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TO DELIVERY SOLUTIONS

"Repro India Limited Q2FY15 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY15 EarningsConference Call of Repro India Limited. As a reminder, all participant lines will be in the listen-only mode. 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 phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mukesh Dhruve – Executive Director of Repro India Limited. Thank you and over to you sir.

Mukesh Dhruve: Good evening all my friends and stakeholders, I welcome you back to this conference call of Repro India Limited. And I thank you for participating in this. We already sent the results to all of you and I am sure all of you must have seen the results. It has been a very interesting quarter and we have put in some very interesting strategies. Before, I take you through the finance numbers and other things I will hand it over to my colleague I think you all know now Dr. Pramod Khera who is with me and very quickly he will summarize the strategies that we have adopted for this quarter and the way forward on how we are going about this..

Pramod Khera: Thank you Mukesh. And good evening to all of you. We have, I hope the results we have sent and the presentation also to all of you and I am sure you must have got a chance to go through it. But I will quickly run through the presentation. So, if you look at the strategies and what we adopted for different businesses those have been highlighted in this presentation. We will start with the Repro Education Value Chain which you have been seeing every quarter and then the next slide talks about the strategic direction for all the initiatives first of all domestic initiative, then the exports, then about the new initiatives like RAPPLES and one very exciting new opportunity that we are looking at is the e-tailer and then finally what has been the finance strategy for Repro which has resulted in reduction in debt and some consolidation. So I will give a progress update on each one of these, starting off with the domestic market where we talked about strategy of value addition and growth. Before I get in to that, if you look at the next slide we talk about three key aspects for our investment for three key areas, one is RAPPLES which we had announced two quarters back as a new initiative of putting textbook and tablets and implementing the whole educational system in school. Then there is another initiative which you calling e-fulfillment for e-tailers with the excitement which we are seeing in the e-commerce space. Lot of books have been sold online today and Repro is very well positioned to take advantage of this opportunity which is explained in the slide subsequently. Then on the existing businesses whether it's for India or Africa what has been our focus and how we have moved on that. So going to the domestic business first, if you will see we are talking

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about offering the entire value chain of services to the publisher other than just printing starting from a lot of activities before printing like pre-press, content development and content management, product reengineering, etc., and then after printing that leads to fulfillment, etc. So just what we have done is that we have looked at certain select strategic domestic customers and tried to penetrate further into those client to get a larger share of the outsourcing that they do on print services. As a result, the domestic business this quarter has shown top line of 66 crores as compared to 36 crores same quarter last year. Which is almost a 90% growth, so strategy that we adopted for domestic market is on track and they were also showing results. So the key aspect here is that instead of one off transactional business that we used to do with each of our clients is becoming more of a partnership approach and where the clients are much more loyal, tied into a relationship, we are able to do long term planning, we are going to get some visibility on the annual business that we get from the client and also because they are offering more of services the realization from each of the client also becomes better thereby improving the margins. And lastly but most important also is that because of these range of services that we are offering to the publisher we are able to create entry barriers for competitors to come in and take away the business. So to summarize the third slide on domestic strategy talks about the Indian market which has grown almost 39% to be exact in the first half compared to the first half of last year. And we adopted a Pan India strategy; we are penetrating more and more in the East. South we already have now established ourselves as a major player over there, thus focusing on contractual tie up with large publishers and also the coaching segment which has now become a significant segment in our overall client base which includes clients like coaching institute like Akash, Narayana and Mahesh Tutorial, Vidhya Lanka, etc. So that has been the strategy as far domestic is concerned.

Coming to international there we are looking at the offering, see traditionally what we have been doing is, we have been working with publishers who get businesses either from the local government or from the open market and then they work with the publishers and they outsource to us. Vise-vis that we are looking at is directly looking at large tender from some of these countries. And we had some initial success is here, we have seen good opportunities come up in countries like Malawi, Congo, Borli and even Afghanistan. So we are been able to identify these opportunities and be present in those large tenders and seen some success also which would result into renewals going forward. So that has been the change as far as the international market is concerned.

