

Transcript

Conference Call of Repro India Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Dennis, 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 keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Mukesh Dhruv. Over to you sir.

Mukesh Dhruv: Good evening ladies and gentlemen welcome back to Repro conference call and I really welcome you again. We missed you for the last two quarters the reason being we said let us finish the year and then we will come back to all of you. I am here to inform you that Repro has done exceedingly well exactly for what I mentioned to all of you in my last conference call. The growth has happened as I think what I had mentioned last time. We have grown at 30% on revenues which has gone from 200 crores to almost 260 crores and the profit has grown. The profit after tax has grown at 30% which is a remarkable thing as we had mentioned last. Business has always been growing in the domestic region as well as export region. Domestic has grown by almost 27% year on year. Export has shown a tremendous growth which is 30%. In terms of turnover the domestic business was at 104 crores compared to 82 crores the previous year. Export has been at almost 140 crores as compared to 108 crores last year. Both the Surat and the Navi Mumbai plants have done very well in terms of growth. Surat has grown almost by 38% and Navi Mumbai has grown by 25%. In terms of assured numbers, 68 crores of Surat has now become 94 crores and Navi Mumbai from 131 crores has gone to 165 crores. Overall export to domestic, the break up has been about 54 to 46. I think more interesting for all of you to know is the return on networth which has really gone up from 14 to 16. Earnings per share has grown from 16 to 21 and the good part is the raw material inventory as well as the finished goods which were at about...raw material which was at about 23 days has now come down to 14 days. Finished goods are remaining at about 5 days.

Key highlight if I have to say last quarter Repro bagged one of the largest orders of export from West Africa which was almost about close to 5 million dollars. We executed some successful contracts in the domestic market especially with the government on the electoral contract. One of the key areas in the domestic market has been growth in the southern Indian market. More important I think for all the share holders to know would be there is cash on the books today of more than 50 crores. Capacity expansions are yet to get into place what I had mentioned last. In Surat we have acquired a new plot

next to our existing SEZ and the expansion should get over by end of this quarter. From next quarter I think commercial production should start. From the third quarter, we really get the results of this expansion. Thank you once again for coming and participating in the concall. I look forward to your questions.

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 keypad 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.

First question comes from Mr. Divyesh Shah from Prayag Equities.

Divyesh Shah: Hello Sir, This is Divyesh Shah

Mukesh Dhruve: Yes Divyesh, good afternoon.

Divyesh Shah: Sir, congratulations for the excellent performance. This is the first time I am attending your conference call. Sir I want to know a little bit deep about our business since you are in the printing solution business. Sir how are we different from the others? What are our differential factors, what is our strength...will you please explain to me?

Mukesh Dhruve: Sure, since this is the first time you are participating, we are a value added print solution company where our focus is more than just printing. It is not that we do normal printing, but we add a lot of value to the printing where we do for clients, the content part of it, the content, creative, designing and servicing. Let me give you an example of product. In India which you must be associated quite well is a product called annual report. Say for some of the large companies like Wipro, Infosys, or the group of TATAs or Colgate or Asian Paints. Normally for the Annual Report they would go to nothing less than four agencies. They would go the advertising agency for the creative part of it, then they would go to a pre-press company then they would go to a printing company for doing the printing of the annual reports and last they would go to a mailing house just to do the mailing of the annual reports. Instead of going through these four agencies, in our case we will do all this under one roof where we have a separate dedicated team of people who will do the content, creative part of the annual report, will do the designing part, we will meet the company officials and understand their policies and what they want to implement and what they want to present in the annual report, what is the information that they want to give the stake holders, we will mention about all that. We will do the designing, we will do the pre-press which is in house, printing of course is completely in-house in our case...not only that, but we have a government approved post office in our premises, so we will also mail the annual report from our own premises. So that is the difference as far as...I am talking about the servicing. We are with the new age printing that is changing; today people are looking at e-book, e-pubs and how to create those. Besides the traditional form of printing that we are doing, we are moving into new areas. Today, we are geared up to do e-books and e-pubs for publishers across the globe. We are also getting into the digital printing which I think is the newest printing which is coming in where a printer demands for example

