March 31, 2023

Repro India Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loans	22.41	13.60	[ICRA]BBB reaffirmed; Outlook revised to Positive from Stable
Long-term/ Short -term – Working capital loans	98.00	120.00	[ICRA]BBB/[ICRA] A3+ reaffirmed; Outlook revised to Positive from Stable
Non-Fund based limits	24.00	0.00	-
Total	**144.41**	**133.60**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook to Positive reflects the significant recovery in Repro India Limited's [1] (Repro or the company) revenues and operating profits in FY2022 and FY2023 on the back of the strong revival in demand for books, supported by opening of schools, educational institutions and corporate offices, post lifting of the Covid-19 pandemic-related restrictions, which is expected to continue in FY2024. In 9M FY2023, the revenues increased by 55% YoY to Rs. 301 crore and the operating profit margins (OPM) improved by 518 bps to 9.8% in 9M FY2023, driven by better absorption of fixed costs. ICRA expects the company to report a healthy revenue growth of ~40% in FY2023 YoY (PY: Rs. 287 crore), surpassing the pre-Covid level of FY2020 and grow by another 10-12% YoY in FY2024, supported by healthy demand for books and printed material and the operating margins to remain in the range of 9.5%-10.8%. Consequently, Repro's operating profits are estimated to increase by 70% in FY2023 and 16% in FY2024.

With the reduction in debt levels using the fresh equity of Rs. 30 crore and warrants of Rs. 7.50 crore raised in October 2021, and expected improvement in OPBDITA, the company's consolidated leverage and debt coverage indicators are estimated to improve, with TD/OPBDITA of around 2.9 times as of March 2023 (PY: 8.3 times) and DSCR of around 1.35-1.40 times in FY2023. The company is anticipated to receive the balance tranche of funds through issue of warrants worth Rs. 22.50 crore in April 2023, which is likely to further support its liquidity profile.

The ratings continue to note the extensive experience of Repro's promoters spanning more than two decades in the printing industry, the strong client base comprising leading publishers. The ratings factor in the increasing revenue share from the print on-demand (PoD) business. The growth in this segment was supported by the facility set up in Haryana, which currently has an installed capacity to print and bind 26,000 books per day. The digital print capacity (Bhiwandi + Haryana) increased by 20% YoY as of December 2022 due to brownfield expansion (40,000 books per day vs 36,000 per day).

The ratings, however, remain constrained by the vulnerability of profitability to adverse fluctuations in raw material prices and high working capital intensity of operations in the traditional offset printing business due to high receivables and inventory. The debtors over 90 days are around 36% of total debtors as of September 2022 vis-a-vis 26% as of March 2022, at a standalone level where the offset printing operations are carried out. ICRA notes the intense competition from the unorganised players in the traditional off-set printing business, which limits its pricing flexibility and bargaining power with customers, while in the e-tailing segment, it faces competition from other distributors who tie-up with the publishers. The rating remains constrained by the modest return indicators (RoCE). Going forward, given the healthy ramp-up in operations, the company ability to

[1] ICRA has considered the consolidated financials of Repro India Limited which includes its wholly owned subsidiary Repro Books Limited given their financial linkages, strategic importance, and the parent's reputation sensitivity to default.

manage its working capital cycle judiciously while keeping its receivables and inventory levels under control, and improve its profitability remain the key rating sensitivities.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in printing business – From providing integrated print solutions to publishers, Repro has evolved in the business to offer end-to-end printing services such as content creation, design and layout, database management, printing, packaging, warehousing and dispatch. The company's business segments include traditional printing (education books/materials), corporate printing (annual reports. etc), PoD business, and Repro Applied Learning Solutions (RAPPLES).

Healthy recovery in revenue and profitability in FY2022 and 9M FY2023 supported by improved demand – The strong revival in demand supported by opening up of schools, educational institution and corporate offices, post lifting of pandemic-related restrictions, helped the company in posting strong recovery in FY2022 and 9M FY2023. The consolidated operating income increased by 108% YoY in FY2022 to Rs. 287 crore from Rs. 138 crore in FY2021. It reported operating profit of Rs. 12.34 crore in FY2022 (OPM of 4.7%) against an operating loss of Rs. 4.1 crore (OPM of -3.0%), driven by better absorption of fixed costs. In 9M FY2023, the revenues increased by 55% YoY to Rs. 301 crore and the operating profit margins (OPM) improved by 518 bps to 9.8% in 9M FY2023. The digital print capacity (Bhiwandi + Haryana) increased by 20% YoY in CY2022 due to brownfield expansion (40,000 books per day vs 36,000 per day). ICRA expects the company to report around 40% growth in OI in FY2023 at an OPM of 9.5%-9.8% ICRA expects the revenues to grow by another 10-12% in FY2024 with OPM of ~9.5%-10.8%.

