

## Transcript

### Conference Call of Repro India Limited

**Event Date / Time** : **22<sup>nd</sup> January 2009, 4 PM IST**

**Event Duration** : **46 min 58 secs**

#### *Presentation Session*

---

**Moderator:**

Good evening ladies and gentlemen. I am Shirley, moderator for this conference. Welcome to the conference call of Repro India Limited. We have with us today Mr. Mukesh Dhruve, Executive Director of Repro India Limited. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press \* and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Mukesh Dhruve.

**Mukesh Dhruve:**

Good afternoon ladies and gentlemen. Welcome to this conference call of Repro India Limited. Yesterday we had a board meeting, which was the first of its kind at our new facility in Surat and at the cost of repetition all of you are aware Repro India is in a very exciting phase of printing and outsourcing. Lot of questions have been asked about what is happening as the recession in the US and other areas. Fortunately, Repro India is not over dependent on a territory or a place. Less than 10% of our exports comes from US and the developed markets. So to that extent I think we are immunized to that situation at present. The business more than looks to be on the up and growth path. I already shared the quarterly figures, but the highlights of the last quarter are that there has been a 88% growth in revenue from 36 crores to 68 crores and a 130% growth in operating margins from 7.37 crores to 16.95 crores. 170% growth in profit before tax and FOREX fluctuation from 4.57 crores to 12.35 crores and there is a decline in the PAT after FOREX from 4.05 crores to 3.37 crores. As compared to that, the nine month figures again to be compared with this. The revenue has grown by 52% from 116 crores to 177 crores, 82% growth in operating margins from 20 crores to 37 crores, 117% growth in profit before tax and before fluctuation, which is 12.21 crores to 26.5 crores. And PAT has grown by 17% from 10.97 crores to 12.78 crores. I think we have great opportunities and the highlights beside the last quarter, the current quarter, is our

order book position is getting better and better and better and we see an exciting future for Repro India Limited in the coming years. I open this for any question and answers that anybody would have now.

---

*Question and Answer Session*

---

- Moderator:** Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.
- Our first question comes from Mr. Jaideep Doshi, an individual investor.
- Jaideep Doshi:** Hello?
- Mukesh Dhruve:** Yes Mr. Doshi, good afternoon.
- Jaideep Doshi:** Good evening sir. It is a very fantastic growth I have seen in this quarter virtually and I hope it will continue so. There is one question that other expenditure head has increased significantly. Is there any explanation for that sir?
- Mukesh Dhruve:** Yeah. The primary reason is the other expenditure has increased because of the expenditure we have incurred more in the Surat facility. The Surat facility is now started totally. So there is an increase in the cost at the Surat facility. Up to last quarter or quarter before that, we had only Mahape at the Vashi, New Mumbai operation, now the Surat facility also has started and lot of operating expenses of Surat facility has come into this quarter.
- Jaideep Doshi:** So I hope this will not continue in future like this.
- Mukesh Dhruve:** I would say it would not continue to this extent, but these are the initial expenses and rather than capitalizing everything we have tried to write it off as much as we can.
- Jaideep Doshi:** Thank you very much sir.
- Mukesh Dhruve:** It's a pleasure.
- Moderator:** Our next question comes from Mr. Nakul Dharmawat of Enam Securities.
- Nakul Dharmawat:** Congratulations on your good set of numbers sir.
- Mukesh Dhruve:** Thank you.

- Nakul Dharmawat:** Sir, couple of questions on your FOREX loss. Any particular reason why there is a huge FOREX loss in this quarter?
- Mukesh Dhruve:** Okay, and what is the second question?
- Nakul Dharmawat:** Second question, your debtor days continue to be on the higher side. Any concrete step to reduce it?
- Mukesh Dhruve:** Okay. I will answer both of them. As far as loss of foreign exchange fluctuation is concerned, this is primarily because of what the Accounting Standard 11, as allowed by the Institute of Chartered Accountants. Their loss consists of two components; one is 6.14 crores, which is basically because of the difference between the booking of the net sales and realization. And the second component is, of course, because of the notional loss on the restatement of the foreign currency loan, which is ECB in our case, as well as the restatement of debtors. Let me explain the first case by a very simple example that will make it very clear. I think this is a question which I was expecting from a lot of people, so let me answer you in-depth in this particular thing. Let me give you a specific example. If I book a million dollar contract today and I kind of contract it for a million dollar and today the dollar being at 49, I would like to conclude the business at 49. Now this million dollar contract I will execute and dispatch in the next couple of months and my dispatch happens by March or April. Now since I contracted my deal at 49 rupees, I would like to tie up my receipts and everything at 49, which is where I have done my costing. So what I will do is, if I sign my contract today, I will try to do a forward at 49 rupees in the quarter in which I am going to get the money. My credit comes normally at 90 to 120 days; I would get my money, say in the Q2 most probably. If I am going to get my money in the Q2 I would do a forward of 49 rupees receivable in the second quarter. Now based on this, when I finish my transaction and when I dispatch this one million dollar worth of goods, which I have done at 49 today, say the dispatch actually happens on 2<sup>nd</sup> of April. On 2<sup>nd</sup> April the dollar, presuming that the dollar could be say at 55 rupees, the Accounting Standard tells me that I need to book my sales at 55 and not 49. So my sales will be booked at 55, instead of booking at 4.9 crores, I will do a booking of 5.5 crores.
- Nakul Dharmawat:** So this 6.14 crores is the differential amount between the 49 and 55.