you demand for one book, ten books or hundred books, we are there to give it to you. Say for example we work with certain publishers like Oracle where if the students require books they don't need to go to Oracle, they can come on our website, place orders with us. If an order comes to me today by 11 o'clock, the next day the books are delivered to any part of India. So our delivery time is exactly 48 hours from the time we get the order. So that is the big difference between us and others. This business requires a lot of soft elements, understanding the customer – what are their needs, how they want to change their books, how they have to attend to the end customers. These are the areas where we have understood not only printing, but we offer them value added services, we will offer them some logistic solution. Take for example some of the large global publishers with whom we are working – take for example McGraw Hill, Oxford or Cambridge or Pearson or the McMillan group...we work with them across the globe. Take for example Longman group, we do business with them in India, we do business with them in UK, we do business with them with all the companies existing in different parts of Africa. And we will understand their entire global needs that serves them completely. So it is not like just vanilla printing...that is something most of the companies will not find everywhere. We are a little different; we will understand the customer's needs, their pain areas and address them completely.

Divyesh Shah: But how are we cost competitive than the rest of the world for a customer?

Mukesh Dhruv: I will put it like this. Take for example the first example I gave you of the annual report...if they go to four different agencies and if they check the cost of all the four of them and compare the cost with us as a single point responsibility the cost is much better than paying to four different agencies. So if we compare apple to apple is that just look at the cost of the printing of annual report they may not find me very competitive, but when they look at all these services together, they find me very, very competitive.

Divyesh Shah: But sir now is the era of fast changing technologies with introduction of e-books, ipads I think physical annual reports...within next two years will be out of question, so are we capable of catering to the hi-tech digital era? How?

Mukesh Dhruv: In fact just to answer this question, this year itself we are seeing a lot of reduction of the physical printing of the annual reports. But what we are offering there is, like I have been talking to the companies this year where we have offered them that we will do an e-annual report for them. So what we are doing is, we will do e-annual report and we will at one stop shop mail this e-annual report to all the stake holders they want to. After they check the stake holders need a copy, they can come back to us; we will print one annual report and send it to them. Today, under the guidelines, if a shareholder asks for a physical copy, the company is supposed to send the copy. So we will still send that copy but then we will only print one copy and send it. That's the one stop solution we are offering to companies and we are geared for this e-business as you are asking, we are ready for that in fact.

Divyesh Shah: Okay, I have some other questions. Let someone else ask and then I will come again.

Mukesh Dhruv: Sure you can come back again Divyesh.

Moderator: Thank you sir. Our next question comes from Mr. Chandrakumar Shah an individual investor.

Chandrakumar Shah: Good evening.

Mukesh Dhruv: Good evening Mr. Shah.

Chandrakumar Shah: Mukesh Bhai I must congratulate you and your whole team of Repro for the wonderful achievement which of course I am watching...I think this is unprecedented in the history of Repro that such a 30% growth of revenue as well as profit has taken place for the first time. So I think you deserve a very, very high appreciation from me as well as all the other shareholders. That part is over. I would like to know what next now? Will you be able to enlighten us of your future estimates and what about the future planning for exports as well as the business and all?

Mukesh Dhruv: Sure. Mr. Shah thank you first of all, we appreciate this gesture of yours. Coming back to the current year and the future year, to answer specifically, we are seeing as I mentioned in my opening remarks, we are seeing a good amount of growth in the current year in India Business as well as exports. Currently in India we were focusing...up to last year itself we were focusing mainly on the western region where we are located as well as the northern region. We are now expanding in another region. We have entered into the southern region last year as an entry point and we did business close to about 20 crores from that region last year. This year we can see a good amount of growth coming from the southern region. Last year was our testing year, but this year we can see a good amount of growth happening there. So India market itself is expected to grow quite nicely as compared to that, export is something where our focus has always been. We are expanding our capacities in the export in the SEZ and going forward at present we will be serving close to about 22 countries across the globe. I think the way we are expanding, end of this year we should grow close to 30 countries across the globe. We see a good amount of growth happening in both the segments. We will be disappointed if we don't grow at 30% in the current year. We will see 30% growth happening at least in the current year.

Chandrakumar Shah: Thank you very much sir and wish you all the best.

Mukesh Dhruv: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Vivek Jain from Allegro Capital Advisors.

Vivek Jain: Good afternoon sir. Congratulations on a great set of numbers. I have a couple of questions. First of all raw material cost as a percentage of sales if you look at YOY as in full year, it has gone from 52% to 59%. On the other hand other expenses have fallen from 22% of sales to 17% so could you kindly elaborate as to what led to increase in the raw material and decrease in the other expenses?

