

January 07, 2022

Repro India Limited: Ratings downgraded to [ICRA]BBB and [ICRA]A3+; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans	34.00	22.41	[ICRA]BBB (Stable); downgraded from [ICRA]BBB+ (Negative)
Fund-based Limits	98.00	98.00	[ICRA]BBB (Stable); downgraded from [ICRA]BBB+ (Negative)/ [ICRA]A3+; downgraded from [ICRA]A2
Non-fund Based Facilities	24.00	24.00	[ICRA]A3+; downgraded from [ICRA]A2
Total	156.00	144.41	

*Instrument details are provided in Annexure-1;

Rationale

The rating downgrade reflects the sustained impact of the Covid-19 pandemic on Repro India Limited's (Repro) operating performance, marked by lower-than-anticipated recovery in revenues and operating profit margins in H1 FY2022. Repro's operating profitability (OPBDITA/OI) moderated to 4.8% in H1 FY2022 from the pre-Covid levels of 12.7% in FY2020 on account of delay in demand recovery, especially in its offset printing business. Given the continuing impact of the pandemic, demand recovery may be constrained and thus, the return indicators and debt coverage indicators are expected to remain weak over the near to medium term. The financial risk profile, however, is supported by the adequate liquidity profile, aided by the recent equity raised worth Rs. 37.50 crore (October 2021). The balance tranche of equity funds of Rs. 22.50 crore to be raised by March 2023 (from the warrants issued recently) 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 at Haryana, which has an installed capacity to print and bind 24,000 books per day. As this facility was commissioned just prior to the pandemic, its utilisation over the past year and a half has been low, impacting Repro's profitability. ICRA believes that a ramp-up in the digital printing business will be critical to cover the high capital costs incurred towards the asset and improve profitability.

The Stable outlook on the long-term rating reflects Repro's adequate liquidity position, which is expected to support its credit profile while the operating performance gradually picks up over the medium term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in printing business – From a plain vanilla printing company 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).

Traction in PoD business in FY2022 – The Group witnessed healthy ramp-up in its PoD business, wherein it has tie-up with leading publishing houses and sells titles through e-commerce platforms such as Amazon and Flipkart. While the digital printing operations were impacted in FY2021 due to closure of its facility at Bhiwandi until August 2021 and the halt in e-commerce services in Q1 FY2021 due to the lockdown, it has seen significant traction in H1 FY2022. In FY2022, the PoD revenues is expected to surpass FY2020 levels. As this facility was commissioned just prior to the pandemic, its utilisation over the past year and a half has been low, impacting Repro's profitability. ICRA believes that a ramp-up in the digital printing business will be critical to cover the high capital costs incurred towards the asset and improve profitability.

Healthy client profile with established relationships – The Group has healthy long-term relationships with reputed clients. RIL's export clients are leading global publishers like Oxford University Press, Longhorn Kenya Ltd among others. In the domestic market, the Group works for large education publishers including Macmillan Publishers, Oxford University Press, Xseed Education Pvt Ltd, McGraw Hill Education (India) Pvt. Ltd. etc. Further, under its digital printing business, the Group has forged relationships with key e-commerce players such as Amazon, Flipkart, and Paytm. Exports generate ~20-23% of the total sales. RIL's key exports markets include Kenya, Sierra Leone, Nigeria, South Africa, the UK and the USA.

Credit challenges

Delayed business recovery following the pandemic; sub-optimal capacity utilisation impacting profit margins – The pandemic-led shutdown of schools and educational institutions continue to impact the business operations as seen in the financial performance in H1 FY2022. While the offset printing business continue to see headwinds due to the delayed school/college opening in India, the increased raw material and other costs, along with an increased GST rates posed additional challenges. Nonetheless, the e-tailing business is expected to outperform leading to some compensation for the revenue loss from the traditional offset segment in FY2022. The net losses in H1 FY2022 are partially attributable to the heavy depreciation charges on the recent gross block addition in Haryana, which has not been able to generate commensurate returns amid the pandemic.

