

## Transcript

### Conference Call of Repro India Limited

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#### *Presentation Session*

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**Moderator:** Good evening ladies and gentlemen. I am Ruchi, 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 Dhruve. You may go ahead, sir.

**Mukesh Dhruve:** Good afternoon all my friends, ladies and gentlemen. Welcome back to the concall of Repro India Limited. Yesterday we had announced our results at the Board Meeting held yesterday in Bombay. Just to give you a very quick review, it has been an interesting and very exciting quarter for Repro India Limited. Repro has, as you all know, has now metamorphosed into a content delivery and content solutions company, wherein we are providing solutions to almost all the publishers globally on education and keeping in mind not only the press media, but even the digital media now. Going ahead we see exciting times and we see a great year to come forth.

Very quickly I will summarize the results for all of you. As you must have seen, there has been a growth in revenue by about 18%, 65.32 crores has become 77.36 crores, quarter over quarter. Operating margins or operating profits have grown from 9.52 crores to 13.08 crores. There has been a 66% growth in the profit before tax, 5.10 crores has become 8.47 crores. An 84% growth in profit after tax, 5.10 crores has become 9.4 crores. If we take the half year or, sorry let me give the Surat and the domestic and export break up also. Between Surat and Navi Mumbai, the two plants that we are running, Surat from 21½ crores has grown to 36.44 crores and Navi Mumbai from 43 crores has become around 40 crores. The export, domestic ratio what was 45-55 is now 41-59, 41% is in domestic and 59% is the export for the quarter.

With 30<sup>th</sup> September we have closed also the first half and if you take first half to the previous year first half comparable, there has been a 20% growth in the revenues, 125 crores has become 150 crores. 64% growth in the operating profits, 15.81 crores has become 25.93 crores. 138% growth in the profit before tax, 7.14 crores has become 16.96 crores and 125% growth in profit after tax, 8.04 crores has become 18.10 crores. If you look at the overall picture of the first half compared to the previous first half, the domestic business has grown by 5%, 58.16 crores has become 60.85 crores and exports has grown by 32%, 67.4 crores has become 89.27 crores. Between Surat and Navi Mumbai, Surat from 44 crores has become 66 crores and Navi Mumbai from 81 crores has gone to 83 crores. The Chennai plant we just took over on 16<sup>th</sup> of August.

We got just a months production there and we did about 96 lakhs there. The export and domestic ratio 46-54 has become 41-59, 41% was domestic business and 59% was the export business.

Key financial ratios if you look at that, the return on net worth are annualized from March as compared to March 2011 and 30<sup>th</sup> September 2011, the return on net worth has grown from 16% to 24%. The return on the capital employed has grown from 9% to 13%. The earnings per share from 21 to 34. The long term debt equity from 0.49 it has come down to 0.41. Number of days of raw material, 14 has become 16, an increase of two days there. However, number of finished goods and work in progress has come down from 5 days to 3 days. The average collection period has gone up from 118 days to 128 days.

It has been an interesting quarter and an interesting first half and we see a lot of exciting times ahead. I look for your question and answers.

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#### *Question and Answer Session*

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**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 \* and 1 again.

The first question comes from, Mr. Jigar Shah from Kimeng India. You may go ahead.

**Jigar Shah:** Thank you. Good evening Mukesh bhai. Very hearty congratulations for an excellent performance. And I hope you continue to do that going forward. I have a few questions. One is, is the capacity expansion at both plants now over and can you give me the details of the latest capacity?

**Mukesh Dhruve:** Sure. At the end of last year we started the expansion plans in the Mumbai plant as well as the Surat plant. And both the plants expansion as far as the CAPEXs are concerned, all the capital, all the plants and machineries have already arrived. In Surat, the entire expansion is over on 30<sup>th</sup> September. From 1<sup>st</sup> October, the new expanded capacities will be available to us, where we put in about two new web presses with double tower, which have got very, very quick printing capacities and we brought in a new binding line in Surat, plus we have acquired a new plot of land next to our existing plot from where we are going to do a lot of finishing goods and a lot of raw material inventory and everything will be warehoused there, because this plant is now getting completely choked up. As far as Surat is concerned, overall is the expansion got over on 30<sup>th</sup> of September. As far as the New Mumbai is concerned, the major plant and machineries have already arrived. By about 15<sup>th</sup> November, we should complete that expansion and machines should be installed. We can say fifteen days of trial runs effective from December; we should have the expansion at New Mumbai also completed over. The third of course as you all are aware, we have acquired the Macmillan printing units with effect from 16<sup>th</sup> of August. And by the time we actually took charge and started, we just got about a month's production. But, we have started in this quarter to get the utilization of the Macmillan unit also. So, that is the current position of all the three plants together.

**Jigar Shah:** But generally in terms of your printing capacity and also approximate turnover making capacity, can you give some idea of the capacity now vis-à-vis say, last year?

**Mukesh Dhruve:** Yes. As of 31<sup>st</sup> March, our capacity, combined capacity between Surat and Bombay together were about 300 crores, against which as you are aware we have achieved top line of about 268 crores, which is almost about 80%-85% running of capacities, which is the maximum peak that you can get in a printing industry. As compared to that, after completion of all these expansions, our top line will go almost up to 550 to 600 crores in all the three plants together. So, we should comfortably do about 600 crores in terms of capacity. Till we achieve the top line of around 600 crores, I don't think we will need any more CAPEX for expansion now.

**Jigar Shah:** Okay. Now having said that, in the first half we have done 150 crores, Surat is already with you and I think Navi Mumbai you will get one quarter. So, do you think in H2 you can exceed the turnover of H1?

**Mukesh Dhruve:** We are targeting that, but it is difficult to say, because once the capacities are into place, then we can start marketing those capacities. Up to now we have not started marketing the capacities full fledged. So the moment you start marketing, you get large orders and if you don't execute them, it's a pitfall. So, now the capacities are being put into place, we will start marketing, I would suggest last quarter we should get a better capacity. But, post that I would say that the real benefit of these expanded capacities will definitely come from the next year.

**Jigar Shah:** Okay, but you are not, for this year you are not putting out more than 300 crores of revenue target?

**Mukesh Dhruve:** I would put it anything between 300 to 325. We will be disappointed if we don't do 325, to be honest, that has been what we have been saying. We are targeting that, but yes, that's what we are expecting at least. It should be anything between around 325 plus.