Mukesh Dhruv: As far as the first part is concerned, there was a sudden spurt of raw material cost which has happened twice in the year. In the beginning of last year, which I had mentioned earlier, there was...Chile is where there was an earthquake as a result of which the pulp production had come down globally. Second impact last

year was there was a strike at the ports in Finland which is one of the large exporters of paper basically. As a result of these two factors the paper prices have shot up suddenly. And you know, orders which we have taken we could not pass on this ...very little of the raw material cost to the customers. In the current year, the first...the last part of the current year Jan to March, the paper industry in India started increasing the pricing and Jan, Feb and March all the three months the prices kept on increasing. Unfortunately again the orders which we have taken in the previous quarter which you execute the subsequent quarter, we cannot increase and pass on the increased prices to the customer which we could do in the current quarter of the New Year. As a result of this, the raw material cost went up and that is the difference which you are seeing. Coming to the reduction of other expenses, yes we have been doing a lot of cost correction, we have been putting a lot of you can say controls, and efficiencies which has really improved overall plus another factor which has added you see is the top line has grown and we have not increased the cost as proportionate in the growth of the top line. So yes, we have spent a bit more on the raw material, we are trying to cover it up or try to bring down by efficiencies the other operating cost.

Vivek Jain: Okay and sir, how are the raw materials panning now, as in what percentage do we see panning out for FY12?

Mukesh Dhruv: If you see it in the last year report, close to about 50% - 52%, we are expecting it to be in that range more or less. We should expect in those range.

Vivek Jain: Okay and on the other expenses as the top line increases, as you are saying it would because you are increasing capacities also, so will that number come down further from 17% of sales or is there any expectations?

Mukesh Dhruv: Certainly it will. The top line will grow but percentage will come down. In the current year the focus is going to be on how to improve the bottom line also.

Vivek Jain: Okay, okay fair enough. And then sir, in this particular year what is the distribution between annual reports, books...what is the break up between the product segments?

Mukesh Dhruv: You see the breakup between domestic and export was 54% to 46%...54% was exports, 46% was domestic. In the domestic business annual report is less than about 10% of our turnover now. Main focus is education. In India also we are focusing on education and education is the area where we are really growing.

Vivek Jain: Okay is there any contribution from the magazines?

Mukesh Dhruv: There is but that could be less than 5%. You know these are some of the magazines which we are doing for a very long time. There is not much of value addition which I was mentioning in the beginning because magazine is something designed and done by the publishers of the magazine, it will not add any value in those except the printing part of it and the distributing part of it.

Vivek Jain: Okay. And sir earlier you had mentioned something like annual reports might be phased out by the next two to three years. So this 10% of the

business ...should be...this comes under certain chew by then it might get affected over a period of time. So what will be the growth drivers in case this business suffers?

Mukesh Dhruv: In fact the annual report business has started coming up in the current year...I don't know if you are aware of it or not. But Ministry of Company Affairs have already initiated a green initiative by which they are saying that there is no need to make a physical copy of the annual report to all the share holders, you can send the soft copy of the annual report to the share holders and if the share holder insists then you have to send the hard copy. So I said the printing business of that part is coming down, but as I mentioned I think we will cope it up with our diversification into e-books and e-pubs. We are now moving into the e-annual report which is what we will be doing for a lot of companies. However, it is less than 10% of the domestic business, we see a much, much bigger growth in the domestic business and I don't think this will impact any which way because it is less than 10% of the domestic turnover, I don't think it will impact us any which way.

Vivek Jain: Okay. Sir, generally when we talk about printing in the hard form and printing on the soft copy, and the e-books that you are talking about, are the margins profile similar or they would be different on e-books and on the physical copies?

Mukesh Dhruv: The margins will definitely be better in the e-books. For soft copies they will be much better, except that you must understand that it is just a thing which is beginning. How many people would have iPads and how many people would have Kindles on this earth. And especially if you look at India as a...don't look at only the urban segment, look at the rural segment. Books which we are doing are going to the rural segment also. So how many people will have iPads and this? Just for your information, globally today, yes compared to the printing and the e-books, the e-books are not even constituting about 1% of the total printing business that's happening. It will come down, I am not saying it will not come down...that will come. But otherwise we need to move with the times. Today, we are ready with the conversion we are ready to move in the new segment as fast as we can.

Vivek Jain: Okay. And sir what is the target issue that we have in mind or a ballpark figure for where we see the domestic business versus the international business contributing to the total revenues?