- Mukesh Dhruve:** That's right. The other way round, suppose on 2<sup>nd</sup> of April when I receive these goods, when I raise my invoice, suppose the dollar becomes 42, then I have to do my sales at 4.2 crores instead of 4.9 crores. The thing is there will be a profit of 7 crores. So this is basically what I am trying to portray to you is, 6.14 according to us is a notional loss, because I have done my transaction at 44 rupees, I have done my forward at 44 rupees, but when my goods left physically, the dollar was say at 48 rupees, so I have done my sales booking at 48. I would have loved to do my sales at 44, not 48. So to that extent if I have to restate my top line, which is right now at 68 crores, I have to reduce the 6 crores, the top line would come down to around 62 crores.
- Nakul Dharmawat:** Okay fine sir.
- Mukesh Dhruve:** And that's why the second portion of the losses...
- Nakul Dharmawat:** Sir, just a continuation of the first question. Is there any hedge here left at the rate of 44?
- Mukesh Dhruve:** No, I don't think there is hedge left at 44, but I have a hedge left at about 44.5 or something for the current quarter, which is the business which I have done in the Q3 quarter. I have in the range of about 44.50 that would be about 8 million dollars. In my quarterly projection of export, it is 10 million plus. And against that whatever interest and whatever foreign imports, which we are doing it, we keep that open for natural hedge. Other than that we try to do a forward cover.
- Nakul Dharmawat:** Okay. And how much is the ECB spending and the debtors.
- Mukesh Dhruve:** The ECB is 7 million dollars, it's a very moderate spending, that is no repayment has started today, so if you recollect in the last quarter also we had a loss of more than 2 crores because the dollar was restated at 47, now in the current quarter on the last day, that is on 31<sup>st</sup> December, the dollar was at 48.45. So that loan has been restated at 48.45. So that as well as debtors has been restated and the debtors in total absolute numbers impact on debtors is about 45 lakhs, debtors would be roughly in the range of about 8.5 to 9 million dollars. So this is the notional loss, which we have to gain if Accounting Standards 11 put it into the account. As far as your second question is concerned, on the sundry debtors, yes it is an area of concern for us, and normal credit period is about 120 days. If you see, by the time you realize the money is coming into the system, it will take 10 to 12 days more, which is what is being shown as 143 days. Yes we are extremely keen in these

circumstances and the situation being globally. We are pushing and we are trying to bring it down to below 120 days, by end of this quarter. That's our target and moving forward in the next year our target, is to bring it down to 90 days.

**Nakul Dharmawat:** Sir, any particular reason, all the clients are the export-oriented clients or...?

**Mukesh Dhruve:** No, this is a mix of domestic and export both.

**Nakul Dharmawat:** See, at present your receiving late is mainly the foreign clients.

**Mukesh Dhruve:** Lot of foreigners as well as Indians also. Lots of Indian customers also have delayed payments. Let me be honest to you, I mean, people who have promised 90 days have taken 100 days, 120 days, sometimes 140 days also. So it is a mix of both, not any foreign customer only. In foreign customers, yes, there is a delay of about 10 to 15, 20 days, but moneys are coming in.

**Nakul Dharmawat:** Quantum is higher in case of foreign players, is it so?

**Mukesh Dhruve:** In terms of our exports, it has been 70%; export to domestic is 70:30 this quarter. So naturally the foreign debtors are higher to that extent.

**Nakul Dharmawat:** Fine sir. Thanks a lot.

**Mukesh Dhruve:** It's a pleasure.

**Moderator:** Our next question comes from Ms. Deepika of Capital Market.

**Deepika:** Good afternoon sir. Nice set of numbers. I would like to know what is the export as a percentage of sales for this quarter.

**Mukesh Dhruve:** Yes. It is indirectly, do you want absolute numbers or ratios. In terms of ratio, it is at 67:33, therefore out of the total sales exports has been at 67% and domestic has been at 33%.