**Jigar Shah:** Okay, I appreciate that. Second point is about the taxation. I think this time also you have got the MAT credit, so can you give an idea about full year what will be the tax that you will pay or what will be the tax position overall?

**Mukesh Dhruve:** Our Surat plant is in the special export zone, where the first years there is no taxation. Now we have just finished three years, two more years are left of that zero tax in Surat. However, effective this year there is MAT applicable even to the SEZ. So, what we are doing is, whatever is the MAT applicable, there is a cash flow impact, so we need to pay that MAT, minimum MAT that is applicable, so that process that we are having in Surat. However, because after two years, we will end up paying 50% tax for the next five years, the tranche of this final exemption will get over in 2013. So, 2013-14 onwards we will have to pay tax at 50% of our profits. As a result, whatever MAT we are paying right now, we are getting credit of that and we get the offset in the year 2013-14. As a result, the accounting standard allows you that you don't need to debit this to the profit and loss account, since you are going to get a set of in 2013-14. And since we are a profit making company, we definitely are sure that we will end up paying taxes from 2013-14. So, there is no impact in profit and loss account. However, there is a cash flow impact of the MAT.

**Jigar Shah:** Okay, okay. So, as the cash flow you are paying out the MAT, but in the books you can adjust that?

**Mukesh Dhruve:** That's correct. We can adjust that, because we will be ending up getting the credit of this tax in the year in which we are paying tax. So, this is exactly as per the accounting standard and not by the chartered accountant.

**Jigar Shah:** So, this year we should expect whatever profit that you are doing, PBT is almost PAT?

**Mukesh Dhruve:** That's correct, more or less, yes.

**Jigar Shah:** Okay. And I have couple of small questions. One is, if you see now with the rupee depreciation, you have two impacts. One is, for whatever borrowings that you have and imports that you may have and the other end is exports, so what is the net-net effect on the company as a result of the rupee depreciation in the last two-three months?

**Mukesh Dhruve:** I will say it like this, it's a great opportunity with the rupee depreciating, we will become more competitive in the outside world. When the rupee was at Rs.45 or so, we were getting good business, with rupee become Rs.50, we will be more competitive in the outside world. So, I would say for exporters like us, it's a big opportunity and we would say, we are happy with rupee being at 50 plus. It's a great opportunity for us and we will be more competitive. And of course, we will get advantage of the depreciation of the rupee. The other question, as far as the ECB loans and imports are concerned, definitely imports booked are expensive to that extent, but our imports are very negligible, I would say, less than about 5% of our raw material is imported. So, imports will not have a major impact on us. And as far as our ECB loan repayments are concerned, it is a natural hedge. We have taken in dollars and we are repaying in dollars. So, if the dollar becomes 40 or 50, we are repaying back in dollars. We are earning in dollars and we are paying back in dollars, so we have a natural hedge for that. So, the repayment of loans will not have much of an impact on us.

**Jigar Shah:** Generally are you keeping any hedging policy or any forward covers or anything?

**Mukesh Dhruve:** Yes. We have a hedging policy, which I have explained a couple of times on this concall and I will repeat that hedging policy again, for a lot of people who have come on for the first time. We have a simple hedging policy which has been approved by the Board, which says that whatever is our quarters debtors or receivables or business that we can see, we take that, let's deduct from that the ECB repayments, debit from that the interest payments and imports, the net of that, almost 80% is something which we hedge. And hedge is the simple forward cover. So, if today for example, if rupee is at Rs.50 and for the next quarter or the quarter after next we will get somewhere in the range of about 51 or 52 and if it adds business which is going to come in that particular quarter, we will do a simple forward cover, for which we will be hedged against 51 or 52. So, it's a very simple hedging policy, where whatever is the current receivables is what we hedge, that's all.

**Jigar Shah:** Okay. And the last couple of points which I want to have is, your receivables have gone up a bit, whereas you've said that earlier it will probably come below the 100 days level and also whether you have been able to receive the past receivables which were supposed to be made good.

**Mukesh Dhruve:** Yes, I would say all the past receivables have been received. The outstanding of more than 180 days is hardly about I would say about 2-2½ crores. So, most of the old outstanding have been received. As far as the outstanding increasing, the top line as you can see has grown by almost 25 crores half on half year. A lot of this 25 crores have come in the current quarter, the top line has grown because of the growth in the current quarter as well and in tradition, normally the publishers are expecting 90 to 120 days. So, what has happened in the last 45 days, most of it has been shown as outstanding, which is I would say aberration for a period. But, by the end of the year, I think this will come under control completely.

**Jigar Shah:** Okay, okay and last thing is that for H1 you have done 17% kind of EBITDA, you are saying that it is possible to maintain in the second half?

**Mukesh Dhruve:** We are targeting that and definitely our maximum efforts Jigar, are going toward maintaining the EBITDA levels. As I have said in the past, it is not only the top line growth we are looking at, we are looking at the growth on the bottom line, which is critical for the business. And lot of, couple of things which have added to that is, one is the top line has grown, the fixed cost is remaining at what they were, all the operation cost, the raw material costs have come down and efficiencies have improved in both the plants with a lot of automation happening. I think we should be able to retain or maintain these levels.

**Jigar Shah:** Okay, okay, thank you very much and wish you all the best.

**Mukesh Dhruve:** Thank you Jigar for everything.

**Moderator:** Thank you sir. The next question comes from Mr. Chandra Kumar Shah, an Individual Investor. You may go ahead.

**Chandra Kumar Shah:** Hello.

**Mukesh Dhruve:** Yes Mr. Shah.

**Chandra Kumar Shah:** Very hearty congratulations Mukesh bhai to you and your team, the whole team of Repro for making Repro one of the proudest companies for me to invest. Most of my questions, I think the first question you have already answered. The only thing, one small thing is that, do you propose to pay any interim dividend or any bonus or anything? That was the only thing; I don't know whether it is fair on my part to ask such a question.