Mukesh Dhruv: We are expecting a growth of at least 30% in both the segments. Domestic business was close to 104 crores, exports was close to about 140 crores last year. We are expecting at least a 30% in both the segments.

Vivek Jain: Okay. I am asking as in the ratio 35:65 or something like that which the company has in mind.

Mukesh Dhruv: We have a ratio of 60:40, 60 would be exports and 40 would be domestic.

Vivek Jain: And sir we earn higher margins on the export front right?

Mukesh Dhruv: That's correct.

Vivek Jain: Okay and sir on the debtor days, in one of the concalls...past concalls you had mentioned that the company is trying to work towards reducing the number of debtor days.

Mukesh Dhruv: That's correct.

Vivek Jain: So currently they stand at close to I think 121 or 117...

Mukesh Dhruv: 117 for the current year, but last year they had gone as high as 141. From 141, they come down to 121 and from 121 we are trying to bring it down to... As of today you are right...as of 31st March it was 117 but our target internally is to bring it down to close to 90 to 100 days.

Vivek Jain: Okay and sir what are the things that you feel would help you bring down this number from 117 to 90?

Mukesh Dhruv: You see the relationship with all our customers basically. The general trend in publishing and printing industry is 120 days of credit. But we are not off the mark if we compare with the rest of the world, but we are glad to say with our relationship how do we bring it down? Well we give only 90 credit terms to all the publishers. Today there is a credit of 90 to 120 days we want to bring it down to 90.

Vivek Jain: And this is common across geographies as in India and exports or...?

Mukesh Dhruv: Across India, across geographies.

Vivek Jain: Okay. And sir inventory days you said standard 25?

Mukesh Dhruv: They were 23; they have come down to 14...1-4.

Vivek Jain: Okay that is just the raw material or the...?

Mukesh Dhruv: Raw material.

Vivek Jain: Okay and we expect them to maintain at these levels?

Mukesh Dhruv: At any point of time we have to have raw materials for at least 15 days with us.

Vivek Jain: Okay. And sir in 2010 we were particularly very choosy on the kinds of projects we were saying that we will only do high margin projects and not go for lower margin projects to fill up the capacity. Has the same thing continued in this quarter also...this financial year or...?

Mukesh Dhruv: We are focusing on that. But you know, this is...as I would say in Hindi language – “Ram rajya”! We want to have the best margins but it doesn't happen all the time and sometime we have taken a high margin job and suddenly the paper prices go up which you cannot pass on to the customer so they do impact. The whole point is how we utilize and keep our capacities up to 80%-85% full. It never

happens that you do 100% capacity utilization. The prudent thing world over is 60% capacity utilization, we are keeping 80%-85% as our target and of course the focus is to look at high margin jobs only.

Vivek Jain: Okay. Sir I have more questions, I will come back in the queue later.

Mukesh Dhruv: Sure.

Moderator: Thank you sir. The next question comes from Mr. Sachin Abhyankar from Transcend Advisors.

Sachin Abhyankar: Hello...?

Mukesh Dhruv: Sachin good afternoon, how are you?

Sachin Abhyankar: Fine sir. Sir couple of questions...basically your growth in PAT and everything is because of a lot of reversal of taxation for the last three years. Can you just explain why and the taxation going forward?

Mukesh Dhruv: I wouldn't say that is 100% correct Sachin. These are genuine tax reversals as allowed by the Institute of Chartered Accountants and they are done by the auditors and our auditors are Ernst and Young if you know that...

Sachin Abhyankar: No it is not about that sir, I was asking about what is the taxation rate for the future.

Mukesh Dhruv: I know, I am coming to that. These reversals are basically we have Surat SEZ which is zero tax? So you don't have to pay taxes in the SEZ profits and in our existing unit at New Bombay, the depreciation level is quite high compared to the income tax and the book depreciation. Because of that you don't have to pay taxes. On books in Mahape you would have higher depreciation as a result of the higher depreciation the auditors suggest that this is deferred tax statement which we need to do. However, they will get reversed as and when we create profits in both these units. The point is current year there will be a reversal because of MAT applicable on SEZ also. Current year also MAT is applicable to the SEZ, so SEZ profits are not going to be completely exempted. So this will get reversed. I would say these are some of the things which are beyond all of us.

Sachin Abhyankar: Yeah but what kind of taxation we should look for the current year?

Mukesh Dhruv: I think we will be in the range of about 10%. We will only have to pay MAT basically.