**Deepika:** Okay and how about the sales to turnover ratio?

**Mukesh Dhruve:** Sorry? I didn't get your question Deepika.

**Deepika:** Sales to turnover ratio for the quarter sir, is it audible now?

**Mukesh Dhruve:** Yeah, it is audible. Could you just come again?

- Deepika:** The sales to turnover ratio of this quarter, I mean to say December ended '08.
- Mukesh Dhruve:** Yeah, so you want the breakup of the exports and domestic?
- Deepika:** Right.
- Mukesh Dhruve:** That's what I gave you I thought. For this quarter where we have done 68.26 crores, of that 67% has been exports, in absolute terms 45.73 crores, and the balance 22.52 crores has been domestic business.
- Deepika:** And how is the unexecuted order book for the next quarter?
- Mukesh Dhruve:** The current quarter?
- Deepika:** For the current quarter, yeah.
- Mukesh Dhruve:** I would say for the current quarter, we have order book position of almost more than 50 crores that is for this last quarter. And it is growing at a fast pace and we should be able to do better than what we have done in the last quarter at least.
- Deepika:** Okay and how about the total debt on books?
- Mukesh Dhruve:** Total debt on books is about 52 crores, which is about 143 days of the total turnover that we have done in the current year, I mean current nine months. The current nine months are about 177 crores, that's about 52 crores which is about 143 days, in number of days.
- Deepika:** Okay. And the Surat facility, the Greenfield expansion, is it started in the Q3 only. The previous con call I heard it would be Q4...
- Deepika:** Let me clarify both the points, we had acquired the land sometime in May and in July we had started a pilot production at this facility with one single machine, as you rightly said it was a pilot thing. And in Q3, this quarter ended, we have completed the capitalization totally...
- Deepika:** Pardon sir?
- Mukesh Dhruve:** We have completed the total capitalization that we had planned at that plant. Now the total capitalization is over, and yes, we had planned that we will start 100% commercial production from Q4, which is what is started in

Q3 also. We got the last 15 or 20 days where we could produce quite a bit there. But the real production will come from this quarter from Surat, but that entire Greenfield project is totally completed and ready. In fact yesterday we had our first board meeting in Surat. There our entire external board of directors were present and we were able to see the facility as it has come up. So the entire facility is ready and rearing to go and this quarter onwards we should start getting turnovers of Surat also into this.

**Deepika:**

The Q4 will consist...

**Mukesh Dhruve:**

Q3 will contain Surat, but not as per what we wanted, but Q4 Surat will completely come into it.

**Deepika:**

Okay. And sir the interest, when coming to the interest expenses, this time it was high, can I know on what basis you have booked 2.51 crores of interest cost in this quarter?

**Mukesh Dhruve:**

Yes. That's primarily because of three reasons. Reason #1 is the foreign currency loans that we have taken for the Surat expansion, which is 7 million dollars amounting to almost about 30 crores of rupees. For that interest cost has now started coming as a revenue cost since the capitalization has got over. Second thing is, the turnover has grown, if you see compared to the previous quarters. If you see quarter-on-quarter, from almost 36 crores we have grown to 68 crores. As a result, working capital utilization has increased with the bank. So that is the second reason. And third reason is, the interest cost is really very high for the last quarter compared to the previous quarter.

**Deepika:**

What was the interest cost sir, I mean to say percentage?

**Mukesh Dhruve:**

Yeah, on the foreign currency loans and all everything between 8% to 9%, on the Indian part, which was the cash credit part, it was almost going in the range of 13% to 14%.

**Deepika:**

13% to 14%, it is too high actually, right?

**Mukesh Dhruve:**

It was too high, so we have to minimize that and we are taking more of foreign currency loan, which was a packing credit loan. But even packing credit has gone up much higher than the previous quarters. And in the previous quarters we were getting packing credit loans in the range of 5% and 6%, this was almost in the range of 8% to 9%. Given the credit squeeze everywhere, I think, it was universal throughout the companies.

**Deepika:** Okay. And how about the paper cost sir, generally we will revise our paper, the prices for every quarter, right? How was the variation in the prices for the previous quarter on YoY basis?

**Mukesh Dhruve:** The paper prices till last quarter they were growing and were increasing only. But to our great surprise, international prices have started coming down and we find that compared to the Indian market the international prices have started coming down to the extent of about 10% to 12% and sometimes it is 15% also. So we are seriously considering whether we should start importing the paper in order to take advantage of this.

**Deepika:** Generally what we do sir we use only the domestic...?

**Mukesh Dhruve:** We use mostly the domestic paper and from this A grade mills, which includes your Tamil Nadu Mills, J K Mills, all the reputed A grade mills in India. Their rates have not come down, but the import rates have come down quite a bit so we are seriously considering, and would like to take advantage of the situation. This is the first time that this is happening. The paper prices have always gone up, it has never come down, it's the first time we are seeing a downtrend in that internationally. Indian prices might settle down, we are waiting for that.

**Deepika:** But, they might settle down means, is it...

**Mukesh Dhruve:** Right now nobody has reduced the prices, they are looking at it and I am sure when the competition will increase with the imports, the Indian paper prices might come down. Right now there isn't any great downtrend or the prices have not come down in India at least.

