orissa, 3rd in West Bengal). But company's Hindi channels and Urdu Channel have not achieved breakeven till now. ETV during last four years has been operating at an average of 6 hrs of programming across its GEC channels and cost of programming is relatively flat, approximately 35% of core revenues.

Except ETV Telugu (launched in 1995) all other channels are launched 7-8 years back but have become market leading channels today. Major competition is from other regional TV broadcasters especially on weekends because of their huge library of blockbusters but company is planning to start reality shows on weekends to compete with these channels.

Foods Division: The foods division of UEPL is famous by name of Priya Foods, contributing 24% to company revenues. Priya foods produces pickles, spices, masala powder, instant mixes and Ready to Eat Food items etc. and markets edible oils and other commodities. The food products are also exported to more than 20 countries with 15% of revenues coming from exports. The management is expecting an average 11% growth in both domestic and export revenues for next few years and 4% operating profit margin. The export revenues could be in little pressure if Indian rupee appreciates substantially.

The Company is planning to launch "Snacks Food" – an Andhra style fast food and is also planning to venture into Fruit Juices segment.

Key Financial Information: The Company currently has Rs. 387 Crore of debt outstanding and by March 31, 2010 it is expected to come down to Rs. 325 Crore. UEPL reported a loss of Rs 57 crore for FY08 on total income of Rs. 1174 crore and loss of Rs. 149.2 crore for FY09 on total income of Rs.1220 crore. However loss was on account of amortization of Rs.211.5 Crore charged to P&L for both years. The amortization is on account of restructuring activity as part of which UEPL acquired Software Library which mainly consist of telecast rights of 3700 films and around 100000 hr of TV programming with an outlay of Rs.775 Crore (to be amortized over 10 years) and Rs.670 Crore paid to units which earlier used to supply program content to UEPL (to be amortized over 5 years).

Debt Equity ratio post proposed Rs. 600 Crore borrowing would be about 0.66 vs. current 0.31 and is expected to be around 0.34 by 2013. The interest coverage ratio and DSCR are also expected to remain at an average of 4.1 & 1.2 respectively till 2013. The NPM is negative at (4.6%) for FY08 and (12.2%) for FY09 due to heavy amortization charges since FY08. Company's current ratio indicates adequate liquidity.

Key Financials:

	2009	**2008**	**2007**
Income from core operations (in Rs Cr)	1194	1145	884
EBITDA (in Rs Cr)	220	314	196
PAT (in Rs Cr)	(149)	(57)	105
Depreciation & Amortization Expense (in Rs Cr)	267	263	46
Cash Profit	118	207	151
Capital Structure			
Net worth (in Rs Cr)	1541.5	1690	326
Debt Funds (in Rs Cr)	531	518	512
Debt/Equity	0.34	0.31	1.57
Profitability			
EBITDA/Core Income	18.4%	27.4%	22.1%
PAT/Core Income	(12.4%)	(4.9%)	11.9%
Coverage			
Interest Coverage Ratio	3.04	5.01	5.38
DSCR	2.60	1.53	5.14
Liquidity			
Current Ratio	2.17	3.31	0.76
Net Cash Accruals Ratio	0.22	0.4	0.29

Rating Outlook

UEPL has steadily improved its financial profile and is growing at CAGR of 17% since FY2006. The theme of UEPL for both Print and Television business is regional focus. This has helped company to reach mass population and we believe still there is huge scope for further penetration in both segments. In Print segment UEPL is the undisputed leader in Andhra Pradesh. Television business is experiencing huge competition from market and requires continuous innovation. As a part of such initiative, the company is proposing to start reality shows on weekends. The area of concern is share of advertising revenues in Television division which is approximately double of industry average. The foods business is also facing huge competition in every segment but still company was able to grow revenues by 14% in FY 09 and is planning to enter into fruit juice segment and Andhra style snack food.

With the proactive management the Company has, it is expected the company will continue to take appropriate steps and initiatives to keep improving upon its performance.

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Brickwork Ratings (BWR) has adopted SEBI's standardized Rating Symbols and their definition advised vide SEBI circular CIR/MIRSD/4/2011 dated June 15,2011, with effect from June 21, 2011. While there is no change in the Rating symbol as a consequence to the above, for the amended definition of the Rating, please refer to http://www.brickworkratings.com/scale.html. It is clarified that the said change in the definition should not be construed as a change in the Rating.