September 07, 2020

Repro India Limited: Ratings reaffirmed; Outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	41.0	34.0	[ICRA]BBB+(Stable); reaffirmed, outlook revised to Stable from Positive
Long-Term/ Short-Term Fund Based Limits	103.0	98.0	[ICRA]BBB+(Stable)/ [ICRA]A2; reaffirmed, outlook revised to Stable from Positive
Short-Term Non-Fund Based Limits	24.0	24.0	[ICRA]A2; reaffirmed
Total	**168.0**	**156.0**	

**Instrument details are provided in Annexure-1*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of the Repro Group (Repro/Group) entities, namely Repro India Limited, Repro Books Limited (RBL) and Repro Innovative Digiprint Limited (RIDL), given their strong operational linkages, similar business sector as well as common management control.

The revision in rating outlook to Stable from Positive reflects the cascading impact of the Covid-19 pandemic induced disruptions, which includes reactionary trade shutdown in key markets, restricted movement and capped labour force in factories, which are all likely to impact the financial risk profile of Repro with a decline in operating income leading to pressure on profitability metrics in the current fiscal. The shutdown of school and educational institutions and notable moderation in demand from e-commerce platforms and corporates during Q1 FY2021 have led to steep decline in the revenues to Rs. 17.87 crore in Q1 FY2021 against ~Rs. 70 crore during Q1 FY2020. However, the extent of the impact on revenues and earnings would depend on the eventual duration of the pandemic related demand fallout. The rating reaffirmation continues 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 comfortable capital structure and coverage indicators over the last three 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 of warrants into equity in April 2019.

The ratings, however, continue to remain constrained by the high working capital intensity of operations, which stood at 30% in FY2020 due to high trade receivables (relating to offset printing). Moreover, as on July 31, 2020, Repro had sizeable debtors outstanding from domestic as well as export markets, following the lockdown across geographies as a result of the pandemic, and the debtors over 90 days surged to 68% as on July 31, 2020 from 16% as on March 31, 2020. The timely recovery of the same remains critical for the liquidity profile of Repro. The Group is also exposed to moderate counter-party credit risk for its sales in African markets (8-10% of the total revenues in FY2020), though Repro is now protecting payments through Letter of Credit (LC) from most of its customers for its export sales. The ratings are further constrained by the marketing risks associated with the new facility in Haryana which caters to digital printing as well as the high competitive intensity in the offset printing segment in the domestic segment. The Group's return indicators are modest at present, given the sizeable investments made towards IT infrastructure for the digital printing business. In FY2020, Repro's operating income declined by ~8% to Rs. 367.5 crore from Rs. 399.6 crore in FY2019 mainly due to a strategic decision taken by the Group in September 2019 to reduce the e-tailing sales of front-title stock and focus more on increasing sales through the print-on-demand segment. Thus, the healthy scale up of operations at the Haryana facility would remain important for improving the Group's return indicators over the medium term. ICRA further notes that the receipt of ~Rs. 24 crore from one of its customers for the shortfall in contractual quantity was adjusted against discount to the same party and would not have any material bearing on the financial statements as anticipated earlier.

Repro India Limited has opted for moratorium in line with the Reserve Bank of India's (RBI's) circular for six months on its working capital and term loan facility due to the uncertainty in the market after imposition of the lockdown. Nevertheless, ICRA draws comfort from the Group's adequate liquidity position at present, supported by undrawn working capital limits and term loan, coupled with free cash/bank balance, which will aid in meeting the business and financial obligations comfortably over the near term. Going forward, the Group's ability to recover payments from its customers in a timely manner would be a key rating sensitivity. Also, ICRA would continue to monitor the developments related to the pandemic, and take appropriate rating action, following its analysis of the impact on Repro's credit profile.

