



“Repro India Limited Q3 Financial Year 2014  
Earning Conference Call”

February 12, 2014

**MANAGEMENT:           MR. MUKESH DHRUVE**

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**Moderator:** Ladies and gentlemen, good day and welcome to the conference call of Repro India Limited Q3 FY 2014 Earning Conference Call. As a reminder all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing “\*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mukesh Dhruve, Executive Director, Repro India. Thank you and over to you Sir!

**Mukesh Dhruve:** Thank you. Good afternoon everybody. Welcome back to this concall of Repro India Limited. I am glad to welcome all of you back. Thank you for participating in this call. I would quickly give you the business analysis and some facts and figures. I think the results have been announced today in the afternoon at about 12:30, but I will take you through the business analysis of what has happened in the current quarter and I will look forward to answering any questions from you.

As you know Repro is mainly focusing on the education business and we are focusing on domestic and exports. Exports have always been in the range of 55% and domestic has always been in the range of 45% to 55% of ratios that have been maintained; however, for the current quarter as you must have seen from the results, the domestic business has been better than the exports and there are reasons for which we decided to change this to fill up the capacities more with domestic than exports. The key thing being that the export collectables what we have noticed in the end of the previous quarter was rising and we said as a decision, we should try to bring down the overall collectables and focus on reducing the overall outstanding of working capital. So focus was done on that and there was a diligent selection of orders from the private publishers, which were decided to take in case of exports.

Having said that the domestic business has been on the growth path as you must have noticed in spite of the competitive market, the margins have improved in the domestic business. In the previous quarters or years we could not earn the margin in domestic business; however, with the value ad services that we are providing, which includes right from creative , designing to the last mile of reaching the books to the students, we are offering the entire range of value added services. We are seeing that the margins in domestic businesses have started improving, but second strategy which has really paid is on the Pan India strategy. That is why in the olden days we used to focus on publishers in India mainly in western region and northern regions. Now we have made a good penetration in the southern region and we have made entries also in the eastern region.

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So the pan India penetration has really helped and the strategy continues to be more successful, and more than that the focus in India has been on potential tag with large publishers and for sustained business which also is now bringing in results. As far as exports is concerned, it was a deliberate decision to reduce it for this quarter keeping in mind the collectables that we wanted to reduce plus there are certain government orders, which are kept on hold. The time set is not very certain. So, as and when we give those, we execute those. So the realignment of exports have happened, but we are happy to see the impact of the realignment, the focus will remain and the key focus will continue and remain with increasing both the width and depth in the African continent. Having said that in the last quarter Repro India received the CAPEXIL AWARD for the highest exporters of books from the country for the previous year..

The third area, which is the digital learning or print on demand, the company has been doing extremely well and we have tied up with many parallel education institutions especially large coaching classes which are based in Kota and other different parts of the country where we have tied up and there is a steady flow of business happening from them. As you must have noticed we have mentioned that there is an exchange and notional forex loss of about 289 lakhs as compared to 86 lakhs which was a gain in the previous quarter.

Our Mahape plant which has now completed the FSC Certification which means that the new plant is completely free of any of the pollution and environment friendly. ISO 27001:2005 CERTIFICATION for ISMS is initiated which is basically for protection of the digital title of the customer's content as per the best security standards.

Coming to the particular quarter, as you must have seen the result there is an 18% growth in revenue from 96 Crores it has gone up to 115 Crores. The operating profits have remained more or less stable at about 18 Crores. The PBT has partially reduced from 11 Crores to 9 Crores, which is mainly because of the forex loss which I mentioned and of course there is a reduction in PAT and key reason for that thing is the SEZ profit are now 50% taxable which were not taxable in the previous year as you know that.

Coming to the overall, domestic and export business you must have seen which are circulated to all of you that the domestic business has grown from 42 Crores to 65 Crores in the current quarter and exports have remained more or less steady from 54 Crores to just above 50 Crores. Surat plant also remained more or less steady between 48 Crores to 45 Crores; however, the new Mumbai plant has grown from 44 Crores to 66 Crores. The export domestic ratio is 43:57 as compared to the past quarter where it was 56:44. If you look at the nine month results there is an 8% growth in revenue which is in line with what we were expecting so 292 Crores it has gone to about 315 Crores. There is a growth in 2%

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operating profit for the nine month period from 53 Crores to about 55 Crores. PBT has remained more or less stable at 31 Crores and the PAT has reduced and this is primarily because of the two reasons one is the forex loss and second is the taxation part, SEZ which now the 50% profits are taxable.