**Mukesh Dhruve:** No, it's a fair question, you are the owner of the company and you can ask any question that you want Mr. Shah. But, to answer your question, no, we are not going to declare any interim dividend at this stage. As you are aware, we have done a lot of expansion and lots of capacities have been increased in both the plants and we have utilized a lot of internal generations for these expansions. But, I will put it like this; at this stage it's too early to issue a bonus. Interim dividends, I don't think

we will be giving this year at all, because of the expansions we have done. However, you can look forward to a generous dividend at the end of the year, subject to the profits and subject to what the Board agrees at the end of the year.

**Chandra Kumar Shah:** I hope you maintain the same rate as at least last year, if not more.

**Mukesh Dhruve:** I sincerely hope so for all of us.

**Chandra Kumar Shah:** Thank you very much and wish you all the best, because almost all questions you have already answered and wish you all the best sir. Thank you sir.

**Moderator:** Thank you sir. Next question comes from Mr. Kiran Vora from Mayur Share Broking Private Limited. Please go ahead.

**Kiran Vora:** Congratulations.

**Mukesh Dhruve:** Yes Mr. Vora. Yes, Mr. Vora I can hear you.

**Kiran Vora:** Almost all my questions have been answered, but I would one small I would like to ask. Whatever we are exporting, how much is the forex profit or loss on that?

**Mukesh Dhruve:** From the export, I didn't get you, just come again.

**Kiran Vora:** In last quarter, whatever we have exported, we have earned any extraordinary forex gain on that?

**Mukesh Dhruve:** No, no extraordinary gain on any forex. We do a simple forward cover and there has not been any extra gain or anything on the forex this quarter.

**Kiran Vora:** Okay sir, thank you very much.

**Mukesh Dhruve:** Pleasure.

**Moderator:** Thank you sir. Next question comes from Ms. Sara Jain from Envision Capital. You may go ahead ma'am.

**Grishma:** Hello.

**Mukesh Dhruve:** Yes please.

**Grishma:** Hi, this is Grishma here. I just wanted to know what led to an improvement in the receivables this time and if you could highlight how sustainable that would be?

**Mukesh Dhruve:** Grishma, are you talking about receivables or are you talking about operating margins?

**Grishma:** No sir, receivable days. They have improved this time, right?

**Mukesh Dhruve:** No, the number of days has gone up, if you are including the last quarter. In the last quarter, the number of days has come down from 141 to 118, this quarter the number of days has gone to almost about 128. It has gone up slightly, but to answer your question, yes, we are working. A lot of publishing clients expect credit, the general credit number of days in publishing is about 120 days plus. And when they ask for 120 days, they go to 130-140 by the time you realize your fund. However, we are renegotiating our terms with most of our publishers and we are trying to bring it down to 90 days. And that is the aim that we are targeting to achieve as far as possible. And definitely we are quite optimistic that we will reach to, close to this target by the end of the year. But definitely yes, the old debtors which I think Mr. Jigar Shah had asked, a lot of the old debtors have been collected and we are in quite a healthy position as far as sundry debtors are concerned over us. We don't see any bad debts or any debts becoming doubtful in the current quarter and as well as the next quarter now.

**Grishma:** Okay, okay, fine. Thank you.

**Mukesh Dhruve:** Pleasure.

**Moderator:** Thank you ma'am. Next question comes from Mr. Nayan Mehta from 21st Century Shares and Securities. You may go ahead, sir.

**Nayan Mehta:** Yeah, congratulations on a good set of numbers and also congratulations on addition of Baker & Taylor, BPP and Random House to your client list.

**Mukesh Dhruve:** Thank you.

**Nayan Mehta:** Can you tell us what kind of opportunity would we be having from these three newly acquired clients?

**Mukesh Dhruve:** All these three clients have come in, in our new business segment which is the print on demand. And as you are aware all these three are large publishing houses based in UK and US, both. We have got an opportunity to begin with them in this quarter. Going forward, we see the print on demand business growing very, very fast with all these three customers. And once they are satisfied on the print on demand, we can print the normal educational books also coming from these publishers. Each client, the three names that you have mentioned, between the three of them combined, they do a turnover of close to a billion dollars, between the three of them together. And they would be outsourcing close to about more than 200 million dollars. So, if you look at those numbers, it's a big opportunity in times to come. We have just begun with them, it's too early to predict what we will get, but I believe it's a big opportunity for Repro to grow with these three clients in times to come.

**Nayan Mehta:** Yeah. And my second question is, whether you will be having any exclusivity for printing for them? Would it be something like 100% outsourcing from Repro or something of that sort or whether they are also having many different vendors?

**Mukesh Dhruve:** No, they are having many different vendors and none of the publishers globally will have any exclusivity with anybody, I will put it honestly. Because, for publishers they would like to do wherever is most convenient to them. So, I would put it like this that there would not be any printer who would have exclusivity with any publisher at any point. Take RR Donnelly or any big printing companies globally, none of them would have any exclusivity. However, I will put it like this that the amount and the outsourcing that they do is so large, I don't think any single vendor can handle them completely, because of the amount of outsourcing that they do. So, very formally answering, no we don't have exclusivity with them, but we see a big opportunity of growing with them. I would say that if they do 10% or 12% of their outsourcing budget, will fill up all our capacities, all our three plants together.

**Nayan Mehta:** So, with the new three acquired plants, what is the total number of clients you have as of now?

**Mukesh Dhruve:** As of now if you take India, we have more than hundred clients in India and if you take exports, we have close to about 55 clients.

**Nayan Mehta:** 55?

**Mukesh Dhruve:** Yes.

**Nayan Mehta:** And we have seen slower growth in domestic as compared to exports, also our mix has changed from 54% to 59% in case of exports. What should be the trend going forward, whether we will see some similar trend in the second half and improving further in the next year?

**Mukesh Dhruve:** In India, the education market starts in the second half of the year. As you know most of the schools open in March, April, June and onwards. So, all the education publishers normally come in the second half, starting October to March is the peak for the Indian education market. I will put it like this; India market will start growing and will show better numbers in the second half as compared to the first half. As far as exports, we are expecting a good growth there also, but this is slightly skewed up, because export was really good in the first two quarters. For the second quarter, I think India will catch up with exports. Ideally it will be in the same ratio of 45-55, that is 55% will be exports and 45% should be domestic. But, both the markets are expected to grow.

**Nayan Mehta:** Okay. And how much was the impact on exports solely arising out of rupee depreciation? I am sure you would have got a better...