The Stable outlook reflects ICRA's opinion that Repro will continue to benefit from the extensive experience of its promoters, with expanding footprint in the digital printing segment, which will enable it to recover in terms of revenue and profit performance in subsequent quarters and regain its pre-Covid coverage and leveraging levels.

Key rating drivers and their description

Credit strengths

Extensive experience of 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).

Planned capacity expansion to help in ramp up of operations in the medium term - Repro ventured into digital printing business about a decade ago through its wholly-owned subsidiary, RBL, however with the demerger of the printing unit w.e.f. April 01, 2019, only the distribution rights would vest with RBL. The Group has gradually increased its focus on the same which has resulted in significant revenue growth over the last few fiscals. The additional facility at Haryana with a capacity to print and bind 24,000 books per day and increase in capacity at Bhiwandi (Maharashtra) (12,000 books per day) is likely to support the scaling up of digital printing business in the medium term. The Group has specifically seen healthy ramp up in its e-retail sales where it sells titles through e-commerce platforms such as Amazon and Flipkart. While the total digital printing sales (i.e. e-retail sales and short-run digital printing sales) increased by 101% YoY to reach Rs. 136.19 crore in FY2019, the same reduced by 17% to Rs. 113.27 crore in FY2020, following the strategic decision to scale back the sale of stock titles and increase the BoD[1] sales under its total e-retail sales which is a higher margin product. Nevertheless, with the Group's tie up with leading publishing houses, the ramp up of operations from the e-retail segment is expected to witness improvement in the near to medium term.

Healthy client profile with established relationships -The Group 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 Group works for large education publishers like Macmillan Publishers, Oxford University

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[1] *BoD: Book-on-demand, i.e., the one-book printing facility for individual orders of a particular title on an e-commerce platform, such as Amazon or Flipkart, against stock titles or popular titles lying with Repro in its stock.*

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.

Healthy financial risk profile as characterised by comfortable capital structure and debt coverage indicators - In November 2017, Repro raised Rs. 50 crore through issuance of shares and warrants to PE investors on a preferential basis. It 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, which was used to partially fund the capex and reduce the working capital debt. The Group's capital structure remains comfortable with a gearing of 0.4 time as on March 31, 2020, which improved from 0.6 time as on March 31, 2019 as a result of reduction in the total debt. The coverage indicators, as indicated by OPBDITA/Interest, have remained healthy over the last three fiscals, supported by declining interest expenses and healthy operating profits.

Credit challenges

Notable moderation in financial risk profile envisaged in FY2021, following the Covid-19 pandemic – The outbreak of the pandemic and strategic decision by Repro in September 2019 to reduce the e-tailing sales of front-title stock and higher focus on increasing sales through the print-on-demand segment led to an 8% decline in OI to Rs. 367.5 crore in FY2020 from Rs. 399.6 crore in FY2019. Thereafter, the cascading effect of the pandemic resulting in shutdown of schools and educational institutions, and notable moderation in demand from e-commerce platforms and corporates (annual report) during Q1 FY2021, led to a steep decline in revenues to Rs. 17.87 crore in Q1 FY2021 over ~Rs. 70 crore in Q1 FY2020. Although, after the resumption of two of its plants, Repro's operations picked up pace and recorded revenues of ~Rs. 34 crore till July 2020, the extent of the impact on revenues and earnings would depend on the eventual duration of the pandemic related demand fallout.

Marketing risks associated with stabilisation of new facility in Manesar, though the risk is partly mitigated by the Group's tie-ups with multiple publishing houses - Repro set up a massive facility in Haryana with a capacity to print and bind 24,000 books per day at a total expenditure of ~Rs. 51 crore. Although the facility became operational from July 2020 at a limited capacity because of operational disruptions caused by the pandemic, Repro remains exposed to marketing risks associated with it; albeit mitigated to some extent by the Group'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 to improve its return indicators that have been modest so far.

