February 06, 2020

# Repro India Limited: Ratings Reaffirmed; outlook on long-term rating revised to Positive from Stable, Rated Amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Term Loan | 41.0 | 41.0 | [ICRA]BBB+ (Positive); reaffirmed, outlook revised from Stable |
| Long-Term/ Short-Term Fund Based Limits | 83.0 | 103.0 | [ICRA]BBB+ (Positive)/ [ICRA]A2; reaffirmed, outlook revised from Stable |
| Short-Term Non-Fund Based Limits | 24.0 | 24.0 | [ICRA]A2; reaffirmed |
| **Total** | **148.0** | **168.0** | |

*Instrument details are provided in Annexure-1

## Rationale

The revision in outlook takes into account the improvement in operating profitability in H1 FY2020 and the receipt of ~Rs. 24 crore from a key customer as compensation towards shortfall in contracted quantity. The company reported a steady growth of 5% YoY in its operating income along with a healthy 19% YoY growth in its operating profits at a consolidated level in H1 FY2020. Further, there has been a downward revision in the budgeted capex for its upcoming facilities in Manesar and Bangalore, which along with the cash proceeds mentioned above, have led to reduced dependence on external long-term debt for funding the capex. The company is expected to start digital printing operations at its new facility in Manesar, Haryana in early FY2021. A healthy ramp up in the company's digital printing operations along with further improvement in profitability is expected to lead to an improvement in the company's debt coverage and return metrics.

The ratings continue to take into account the extensive experience of Repro's promoters spanning over more than two decades in the printing industry, strong client base and established longstanding relationships with leading global publishers as well as Indian corporates. The ratings also factor in the considerable improvement in the company's capital structure over the last two fiscals largely driven by reduction in overall working capital debt as well as infusion of Rs. 50 crore in November 2017 through issuance of equity shares and warrants on preferential basis to Private Equity (PE) investors and another Rs. 30 crore upon conversion to warrants into equity in April 2019.

The ratings are, however, constrained by the marketing risks associated with the proposed facilities in Haryana and Bangalore. The company's return indicators are modest at present given the sizeable investments made towards the IT infrastructure for the digital printing business. Thus, the healthy scale up of operations at the upcoming facilities would remain important so as to improve the company's return indicators over the medium term. The ratings also take into accountthe high competitive intensity in the domestic segment and the high working capital intensity in the offset printing business. The company is also exposed to high counter-party credit risk for its sales in African countries, though the company is now availing Letter of Credit (LC) from most of its customers for its export sales. ICRA has also taken note of the on-going strike at the company's Mahape(Navi Mumbai) facility since April 2017; the company has settled in full, the dues of the employees/ workers at the Mahape plant and enhanced its production at its Surat facility to offset the revenue loss due to the closure of the facility due to the strike. However, a timely and satisfactory resolution on this matter would remain important from a credit perspective.

## Key rating drivers

## Credit strengths

**Extensive experience of the promoters in the printing business -** Repro started as a provider of integrated print solutions to publishers. From a plain vanilla printing company, it has evolved into the business of offering end-to-end printing services like content creation, design and layout, database management, printing, packaging, warehousing and dispatch to the last mile. Repro's business segments include traditional printing (education books/materials), corporate printing (annual reports etc),e-tailing business, and RAPPLES (Repro Applied Learning Solutions).

**Healthy performance of digital printing business; planned capacity expansion to help in ramp up of operations -** The company ventured into digital printing business about a decade ago through its wholly-owned subsidiary, Repro Books Limited, and has gradually increased its focus on the same which has resulted in significant revenue growth over the last few fiscals. The company has specifically seen healthy ramp up in its e-retail sales where it sells titles through e-commerce platforms such as Amazon and Flipkart. The company's total digital printing sales (i.e. e-retail sales and short-run digital printing sales) under Repro Books Limited increased by 134% YoY to reach Rs. 159 crore in FY2019. In H1 FY2020, the total digital printing sales grew by 13% YoY mainly due to a decline in sales of stock titles. The company has taken a strategic decision to scale back the sale of stock titles and increase the BoD[1] sales under its total e-retail sales. The digital printing business contributed 34% to thecompany's total consolidated revenues in FY2019 (as against 23% in FY2018) and H1 FY2020. With ramp up in operations, the digital printing business reported positive OPBDITA[2] of Rs. 2.7 crore in FY2019, compared to losses at OPBDITA level of Rs. 2.5 crore in FY2018. The same increased to Rs.3.9 crore in H1 FY2020 and is expected to witness further improvement in the near to medium term.

