

Transcript

Conference Call of Repro India Limited

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Presentation Session

Moderator:

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

Mukesh Dhruv:

Good afternoon ladies and gentlemen and all my friends. Welcome back to this con call of Repro India Limited. All I would like to say is that we are back on the growth path as we had mentioned in the last quarter. If you are to compare the results of last quarter-to-quarter, the revenues have gone up from 49 crores to 60 crores, there is 56% business from the export segment, 2% growth in operating profits, from 6.19 crores to 6.29 crores, 13% growth in PAT from 2.6 crores to 2.93 crores. Overall, I think, we have done reasonably well for the quarter considering what we had undergone for the previous quarter. One of the biggest breakthroughs is that we have entered into new country in this last quarter, signed up some big contracts with companies like Macmillan Nigeria and other countries. We have entered the new region in Southern Africa, especially in Botswana and Namibia. In India itself, we have landed some good contracts with large publishers from North as well as down South. One of the biggest breakthroughs for our new business, which I had mentioned last time, the Print-On-Demand business. We have got some tender business from the Maharashtra Government; some election related printing has been done in large numbers on Print-On-Demand segment.

Overall the quarter has been reasonably good as compared to what one was expecting and we can see the growth happening in the coming quarters. I welcome your questions now.

Question and Answer Session

Moderator:

Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

First question comes from Mr. Vinay Bhandari from Enam Securities.

Vinay Bhandari:

Good afternoon sir, Vinay here.

Mukesh Dhruv:

Vinay, good afternoon.

Vinay Bhandari:

Just wanted to know why your raw material cost have gone up, first, and secondly, what is the total order book?

Mukesh Dhruv:

First part of the question is little skewed up for two reasons, one was there was a sudden strike in Finland where all the ports were closed and as a result the paper from Finland could not be sent out of the country.

Vinay Bhandari:

Where? Sorry sir, I am not getting you actually.

Mukesh Dhruv:

In Europe, in Finland, it was a strike of the port, which happened suddenly. I think it was for almost three weeks or more, as a result the paper mills there could not send the paper out of the country. Also, the earthquake in Chile as a result, that is one of the largest pulp manufacturing countries in the world, pulp shortage came in. India, which was always a surplus of paper, became short. And India paper mills, which were running after our people for selling their paper, suddenly got large volume of orders from exports. So there was a sudden shortage of paper in the first quarter. We have our price protection and all that, but the difficulty was that paper mills with whom we had contracts could not fulfill their contracts. So we had to buy paper from the open market and the rates had almost shot up by about 15% to 18% from that quarter. So this was one of the reasons that there was a sudden spurt.

- Vinay Bhandari:** So, you mean to say the freight cost had gone up or actually the paper cost have gone up?
- Mukesh Dhruv:** No, the actual paper cost went up; just the paper cost went up because of shortage of supply.
- Vinay Bhandari:** Because of strike for three weeks basically.
- Mukesh Dhruv:** Strike for three weeks in that place and plus Chile had that earthquake. So all the Indian papers were exported and there was a shortage in the country for that particular quarter. Now things are back to normal and things seems to be, you know, more than the price, it was availability which was more important.
- Vinay Bhandari:** Okay, so how much of the total paper requirement we export from these two places, Europe and Chile?
- Mukesh Dhruv:** No, it is not that we import from these countries, it is the Indian market, which went high.
- Vinay Bhandari:** Okay, thereafter you buy from the Indian market.
- Mukesh Dhruv:** Yeah, we mostly buy from India. 70%-75% is what we buy from India, maybe 20%-30% is what comes from outside. India had a bad impact suddenly. And second question about order book position on hand, as on now, we have order book of more than I think about 60 crores.
- Vinay Bhandari:** This is to be executable over one quarter?
- Mukesh Dhruv:** Yes, over the next quarter.
- Vinay Bhandari:** So it is a short term cycle, basically,?
- Mukesh Dhruv:** Yes, this was a short term cycle, which happened because of circumstances, which were beyond everybody.
- Vinay Bhandari:** Okay. Is this the nature of business?
- Mukesh Dhruv:** This was one particular thing, which happened to the entire industry, not only Repro, the whole industry underwent this.
- Vinay Bhandari:** And now the paper prices are back to normal, or...?
- Mukesh Dhruv:** Almost back to normal.
- Vinay Bhandari:** Okay fine sir. Thanks a lot.