We see a good amount of business happening, but having said that that is not going to reduce the exports. Exports will continue; however, we are being a little diligent and as a strategy we are making sure that all our finances are tied up, LCs are into place and then we execute those orders. So going forward we see a good prospect in exports. That is happening.

I look forward to your questions. Thank you.

**Moderator:** Thank you, very much. We will now begin the question and answer session. The first question is from the line of Sangeetha Purushothaman from Cogito Advisors.

**Sangeetha P:** My key question really was that we are in the third quarter we had actually seen a fall in the gross margins?

**Mukesh Dhruve:** Right.

**Sangeetha P:** Even if we look at nine months period there has been a significant fall in the gross margins. Now if we look at all the other expenses, employee benefit, they have actually been reasonably contained as a growth but the gross margins have come off quite a lot and that actually explains why we have not seen any dip in either EBITDA or PBT. Could you explain why the gross margins are under pressure and is this the level at which they will stay or they are likely to improve going forward?

**Mukesh Dhruve:** Gross margins which we have been discussing have been in the range of 17% to 18% and even if you see the nine month period the period nine month is 80% right now it is 71% and that 71% is primarily because of two reasons. One is the forex notional loss, which we have shown, which is about 289 lakhs whereas the previous quarter, if you notice, we had a gain of about 89 lakhs. If we both combine together it is about 3.5 Crores plus you must have read that the new initiatives which we are doing, we have invested a lot into that. In the current year, in the first nine months, we made close to about 6.5 Crores in that. Now which we could have amortized but instead of that we are debiting to our P&L account, if we take these into account and then you have to recast the PBIT, the operating margins, it is higher compared to the previous year. Because of these two reasons, the operating margins are much, much better than what you are suggesting if you take this into account.

- Sangeetha P:** My question was not so much relating to EBITDA where I can understand that you have this at the EBITDA level; I add back that 6.5 Crores you have spent in the new initiatives. Actually talking about the gross margin, which is we consume plus change in inventory if you subtract that from your sales because the margins at the gross level, not at the EBITDA level has declined?
- Mukesh Dhruve:** Partly because of the change of the business mix which I mentioned in the beginning, exports have always been profitable as compared to domestic; however, the good heartening part is that because of this domestic business has started showing margins and better margins than the previous years.
- Sangeetha P:** But we are not seeing that reflected in the numbers, Mukesh because the numbers and the improvements in the margins is not showing. If you just look at the numbers for the nine months as well as for the quarter, our first level the margins are looking lower.
- Mukesh Dhruve:** I agree. They are looking lower, because of these primary reasons. It is just we are removing the cost of raw material yes, in India the cost of raw material is higher compared to the exports, and because of the change of the business mix which is changed as you can see for the quarter, the previous quarter if you notice, we had 56% exports and 44% domestic current quarter it is 43% export and 57% is almost reversed. So to that extent definitely the margins are under pressure, but if I look at the EBITDA levels which are repeating in these two figures, we are much better of in spite of that.
- Sangeetha P:** So, at the EBITDA level, basically, you have shown an EBITDA for the nine months of 55 Crores, roughly 54.62 Crores compared to 53.54 Crores. Now if we were to normalize that EBITDA we can add back 6.5 Crores?
- Mukesh Dhruve:** 6.5 Crores plus 3.5 Crores.
- Sangeetha P:** Why 3.5 Crores because the forex loss is part of your normal doing. It is part of your cost of doing business?
- Mukesh Dhruve:** Yes that is correct.
- Sangeetha P:** But both are part of your doing business, right?
- Mukesh Dhruve:** I agree with you in principle. I am saying if you are calculating EBITDA then it comes in those numbers.