**Healthy client profile with established relationships -**The company has healthy long-term relationships with reputed clients. Repro's export clients are leading global publishers like Cambridge University Press, Tanus Books Ltd, Longman, etc. In the domestic market, the company works for large education publishers like Macmillan Publishers, Oxford University Press, Jeevandeep Prakashan, Symbiosis (Distance Learning), Arihant Publication, etc. Further, under its digital printing business, the company has forged relationships with key e-commerce players such as Amazon, Flipkart, and Paytm.

**Improvement in gearing levels and liquidity profile on account of significant reduction in debt and equity infusion**-In November 2017, the company raised Rs. 50 crore through issuance of shares and warrants to PE investors on a preferential basis. The company utilised the funds to reduce its borrowing levels as well as towards capex at its Surat plant, resulting in an overall improvement in its capital structure and coverage indicators. Further, in April 2019, the PE investors converted the warrants into equity shares bringing in additional Rs. 30 crore in Repro. In addition, the company has received Rs. 24 crore in FY2020 from a key customer as compensation towards shortfall in contracted quantity. there has been a considerable improvement in the company's receivables position on account of improvement in collection efficiency and part recovery of overdue receivables, thereby reducing the working capital requirements of the company. The company's capital structure remains comfortable with a gearing of 0.6 time as of March 31, 2019. With a seasonal decline in short-term borrowing levels in H1 FY2020, the company's gearing reduced further to 0.3 time as of September 30, 2019.

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[1]BoD: Book-on-demand, i.e. the one-book printing facility which caters to individual orders for a particular title on an e-commerce platform such as Amazon, Flipkart, etc. as against stock titles that are popular titles lying with the company in its stock

[2]Operating profit before depreciation, interest, tax and amortisation

## Credit challenges

**Marketing risks associated with proposed facilities**- The estimated capex for the new facilities in Haryana and Bangalore is ~Rs.45 crore. Both the facilities are expected to be commissioned in FY2021. The company remains exposed to marketing risks associated with its proposed facilities, albeit the risk is mitigated to some extent by the company's tie-ups with multiple publishing houses for its digital printing business. ICRA notes that healthy ramp up of operations from the new facilities would be important so as to improve the company's return indicators that have been modest so far.

**High working capital intensity** -The company's working capital intensity remained high at 30% in FY2019 owing to a high receivable cycle in the offset printing business. The company's utilisation of its working capital limits was also high during H2 FY2019 but has subsequently reduced with equity infusion by the investors. While the company had scaled back its exports in FY2017 and FY2018 due to high level of bad debts associated with a few customers in Africa, it has seen an increase in export sales in FY2019 though its sales are LC-backed for most African customers. The working capital intensity is expected to decline with an increase in share of the low working capital intensive digital printing business in Repro's total sales.

**High competitive pressure** - The company faces stiff competition from other unorganised players in printing business, which limits its pricing flexibility and bargaining power with customers.

## Liquidity Position: Adequate

The company's liquidity profile improved in FY2019 and H1 FY2020 with improvement in receivables position and higher operating profits. Further, there was a decline in the company's average utilisation of fund based limits in H1 FY2020 compared to the year-ago period. In the current fiscal, the company received Rs. 30 crore against conversion of warrants and another Rs. 24 crore from a key customer in the form of compensation towards shortfall for contracted quantity that has improved its liquidity profile and led to reduction in its borrowing levels. The company has long-term debt repayments of ~Rs. 23 crore in FY2020, of which it has repaid ~Rs. 12 crore in H1 FY2020. It should be able to comfortably meet the remaining repayment obligations through the cash flows from operations as well as the additional inflows mentioned above. The company is expected to comfortably fund a large part of its capex through internal accruals. It has tied up equipment finance to fund a part of its planned capex.