Sachin Abhyankar: Okay. Second thing sir, can you just throw some light on the other incomes which we have. Like...we always have consistent other income, so do we continue to have so in the range of 9 to 11 crores?

Mukesh Dhruv: Correct. There are a couple of things – one is we get some interest income and as well as...mainly it was interest income and the second thing was there was some foreign exchange gains also. So it is a mix of foreign exchange gains as well as other interests and some dividends which have come in those areas.

Sachin Abhyankar: But this 10 crores of other income which you have shown for the last three years will continue?

Mukesh Dhruv: I think it will continue more or less.

Sachin Abhyankar: Sir, your debt level is around 150 crores right?

Mukesh Dhruv: Debt level is...gross is 150, if you remove the cash on books which is about 50 crores it comes down to 95 crores. 145 minus 50, it will come to about 95 crores which includes long-term, short-term both.

Sachin Abhyankar: Sir, what kind of margin should we look at going forward because you already have shown a margin of 10, 14, 15 and 17? So that is an upward change for the margin so should we take around 15% EBITDA margin to be a safer one or you could end up with 16.5, 17 since you are going more towards the high end works now.

Mukesh Dhruv: Yes, it is difficult to predict at this stage. As I mentioned I may not be able to give you this kind of accurate measurable thing, but all I am trying to say is that we are looking at a top line of about 30%, bottom line is difficult to predict but definitely it will grow, and much better than what we have done in the previous years.

Sachin Abhyankar: Okay and one more last question is can you just leverage the cash flow you have generated from operations after adjusting working capital for current year?

Mukesh Dhruv: Yes, it is about 50 crores.

Sachin Abhyankar: 50 crores? Cash flow

Mukesh Dhruv: Yes, cash on books is 50 crores.

Sachin Abhyankar: No, not the cash on the books, I am taking the net profit adjusted for working capital. The operating cash flows.

Mukesh Dhruv: Sachin I will have to come back, I don't have the paper in front of me now...but we are just waiting for the final signing of the balance sheet...till the auditor signs those numbers it is difficult to quote exactly. Results have been approved in principle completely. I am just waiting for the final signing of the balance sheet by auditors and I will give you these numbers.

Sachin Abhyankar: Okay thanks a lot. If there are any further queries, I will come back again.

Mukesh Dhruv: Sure.

Moderator: Thank you sir. Next is a follow up question from Mr. Divyesh Shah from Pragma Equities.

Divyesh Shah: Hello...?

Mukesh Dhruv: Yes Divyesh?

Divyesh Shah: Sir this once again is a general question sir, since who are our nearest competitor in India or suppose we want to benchmark your company, who can be the nearest globally? How can we benchmark your company?

Mukesh Dhruv: Globally if you look at it, our competition would be countries like Malaysia, Mauritius, Singapore, Hong Kong...

Divyesh Shah: Which company?

Mukesh Dhruv: Wherever I go for exports, we get competition from these countries. If you are looking at companies, you can look at RR Donnelley. You can look at those kind of international global printing company. In India, it is based on the segments, for example annual reports, we get some domestic competition; but otherwise in the education segment there are people like Thomson Press New Delhi, down south you have got a press called Manipal...these are...domestically we have faced a bit of competition but this is not a regularized industry as you know it. There are very few players whom you can count on your finger tips. There will be Thompson, there will be Repro, there will be Manipal, there will be Navneet...Navneet again is a publisher cum printer. If you look at all of them together, they will be competition in different segments. But more than this, all these companies are in the range of 100 to 150 crores each in terms of printing part of it. But there is more competition from the unorganized segment. Printing overall if you look at it in India, there are close to 170,000 printing presses as they call it and recognized printers are five or maximum you can count on your finger tips up to 10. Beyond 10 they aren't (not clear) sales of above 100 crores.

Divyesh Shah: Sir, going forward when we go for high tech digital business like e-books, which are the company you feel you will face competition from?

Mukesh Dhruv: It is difficult to predict at this stage but there are lot of companies coming up in India itself especially because it has more to do with the software part of life. There are companies coming up in Chennai, there are companies coming up in Bangalore...quite a few of them are coming up. These are new areas so I would not say...right now there is no such thing as competition. We are yet to enter into this area in a big way. Once you get into it, definitely you will get to know. As of today it is difficult to predict competition at this stage but a lot of companies in India are gearing up for this.

Divyesh Shah: And sir, how much of our sales come from digital printing work and hard core printing ...paper printing

Mukesh Dhruv: Last year it was close to about 20 crores.