- Sangeetha P:** Right.
- Mukesh Dhruve:** I have only got my interest and my depreciation and tax. So in EBITDA numbers whether it is loss or profit, I have to add, isn't it? So my EBITDA if I add these two numbers, we will knock off the 64:49, so 64.5 Crores instead of 54.5 Crores because almost 9.5 Crores get added back.
- Sangeetha P:** Thank you.
- Moderator:** Thank you. The next question is from the line of Amit Mehta from Sunidhi Securities and Finance. Please go ahead.
- Amit Mehta:** Can you just tell us these prelaunch expenses of 2.25 Crores. This will be every quarter going forward?
- Mukesh Dhruve:** Yes, roughly it will be every quarter because for the current year for the nine months we have spent almost 677 lakhs which includes this 225. 225 is what has been incurred just for the current quarter. So going forward also in this quarter at similar amount will be there. You are right.
- Amit Mehta:** Like this 2.25 is generating any sales kind of thing or how do you decide how much money you are going to spent?
- Mukesh Dhruve:** It is yet to be launched properly. This is an investment we are doing with the new initiatives and no revenues have been generated on that as of now.
- Amit Mehta:** About the receivables, which is your primary concern for your exports in terms of number of days, for domestic what is the receivables in terms of number of day's vis-à-vis the export?
- Mukesh Dhruve:** Just to give you the number of days the big change is that the export receivables had almost reached the number of about 140 to 150 Crores which is why we took this decision of changing the gears and focusing more on domestic and collecting all the export receivables. Having said that as of today those collectables have come down to almost 80 Crores.
- Amit Mehta:** Now only 80 Crores is your export receivables?
- Mukesh Dhruve:** That is correct. The domestic also has come down. So domestic would be roughly in the range of 100 days and exports would be in the range of about 140 days.

**Amit Mehta:** About you always being very generous in terms of paying dividend, so this year we believe your earnings will be slightly lower than the previous year because of this higher tax burden?

**Mukesh Dhruve:** Yes, that is correct, but having said that we will remain the same as far as dividend is concerned. The point being it is difficult to predict at this stage the last quarter has just begun and business is going on, but board stated policy that between 32% and 35% of the profits have to be distributed as dividends. So we will maintain that policy, board policy based on the earnings definitely. We will remain stable as far as dividend distribution is concerned. I do not think that policy will change.

**Amit Mehta:** Thank you. That is all from my side.

**Moderator:** Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.

**Deep Master:** Just wanted to know the contribution of POD if you would be able to give that this quarter?

**Mukesh Dhruve:** You are saying the operating levels?

**Deep Master:** Sales, operating levels, both.

**Mukesh Dhruve:** In terms of topline it was around 15 Crores and as far as the operating EBITDA level is concerned it was in the range of around based on the different clients, it is anything between about 24% and 25%, different clients, but depending on the clients, the POD being the small part of the business but that is the second part which I mentioned, related to the POD business which is mainly with the coaching class and even some of the large publishers and others where our focus is growing now and that is an area of growth which we are expecting to grow very, very fast.

**Deep Master:** How would the day's receivables be in this business?

**Mukesh Dhruve:** In this it is absolutely within the normal margin. The credit period is given to them about 45 to 60 days but it will be within the 60 day period. The payment will come very, very fast. This basically is going to be the growth engine for Repro. As you must be aware we are the first company in India who has invested in the latest state of art Print-On-Demand Technology which is the Kodak Prosper, so that is the one which we installed and that has been growing very, very fast and we are signing up with some large learning education

institutions as well as publishers and this is something which we are seeing a good amount of growth.

**Deep Master:** Thank you.

**Moderator:** Thank you. The next question is from the line of Amit Mehta from Sunidhi Securities & Finance. Please go ahead.

**Amit Mehta:** What are the capex plans for the current year?

**Mukesh Dhruve:** As I mentioned in the previous concall as well in the beginning, the current year capex plan has a normal plan, the normal capex that would you do, which would be in the range of about 10 to 15 Crores, so there is no new big capex plan which is the normal capex that we do year-on-year. There are no any mega investments or any mega capex plan for the current year.

**Amit Mehta:** Your interest cost for this quarter for about 4.45 Crores, so can we assume this the peak interest cost for the quarter or it can go further?

**Mukesh Dhruve:** This was the peak interest cost as I mentioned beginning on the exports part, since we have broke down the corrective bills of export definitely the interest will start going down.

**Amit Mehta:** So working capital requirement will go down?

**Mukesh Dhruve:** Because of the collectables going in all time high in the previous quarter and that was one of the key reasons that we changed the strategy and we focused more on filling of our power capacity in the domestic business and focus on that making sure we collect all our due, those are the strategies have actually fallen into place and which I explained from the peak, collections outstanding is down to 80 Crores only and as a result the working capital cycle will improve and interest cost will go down.

**Amit Mehta:** Okay, now the export business, you are doing only against where the payment cycle is less, how is the visibility looks like going forward?