**Mukesh Dhruve:** I will put it like this; this gives us a big opportunity, because we become more competitive in the outside world. When rupee was at 45, we would be less competitive. Now it's 50, we can beat China, we can beat Malaysia, and we can beat all these Far East countries. So, with rupee depreciating, it's a big opportunity for people like us and we will become more competitive. So, I will put it like this, it's a big opportunity. And whatever business which we tie up, we will do a simple forward cover or hedge as I mentioned just a few minutes back. So, it's a good opportunity for exporters definitely.

**Nayan Mehta:** Yes sir. And can you give some update on Macmillan, what is highlight of Macmillan's performance?

**Mukesh Dhruve:** Yes, we have just acquired the printing unit on 16<sup>th</sup> of August. So, we just got about a month's performance there. We have done about, close to about a crore; the exact figure is 96 lakhs. But, starting from this month, I think we will exceed those numbers and we should be able to include those numbers. Macmillan business, what we had agreed as per our agreements has started coming in and we have started executing the Macmillan business already. So, I think over the next six months a lot of Macmillan business will start happening very, very fast now.

**Nayan Mehta:** The guidance you have given for 300 crores revenue or thereabouts...

**Mukesh Dhruve:** 325, yeah, around 325 is the guidance.

**Nayan Mehta:** Would include Macmillan?

**Mukesh Dhruve:** I would not say guidance, but I will put it like this...

**Nayan Mehta:** Yeah, I mean your internal target, whatever.

**Mukesh Dhruve:** Yes, we will be disappointed if we don't do that.

**Nayan Mehta:** Sorry, my question was whether...

**Mukesh Dhruve:** We will be disappointed if we don't do those numbers of 325.

**Nayan Mehta:** Okay. So, that would include Macmillan?

**Mukesh Dhruve:** That would not include Macmillan that would be without Macmillan. Macmillan would be additional.

**Nayan Mehta:** Okay. And you have assured revenues of 300 crores in the next five odd years.

**Mukesh Dhruve:** Seven years, that's correct.

**Nayan Mehta:** Seven years, right. So, something around 40-50 crores should come in.

**Mukesh Dhruve:** See, we expect around 40 crores for Macmillan to come in. But, now since we are getting six months, we are not sure of the exact numbers. But, anything between 20 to 30 crores is what we expect this year at least.

**Nayan Mehta:** 20 to 30 crores, okay, so on a pro data basis from September.

**Mukesh Dhruve:** That's correct.

**Nayan Mehta:** Okay, that's all from my side. Thank you and wish you all the best.

**Mukesh Dhruve:** Thank you so much Nayan.

**Moderator:** Thank you sir. Next question comes from Ms. Shalini Gupta from East India Securities. You may go ahead ma'am.

**Shalini Gupta:** Sir, I just want to understand, your raw material costs have come down quite substantially, so if you could just give us a sense of the cost of paper this quarter vis-à-vis the previous year's corresponding quarter?

**Mukesh Dhruve:** Yes. If you look at the quarter numbers, last quarter our raw material cost was almost 59%, as compared to that it has come down to 55%. So, there has been a 4% difference. One of the primary reasons has been that the paper prices have quite stabilized and what they were at the last year have come down almost 7% to 8% I will say. So, paper prices have stabilized, they have started coming down and overall globally the paper prices have come down. That has been one of the big benefits that we have got, because we have contracted a lot of business at higher rates and we have got better rates than what we had expected. So, one of the key reasons is the paper prices stabilizing and coming down. Plus the growth in the top line as compared to the previous quarter, previous quarter we were doing 65 crores, as compared to that we have done 77 crores. So, if you compare that additional growth that has come, the fixed cost and the operating cost and the staff cost have remained more or less stable, though the actual numbers have increased, but if you look at the increase in the turnover, the percentages have gone down. So if I have to give you, in the previous quarter we were at about 15%, this time we made 17%. One of the key factors has been the raw material cost which is down by 4 percent point. The operating cost has gone up by a percent point, but the staff cost has come down by a basis point. And our other income which used to be, interest on the other income has gone down by about 2 basis points. So, net result has been a few basis points upwards, which mainly I would contribute to the raw material cost and the staff cost coming down.

**Shalini Gupta:** Sir, so it's fair to say that price of paper for you during the quarter would be around say, 650 dollars per tonne?

**Mukesh Dhruve:** No, 650 dollars is not anywhere around this earth Shalini. The normal rate, if you are importing paper, it goes to about 750 to 800 dollars, but if we are buying in India in our SEZ plant, we get it in the range of about 750 to 760 dollars blended. I mean, 650 is nowhere the price of paper. Only if you look at very substandard paper, I am referring to the A-grade mills where we are buying paper, which is 90% brightness, 90% whiteness, which is accepted standard globally. You will get paper which is about 60% brightness, whiteness; you may get it for 650 dollars. We don't use that paper at all for education books. What we are using is all A-grade mills and all the A-grade mills, 90% brightness, 90% whiteness, which 90% opacity, would come in the range of 750 to 800 dollars.

**Shalini Gupta:** Thank you sir, I am done.

**Mukesh Dhruve:** Pleasure.

**Moderator:** Thank you ma'am. The next question comes from Mr. Raunak Onkar from Parag Parikh Financial Advisor Services. You may go ahead, sir.

**Raunak Onkar:** Good evening sir. Thanks for taking my question. Sir, I just wanted to know, in your printing business, what are the barriers to entry for new players?

**Mukesh Dhruve:** The barriers to entry would be, I would say four or five things. One is it's a very high capital intensive industry. Generally people, who invest 100, would get a turnover of 0.75, so out of 100 you will get a turnover of 75. Low gestation periods are there in this industry that is the second I would say barrier. The other three or four barriers would be the softer elements. In this business most of the people think that, okay, we have got capital, we invest, like somebody can say, okay I will invest 400 or 500 crores and I can get a good printing company, of course you can get a good printing company, but to establish relationship with publishers, to win their confidence, to understand their software limits, for them to trust you with their title. Today, I am holding titles of almost more than 200 publishers with us, with me. What this means is, all the soft copies and the digital copies of all the publishers are lying with us today. Now all those soft titles, for a publisher to trust somebody and to give is a big, big risk for him, because the only wealth of the publisher is his title or the content that he has created over years. Now, he needs to have the confidence in the person with whom he is parting with that soft title. The major problem that the publishing industry world over faces is piracy, so they need people whom they can trust with their soft copies. To add to all this, there are a couple of things like the delivery, once they get some orders, they need execution immediately, they need a lot of changes, they need some content, creative designing. Most important aspect in this industry is, I am just saying the timing part of life. If the schools are opening in West Africa in September, the books have to be there before August. In the past if somebody would have taken order and if they deliver in October or November, the books are of no use to the publisher. So, it is couple of all these things, if you take together, this would be the entry barriers. And if you look in India itself, there are hardly about five or ten companies, what you can call printing companies over 100 crores, that is all the big industry should have been in this business, but none of them are there today.

