June 24, 2019

Repro India Limited: Ratings upgraded to [ICRA]BBB+(Stable) and [ICRA]A2; Outlook revised to Stable from Positive

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+ (Stable); Upgraded from [ICRA]BBB (Positive)
Long-Term/ Short-Term Fund Based Limits	88.0	83.0	[ICRA]BBB+ (Stable)/ [ICRA]A2; Upgraded from [ICRA]BBB (Positive)/ [ICRA]A3+
Short-Term Non-Fund Based Limits	19.0	24.0	[ICRA]A2; Upgraded from [ICRA]A3+
Total	**148.0**	**148.0**	

*Instrument details are provided in Annexure-1

Rationale

The upgrade in ratings takes into account the strengthening of the digital printing business of Repro India Limited (Repro) in line with ICRA's expectations as well as the improvement in the cash flow position during Q1 FY2020 with receipt of Rs. 30 crore against conversion of warrants issued by the company in November 2017 and another Rs. 10 crore in from a key customer as compensation towards shortfall for contracted quantity. The company reported healthy growth in its operating income in FY2019 driven by 14% YoY in the company's offset printing business and doubling of revenue in its digital printing business that has led to higher profits for the fiscal. Further, the company is planning to set up new facilities for its digital printing business in Delhi and Bangalore in FY2020 which would double the company's existing digital printing capacity. While the profitability from the digital printing business has been low so far, ICRA notes the continued improvement in the same with ramp up of operations in recent quarters and expects the momentum to continue. The company would be undertaking debt-funded capex in the current fiscal though the company's gearing and debt coverage metrics are expected to remain comfortable given the improvement in profitability.

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 Delhi 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 account the 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.

Outlook: Stable

ICRA believes Repro will continue to benefit from the extensive experience of its promoters and the healthy revenue growth in its digital printing division. The outlook will be revised to 'Positive' if the company is able to commission its upcoming facilities for digital printing within the budgeted costs and time and achieve the expected ramp up of operations. The outlook may be revised to 'Negative' if the company's working capital cycle deteriorates or the company undertakes any additional debt-funded capex leading to a material increase in overall debt levels.

Key rating drivers

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).

Healthy performance of digital printing business - 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. Company's total e-retail sales increased by 124% YoY to reach Rs. 102 crore in FY2019. The overall digital printing business contributed 34% to the company's total consolidated revenues in FY2019 (as against 23% in FY2018). With ramp up in operations, the digital printing business reported positive OPBDITA[1] of Rs. 2.7 crore in FY2019, compared to losses at OPBDITA level of Rs. 2.5 crore in FY2018, 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, 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 has also received compensation of Rs. 10 crore from a key customer towards compensation for shortfall of

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

contracted quantity in Q1 FY2020 and a similar amount is expected to be received later in the fiscal. The company's capital structure remains comfortable with a gearing of 0.6 time as of March 31, 2019.

Credit challenges

Marketing risks associated with proposed facilities - The company has plans to undertake capex of ~Rs. 65 crore in the near term which largely includes setting up new facilities for digital printing in Delhi (to be partly commissioned in Q3 FY2020) and Bangalore (by end FY2020). 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 31% 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 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.

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:

The company's liquidity profile improved in FY2018 and FY2019 with improvement in receivables position and higher operating profits. Nonetheless, the company's utilisation of its working capital limits remained high until FY2019 due to scaling up of operations in the digital printing business. In the current fiscal, the company received Rs. 30 crore against conversion of warrants and another Rs. 10 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 is due to receive another ~Rs. 14 crore (from the same customer) by December 2019. The company has long-term debt repayments of ~Rs. 23 crore in FY2020 which it should be able to comfortably meet through the cash flows from operations as well as the additional inflows mentioned above. While the company has capex of ~Rs. 65 crore planned in the near term, it would be availing ~Rs. 50 crore debt for the same and thus only limited portion of its free cash flows would be tied-up for the capex.

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
Operating Income (Rs. crore)	324.1	399.5
PAT (Rs. crore)	16.4	23.6
OPBDIT/OI (%)	12.0%	11.0%
RoCE (%)	7.4%	7.7%
Total Debt/TNW (times)	0.6	0.6
Total Debt/OPBDIT (times)	3.7	3.5
Interest coverage (times)	3.0	4.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2019	Date & Rating in FY2019 January 2019	Date & Rating in FY2018 December 2017	September 2017	Date & Rating in FY2017 August 2016
1	Term Loan	Long term	41.0	12.14	[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	83.0	-	[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]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+ (Stable)
NA	Cash Credit/Packing Credit/Working Capital Demand Loan	-	-	-	83.0	[ICRA]BBB+(Stable)/ [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

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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.

For more information, visit www.icra.in

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