**Mukesh Dhruve:** Visibility is very, very good. To repeat it again Repro India is looking almost 22 countries in Africa where we are focusing, so our strategy will continue as it is and in the countries which were into all those 22 countries which include as you know in West Africa, Nigeria, Ghana, Cameroon, Ivory Coast, East Africa, Tanzania, Kenya, Uganda, Rwanda, Ethiopia, South Africa and South African belt over the SEDC belt which is Mozambique, Botswana,

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Swaziland, Namibia, Zimbabwe, Zambia and so on in all these countries we are working with almost most of the top large publishers. We are working with some of the government directly and with all these publishers today we are able to in some of the cases we have reached more than 50% of what their needs are, but there is a huge opportunity within these countries and with the government out there. So, we do not see any down trend in the exports in the coming times. Having said that you know there was one major change which also major relook at exports, there is a company in India called EGCC Export Guarantee Credit Commission, which is the government body which helps you in doing your exports where you know you can take policies from them where your exports are guaranteed and there are policies Repro India as a company where it has got a special policy offset. I will give an example, suppose we can take a policy of 50 Crores, up to 5 Crores I can export to any customers anywhere on this globe without taking any permission and those exports are covered by ECGC completely. This policy was given to quite of you Indian parties and some of these were given to the different industries especially diamond industries and some other industries. There was a bit of misuse by some other industries. SO ECGC has started taking precautions and because of a few bad apples all the good apples even get affected. As a result of that we were seriously covered for largest portion, overall we became cautious also and we want to remain cautious with this kind of approach.

**Amit Mehta:** In nine months, you have done 8% revenue growth and at PBT level you have done about roughly stable 2% growth compared to the previous year. If you were to give the guidance for the current year how do you see the year ending?

**Mukesh Dhruve:** I am seeing difficult as I mentioned already. We have never given any such firm guidance; we are saying that as I explained previously if you add those expenses then the EBITDA is much better than what you are looking at.

**Amit Mehta:** That is true.

**Mukesh Dhruve:** If you look at the notional loses, if you look at other costs that we have incurred if you add that EBITDA is almost at about Rs.64 to Rs.65 Crores. It has grown. I do not think it will go down, but those investments will start paying as we move on in life. But it should remain more or less stable, we should remain in these kinds of levels what we are seeing right now, it is difficult to predict as I said I do not give guidelines for that year. It is too early again.

**Amit Mehta:** Thanks a lot.

**Moderator:** Thank you. The next question is a follow up from the line of Deep Master from Enam Holdings. Please go ahead.

**Deep Master:** Could you just elaborate a bit on this prelaunch expenses I think I joined the call a bit late, so I missed that part, what exactly these for?

**Mukesh Dhruve:** We are doing some any initiatives in business on which we are investing and the investments what we are doing typically you are allowed to amortize those expenses, because when the business starts generating revenue and then you can amortize the expense over a period of time, we have that opportunity, but rather than doing that we decided that we are incurring these expenses from our internal generation and whatever expenses we are being incurred, we are debiting to profit and loss account rather than amortizing it. So that is the change that we were talking about it.

**Deep Master:** Could you just give me a sense as to type of expense, what exactly does entail?

**Mukesh Dhruve:** These are the new initiatives. We have not announced it to the world outside still we are not launched it. It will be difficult, but these are typically the expenses we incur for any new businesses. We will be coming out with all the detail in short time.

**Deep Master:** Fair enough, thank you.

**Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the floor over to Mr. Mukesh Dhruve for closing comments.

**Mukesh Dhruve:** Thank you very much everybody for participating in this concall of Repro India. As I have already mentioned Repro is focusing on education and these are exciting times for education and we see a good amount of business happening in the education space and the three areas that we focused on basically the domestic Indian business where now Repro has got the pan India presence. It is happening very, very well and we are growing in all India basis and as I mentioned one of the key aspects which is difference between Repro and lot of other player is that we are taking care of the entire value chain, all aspects of the education right from the content, creative, designing to the final delivery to the student which is the big difference and which is where the business is improving. We are making more inroads into large Indian publishers giving them full services that they expect and taking care of major part of the businesses. Export again will remain to be a focus and a key focus yes, we want to make sure that our finances are tied up, our businesses are more secured and we do better business. Going forward, we see a good amount of growth happening on export business also. The digital or the Print-On-Demand which we have mentioned and which is a good growth engine will continue to be a real good growth engine. We have made very, very good growth inroads in some of the large publishers as well as large parallel education institutes and we will continue doing that. That is something



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which is really going to be growth engine product in the years to come. Thank you so much for participating and coming to this call. I look forward seeing you again. Thank you.

**Moderator:** Thank you. On behalf of Repro India Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.