Coming to the new initiative RAPPLES which we have been talking about in the last two quarters. We have seen, like last quarter we had mentioned that there are around 20

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odd schools where pilots are going on, we have been successful in converting 4 of these schools in the actual implementations where we have started a few classes with the RAPPLES solution in place and with paid students. Similarly on the front of tying up with the publishers that also has increased to around 35 publisher who are now on boards with us for offering their books on the RAPPLES solution and we are talking to many more as we go along we want to add them also to our content depository. We also would like to add what the next slide talk about prestigious awards that we won last quarter for RAPPLES being one of the best ICD solution for the K-12 segment and this we won against the competition from prestigious domestic and international players. This is a matter of pride for us which establishes the product that we have created and the ecosystem that we are trying to create we are on the right track and give us the confidence that yes we will be able to build on this further and have a solution which satisfies the need of students, teacher and the school. The next slide gives the entire ecosystem that I just mentioned which comprises of the technology, the publishers, the devices, the learning resource which impacts all the stakeholders including students, teachers, schools and the parents. This time we also have mentioned about a new opportunity or initiative on e-fulfillment. As all of you are aware, like I said in the beginning there is a lot of sales of books which is happening online and the problem here is in terms of fulfilling the need which is generated online through the websites like Flipkart, Snapdeal, etc and fulfilling them on time. So the next slide shows the entire delivery solution which typically works in such a situation where we have a e-retailing website there is process, orders, then there is a content depositary from where you can actually print books on demand rather than stocking and warehousing the books, the books can be printed as and when the order is received and then shipped directly to the customer or shipped to the e-retailers warehouse from there it can be shipped out. Now Repro with it's print on demand initiatives and the content depository that it maintained for all the publishers is very well positioned to act as a fulfillment partner for any of these retail sites. So we have looked at this opportunity, we are in active talks with some of the e-retailers and trying to put proof of concept model into place so these are early days but we are very excited about this opportunity and as we go along may be in the subsequent quarter we will see more about this.

Then coming to the last part which is our strategy for finance. Now since along with me my co-director Mukesh who is a finance expert is sitting here and I should hand it over to him to talk for this annual strategy.

Mukesh Dhruve: Thank you Pramod. Very quickly I think because I know most of the questions will come from the strategies that Pramod has discussed but important part and I think

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which we had mentioned even in the last concall that we are put in motion as finance strategy which has really worked for Repro this quarter. The finance cost has reduced, the interest to sales ratio have improved, the debtors and receivables I think which has been the more area of concern for us has completely changed. The finance cost which you all must have seen has reduced from a high of 2 crores coming down to 1.21 crores almost a 40% reduction over the previous quarter. The interest to sales ratio which was very high is about 4.25% is down to about 1.3% in this quarter. The debtor cycle which was area of concern and which is one of the reasons that we strategically took a decision of reducing our exports from those customers with huge outstandings from a peak of 182 days is now down to 133 day which is what we were aiming at, of course our targets to bring it down to below 120 days. The inventory has reduced from a peak of 34 crores in March 2014 to down to Rs. 20 crores this quarter and of course the operating margin if you see is what Pramod has explained in the previous slide has grown almost by about 140% from 2.95 crores to almost 6.56 crores. I think the results have been shared with all of you. We look forward to now your questions.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have first question from the line of Rahul Bhansali who is an individual investor. Please go ahead.

Rahul Bhansali: Sir in the last call you had mentioned that we can generate around 600-700 crores of sales, so just wanted to know if this figure of 600-700 crores is it installed capacity that we are talking about or is it the net sales that we are talking about.

Mukesh Dhruve: What we were referring to you in last call was, that up to 600-700 crores of the top line we do not need to do any more investments. So we can go up to the turnover of 700 crores, we do not need any new CAPEX or we do not need any new investments to be done.

Rahul Bhansali: So this 600 crores is net sales that you are talking about. We can go up to 600 crores without any extra CAPEX.

Mukesh Dhruve: That is correct.

Rahul Bhansali: And by when do you think we can reach that level and what has been the issue over the last one or two years in terms of ramping up the sales?