Financial risk profile expected to remain constrained in the near-to-medium term with subdued profitability and weak debt coverage indicators; adequate liquidity from recent equity-raise to support credit profile - Repro's operating profitability (OPBDITA/OI) moderated to 4.8% in H1 FY2022 from the pre-Covid levels of 12.7% in FY2020 on account of weak demand scenario and delayed school opening, coupled with the detrimental effects of the pandemic. Consequently, the return indicators have weakened with RoCE at -3.5% in H1 FY2022 from 6.8% in FY2020 (-8.3% in FY2021). In H1 FY2022, the interest coverage indicator moderated to 1.1 times from 4.63 times in FY2020, with DSCR less than 1 times because of weak profitability, along with elevated Total Debt/OPBDITA at 13.3 times. While ICRA expects the company's revenues to be 68-70% of FY2020 levels in FY2022, its ability to achieve pre-Covid level sales in FY2023 remains to be seen. The return and debt coverage indicators are likely to remain weak over the near to medium term.

Nonetheless, the company in FY2022 has implemented fund raising plans to support its capital structure and liquidity profile. Out of the planned equity raising drive of Rs. 60 crore, Rs. 37.5 crore has been infused in October 2021 (Rs. 30 crore of equity and Rs. 7.5 crore of warrants). The balance (Rs. 22.50 crore) will be infused within the next 18 months (to be raised by March 2023), which is expected to further support its liquidity profile. The proceeds from the same will be utilised to reduce its high interest-bearing loans and reliance on working capital borrowings, while improving the overall liquidity profile. It also plans to invest in branding and marketing of the PoD business, among others.

High competitive pressures – 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. Nonetheless, the key performance indicators like content confidentiality, high initial capital investment costs act as entry barriers.

Liquidity position: Adequate

As on September 30, 2021, Repro had undrawn working capital limits of Rs. 30.36 crore (based on drawing power) and free cash balance of Rs. 0.78 crore. The proceeds of Rs. 37.50 crore from the equity raised in October 2021 has been used to prepay part of the term debt and reduce the working capital limit utilisation. The working capital limit utilisation has declined to less than 30% of the sanctioned limits and less than 42% of the drawing power after the equity infusion. The liquidity buffers are expected to be adequate for meeting the increasing working capital requirements as operations ramp-up and the near-term debt repayments (Rs. 11 crore in FY2023 and FY2024; adjusted for prepayments made in FY2022). The committed equity of Rs. 22.50 crore (to be raised by March 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.

Negative factors – Inability to scale up operations which could lead to continued pressure on the company's revenues, profit margins and return indicators could result in a rating downgrade.

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 September 30, 2021, the company had one subsidiary Repro Books Limited. In Q2 FY2022, Repro sold its investment in Repro Innovative Digiprint Limited (RIDPL) and hence results of RIDPL has not been consolidated into the results of the company for the quarter ended September 30, 2021.

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 standalone 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

	FY2020	FY2021	H1FY2022*
Operating Income (Rs. crore)	367.53	138.04	125.45
PAT (Rs. crore)	18.80	-43.38	-12.02
OPBDITA/OI (%)	12.65%	-4.41%	4.76%
PAT/OI (%)	5.12%	-31.42%	-9.58%
Total Outside Liabilities/Tangible Net Worth (times)	0.64	0.71	0.82
Total Debt/OPBDITA (times)	3.55	-22.83	13.30
Interest Coverage (times)	4.63	-0.46	1.09

*unaudited

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Oct 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
				Jan 07, 2022	Mar 23, 2021	Sept 07, 2020	Feb 06, 2020	Jun 24, 2019	Jan 16, 2019	
1 Term Loans	Long term	22.41	22.41	[ICRA]BBB (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	
2 Fund-based Limits	Long term and Short term	98.00	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Positive)/ [ICRA]A3+	
3 Non-fund Based Facilities	Short term	24.00	-	[ICRA]A3+	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Fund-based Limits	Simple
Non-fund Based Facilities	Very 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, is 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	Term Loans	2020-21	8.25-8.40%	2026-27	22.41	[ICRA]BBB (Stable)
NA	Fund-based Limits	-	-	-	98.00	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	Non-fund Based Facilities	-	-	-	24.00	[ICRA]A3+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Sl. No.	Name of the Group Company	RIIPL's ownership	Consolidation Approach
1	Repro India Limited (rated entity)	-	-
2	Repro Innovative Digiprint Limited	100%	Full Consolidation

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