High working capital intensity - The Group's working capital intensity remained high at 30% in FY2020 owing to a high receivable cycle in the off-set printing business. Nevertheless, it marginally improved from 33% in FY2019 due to reduction in inventory levels, mainly finished goods (front-title stock). Repro's utilisation of its working capital limits was also high during February–June 2020, following the Covid-19 induced lockdown across geographies, resulting in a delay in receivables. The trade receivables appeared stretched at Rs. 110.25 crore as on July 31, 2020, which increased from Rs. 105.81 crore as on March 31, 2020. Also, there was a surge in debtors over 90 days to 68% as on July 31, 2020, from 16% as on March 31, 2020.

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

Liquidity Position: Adequate

The Group has adequate financial flexibility by way of the undrawn working capital limits of Rs. 27.13 crore and free cash/bank balance of Rs. 3.39 crore as on June 30, 2020. This is estimated to enable Repro to maintain a liquidity buffer.

In addition, the Group has undrawn term loan of Rs. 13 crore. In this context, ICRA assesses its liquidity as **adequate**. ICRA derives comfort from the financial flexibility available to the Group by way of undrawn working capital limits, free cash/bank balance and undrawn term loan to help the Group maintain an adequate liquidity buffer at all times, particularly amid the current challenging operating environment.

Rating sensitivities

Positive Triggers – Any upgrade is unlikely in the near-term, given the slowdown in recovery of demand from the key segments of offset printing and one-book printing, which has a significant bearing on the revenues and profitability of the Group.

Negative Triggers – Higher than anticipated moderation in scale of operations along with significant decline in profitability, which deteriorates the financial risk profile of the Group, or lack of commensurate returns from the new investment could trigger a rating downgrade. In addition, any significant delay in realisation of receivables adversely impacting the liquidity position could result in a rating downgrade as well.

Specific metrics: Interest coverage ratio below 3.0 times on a sustained 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, 2020, 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 (the company) provides integrated print solutions to publishers and corporations. The company's standalone business segments include traditional printing (education books/materials), corporate printing (annual reports), e-tailing business and Repro Applied Learning Solutions (RAPPLES). The company has two subsidiaries, Repro Innovative Digiprint Limited and Repro Books Limited (erstwhile Repro Knowledgecast Limited) (printing operations under the subsidiaries were demerged w.e.f. April 01, 2019 and vested in Repro India Limited).

In FY2020, the Group reported a net profit of Rs. 18.8 crore on an OI of Rs. 367.5 crore, over a net profit of Rs. 23.6 crore on an OI of Rs. 399.6 crore in the previous year.

Key financial indicators (Audited)

	FY2019	FY2020
Operating Income (Rs. crore)	399.6	367.5
PAT (Rs. crore)	23.6	18.8
OPBDIT/OI (%)	11.6%	12.6%
PAT/OI (%)	5.9%	5.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.6
Total Debt/OPBDIT (times)	3.3	2.8
Interest Coverage (times)	4.5	4.6

Source: Repro and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for the past three years

	Instrument	Current Rating (FY2021)						Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)	Date & Rating	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	
					07-Sept-20	06-Feb-20	24-Jun-19	16-Jan-19	20-Dec-17	8-Sep-17
1	Term Loan	Long term	34.0	34.0	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)
2	Cash Credit/ Packing Credit/ Working Capital Demand Loan	Long term/ Short term	98.0	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[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+
3	LC/BG	Short term	24.0	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+

Source: ICRA research

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 1	2016	4.94%	2022	6.00	[ICRA]BBB+ (Stable)
NA	Term Loan 2	2020	9.50%	2026	15.00	[ICRA]BBB+ (Stable)
NA	Term Loan 3	2021	9.50%	2027	13.00	[ICRA]BBB+ (Stable)
NA	Cash Credit/ Packing Credit/ Working Capital Demand Loan	-	-	-	98.0	[ICRA]BBB+ (Stable)/ [ICRA]A2
	LC/BG				24.0	[ICRA]A2

Source: Repro

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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