March 23, 2021

Repro India Limited - Ratings reaffirmed; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	34.0	34.0	[ICRA]BBB+ (Negative); reaffirmed, outlook revised to Negative from Stable
Long-Term/Short-Term Fund Based Limits	98.0	98.0	[ICRA]BBB+ (Negative)/ [ICRA]A2; reaffirmed, outlook revised to Negative from Stable
Short-Term Non-Fund Based Limits	24.0	24.0	[ICRA]A2; reaffirmed
Total	**156.0**	**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 Negative from Stable reflects the impact of the Covid-19 pandemic on the financial risk profile of Repro resulting in a 70.1% YoY decline in operating income, net losses of Rs. 37.5 crore, and cash losses of Rs. 18.8 crore in 9M FY2021 as well as the uncertainty associated with revival in sales to stronger levels in FY2022. The shutdown of school and educational institutions and notable moderation in demand from e-commerce platforms and corporates in 9M FY2021 led to a significant de-growth in the company's offset printing business that accounts for about two-thirds of the company's total revenues (~63% of total sales in FY2020). The company's units were not operational for Q1 FY2021 and the Bhiwandi unit only resumed operations in August 2020. While the company's digital printing business' growth was also impacted in Q1FY2021, it has reported a healthy QoQ growth in Q2-Q3 FY2021, despite still being at much lower than expected levels prior to Covid-19 disruption. The pressure on the company's revenues and earnings could abate in the next fiscal with the reopening of schools and colleges with the commencement of the upcoming academic session.

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 and equity infusion through the rights issue earlier.

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 December 31, 2020, Repro had sizeable debtors outstanding from domestic as well as export markets, and the debtors over 90 days surged to 77% as on December 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. Further, the company has raised new term loans in FY2021 to fund its ongoing capex and the same, coupled with decline in earnings, has led to moderation in the company's debt coverage indicators in YTD FY2021.

Repro India Limited had 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. However, it has repaid the same along with the interest obligations. 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.

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.

Healthy growth prospects for digital printing business - 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. The digital printing operations were impacted in YTD FY2021 due to closure of its facility at Bhiwandi until August 2021 and the halt in Amazon and Flipkart services in Q1 FY2021 due to the lockdown. 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 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.

Credit challenges

Notable moderation in financial risk profile in 9M 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

[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.*

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 9M FY2021, led to a steep decline in revenues to Rs. 87.9 crore in 9M FY2021 over Rs. 293 crore in 9M FY2020. However, the offset printing business could recover on the back of healthy order inflows in Q4 FY2021 and FY2022 assuming the reopening of schools and colleges with the commencement of the next session.

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 collection of receivables. The trade receivables appeared stretched at Rs. 74.4 crore as of December 31, 2020 vis-à-vis the reduced operating income in 9M FY2021. Also, there was a surge in debtors over 90 days to 77% as on December 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. 58 crore and cash balance of ~Rs. 3.2 crore as on January 31, 2021. This is estimated to enable Repro to maintain a liquidity buffer. In addition, the Group has raised new term loans of ~Rs. 45 crore in FY2021, two of which have a repayment moratorium (one of 6 months and one of 12 months). 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 and free cash/bank balance to help the Group maintain an adequate liquidity buffer at all times, particularly amid the current challenging operating environment.

Rating sensitivities

Positive factors - The outlook could be revised to Stable in case of sustained recovery in revenue and earnings with a recovery in the offset printing business. Any upgrade is unlikely in the near term as any material increase in the scale of operations or profitability is expected to take place only after a recovery of the company's performance following a recovery in the market conditions.

Negative factors - Continued pressure on the company's profitability which could further deteriorate the financial risk profile of the company or lack of commensurate returns form the new investment. In addition, any significant delay in realization of receivables adversely impacting the liquidity position could result in a rating downgrade.

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).

Key financial indicators (audited)

Repro India Limited Consolidated	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

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument				Current Rating		Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	
					23-Mar-21	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	28.0	[ICRA]BBB+ (Negative)	[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+ (Negative)/ [ICRA]A2	[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]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4	Standby Letter of Credit	Long Term	-	-	-	-	-	-	-	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)
5	Commercial Paper	Short Term	-	-	-	-	-	-	-	-	[ICRA]A2; withdrawn

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 click here

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	FY2016	4.94%	FY2022	6.00	[ICRA]BBB+ (Negative)
NA	Term Loan 2	FY2020	9.50%	FY2026	15.00	[ICRA]BBB+ (Negative)
NA	Term Loan 3	FY2021	9.50%	FY2027	13.00	[ICRA]BBB+ (Negative)
NA	Cash Credit/ Packing Credit/ Working Capital Demand Loan	-	-	-	98.0	[ICRA]BBB+ (Negative)/[ICRA]A2
NA	LC/BG	-	-	-	24.0	[ICRA]A2

Source: Company

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

Source: Company

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About ICRA Limited:

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