**Deepika:** Okay. And what was the CAPEX plan for this year?

**Mukesh Dhruve:** We have not decided any mega CAPEX plan. We have just finished Surat. We will be putting that into place and definitely will announce it to all of you. Right now there is no specific, maybe we will just do some improvements at our Mahape plant, which will be in the range of about 5 to 7 crores of rupees, which is a continuous process. This is a technology driven business, as and when the technology keeps on changing, we keep on doing improvements in this. There is no major CAPEX expansion as of today.

**Deepika:** Okay, but we were about to plan for the Print City in next two to three years...

- Mukesh Dhruve:** Yes, those plans are definitely on and we are very seriously considering looking at a Print City. That is a mega plan and that's what we call a dream situation. Right now we are putting our basic system into place and definitely we are planning that. But no concrete thoughts or no CAPEX or nothing has been decided on that front.
- Deepika:** And sir I just want to know one more thing, the debtor days I didn't get it clearly. How much was the debtor days?
- Mukesh Dhruve:** The debtors we have 143 days.
- Deepika:** Okay sir. Thanks a lot.
- Mukesh Dhruve:** It's a pleasure Deepika.
- Moderator:** Our next question comes from Mr. Ritesh Poladia of Dolat Capital. It seems he has put on hold sir. I request the participants to press \* and 1 for your questions. Our next question comes from Mr. Parimal Sheth of Ladderup Corporates.
- Parimal Sheth:** Hi Mukesh.
- Mukesh Dhruve:** Hi Parimal. I am good. How are you?
- Parimal Sheth:** Very encouraging results.
- Mukesh Dhruve:** Thank you.
- Parimal Sheth:** And only just because of the FOREX losses there has been impact on the performance, otherwise excellent. I have two questions with me, one is you have made some breakthrough in the government segment in India, is that going to be on the pan India basis, also you are planning this to take on a pan India level? And how it is going to impact our business in terms of revenues?
- Mukesh Dhruve:** Okay. Parimal, we are doing a lot of government work outside India, but not directly to the government, but with the publishers. And we found that we do not have great skill sets to deal with the government directly. And this, if you see, we are dealing through Educomp and I think all of you know about Educomp for unwanted reasons, but we are dealing through Educomp and Educomp is dealing with the government directly. Right now we have contracted them for two governments, which is Andhra Pradesh and Karnataka, but yes we are looking at it as a larger picture and the way Educomp has their plans and all that, we are sure it is going to expand. So definitely it will have impact on our domestic growth. In actual volume terms we are

growing and our long term plans are to keep it at 65:35, 65% should be exports and 35% domestic and keeping in mind 30% growth level, both the business we will grow to that extent. Definitely we will have a domestic business and it will help us in growing in that area.

**Parimal Sheth:**

Okay. But inspite of the recession on the export front, our business is not getting affected?

**Mukesh Dhruve:**

That's correct. You see, there has been a recession overall, which I mentioned in the beginning, but we are mainly into the education segment and children segment. World over education will never come down we feel, because there's a growth in the children and number of children and in some of the countries, which we are dealing with, we are in 16 countries, in different parts of Africa, we are in Europe about three countries, we are in UK, we are in US. The developed countries being what they are, they are doing extremely well. The underdeveloped countries, which are the 16 African countries, the ratio of book to children is almost, the best situation is 1:4, going to 1:6, 1:8. It means one book is shared by eight students. So you can imagine the opportunities that we have in these areas and education is our main focus area and that has been really growing. If you see, inspite of everything, our quarter growth has been fantastic in terms of top line. And we see that, those growth happening again and again.

**Parimal Sheth:**

Okay great thank you Mukesh. Wish you the best.

**Mukesh Dhruve:**

Thank you Parimal.

**Moderator:**

Our next question comes from Mr. Kashyap Pujara of Enam Securities.

**Kashyap Pujara:**

Good afternoon sir.

**Mukesh Dhruve:**

Good afternoon Kashyap.

**Vinay Bhandari:**

Congratulations on good sets of numbers and on your Surat facility also. This is Vinay here, Vinay Bhandari. Just wanted to have a breakup of your foreign exchange loss sir. Sorry, I joined late, sorry to trouble you.

**Mukesh Dhruve:**

Not at all. There is no trouble. The breakup is out of the total amount of 848, 6.14 crores is basically the difference between the booking of the sales and the realization, and the second question of 2.34 crores is notional loss or restatement of ECB and the debtors.

**Vinay Bhandari:**

Right sir, just wanting to have one clarification, on the front of low realization on account of hedging, subsequently going forward in the coming quarters are you going to reverse this entry?