## Rating Sensitivities

**Positive triggers:** Increase in scale of operations along with improvement in profitability of the digital printing operations leading to total debt/OPBITDA of 1.5 times on a sustainable basis

**Negative triggers:** a) Deterioration in working capital cycle or larger-than-expected debt funded capex leading to weakening of debt coverage metrics; b) Return on Capital Employed (RoCE) levels below 9% on a sustainable basis

## 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 March 31, 2019, the Company had two subsidiaries that are enlisted in Annexure 2. |

## About the company:

Incorporated in April 1993 as a public limited company, Repro India Limited (Repro) provides integrated print solutions to publishers and corporations. Repro's standalone business segments include traditional printing (education books/materials), corporate printing (annual reports etc.) and RAPPLES (Repro Applied Learning Solutions). The company has two subsidiaries,viz. Repro Innovative Digiprint Limited (operations under the subsidiary are proposed to be demerged and vested into Repro India Limited) and Repro Books Limited (erstwhile Repro Knowledgecast Limited). The digital printing business of Repro is currently housed under Repro Books Limited.

## Key financial indicators (Consolidated - audited)

| | FY2018 | FY2019 | H1 FY2020* |
|---|---|---|---|
| Operating Income (Rs. crore) | 324.1 | 399.6 | 206.0 |
| PAT (Rs. crore) | 16.4 | 23.6 | 12.7 |
| OPBDIT/OI (%) | 12.0% | 11.6% | 12.1% |
| RoCE (%) | 7.4% | 7.7% | NA |
| | | | |
| Total Debt/TNW (times) | 0.6 | 0.6 | 0.3 |
| Total Debt/OPBDIT (times) | 3.7 | 3.3 | 1.8 |
| Interest coverage (times) | 3.0 | 4.5 | 5.5 |

*as per abridged results in the quarterly release

## 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) | | Date &Rating | Date & Rating in FY2019 | Date & Rating in FY2018 | | Date & Rating in FY2017 |
| | | | | | 6-Feb-20 | 24-Jun-19 | 16-Jan-19 | 20-Dec-17 | 8-Sep-17 | 26-Aug-16 |
| 1 | Term Loan | Long term | 41.0 | 25.7 | [ICRA]BBB+ (Positive) | [ICRA]BBB+ (Stable) | [ICRA]BBB (Positive) | [ICRA]BBB (Stable) | [ICRA]BBB (Negative) | [ICRA]BBB+ (Negative) |
| 2 | Cash Credit/ Packing Credit/ Working Capital Demand Loan | Long term/ Short term | 103.0 | - | [ICRA]BBB+ (Positive)/ [ICRA]A2 | [ICRA]BBB+ (Stable)/ [ICRA]A2 | [ICRA]BBB (Positive)/ [ICRA]A3+ | [ICRA]BBB (Stable)/ [ICRA]A3+ | [ICRA]BBB (Negative)/ [ICRA]A3+ | [ICRA]BBB+ (Negative)/ [ICRA]A2 |
| 3 | LC/BG | Short term | 24.0 | - | [ICRA]A2 | [ICRA]A2 | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3+ | [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 | April 2016 | - | FY2023 | 41.0 | [ICRA]BBB+ (Positive) |
| NA | Cash Credit/Packing Credit/Working Capital Demand Loan | - | - | - | 103.0 | [ICRA]BBB+ (Positive)/ [ICRA]A2 |
| NA | LC/BG | - | - | - | 24.0 | [ICRA]A2 |

Source: Repro India Limited

## Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| Repro Innovative Digiprint Limited | 100.00% | Full Consolidation |
| Repro Books Limited (erstwhile Repro Knowledgecast Limited) | 100.00% | Full Consolidation |

## ANALYST CONTACTS


**K. Ravichandran**
+91 44 4596 4301
ravichandran@icraindia.com

**Ankit Patel**
+91 79 4027 1509
ankit.patel@icraindia.com

**Anubha Rustagi**
+91 22 6169 3341
anubha.rustagi@icraindia.com


## RELATIONSHIP CONTACT


**Jayanta Chatterjee**
+91 804332 6401
jayantac@icraindia.com


## MEDIA AND PUBLIC RELATIONS CONTACT


**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com


## Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## 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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## ICRA Limited


**Corporate Office**
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

**Registered Office**
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

**Branches**

| | |
|---|---|
| Mumbai | + (91 22) 24331046/53/62/74/86/87 |
| Chennai | + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294, |
| Kolkata | + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008, |
| Bangalore | + (91 80) 2559 7401/4049 |
| Ahmedabad | + (91 79) 2658 4924/5049/2008 |
| Hyderabad | + (91 40) 2373 5061/7251 |
| Pune | + (91 20) 2556 0194/ 6606 9999 |