**Raunak Onkar:** Okay, so in the international market, whom are your major competitors like?

**Mukesh Dhruve:** In the international market our competition would be countries like Malaysia, Singapore, China, Hong Kong, Thailand, Mauritius, these are our real competition, because in Malaysia the labor is as good as India. The land prices or the cost are not as high. As far as the capital goods are concerned, we all have the same equipment, whether you look in US, you look in UK, you look in India or Malaysia, the capital comes mainly from Germany, I mean the major machines come from Germany and Japan. Like we would have the same machineries any good printing companies would have world over. So, competition is basically from the Far East. However, with dollar becoming what it is, we are definitely able to compensate that today. Whenever dollar was 45, we would be almost equal or about 2%, 3%, or 5% more or less with them. So, that is the real competition. If you want to know the largest company, printing company in the globe today, it's a company called R.R. Donnelley & Sons; they are almost at about 10 billion dollars.

**Raunak Onkar:** Based out of which country sir?

**Mukesh Dhruve:** Sorry.

**Raunak Onkar:** They are based in which country?

**Mukesh Dhruve:** They are based in USA. They are based in USA. And they have plants in 36 countries across the globe.

**Raunak Onkar:** Okay. So, all these major publishers, they usually tie in with these guys, because they can give them publishing in all these continents.

**Mukesh Dhruve:** Absolutely, absolutely. If you have a global presence, I am just giving an indication that the printing company, there is a printing company in the world which is doing 10 billion dollars and in India there is not a single printing company which is doing even 100 million dollars.

**Raunak Onkar:** One more thing that you said last time in some of the conference calls that you are moving away from the annual reports kind of business. So, is there any reason for that?

**Mukesh Dhruve:** There are a couple of reasons. One is we have focused our concentration on the education. So, right now Repro as a company is focusing on education as a segment and our focus has been on education books across the globe, India as well as outside India. Annual reports, of course is an important product for us, because that was the product with which we started our printing careers, I would say. And once upon a time, we were one of the largest annual report printing companies, doing more than 350 companies. However, over a period of time, since our focus have moved to education, we are still doing annual reports, but for about, you say there are ET-50 companies, which is corporate like Infosys, Wipro, Group of Tata, Colgate, Asian Paints and so on. However, if you are aware, last year there was an amendment which has come in the Companies Bill, by which most of the corporate can send the annual reports now by email. They don't need to send physical copies anymore. And people who do not agree to accept the email copies, have to be sent only the abridged copies or abridged version of the annual report. Only people, good analysts like you, who want the full version, can write to the company and you will be provided the full version copy of the annual report.

**Raunak Onkar:** That is on demand whenever required.

**Mukesh Dhruve:** Yes, you can, exactly. As a result, this business in terms of number of printing is coming down drastically. To be honest to you, yes, we are doing the largest annual report, but when we send a million annual reports for any large corporate, out of the million, less than 1% people read the annual report, rest of it all goes to the chaprasiwala as you know. I would say in India, there will be about 500,000 analysts, good people like you who are reading all the annual reports. Other than you guys, nobody reads the annual reports, except the Company Secretaries and Vice Presidents of the company and this is a real fact I am telling you.

**Raunak Onkar:** Sir, one more last question, if I may. Apart from the education business, is there any plan to enter into the regular book printing business?

**Mukesh Dhruve:** Yes, we are into regular. I would say, any education book is what we are doing, we are not too much into the trade books and novels and all those areas. However, we are having a tie up with Penguin, with Pearson and all that and we are doing quite a few books for them. But, we are mainly into the soft cover education books.

**Raunak Onkar:** Okay, okay, it is not difficult to just migrate from this to this, right, whenever you require?

**Mukesh Dhruve:** Not at all, not at all.

**Raunak Onkar:** Okay, okay, thank you sir. Thanks a lot.

**Mukesh Dhruve:** Pleasure.

**Moderator:** Thank you sir. Next question comes from Mr. Ishit Sheth from Anvil Shares and Stock Broking. You may go ahead sir.

**Ishit Sheth:** Good afternoon sir. Congrats on a good set of numbers. Sir, a couple of questions, in terms of your margins, do you think margins can improve from here on, given that your focus going forward would be on e-books?

**Mukesh Dhruve:** Certainly, I would put it like this that, yes, we are focusing on the e-books. We are getting ready for that. One of the advantages that Repro has is that we have the soft copies or the digital copies of most of the publishers, so if we have to migrate to convert this PDF files or soft copies or digital copies into e-books, we will be able to do the fastest. We are getting ready for that. We have a separate team, which is entering or foraying into that area. However, e-books as you know world over has not yet taken off, except for the trade books or the novels, the e-books in education have not yet come up. You take rest from developed countries like US or UK, most of the school going children or most of the graduate students or post graduate students are still studying from books and not from e-books. India, as you know most of the education is still happening in the form of books. However, the moment this transition happens, we are ready for that and we should be able to move into that. But, we don't know whether e-books will catch up in the next six months, difficult question to answer. As far as margins are concerned, yes, our focus is on the margins. We are expecting to improve it, but it's difficult to predict, it's too early as we progress in the years.

**Ishit Sheth:** Sir, in terms of the e-books, if you could make us understand, how does Repro India come into play? Because, we are basically a printing company, so when the transformation happens to e-books, how does Repro India come into play?