**Mukesh Dhruve:**

It is not, Vinay, I will put it like this and explain it with an example; again I will explain it one more time. If I sign up a contract today at 49 rupees, which is the dollar price today, I get to do a simple forward cover for my 49 rupees. Now by the time I finish the production and dispatch the goods, the date of the sale would be say somewhere in March or April, I mean March, April whatever is the dollar rate I will do my sales at that rate. For example, if dollar becomes 55 then I have to do my billing at 55, if the dollar becomes 42 I have to do my sale booking at 42, but I would have done my forward at 49, which is today's rate, so whatever I realize on that date after the billing, the difference, if the dollar was at 55, then I show a loss, if the dollar was at 42, I show a profit.

**Vinay Bhandari:**

Sir, just a sec. Suppose three months forward sales you are aware of your sales of what you are going to realize after three months, right?

**Mukesh Dhruve:**

That's correct.

**Vinay Bhandari:**

So, against that suppose you have booked for the next, means, March quarter just for a hypothetical situation suppose 44, 45, today you have booked your sales and today only you are going to sell your forward cover?

**Mukesh Dhruve:**

No, I don't do that. I don't book my sales today, Vinay. I get my order today. Let me put it like this, today when I get an order I have done my costing at today's dollar, which is 49 rupees, okay, so when I have done this what I do is knowing that when I am going to realize this I am just trying to protect my realization, which is at 49. I will just do a forward based on the month in which I am going to realize. For example today's contract, which I have say for a million dollar, I will realize it in Q2 that is a simple forward cover of 49 rupees for my Q2. Now my billing can happen in Q1 and the billing can be at 55 or 42, but my realization is fixed at 49, so based on the dollar being on the date of my sale bill will be a profit or loss, but as far as I am concerned it is notional, because I have done my costing at 49, I have done my forward at 49 and I am realizing 49, but the Accounting Standard 11 does not let you book your sales at 49. You have to book your sales in the month in which you dispatch and the rate prevailing on that month.

- Vinay Bhandari:** Okay, so that's only the order amount which we have booked today?
- Mukesh Dhruve:** That's correct.
- Vinay Bhandari:** So, I will keep restating my sales?
- Mukesh Dhruve:** Absolutely because I have no choice, Accounting Standards does not let you do your sales at the booking rate, you have to do it at the actual rates or the rate prevailing in the month of dispatch.
- Vinay Bhandari:** So, this means in the current quarter, which have already gone 6 crores have been over stated, I have to adjust in my sales and 6 crores from the basically post EBITDA?
- Mukesh Dhruve:** That's correct. You are absolutely right.
- Vinay Bhandari:** Okay and how about your Surat facility, sir, in terms of capacity utilization, what max it could go and what kind of revenues we could realize at a 100% odd capacity, sir?
- Mukesh Dhruve:** Yes, I just answered before this. The Surat facility is now completed and we should start the commercial production in full swing from this quarter, but I would put it like this that next year that is '09-'10 we should do minimum top line of between 120 to 150 crores. 120 on the pessimist side, if all goes well we should go up to 150 crores in terms of top line.
- Vinay Bhandari:** Right sir, second regarding your ECB loss of 2.34 crore, sir I assume that we have taken a long term loan against which we are taking a three months forward contract or six months forward contracts?
- Mukesh Dhruve:** No, I am not taking a forward contract that is why it is being restated. You see I have taken a 7 million dollar loan and that is over a period of five years, right now I am only paying the interest cost of that, no repayments have started. This is a moratorium of two years after which the loans have to be repaid in equal installments over a period of three years after that, but the point is that I have to restate these loans unless I do a forward cover. Now, RBI also doesn't let you do a forward cover beyond two years, one year is officially allowed, that you can do up to a maximum of two years. It doesn't make any economic sense to do a forward booking of dollar for a loan, which is repayable after two years, because as and when the loan will become repayable we will have a natural hedge against our exports. So, but at this stage we are not able to do the restatements in quarter 2 closing our dollar

closing was 47, on 31<sup>st</sup> December the dollar was Rs.48.45p. So, the ECB of 7 million has been restated at that price. The difference between 47 and 48.45 is what is now being shown in this account.

**Vinay Bhandari:** And we have booked this at the rate of what, 42 initially when we took this loan?

**Mukesh Dhruve:** Yeah, we got this loan at the average of about 43 rupees.

**Vinay Bhandari:** So, suppose sir, at the time of third installment, which is in the fifth year, if rupee stays at 47 rupees, then on the books we are going to face a loss of 4 rupees?

**Mukesh Dhruve:** Because we have already provided for the loss today. See, this is why they are being restated already. That is the purpose of Accounting Standard 11, so we already restated at 48.45 today. If it stays at 48.45 I don't think there will be a loss, once it goes below 48.45 it will be a profit, but if it goes to 50 and plus, to that extent it is a loss. But, I will have to keep on providing it as gross losses or profits every quarter on quarter.