Divyesh Shah: 20 crores was digital?

Mukesh Dhruv: That's correct.

Divyesh Shah: Okay. Sir any CAPEX plans for Surat and Mumbai for the next one or two years? If you can highlight?

Mukesh Dhruv: This year we have planned already in Q1 and last year we had planned and so this year the CAPEX is happening. In Surat we are spending close to about 12 crores and in Bombay unit itself we are spending about 10 crores. So there is a CAPEX of about 22 to 35 crores that is both the places together which has already been planned and happening in this Q1. So my Q2 is when the implementation will get over and we should move on.

Divyesh Shah: And sir, once again one general question...what is your vision for this company for the next 3, 4 years...I don't want for the next 1 or 2 years...how you visualize this company in the coming next 3 to 5 years, with change of technologies and with opportunities in Africa and other countries?

Mukesh Dhruv: I am saying our clear vision would be that we should definitely be close to 500 crores and that is vision number one. If I have to see in three years, definitely we are looking at a 500-crore top line target but more than that we are looking at inorganic growth. You cannot grow in this industry organically; you cannot keep on investing the way we have done. We are looking at inorganic growth and we are looking at inorganic growth both in India and outside India. There are opportunities available in India, in south India, in northern side of India where if we get innovating opportunities, we will look at those opportunities and then we will be closer to the customers. Similar is happening outside India also. Because, globally you must understand the operating margins and printing are close to 2% to 3%.

Divyesh Shah: Okay. Sir, regarding your print on demand, how big is this opportunity?

Mukesh Dhruv: In fact that is where we expect the maximum growth. If you look at it today, the traditional printing is on the reduction as far as corporates are concerned. But for education books, that is coming down. Printer demand is something where we can see at least in a country like India itself there are a hundred million opportunity. How much we can capture we are not sure today.

Divyesh Shah: Okay thank you sir.

Mukesh Dhruv: Okay.

Moderator: Thank you sir. Next is a follow up question from Mr. Vivek Jain from Allegro Capital.

Vivek Jain: Good afternoon sir.

Mukesh Dhruv: Good afternoon Jain.

Vivek Jain: In the press release you had mentioned that you were saying that we have a substantial contribution coming in or a decent contribution coming in from

the southern markets this time. We are basically a western based production house, so would the transportation cost and all those cost be added to the cost sheet when we supply to these markets and won't the players in the southern markets be more aggressive or their cost competitiveness be high compared to when we supply to these markets?

Mukesh Dhruv: You are quite right, that's why I just mentioned some time back that we are looking at opportunities for inorganic growth in the southern side of India where we are trying to look at opportunities where we can have inorganic growth and have a facility which is close to southern area. So we are looking at that as an opportunity. But as far as transportation costs are concerned, just for your information, it is not more than 5% of the total cost both the ways. If you can acquire paper close by and all that...this will not impact your business to be honest.

Vivek Jain: So then what would be the rationale for going in for the southern markets if...what additional cost do we incur when we transport the material to the southern markets?

Mukesh Dhruv: I said it will not be more than 5% cost but more than the cost of transport, it is the convenience, and being closer to the customer that is more important. If a customer is located in southern regions as you said, if something is being produced there, it gets him delivered in time and the comfort level is more important and we can sell to more customers from one place. That is an advantage.

Vivek Jain: Okay, you are saying from a total business side.

Mukesh Dhruv: That's correct.

Vivek Jain: And sir, generally you mentioned that you are looking at something like 22 to 25 crores CAPEX in the next fiscal year. How would the capacities go up and you generally give it in the range of the turnover that we can see from these facilities so what would that number be for Surat and Vashi?

Mukesh Dhruv: In Surat we are seeing that the capacity reaches about 100 crores after this expansion gets over, we will have capacities of close to about 175 to 200 crores. It will grow quite substantially. The Bombay unit the capacity which is at about 160, 165 crores will go up to 200 crores plus again. So both the plants together will have a combined capacity of almost 400 crores.

Vivek Jain: Okay. Sir in one of the concalls you had mentioned that setting up a new plant does not incur the same cost that these plants were built at and it is slightly more expensive. So do we see the return on network that you mentioned at 16% continuing further or do we see it dropping because of the increased CAPEX that we have. I think we should be able to maintain a 15%.

Mukesh Dhruv: Definitely the cost of land and building in all the places have gone up. For example if you take our Mahape unit, the land and building, if you look at the balance sheet is being shown at 7.5 crores which is 140,000 sq. ft. area and in today's market price itself of the land and building it is close to 75 crores.