Healthy client profile with established relationships – The Group has healthy long-term relationships with reputed clients. Its export clients are leading global publishers like Cambridge University Press, Longman, among others. In the domestic market, the Group works for large education publishers including Macmillan Publishers, Oxford University Press, Jeevandeep Prakashan, Symbiosis (Distance Learning), Arihant Publication, etc. Further, under its digital printing business, the Group has forged relationships with key e-commerce players such as Amazon, Flipkart, and Paytm. Repro's key exports markets include Kenya, Sierra Leone, Nigeria, South Africa, the UK and the USA.

Credit challenges

Vulnerability of profitability to adverse fluctuations in raw material prices – The key raw materials required by the company are printing paper and ink. Its operating profitability remains vulnerable to fluctuations in the prices of these key inputs. The contracts entered by Repro incorporate escalation clause, which allows to renegotiate the cost in case of more than 5% variation in the price of the key raw materials. This shields its profitability margins from adverse fluctuations in the prices of raw materials to an extent.

High working capital intensity of operations in traditional offset printing business – The company's working capital intensity remains high due to the elongated receivables and inventory levels, in the offset printing business. At a consolidated level, NWC/OI stood at 40% owing to elongation in receivable cycle and inventory built-up during the lockdown. It improved to 24% in FY2022 and 19% in H1 FY2023 with reduction in inventory levels (facilitated through increased digital printing/PoD sales), funding through advances from customers as well as faster receivables recovery, given the significant increase in share of digital printing business, where the credit periods are less. However, the same is expected to remain in the range of 25-30% for FY 2024.

Stiff competition; modest return indicators – Repro faces stiff competition from the unorganised players in the traditional off-set printing business, which limits its pricing flexibility and bargaining power with customers. Further, in the e-tailing segment, it faces competition from other distributors who tie-up with the publishers. The company's return indicators (RoCE) have historically remained modest, within 7-8% due to high capital costs and were negative over the last two fiscals owing to weak profitability.

Environmental and Social Risks

The book printing process involves substantial use of paper and ink. The paper manufacturing process involves emission of effluents and gases. Increasing regulatory requirements to reduce greenhouse gas emissions and stricter air pollution standards may lead to higher costs for Repro. The profitability and cash flows could be under pressure if it is not able to fully pass on the higher compliance costs to the customers. The social risks relate to the safety of employees involved in printing. The company has made investments in mechanization to enhance physical safety of its employees.

Liquidity position: Adequate

As on December 31, 2022, Repro had undrawn working capital limits of Rs. 31.01 crore (based on drawing power), unutilised term loan of Rs. 5 crore and free cash balance of Rs. 4.06 crore. The liquidity buffers are likely to be adequate for meeting the increasing working capital requirements as operations ramp up. The debt repayments of Rs. 12.73 crore in FY2024 and Rs. 10.48 crore in FY2025 (excluding lease liabilities) are expected to be met from cash flow from operations. The committed equity of Rs. 22.50 crore to be raised by April 2023 provides further support to the liquidity profile.

Rating sensitivities

Positive factors – The ratings will be upgraded if sustained growth in revenue and earnings lead to improved credit metrics. Specific credit metrics for a rating upgrade will be Total Debt/OPBDITA of less than 3 times and DSCR of over 1.4 times on a sustained basis.

Negative factors – The ratings could be downgraded if the company witnesses a material decline in revenues or earnings, thereby resulting in deterioration of debt coverage metrics or liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Repro India Limited. As on December 31, 2022, the company had one subsidiary Repro Books Limited.

About the company

Incorporated in April 1993 as a public limited company, Repro India Limited provides integrated print solutions to publishers and corporations. The company's business segments include traditional offset printing (education books/materials), PoD business and Repro Applied Learning Solutions (RAPPLES). It has one subsidiary named Repro Books Limited (RBL).

Key financial indicators (audited)

REPRO Consolidated	FY2021	FY2022	H1 FY2023*
Operating income	138.18	287.43	195.81
PAT	(43.37)	(23.19)	0.61
OPBDIT/OI	-4.3%	4.29%	9.04%
PAT/OI	-31.39%	-8.07%	0.31%
Total outside liabilities/Tangible net worth (times)	0.71	0.47	0.50
Total debt/OPBDIT (times)	(23.51)	8.29	2.91
Interest coverage (times)	(0.44)	1.15	3.35

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; *unaudited*

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 Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Mar 31, 2023	Jan 07, 2022	Mar 23, 2021	Sep 07, 2020	Feb 06, 2020	Jun 24, 2019
1	Term loans	Long term	13.60	15.11	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	Working capital loans	Long term and Short term	120.00	-	[ICRA]BBB (Positive)/ [ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ s[ICRA]A2
3	Non-fund based bank facilities	Short term	-	--	-	[ICRA]A3+	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loans	Simple
Long-term/Short-term – Working capital loans	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 loans**	2020-21	8.25%-9.05%	FY2026	13.60	[ICRA]BBB (Positive)
NA	**Fund-based – Working capital loans**	-	-	-	120.00	[ICRA]BBB (Positive)/[ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Repro India Limited's Ownership	Consolidation Approach
Repro Books Limited	100%	Full Consolidation

Source: Company's annual report FY2022

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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.

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