**Vinay Bhandari:** Okay, but aren't we looking at other exotic options like swaps and all that?

**Mukesh Dhruve:** Vinay, it doesn't make sense for us, two primary reasons, one is since our exports are growing it will always be a natural hedge against this loan and those are some of our products which between you and me I think banks only understand, we don't understand as businessmen. Our business is simple and clear, we want to focus on education books, grow in education books and focus on that business which is really growing very, very fast. We are not in the business of currencies, so why worry about those areas. Because the existing products are something which you know, what has happened to our large corporates, so why enter into those areas which are not our core competencies?

**Vinay Bhandari:** Right sir, thanks a lot.

**Mukesh Dhruve:** It's a pleasure.

**Moderator:** Our next question comes from Mr. Sandesh Shah of K. S. A. Shares and Stocks.

**Sandesh Shah:** Hello, Good evening, sir.

**Mukesh Dhruve:** Good evening, Sandesh.

- Sandesh Shah:** Congratulations for good top line growth.
- Mukesh Dhruve:** Thank you.
- Sandesh Shah:** Sir, I have only one question connected to last my fellow friend asked you about this currency loss, I think it is 6 crore which you have already hedged against our order book, am I right?
- Mukesh Dhruve:** Yes.
- Sandesh Shah:** That is the loss, if you remove that from operating profit our profit comes to around 8.77 crore, which gives us an operating margin of around 13%, which is less than the last year same quarter, can you correct me if I am wrong?
- Mukesh Dhruve:** Yes, you are wrong to a certain extent. If you remove the 6 crores top line will become 62.2 crores and operating margin will come to 10.81 crores. There is a percentage of margin, it will come to between 17% to 18% and not 13% anything at 17 plus percentage and yes, there has been, I mean, I think somebody has already asked this question, I have answered, there has been overhead expenses which have increased and rather than capitalizing we have written it off especially related to our Surat facility and other areas. So, to that extent yeah the margins are down I would say comparatively, it is at about 17% plus.
- Sandesh Shah:** Right, I get you. Thank you very much.
- Moderator:** Our next question comes from Mr. Chandrakumar Shah an individual investor.
- Chandrakumar Shah:** Hello.
- Mukesh Dhruve:** Yes, Mr. Shah, good afternoon.
- Chandrakumar Shah:** Good afternoon. You were telling last time that because you had to go for Surat a lot of outsourcing was done at our Vashi plant, now what is the position regarding outsourcing, has it been completely reduced or is it still going on?
- Mukesh Dhruve:** Because of the time constraints of some of the jobs, we still have to do a bit of outsourcing, but it has comparatively come down and I think from this quarter we should completely remove it. Last quarter we would have done outsourcing in the range of about 7 to 8 crores of business, but from this quarter I think that would completely come down unless there is an emergency and where our both the capacities are completely full, we might have to

outsource, but I don't see much of outsourcing happening from this quarter onwards.

**Chandrakumar Shah:** Second question is now since you said the Surat plant is completely ready, to that extent I think we will be able to maintain the same sales tempo as we have done in this quarter or it will be slightly more in the next quarter?

**Mukesh Dhruve:** We should be able to maintain the same sales quantum in this quarter at least and I would say that from next year, that is '09-'10 you will see a growth happening in overall.

**Chandrakumar Shah:** And third question, if god forbidding or god willing, if the dollar rate comes down to say 40 to 43 by 31<sup>st</sup> March whatever this notional loss we have incurred I think that will be taken care and I think it will turn into profit, sir?

**Mukesh Dhruve:** Definitely it will turn into profit, but to answer your question in a correct perspective, it will be a better position for Repro India that the dollar keeps on going up and not down, because the higher the dollar you are more competitive in the world and you are protected more, because if the dollar is at 48, 49 it's a great thing for exports and we are much, much more competitive than the rest of the world and our realization will be in the range of 48, 49.

**Chandrakumar Shah:** And as you rightly said that you will hedge against your export repayment after two years as per foreign exchange laws.

**Mukesh Dhruve:** Absolutely.

**Chandrakumar Shah:** That will totally nullify and whatever losses we have incurred that is already taken care, because since you have already written off to revenue this our export commitment.

**Mukesh Dhruve:** That's correct, you are right absolutely.

**Chandrakumar Shah:** I feel that the future is very rosy for Repro. I must compliment you and your team of officers, directors and board for a wonderful work, which you have been doing. Of course it is indirectly, education you are concentrating, so you are helping poor countries for education and all those things, so I wish you all the best, sir.