**Mukesh Dhruve:** It's a big question that you have asked, but I will summarize it to you. The basic question is most of the publishers who are owners of the content have to distribute the content to the end users. The end users can be students or any other person or it could be from Government, it could be free distribution of books. So, whatever the publisher is giving, the content needs to be distributed. Today they are distributing all of it through the print media. Now, in times to come when e-book catches up, all this content will have to be converted into a book and then distributed through the e-portion. So, typically what would happens is, because we have the content and same

copies, we are already offering these services to a lot of our publishers, we can very easily convert the PDF files or the digital files into e-books and once we have converted, we are trying to have a tie up with all the large content manufacturers. For example, if there is one particular book which is required by five people and all the five people are having different tablets, for example, you are having an iPad, somebody else is having Kindle, they are in the Amazon.com, a third person is having Nook, owned by Barnes & Noble or the fourth person is having a BlackBerry tablet, so what we will do is, we will then distribute that particular book through this four different tablet manufacturers. We will give the same book to Apple, who will give it to X. We will give it to Barnes & Noble to give it on Nook, to give it to Y. We will give it to Amazon.com to give it to Z. The important part is that that book will be given by us to Apple store iThink and from iThink; it will be downloaded into the iPad that we are owning. And it will be given only to you on your e-mail address. So, we are more than ready for that transition and we are completely prepared for that today.

**Ishit Sheth:** By whenever this transition happens, you see a substantial jump in your margins.

**Mukesh Dhruve:** Absolutely, absolutely. We are ready for that. Maybe it is difficult explaining in such a short time on a concall, I think you should visit us and we will be able to you tell you this entire process.

**Ishit Sheth:** Right. And also sir, in terms of your debt levels, as you say that over the years, over I think the last six years, your debt level has gone up from as low as 40 crores to 156 crores, which has obviously been put in your CAPEX requirement. So, how soon do you see now, there have been some reversals, where you can actually generate free cash flows from your business and payoff certain debts.

**Mukesh Dhruve:** We are generating free cash, if you have seen the last closing of 31<sup>st</sup> March by 50 crores, on end of first quarter we had 54 crores, but most of it has been utilized for our expansion now. And the long term debt if you are seeing, from 0.49 end of the year, in the first six months it has come down to 0.41. The total 150 crores which you are referring to, net debt is about 100 crores, of which almost about 50 crores was the long term ECB loan. Every quarter we are paying back close to a million dollars. So, over a period of time we can see that coming down. But, I would say that the debt position is in a very healthy position for us, because the long term debt is just 0.41 and the rest of it is for working capital purposes. And our interest cost on all our borrowings is almost down to between 3.5 % to 4%. So, even if I have excess cash, it doesn't make sense to repay those loans, it's better to park it in normal FD or ICB, where I am earning around 10% to 12%, which brings down the interest cost. So, that is the policy we are following. Since we have got debt at a very, very low cost of finance, it will not be wise paying back those debts. And this advantage is as to mainly because we will get ECBs because we are exporters.

**Ishit Sheth:** Right, okay. Sir, and also in terms of your mix, your exports have grown more than proportionately, if you compare it to your domestic sales. Now with the acquisition of the Macmillan Publishing business, do you think domestic can pick up?

**Mukesh Dhruve:** I have already answered this question sometime back. As I said, the domestic education publishers normally come in the second half. So, from now

to 31<sup>st</sup> March, there will be a lot of domestic publishing business which will happen. And I would say, domestic will equally grow. Our overall average at the end of the year I expect 45-55, which is what we did last year.

**Ishit Sheth:** 45?

**Mukesh Dhruve:** Yes, 45 will be domestic and 55 will be exports, ballpark figure I am giving you and I am not too certain what it can happen. But, domestic will certainly grow in the current two quarters.

**Ishit Sheth:** Current two quarters, okay. That is fine, that's all from my side. Thank you.

**Moderator:** Thank you sir. The next question comes from Mr. Meherosh Panthaki from HDFC Securities. You may go ahead sir.

**Meherosh Panthaki:** Hello, good evening sir.

**Mukesh Dhruve:** Good evening Meherosh.

**Meherosh Panthaki:** How are you?

**Mukesh Dhruve:** Very good. Tell me.

**Meherosh Panthaki:** Actually I would like to congratulate on your good set of numbers. And I had some two-three questions. One is that, in this quarter I guess the education was the major contributor to your revenues, right?

**Mukesh Dhruve:** That's correct.

**Meherosh Panthaki:** Okay, how much approximately can you tell me? How much did it contribute to the total turnover?

**Mukesh Dhruve:** I would say more than 90% is education in the current quarter.

**Meherosh Panthaki:** More than 90%.

**Mukesh Dhruve:** 90%.

**Meherosh Panthaki:** And the other part like annual reports?

**Mukesh Dhruve:** As far as the balance 10% will be a bit of annual reports, magazines and other products, but 90% is coming from education.

**Meherosh Panthaki:** Fine and going forward also your core focus will be on the education?

**Mukesh Dhruve:** Yes, that's correct. Core focus will be on education.

**Meherosh Panthaki:** Okay. And majority of your exports are from Africa?

**Mukesh Dhruve:** That's correct. Majority of the exports are from Africa, but however Africa does not mean Africa. Africa is a continent, consisting of 56 countries, out of which we are exporting to 22 countries.

**Meherosh Panthaki:** Fine, okay. So, African continent itself accounts for around 90% of the business that maintains it?

**Mukesh Dhruve:** All the exports, all the exports, that's correct.

**Meherosh Panthaki:** Okay sir. And my other question was on Macmillan. Actually when we had earlier discussed, we had talked about the consolidation part, so when it is getting consolidated in your books?

**Mukesh Dhruve:** It will get consolidated. As per the accounting standards we have to consider it at the end of the year. So, 31<sup>st</sup> March we will consolidate. However, I have given in my details that in this quarter, we have got about a month, in that one month we have done a business of about 96 lakhs.

**Meherosh Panthaki:** Okay. So, for full year you have any target? Can you give us any guidance like how much revenue to expect from this?

**Mukesh Dhruve:** I would say, it's difficult to give guidance in this business, but I would say we will be disappointed if we don't do 325 crores.

**Meherosh Panthaki:** That is on the total business, right?

**Mukesh Dhruve:** Total business.

**Meherosh Panthaki:** I am talking about Macmillan revenues.

**Mukesh Dhruve:** Macmillan, it's difficult to predict, because we are just getting six months of the time with them for the current year. But, roughly anything between 20 to 25 crores should happen with them.