- Moderator:** Thank you sir. Next question comes from Mr. Atul Mehra from Edelweiss Capital.
- Atul Mehra:** Good afternoon sir.
- Mukesh Dhruv:** Good afternoon Atul.
- Atul Mehra:** Sir, I just want to ask about the FOREX gains, in the past quarter like Q4 you had about a 5 crore profit on the FOREX front, and what is the kind of breakup you have for this quarter?
- Mukesh Dhruv:** The current quarter we have amount of 58 lakhs.
- Atul Mehra:** 58 lakhs of gain.
- Mukesh Dhruv:** No, 58 lakhs of loss.
- Atul Mehra:** And sir, one more question on what Vinay from Enam spoke about, mainly the raw material cost that you were saying. Over there, in the current quarter can you expect that the gross margin coming back to about say close to 48%, 49% levels?
- Mukesh Dhruv:** We never had 48% gross margin levels in the first place. Our operating margins PBDIT as you call it, the operating margins they have been in the range of 20%-21%.
- Atul Mehra:** Okay. Maybe raw material cost as a percentage of sales was about close to 52 odd percent.
- Mukesh Dhruv:** That's correct.
- Atul Mehra:** That's where we are looking at getting back to.
- Mukesh Dhruv:** Correct. That's what we are getting back to.
- Atul Mehra:** Alright. Thanks sir.
- Moderator:** Thank you sir. Dear participants, if you have a question please press * and 1 on your telephone key pad. Next follow up question comes from Mr. Vinay Bhandari from Enam Securities.
- Vinay Bhandari:** Sir, could you please explain me this FOREX loss of 58 lakhs, basically because I think rupee was trading at somewhere 46.50, 47, so how we have made a loss in this? What is basically this policy of hedging, like two quarters, three quarters, or what sir?

- Mukesh Dhruv:** Two things Vinay, one is as far as whether this is actual loss or not, it is not an actual loss. We had hedged as you rightly said, and the dollar was at a reasonably good level. We already hedged. But you know, this is the notional loss between the opening of the dollar and the closing of the dollar.
- Vinay Bhandari:** Yeah, I got that point.
- Mukesh Dhruv:** That's it. It is not a physical loss. It is not actual loss, but it is a notional loss. Because of AS 11.
- Vinay Bhandari:** I know you have to report as per AS 11. But just wanted to confirm basically what is our hedging policy means?
- Mukesh Dhruv:** Hedging policy is exactly what I had mentioned in the last quarter. Whatever is our total export orders that we have on hand, for the next two quarters, three quarters, whatever we feel are going to be the orders, less whatever imports we are going to do, less our all foreign currency payments, like ECB installments, ECB interest, and other things, and after that whatever is the balance, we hedge about 80% of that.
- Vinay Bhandari:** So, basically for two, three quarters you take a hedge?
- Mukesh Dhruv:** Yes, we take up to four quarters.
- Vinay Bhandari:** So, this means you must be hedged at around 48, 49 levels then sir?
- Mukesh Dhruv:** Yes we are hedged at that level.
- Vinay Bhandari:** But currently rupee is at 46, 47 levels, then gain should be there, no? Why loss?
- Mukesh Dhruv:** No, because what happens on the previous quarter closing and this quarter closing, the difference between assets and liabilities is something, which you create in the books. If your assets are more than the liabilities, there is the profit, if it is the other way around, there is a loss. So, depends on how you are placed at the end of the quarter. This 58 lakhs has nothing to do with the physical loss. But otherwise, yes, we are quite well hedged.
- Vinay Bhandari:** Okay sir. And what is the current cash position?
- Mukesh Dhruv:** We have a surplus of in the range of around 40-45 crores.
- Vinay Bhandari:** And debt?