**Mukesh Dhruve:** Thank you, Mr. Shah, thank you for these kind words and we appreciate this.

**Moderator:** Next online we have Mr. Ritesh Poladia of Dolat Capitals.

- Ritesh Poladia:** Good evening, sir. Sorry I was disconnected earlier.
- Mukesh Dhruve:** Good evening, Ritesh.
- Ritesh Poladia:** Sir, just one thing that hedging of 6 crore actually this has been less realized.
- Mukesh Dhruve:** That's correct.
- Ritesh Poladia:** So, for all practical purpose it should get deducted from revenue and hence operating margins should be lesser, isn't that a fair treatment?
- Mukesh Dhruve:** It is a fair treatment my friend and I totally agree with you in principal, unfortunately the Accounting Standard does not permit you this.
- Ritesh Poladia:** Okay that I got that.
- Mukesh Dhruve:** It is in principle and absolutely we would have loved to set our sales at 62 crores and not 68 and that will be the right correct picture, but Accounting Standards does not allow you to do that and that is why if you see my note #2, which we have put up yesterday along with the results, nobody would put this, but we said, no we must disclose it to the world, so we have purposely given the breakup and details and we have gone to the extent of saying, if you read that note, which I can repeat, it is loss on account of foreign currency fluctuation of 848 lakhs for the current quarter includes 614 lakhs representing lower realization on account of hedging of future receivables against which corresponding revenue is recognized under the net sales. I very, very clearly said that it is recovered by the net sales.
- Ritesh Poladia:** Definitely sir, that was absolute fair treatment, I wanted to understand for my analysis purpose, nothing else.
- Mukesh Dhruve:** You are right, absolutely right.
- Ritesh Poladia:** Sir, we have about 8 million dollar at 44.5.
- Mukesh Dhruve:** That's correct.
- Ritesh Poladia:** And assuming if average dollar remains at 48.5, so we will have about 3.2 more crore of this loss?
- Mukesh Dhruve:** That's correct.
- Ritesh Poladia:** Okay and sir, can we have what was the export growth and domestic growth in this quarter?

- Mukesh Dhruve:** Export growth and domestic growth, I don't have those figures, absolute export in this, I think I will mail it to your office, our company secretary will put it on the web site.
- Ritesh Poladia:** No problem, sir and sir, on Surat facility, like what kind of books would be printed over there?
- Mukesh Dhruve:** Education books, mainly education books and for exports.
- Ritesh Poladia:** And those would be in that particular size, because last time when we met we were saying that it would be dedicated machines of a particular size?
- Mukesh Dhruve:** That's correct, dedicated machines of particular size for the education market.
- Ritesh Poladia:** And that would be mainly for Africa?
- Mukesh Dhruve:** Not necessarily, it can be books for all the countries. See, SEZ means it is going to be for exports only. Focus is wherever we get the business, it will be Africa, it will be Europe, and it will be UK, for all the countries.
- Ritesh Poladia:** And sir, there is a small announcement of your tying up with Educomp, if you could elaborate on that?
- Mukesh Dhruve:** We have tied up with Educomp for supply of books to the Andhra Pradesh and Karnataka governments, so that is something which we have just signed up with them and we have just started in this quarter. We thought it is important that everybody knows that we have tied up with Educomp and it is a great business model and the way they are doing it, it's really remarkable.
- Ritesh Poladia:** Okay, so what would be the realization on these books?
- Mukesh Dhruve:** I mean, in terms of top line today we have signed up a contract of about a crore plus and you see they have tied up on their content and other areas with these governments, the content is terrific, so they are going to supply it to these governments and we in turn are going to print it for them.
- Ritesh Poladia:** Okay, that's all from my side, sir. Thank you.
- Moderator:** Our next question comes from Ms. Neha Idnani of Angel Broking.
- Neha Idnani:** Hello.

- Mukesh Dhruve:** Yes, Neha. Good afternoon.
- Neha Idnani:** Good afternoon, sir, how are you?
- Mukesh Dhruve:** Very well.
- Neha Idnani:** Okay, I just needed, sir, can you give me the debt figures?
- Mukesh Dhruve:** The total debtor?
- Neha Idnani:** The total debt, the loan on books?
- Mukesh Dhruve:** Neha, in the range of about with the long-term and short-term together would be about 95 crores.
- Neha Idnani:** And can you give me the breakup in long-term and short-term?
- Mukesh Dhruve:** Yeah, 30 crores is long-term and 65 will be the short-term working capital.
- Neha Idnani:** Okay and sir, I joined a little late, but there is this disclosure from you in your results sheet, which says that there is some readjustment in the public share holding, if you could just give me some clarity on that, like what exactly has happened?
- Mukesh Dhruve:** Yes, you see one of our promoter directors called Mr. Dushyant Mehta, he was a part of the promoter group in 2005 when we came with the IPO, subsequently he decided that he wanted to go into the content creative businesses, so he separated from the core promoters, which were the rest four of us. So, his shareholding was shown as the promoters share holding till two years time, which was allowed under the guidelines. After this now the period is completed, so we are showing his shareholding as a public shareholding only to that extent and there has been an adjustment in the percentage terms, but we have clarified in that note also that none of the promoter directors have sold their shares nor have they pledged their shares with anybody.
- Neha Idnani:** Okay and Mr. Dushyant Mehta also continues to hold the shares?
- Mukesh Dhruve:** Yes, Dushyant Mehta and his family members used to hold some shares, so those shares are still with him, except that they do not form a part of the core promoters.
- Neha Idnani:** Okay, I get it and also sir, could you tell me like our major client segment is the African education space, which is

generally promoted by the World Bank, if I am not wrong and if you could give me like some idea like is there some slowdown from them in terms of projects that they are giving?