Vivek Jain: It is almost 10 times. Okay. And sir you had also mentioned that the industry where it stands right now, you see it in a stage where IT was let's say some 10 years back so what belief do you have which makes you to believe in the upcoming growth that you see? What factors do you see driving that growth?

Mukesh Dhruv: It is only believed that definitely printing industry is at the same place which I had mentioned last time 15 years back, not 10, but 15 years back. What IT was to India is exactly printing to India today. If you look at it, today our Prime Minister is in Ethiopia making assessment of how we are growing with the African continent and we see a big amount of growth happening from different countries, you know we are only in 22 countries in Africa. Africa altogether there are 56 countries but the countries which you can go to are 54 countries, there are 2 countries which are politically not viable even to go. So if you look at 54 countries and we are only in 22 countries, so we are in just 50% of the countries that we can actually go. And in the 22 countries that we are into, we are doing hardly 10% or 15% of what the client wants us to do for them. We are limiting the kind of growth. What I meant by IT was, when TCS doing the IT business then you got Infosys, then you got Wipro and Satyam and another 100 IT companies have come after that, all doing very well. Tech Mahindra was no where it is in the top today. All I am trying to say is it is just one Rebro India which is doing, I would not say big business, doing decent business, you need 10 Rebro Indias to take advantage of the opportunities that are there. I am not in a capacity to put up a 1000-crore plant today, because 1000 crores turnover is possible if you have that size of plant. The point here is we are looking at opportunity which is quite big. To capture that you need this kind of people coming in.

Vivek Jain: You are saying the market opportunity exists to a very large extent?

Mukesh Dhruv: Absolutely.

Vivek Jain: Okay. And in terms of India if I look at is there any zonal difference that you see between the growth rates that each of the five zones are witnessing or it is a pan-India almost the same level growth in all the five regions?

Mukesh Dhruv: I think all the five regions would be growing at the same level. Maybe as you said there will be a percentage difference up and down, otherwise the whole of India is growing and it is changing. As I said in India there are 170,000 printers. Organized players are not there. More people want organized players who can give them one-stop solution. So that's what we are looking at.

Vivek Jain: Okay. And sir generally when we price our products, let's say annual reports or the books that we do...we price it on a percentage basis of the sales price or we do it on a per tonne basis as in how does the cost card look like?

Mukesh Dhruv: We do it on a cost plus basis. It will include typically the raw material cost, other consumables, your overheads, your marketing cost and your margin.

Vivek Jain: The margins we charge are on a per tonne basis or on a percentage basis?

Mukesh Dhruv: On a percentage basis.

Vivek Jain: Sir one or two last questions. Generally when we do the entire turnover this year, did we outsource some part of it or was it completely based out of our facilities?

Mukesh Dhruv: We did outsource some part of it.

Vivek Jain: Okay, that number would be very small?

Mukesh Dhruv: Yeah that number in 250 crores would be less than 20 crores.

Vivek Jain: And we would be earning lower margins on this business right?

Mukesh Dhruv: Certainly.

Vivek Jain: And sir what would be the maintenance CAPEX that you would spend on each of these plants each year?

Mukesh Dhruv: The new plants would not have much great maintenance because that is covered under warranties for at least 18 months. The plants which are 3 years, 5 years old on the average about 4% to 5% as they grow old, roughly in the range of 8% to 10%.

Vivek Jain: Okay in the beginning, 3 to 4 years you are saying 5%, and then 8% to 10%?

Mukesh Dhruv: That's correct.

Vivek Jain: Okay and sir other than that, one of the earlier participants had asked what is the competitive advantage that you guys have, to which you replied we are basically a value added print service provider. So apart from that it is difficult for me to see as an outsider what value addition happens. So is there anything else apart from the value addition and the customer centric focus driven organization that we are. I think these are the two important factors. Third is...like in software industry, here there is a lot of soft elements. The customers you start dealing with them, you start handling them, there is a lot of comfort that your customers grow with you. It is not hard core printing or hard core content or hard core design or something which you sell, it is the comfort that the customer gets with you and all said and done the soft element are so important, I would say marketing that would be almost more than 50% what contributes to your business. Because there is a lot of comfort that the client gets once they start billing with you as a company, so they start billing with the people that they are dealing with.

Vivek Jain: Okay so you are basically saying both the product and the service go hand in hand for us?