**Meherosh Panthaki:** Okay. And on what margin will it operate approximately?

**Mukesh Dhruve:** It's difficult to predict at this stage my friend.

**Meherosh Panthaki:** But, currently is it around 8% to 10% sir?

**Mukesh Dhruve:** Yes, it will be at least at that percentage or better than that at least.

**Meherosh Panthaki:** Okay, okay. Just last question, I wanted to clarify myself on the capacity. Actually your total capacity before the Surat expansion came into picture was around 300 crores, right?

**Mukesh Dhruve:** That's correct.

**Meherosh Panthaki:** So, now with Surat it is around 400 crores, right?

**Mukesh Dhruve:** Surat was always there, Surat was always there. However, Surat and the New Mumbai plant, we have expanded both the plants together and as both the plants together, the capacity will be between 550 to 600 crores.

**Meherosh Panthaki:** 550 to 600 crores, okay.

**Mukesh Dhruve:** 550 to 600 crores. So, that is what is going to happen at both the plants together.

**Meherosh Panthaki:** I am sorry, I must be repeating this question actually, Surat had commenced in this quarter, right?

**Mukesh Dhruve:** No, no, Surat had already started in 2008.

**Meherosh Panthaki:** No, no, I am talking about the new expansion part?

**Mukesh Dhruve:** The new expansion we completed on 30<sup>th</sup> September. From this quarter we will get the advantage of the enhanced capacity. 30<sup>th</sup> September we completed our entire expansion of Surat. So, beginning this quarter, that is October onwards, we will get the advantage of the enhanced capacity of Surat now.

**Meherosh Panthaki:** Okay sir, okay. Thanks a lot sir.

**Mukesh Dhruve:** Pleasure.

**Moderator:** Thank you sir. Next question comes from Ms. Varsha Bang from Vertex Securities Limited. You may go ahead ma'am.

**Varsha Bang:** Yeah, hello sir.

**Mukesh Dhruve:** Yes Varsha.

**Varsha Bang:** Congratulations. Sir, couple of questions with the balance sheet. I just want to know that in the first quarter, when the conference call had happened, you said that the cash balance is at 50 plus, 50 crores plus.

**Mukesh Dhruve:** On 31<sup>st</sup> of March it was 50 crores, on 30<sup>th</sup> of June it was 54 crores.

**Varsha Bang:** 54 crores and after the Macmillan acquisition, it is coming somewhere around 50 crores.

**Mukesh Dhruve:** No, I would say like this, end of this 30<sup>th</sup> September, the cash balance has come down to 20 crores. The 30 crores what we had the cash balance has been utilized for the expansion that we have done at both our plants.

**Varsha Bang:** Okay, so remaining 30 crores went for the expansion.

**Mukesh Dhruve:** That's correct.

**Varsha Bang:** Sir, with that the loan part is also then increased by 10 crores, 10 to 12 crores.

**Mukesh Dhruve:** I had mentioned that we have got ECB from StanChart. So we are using a mix of internal generation and the ECB loans.

**Varsha Bang:** Okay sir, that's it. Thank you.

**Mukesh Dhruve:** Okay, pleasure.

**Moderator:** Thank you ma'am. Dear participants, please press \* and 1 for your questions.

The next question comes from Mr. Vijay from Sunidhi Securities. You may go ahead sir.

**Vijay:** Yeah, congratulations.

**Mukesh Dhruve:** Yes Vijay.

**Vijay:** For a good set of numbers. Now I have got two-three questions. Last time you mentioned, capital expansion will be 80 crores this year. Now in the first half you have added 31 crores to the gross block. So, what will be your gross block in FY12 and FY13? Your expansion will continue in FY13 and FY14 also?

**Mukesh Dhruve:** No, we will not do this expansion in 2013-14 except the routine expansion. We are planning an expansion in our Chennai plant which we have acquired from Macmillan. But, that will not be as substantial, it will be a normal expansion, which would be in the range of about 10 to 15 crores, but it will be completed from internal generation. But, total CAPEX at the end of the year, what we have added 30 crores, I think it should be between 60 to 70 crores.

**Vijay:** 70 crores?

**Mukesh Dhruve:** Yes, that will be around 70 crores.

**Vijay:** 70 crores by FY12?

**Mukesh Dhruve:** By FY12, that's correct.

**Vijay:** And next year, 2013 and 2014, no further expansion.

**Mukesh Dhruve:** No major expansion, except the routine expansion.

**Vijay:** Except Chennai plant.

**Mukesh Dhruve:** Yes.

**Vijay:** So, Chennai plant will be around 10 to 15 crores.

**Mukesh Dhruve:** That's correct, that's what we will do there.

**Vijay:** And another thing, you have mentioned that 2013 and 2014, cash debt will be 30% of your profit.

**Mukesh Dhruve:** No, it will not be 30%. Next two years, that is the current year and next year, we don't have taxes, because of the SEZ benefits.

**Vijay:** Yeah, that's right. For FY12 there will be no tax. And for FY13 and FY14?

**Mukesh Dhruve:** 2013 onwards there will be 50% tax, because the SEZ is taxable at 50% for the following five years.

**Vijay:** 15%, yeah.

**Mukesh Dhruve:** 50, 5-0.

**Vijay:** For the following five years.

**Mukesh Dhruve:** That's correct.

**Vijay:** And your cash has also come done, so are you comfortable with that?

**Mukesh Dhruve:** Absolutely.

**Vijay:** It has come down to 10 crores; investment remains the same at 9 crores. So, you have got 19 crores now, from 60 crores.

**Mukesh Dhruve:** Yeah, 20 crores from 50 crores, the reason is that we have utilized that for our expansion, which is what I just mentioned.

**Vijay:** So your other income will come down?

**Mukesh Dhruve:** Yes, to that extent it will come down, that's correct. It will come down slightly, that's correct.

**Vijay:** Yeah, yeah, so you will be able to maintain the margins?

**Mukesh Dhruve:** We should be able to maintain. The growth in the business, we should be able to maintain that, we don't see that not happening.

**Vijay:** Okay, thank you very much.

**Moderator:** Thank you sir. Dear participants, please press \* and 1 for your questions.

I request the participants to press \* and 1 for your questions.

Dear participants, please press \* and 1 for your questions.