**Mukesh Dhruve:**

On the contrary, because one is answering your first part, it is at either World Bank or it is UNICEF or there are some Canadian funds who can't finance for these governments. As far as Sudan is concerned we have not felt that because the demand for the books has grown and we see a great amount of growth happening in the current year also. Before you joined in I had answered this question that in some of the countries where we are supplying books, one book is shared by four students, in some countries by six, some countries 1:8, so one book is shared by eight students. So, we feel that there is a great scope and all these governments have plans of making it 1:1. And today what we are doing is 1:8, 1:6. We see a great scope of growth in all these countries. We have not felt any slowdown in these countries.

**Neha Idnani:**

Okay and can you also give me like, from what I understand is our raw material used to be hedge against our revenues, so I mean, that you are planning to kind of bring down, because you don't see like a cost benefit, so can you tell me what has been the trend, like what was it last year in the same quarter and what has it been this year?

**Mukesh Dhruve:**

See, the main raw material in our case is paper and paper has always been on the up, I mean, it has been rising all the time, especially in India, but in the current quarter, meaning the quarter which we are going under now, we have found internationally the paper prices have started coming down and we are seriously considering an option of importing some of the papers now, which otherwise we were using only Indian paper. So, to that extent the paper prices are coming down and we find that yes, the cost of raw materials will come down to that extent. We will decide over a period of time how much is this that we pass on to the customers, but in our case there is always cost plus.

**Neha Idnani:**

Okay, sir what is the raw material of paper that we import right now, what is the percentage of paper that we import?

**Mukesh Dhruve:**

Right now we would be doing in the range of about 25 to 30% only and that is only for specific purposes, like last year we had done the Infosys annual report and their specific requirement was an environment friendly paper and which we had to import from Europe. So, those are

specific imports which are done for customers. Now we are looking at it that if we can import even for our existing customers and if we are getting a cost benefit as compared to India we would like to continue doing that.

**Neha Idnani:**

Okay and sir, the last question, if you could give me some idea of like how the competition is generally, is there somebody who is creeping up, is there some other player who is kind of...

**Mukesh Dhruve:**

I would put it like this, near from India we are not facing too much of a competition, but the competition is really there from countries like China, from Malaysia, from Singapore, from Hong Kong, from a small country like Mauritius also, so there is a competition from the outside world in fact which is what we are facing. I will put it like this; the opposite is that you need nothing less than 10 to 15 Repro Indias to come in our country to face the challenges. Yeah, because that is the opposition for our country, I am looking at it as an India perspective rather than Repro perspective. If you look at the India perspective, we are sitting on a terrific gold mine as a country. There people are receptive to India. People are looking at doing business with India. What we are doing is less than 10% of what the publishers require. So, if we will have 10 to 15 Repro Indias existing in our country, as a country I think we will do a great business.

**Neha Idnani:**

Okay, thank you so much.

**Moderator:**

We have a followup question from Mr. Chandrakumar Shah an individual investor.

**Chandrakumar Shah:**

Yes, Mr. Mukesh, sorry to interrupt you, disturb you again, is there any bad debt for our sales or something?

**Mukesh Dhruve:**

On the average Mr. Shah, there would be less than 1% which should be the bad debt, which normally you take a view at the end of the year, but nothing substantial or nothing which would worry us. May be less than 1% and normally quarter-over-quarter we would be writing it off, so there are no alarming bells about the bad debts.

**Chandrakumar Shah:**

No, what is our basic export we do on what, either the LC basis or is it on the VP basis?

**Mukesh Dhruve:**

It is on LC basis or VP basis, it is a combination of both and Indian business is open business completely. The bad debts if any would be more from India and less from exports. Hardly any bad debts arising from exports.

**Chandrakumar Shah:** Okay, thank you.

**Moderator:** I request the participants to press \* and 1 for your questions. Dear participants please press \* and 1 for your questions. There are no further questions, now I hand over the floor to Mr. Mukesh Dhruve for closing comments.

**Mukesh Dhruve:** Thank you once again everybody for participating and it really motivates me and we look forward to doing further and further business. I think as I mentioned sometime back this is a great time and great opportunity for India as a country and for companies like Repro India Limited I think we have hardly scratched less than 10% of whatever publishers and the world demands from us. We see a great growth happening and with our Surat facility now coming into place I think this year will be an exciting year for Repro India Limited. Thank you once again for participating and thank you for all your questions.

**Moderator:** Thanks a lot, sir. Ladies and gentlemen this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.