Mukesh Dhruv: Combination of both.

Vivek Jain: And sir just the last question from my side, when we report the FOREX gain or loss for every quarter, where do we...which P&L line item do we report that number?

Mukesh Dhruv: As per AS11, the normal FOREX is either taken care in other expenses.

Vivek Jain: Do we report it in other income by any chance? No?

Mukesh Dhruv: No. In the previous year yes, in the other income as gain; current year I think there has been neutral almost.

Vivek Jain: I did not get that sorry sir.

Mukesh Dhruv: I am saying there is not much foreign exchange gain or loss.

Vivek Jain: In this full fiscal year or just the quarter?

Mukesh Dhruv: Full fiscal year more or less.

Vivek Jain: Full fiscal year. But going forward we will continue to report it in other expenses right? Not in other income?

Mukesh Dhruv: Yeah because that's what the BSE guidelines and the Listing agreement guidelines say. You are not supposed to show it as a separate line item.

Vivek Jain: Okay that will be in other expenses going forward.

Mukesh Dhruv: Thank you so much and that's it from my side.

Moderator: Thank you sir. Next question comes from Mr. Anand Raghavendran from Allegro Capital.

Anand Raghavendran: Hello sir.

Mukesh Dhruv: Yes Anand?

Anand Raghavendran: Earlier you had mentioned that 10% of your business comes from annual reports and the rest from education. What is the split in terms of export business between these divisions?

Mukesh Dhruv: Exports is 100% education books. We don't do annual reports for the export market at all. It is mainly education books and children's books.

Anand Raghavendran: Okay so it is purely into education and children's books. And sir, between these two divisions, annual reports and education, which has higher margins?

Mukesh Dhruv: I would say the margins would be almost similar; EBITDA levels would be in the range of about close to 15% in both the businesses.

Anand Raghavendran: And in terms of domestic and exports, export has higher margins but what about....

Mukesh Dhruv: The reason is one is we get definitely better realization plus the advantage is being in the SEZ we don't pay excise duty, we don't pay any duties, no taxes so that gives definitely an advantage. It is an advantage to that extent. Of course the margins are a little better compared to the domestic.

Anand Raghavendran: And what would the difference be sir?

Mukesh Dhruv: Difference would be almost 10 basis points. Exports would be in the range of about 25% at operating level.

Anand Raghavendran: Okay sir, that's all from my side thank you.

Moderator: Thank you sir. Dear participants please press * and 1 for your questions. I request the participants to press * and 1 for your questions. Next is a follow up question from Mr. Divyesh Shah from Pragma Equities.

Divyesh Shah: Hello sir, I have one request...it seems we met only at the IPO face to face so kindly have one analyst meet within next one or two quarters to have a one-to-one meeting if that is possible. We have a very good story to tell because we are an investing community. It is almost five years now; we have never met at an analyst meet. So if you can arrange one analyst meet please.

Mukesh Dhruv: Sure we can do that, but irrespective of that we will arrange that, but you are always welcome to the office at any time that you want. You can fix a meeting and you can come across to the office. You can even attend our AGMs. Keep track and our company secretary will inform you if you want. You can attend the AGM and you can ask all the questions that you want.

Moderator: Thank you sir. Next is a follow up question from Mr. Vivek Jain of Allegro Capital.

Vivek Jain: Hello...?

Mukesh Dhruv: Yes Vivek?

Vivek Jain: Sorry to bother you. I forgot to ask one question. I just wanted to know, you mentioned that Surat and Vashi will go to 200 crores by this fiscal. So at what quarter are we looking at that? When would the capacity be on stream?

Mukesh Dhruv: As you know the capacity expansion is happening this quarter, by next quarter expansions would be done. End of second quarter the capacities will be into play completely in both the plants. Okay from the third quarter onwards we can see the change in the growth.

Vivek Jain: That's it sir, thank you.

Moderator: Thank you sir. Dear participants please press * and 1 for your questions. There are no further questions. Now I hand over the floor to Mr. Mukesh Dhruv for closing comments.

Mukesh Dhruv: Good evening friends again. I would like to say a big thank you to all of you for coming and participating and sharing your thoughts. I look forward to seeing you all on the next concall. I must end up by saying that this year looks to be more exciting and we can see a good amount of growth happening in both the segments as I mentioned and this seems to be a good year ahead. Thank you for being there. Good again to have you back.

Moderator: Ladies and gentlemen this concludes your conference call 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.