Mukesh Dhruve: The sales are being ramped up as you can see there has been a growth year on year at about 10% and that is what is happening, but yes if you notice current year we have

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consciously reduced our exports. However that has been very well compensated by the Indian market and the Indian growth as Pramod has explained to you from the previous quarter of 36 crores it has gone to almost 66 crores and that has been a very-very good growth. Almost a 100% growth if you compare the first half as far as the Indian business is concerned. There was a conscious decision to reduce exports because we had some collectables until we reduce it we did not want to take more exposure on exports. We do not give any forward looking statements but as you know last year we had a top line of about 411 crores. We should be growing at about somewhere the same percentage of the path but we do not give any forward looking statements. So up to 600 crores as we have mentioned we do not need any CAPEX to enhance that.

Rahul Bhansali: Okay. And sir what will be the ratio of domestic to exports going forward for April from now on?

Mukesh Dhruve: Difficult to predict but for this quarter it has been at 29:71. So domestic business has been 71%, exports has been at 29%.

Rahul Bhansali: Okay. And since we get lesser margins in domestic as compared to exports, do you see a hit in our margins going forward because our ratio of domestic is likely to be higher?

Mukesh Dhruve: If you notice in this quarter the margin has been very-very good though the domestic business is at 71% so as you can see with the values that Pramod has explained sometime back the margins have really improved in domestic business, it has grown and exports has just been at 29%.

Rahul Bhansali: But if you just compare that figure to the last six months of the last year I think there has been a decrease of around 40% so compared to the last year?

Pramod Khera: I would just like to go back to the strategies that we have talked about in the beginning. See for the domestic business we are looking at offering the entire range of services as per the value chain. Now if you just doing printing the margins are very low in India but when you are offering more services which includes fulfillment, which includes content management or improves content thing, then we are able to get better margins. Now though the percentage of exports in this quarter has come down compared to the previous quarter, the margins have not got that severally impacted, in fact the margins have more or less remain good that is because we have been able to improve our margins in the domestic business because of the strategy.

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Rahul Bhansali: Okay. And sir one final question from my side, sir in the last annual report on Page 88 in the cash flow statement the purchase of fixed asset is around 32 crores, now I understand that out of this 32 crores, 5 croers was spent on RAPPLES for the remaining 27 crores is it possible to give a breakdown of how much was the growth CAPEX and how much was the maintenance CAPEX?

Mukesh Dhruve: 10 crores of maintenance and 11 was for growth.

Pramod Khera: Rahul I would just like to add to the margin part what I mentioned. That you said that 40% reduction in the profit but if you really look at it, if you remove the RAPPLES expenses then the reduction will be 20%.

Rahul Bhansali: But the RAPPLES expense was for the last year as well for the six months ended 30th September, 2013 we also had an expense of RAPPLES is that correct?

Pramod Khera: Yes. What you said is right, even last six months this expense was there but the reduction which has happened is like I said it is not so this thing because of the more services that we have been able to offer in the domestic business.

Moderator: Thank you. The next question is from the line of Rohit Gala from Insync Capital. Please go ahead.

Rohit Gala: Sir coming back to the same margin question, what we are seeing your Q1 numbers if you see the margins were at around say 8% for Q2 they have come to 11.5, no doubt there is an increase but when we see on a Y-o-Y basis your 16 to 17% kind of a margins on Q2 and Q1 for base quarters purely because of your exports were higher side at 70% and now that your domestic has come to 70%. So how do you guide going forward for your H2?

Pramod Khera: Like I have mentioned what you are saying is absolutely right. Exports we definitely get better margins and because percentage of exports have reduced the margins got affected, however we have been able to compensate that with better margins from domestic and as we go along more and more customers we are moving now towards offering the entire value addition of services. And once we are able to do that, we should be able to improve the domestic margins still further and it is not that export business is going to disappear, export business is also going to start picking up as we go along and thereby the margins should be able to maintain there.

Rohit Gala: Sir can you just guide what would be your strategy now going forward on to your export markets?