- Mukesh Dhruv:** Debt, if you are talking all together along with the long term and short term?
- Vinay Bhandari:** Yes.
- Mukesh Dhruv:** It is about 100 crores.
- Vinay Bhandari:** Including FCCB?
- Mukesh Dhruv:** We don't have a FCCB, we have a ECB.
- Vinay Bhandari:** Sorry, ECB.
- Mukesh Dhruv:** Including the ECB, that is correct. I am talking about long term and short term both together.
- Vinay Bhandari:** Okay and what is your view on the current, basically growth or the opportunities in this sector now going forward, just wanted to have your view on this?
- Mukesh Dhruv:** Okay, we will put it like this that we are seeing the demand coming back. We are seeing the growth happening almost across the globe. UK, which was little sluggish in the previous quarters has started picking up in a good way. Africa segment where funding was a issue has started seeing the funding coming in, they are getting good big size orders now coming from that region. Previously we were dominant in one region of Africa now we are almost dominant in three regions, West Africa, East Africa and Sub Saharan and Southern Africa. The demand has started coming in and we can see growth happening in the coming year. If one has to give compared to year-on-year last year we have done 200 crores. We would be disappointed if we don't grow between 25% to 30% year-over-year. And this far basically we can see the top line from 49 crores has become 60 crores. So, the growth has been there from 49 to 60.
- Vinay Bhandari:** So, any new area where we are finding growth happening, which may increase the opportunity for our volumes and all?
- Mukesh Dhruv:** Yes, I am saying one is the exports where we see a big opportunity and second big area, which we are seeing and I think we are going to get good business is digital printing. In digital printing, like we did order for the Maharashtra government, which was almost about 5-1/2 to 6 crores just for the electoral rolls and once that process starts we are expecting repeat orders. Right now, we are looking at

Maharashtra then we can look at other states also in the country. You have got 36+ states; if you count the most recent ones then we have 40+ almost out there.

Vinay Bhandari:

But what sort of order is it in terms of basically what do you, we need to print what, I am not getting that?

Mukesh Dhruv:

We need to print the electoral roles, so every person who is eligible to vote in Maharashtra, his name along with his photograph has to be printed and about 4-4 copies have to be created and they have to be sent to each taluka, each district. We have to reach there and then they will validate that list. For example, if you are staying, say, in one of the suburbs of Bombay, then we have to send that entire list of the elector roll to that suburb of Bombay or to the election commission there, they would then go and verify with each house, each person whether it is correct or not, so it will get corrected and all that. Once the correction is done then again that comes back for printing and then we need to print 20-20 copies of each. For example, Vinay Bhandari is one of the voter, 20 copies of your electoral roll list will be printed, a few go to the commission, a few go to the votes and a few will be bought by the different political parties who want to woo you for their votes, so it is a big amount of printing.

Vinay Bhandari:

Okay and what sort of margins we are looking in such kind of orders?

Mukesh Dhruv:

Operating level, definitely around 30%.

Vinay Bhandari:

And how about the payment, means in terms of you are taking government orders, so any advance is there or what...

Mukesh Dhruv:

No, there is no advance; on completion of the entire order you get fully paid. You know the government has a fantastic system into place. People feel that governments normally don't pay in time. We don't feel like that, they have asked for a certain credit period and the point is after you complete your deliveries within the time frame they are supposed to pay you.

Vinay Bhandari:

Okay, fair enough, sir. Thanks a lot.

Moderator:

Thank your sir. Next question comes from Mr. Bhautik Doshi from MF Global.

Bhautik Doshi:

Hello? Yeah sir, how do you foresee the growth in the next one or two years?