The next question comes from Ms. Jyotsna Bokaria from Prodigy Investment. You may go ahead ma'am.

**Ravi Chadha:** Yeah, good evening sir. I am Ravi Chadha here.

**Mukesh Dhruve:** Yes Ravi.

**Ravi Chadha:** Congratulations on good numbers. I wanted to understand that now that the expansion is done, what kind of fixed cost leverage might you get going forward? Would you have to expand your staff and other variable cost at the same extent or is there going to be some leverage coming?

**Mukesh Dhruve:** I would put it like this that though we have doubled our capacity, the staff will not increase as much. We may have to, as against our total staff strength of 650 people; we may just hire another 50 or 60 people. So, that will not go up. Definitely we will have a leverage of this expanded capacity. And that is what will change in the entire operating areas.

**Ravi Chadha:** So, are you saying that to get to, you have a potential of going up to 600 crores top line in two years or three years, how much would you say, how long?

**Mukesh Dhruve:** Ravi, I would put it like this, I would say that we would be disappointed if we don't do at 25%. So, if we are looking at that kind of a thing, roughly in the next two to three years as you rightly say.

**Ravi Chadha:** And you are saying that you will need only 50 more people to get to this.

**Mukesh Dhruve:** That's correct. We don't need more staff, because a lot of things which we have done is automatic now and expansion of capacity has not increased too much of staff now.

**Ravi Chadha:** Okay. Your return on capital employed in spite of all these numbers look still little low, except for your PBT.

**Mukesh Dhruve:** The return on capital, yes it's not, comparing with March from 9% it has gone to 13%, but with the top line improving and the numbers changing, this will see a better improvement over a period of time.

**Ravi Chadha:** Is there any number you think that, any sense you can give us?

**Mukesh Dhruve:** Ravi, it's difficult to predict so early. It's difficult to predict. But the point is, I am expecting no further CAPEX and turnover from the current levels of 300 crores plus we will go to 600 crores. It's difficult to predict and give exact numbers.

**Ravi Chadha:** Okay. And what is the cost of your debt?

**Mukesh Dhruve:** Cost of our debt is around 4%.

**Ravi Chadha:** So, you are still getting, even if your ROC is 13% today or your weighted average cost of capital is still little low, so you can still have a spread on that.

**Mukesh Dhruve:** That's correct, absolutely.

**Ravi Chadha:** Okay fine, fair enough.

**Mukesh Dhruve:** Okay Ravi, thanks.

**Ravi Chadha:** Sir, can we take up the next question?

**Mukesh Dhruve:** Yes please.

**Moderator:** Sure. Next question comes from Mr. Ram Mundra from FIFL. You may go ahead sir.

**Ram Mundra:** Hello.

**Mukesh Dhruve:** Yes Ram.

**Ram Mundra:** Yeah. Sir, you mentioned in the conference call that in the future you will get into e-learning business. Am I correct on that?

**Mukesh Dhruve:** Just come again, I couldn't hear your question.

**Ram Mundra:** No, in the conference call you mentioned, going forward you will get into e-learning business which is not currently present in India.

**Mukesh Dhruve:** What I mentioned was, there was a specific question, if Repro India ready for moving towards the e-learning and e-books and e-pub. I said, yes, we are ready for that and we are gearing up for that. Right now we have started that with a few publishers in India as well as outside India. However, it has not picked up as most people are expecting, in education it has not picked up, I said that.

**Ram Mundra:** Currently we have TATA Interactive, , so already they are in the e-learning segment. So, then are we, am I fair to compare, going forward if we get into e-learning, these people might be your competitors?

**Mukesh Dhruve:** No, not really, because Tata, Learning and all are more into the corporate, they are not into the education segment. Their niche is more into the corporate, whereas we are talking about education market only. So, Repro is 90% concentration is only on education.

**Ram Mundra:** So, that will be K to 12.

**Mukesh Dhruve:** That's correct, K to 12, that's right.

**Ram Mundra:** Okay. Any specific reason, because over there also margins are pretty high. So, your focus is only on the K to 12 and not on the e-corporate of the e-learning, e-learning is the focus.

**Mukesh Dhruve:** Yes. I will put it like this, our focus is right now with most of our publishers, we have more than 200 publishers as I mentioned some time back in India and outside, with whom we are dealing their main focus is K to 12. That is our focus. And that being our focus, it will become our strength. And going forward we will be easily able to convert those books into e-books, whenever that happens.

**Ram Mundra:** Because, you have the rights of more than 200 publishers.

**Mukesh Dhruve:** That's correct.

**Ram Mundra:** If there is any equal synergy, you can get into e-learning of the same sort of copies.

**Mukesh Dhruve:** That's correct, absolutely. That's what we are saying.

**Ram Mundra:** Because over there also the margins are very high.

**Mukesh Dhruve:** Yes, margins are high, you are right. As I mentioned it has not yet come in education as people are expecting. It's going to take sometime before it comes in the education. And nobody on this earth can predict how fast it will come or how long it will take. It can take two-three years, it can take ten years also, we don't know honestly. It is difficult to answer at this stage. E-books are there for now more than ten years. You remember when Kindle was launched and where are we today on that.

**Ram Mundra:** Okay, on that e-learning, will it be on the licensing basis or on LMS or how it will be?

**Mukesh Dhruve:** Difficult to predict right now. As we move into that area, it is not a business model which has happened right now, as we progress into that, we will be able to come to some specific conclusions. It's difficult to predict right now my friend.

**Ram Mundra:** Okay, fair enough. Thank you so much.

**Moderator:** Thank you sir. Dear participants, please press \* and 1 for your questions.

I request the participants to press \* and 1 for your questions.

Dear participants, if you have a question, you may press \* and 1 on your telephone keypad.

There are no further questions sir.

**Mukesh Dhruve:** Thank you. Okay, I can conclude it?

**Moderator:** Yes sir.

**Mukesh Dhruve:** My dear friends, ladies and gentlemen and all my good stakeholders, thank you so much for coming back to this concall. It has been a pleasure

interacting with all of you. In conclusion, I would just like to say these are exciting times, education is changing, education is having lot of excitement. And as I mentioned, there is a good amount of growth that we see not only in India, but outside India. And Repro India looks to be on a good wicket. Thank you once again and see you next quarter.

**Moderator:** Thank you 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.

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