- Mukesh Dhruv:** I just answered that, year-over-year we will be disappointed if we don't see 25% to 30% growth happening, that is what we are expecting.
- Bhautik Doshi:** Okay and sir we are expanding any capacities, like...
- Mukesh Dhruv:** Right now we have two plants, one in Surat, which is in the SEZ and the second one is in Vashi, New Bombay. At both these plants we are doing regular expansions, which would be, you know, there will be a CAPEX turnover of about 30 to 40 crores every year, which we are putting in these two plants, where we are upgrading these plants.
- Bhautik Doshi:** Sir, individually you are telling or for both the plants together 30 to 40 crores?
- Mukesh Dhruv:** No, I am saying for both the plants together.
- Bhautik Doshi:** Okay sir. Alright, thank you.
- Moderator:** Thank you sir. Dear participants please press * and 1 on your telephone keypads. Next question comes from Mr. Avinash Gorakshakar from Anagram Capital.
- Avinash Gorakshakar:** Hello, Mukesh Bhai, this is Avinash.
- Mukesh Dhruv:** Yes, Avinash, good afternoon.
- Avinash Gorakshakar:** Just wanted to understand, I believe the employee cost has increased by a significant amount in this quarter, if you compare it to the previous quarter of last year, so I was just wanting to understand, the 35% increase, has there been any kind of wage hike or has the number of employees increased, what could be the reason for such a big rise?
- Mukesh Dhruv:** Two things, one is the number of employees has not increased in numbers as you say, but between last year and this year there has been of course the regular yearly increment which has happened of all the staff members, two and most important, we have hired some very senior people in HR, in Production, and other areas, and plus in Marketing.
- Avinash Gorakshakar:** But on an annual basis Mukesh bhai, what is the kind of increase one could expect for say '10-'11, because last year the employee bill was about 24 odd crores.
- Mukesh Dhruv:** Yeah, I am saying in terms of percentage there will not be increase, though the absolute numbers might go up, but

with our growth in turnover and other things, the percentage wise I think we will be better off or equal to whatever percentage we were last year.

Avinash Gorakshakar: One more question, Mukesh bhai, I was just seeing the tax provision this time for this quarter, I think your PBT has increased marginally by just about 3 odd lakhs, but your tax expenses have gone up by almost 30 lakhs, and last year the tax payment was just about 97 lakhs, I mean, I wanted to understand what is the reason for such a sharp rise in the tax outgo?

Mukesh Dhruv: It is not an outgo, it is the deferred tax refund if you see clearly, which has been mentioned in brackets.

Avinash Gorakshakar: Okay, so it is not a deduction, okay.

Mukesh Dhruv: Yeah, it is not a deduction; it is a refund in impact, because at the Surat plant we don't end up paying taxes.

Avinash Gorakshakar: So, entirely whatever comes from Surat, Mukesh bhai is tax exempted, you mean?

Mukesh Dhruv: Absolutely, there are tax incentives in Surat because of the SEZ.

Avinash Gorakshakar: No, but going forward will you be wanting to shift a major portion to Surat, because you get a tax exemption there?

Mukesh Dhruv: Not necessarily, because that exemption is only for the export.

Avinash Gorakshakar: Okay, so domestic I think anyway you have to pay tax.

Mukesh Dhruv: Yeah, that's right.

Avinash Gorakshakar: Okay, thank you Mukesh bhai.

Moderator: Thank you Sir. Next is a followup question from Mr. Vinay Bhandari from Enam Securities.

Vinay Bhandari: Sir, last question from my side, all this export business we are delivering from Surat plant only?

Mukesh Dhruv: Most of it is going from Surat, but because of the capacity constraint if you get bulk order and which there is a timeframe or a limitation, then we do a part of it also from Vashi, New Bombay. A lot of UK business, which is requiring a different kind of machines which are there in Vashi, we do that also from Vashi. It is mixed, but Surat is

100% exports and you can say about 10% exports also happening from Vashi.

Vinay Bhandari:

Okay, but at peak capacity utilization levels, how much business can we generate from Surat plant?

Mukesh Dhruv:

Between 12 to 15 crores.

Vinay Bhandari:

From Surat?

Mukesh Dhruv:

Yes, per month I am talking about. If you are to analyze it, roughly about 140 to 150 crores.

Vinay Bhandari:

Right. Okay sir, fine. Thanks a lot sir.

Moderator:

Thank you sir. Dear participants, please press * and 1 for your questions. There are no further questions, now I handover the floor to Mr. Mukesh Dhruv for closing comments.

Mukesh Dhruv:

Thank you very much everybody for coming and participating in our con call and we truly appreciate your participation. I think I have answered most of the questions, but if there is anything which I missed out you all are free to e-mail to me or call me anytime if you want any information. We see a very exciting year for Repro India Limited, lot of growth that we expect in the current remaining part of the year, this quarter itself looks to be very, very good the way we are going about it and I see a good growth prospect for Repro India in the coming three quarters. Thank you very much everybody and have a nice evening, bye-bye.

Moderator:

Thank you sir. Ladies and gentlemen, this concludes the 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.