Pramod Khera: So we have reduced our exports mainly for the fiscal consolidation strategies that Mukesh talked about because we had higher debtors which resulted in higher loans and higher interest cost. We had to go slow on exports so that we are able to consolidate and as you can see our interest to sales ratio has been reduced from 4.25% to 1.3% and debtor cycle has come down from 182 days to 133 days. Now having reached this level now we are very confident that yes we have our financial parameters under control and now we can go ahead and start getting more business from exports.

Mukesh Dhruve: The other point I think which Pramod also covered was when in exports we are now looking at tender and if you would have seen we are looking at tenders with some new countries, new areas we are looking at, like Malawi, countries like Congo, countries like Burundi where we got some tender and that will start getting executed. So going forward both I think domestic will start growing, export will now start picking up.

Rohit Gala: Sir two more question, of the current receivables at 137 crores how much are the exports receivables still outstanding?

Mukesh Dhruve: Of that exports will be about 72 crores.

Rohit Gala: What do our full year FY14 of 420 crores top line what was the exports revenue?

Mukesh Dhruve: You are talking about last year?

Rohit Gala: Yes.

Mukesh Dhruve: Last year it was about 200 crores.

Rohit Gala: So for the second quarter we have done around 28 crores and what would be for the first quarter?

Mukesh Dhruve: The first quarter we have done about 36 crores.

Rohit Gala: So roughly we have already doing half the run rate at 64 crores so you see now into next two quarters you would be able to ramp up that kind of an exports or what would be the strategy?

Mukesh Dhruve: I will put it like this, as a part of the fiscal consolidation which Pramod mentioned we consciously took a decision of reducing that, having said that now this having achieved and in this quarter we can see the consolidation getting over the exports will start coming up. Now how much we will do and what we can do is difficult to predict.

Rohit Gala: But the market opportunities is there, it is just that we are…

Mukesh Dhruve: Opportunity is huge to answer your question, opportunities we are talking of Africa as a continent of being 1.1 billion people of which 60% is a student group from 2 to 24 years, so if you take 60% of 1.1 billion we are talking about 650 million children and if you take the six or seven books a child, we are talking of 4 billon books which are required in that market and if you take just a dollar of book this is a market of $4 billion. So the biggest challenge is that one child one book is not happening in Africa it is 1:10, 1:12, 1:14 ratios are going on but the day that every President in that country want one child one book every government now we are talking like India there will be an education spend which was 2 to 3% of the GDP going to almost 6% of the GDP. Every new government which is coming in Africa wants about 5 to 6% of the GDP spend to happen on education. So the opportunity is huge coming forward I think we should be able to take advantages of the opportunities. And most important point I think which we mentioned again was, we wanted loans and interest to come down further and which is what we are trying to do.

Rohit Gala: Got your point. Sir coming to your e-fulfillment. Have you started any of your sales with any of the online partners or just it is in the process of negotiation still?

Pramod Khera: Like I mentioned we are in talk with some of these online companies and we want to put in place some proof of concept fulfillment model so we are experimenting with that, with some publishers and with some of these online retailers. Beyond that at this stage it is too premature to really disclose anything else.

Rohit Gala: Okay. So anything on to the commercial sales we are not seeing as of now in Q3 or somewhere?

Pramod Khera: It is too early.

Rohit Gala: Okay. Sir on to your RAPPLES can you just let us know what would be their revenue model per se. What we understand that you have been there getting into the South markets and with Bombay one of the schools you have just started can you just elaborate how really would be the revenue model?

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Pramod Khera: Like I mentioned here there are four schools now where we are implementing which students paying, what does it mean, That means that we are collecting fees from the student, now typically when one school implements this solution they start with one division, one class of 30 to 40 students and as we go along every month or every two months we add one-one more class, one-one more divisions. And we collect the fees from the student in advance like quarterly in advance that is the revenue model that we have. So going forward over the next two quarters what we see is that this four schools would increase because there are more pilots happening in more number of schools and thus that schools which we have implemented already there are number students would also start going up. So that is the way we are going forward and at this stage I am not really looking at this current financial year we will not have significant revenue which will impact our topline but next year onward we should be able to see some impact.

Rohit Gala: Okay. Sir any strategy why you are just focusing on the South and the North markets and not penetrating into the high western paying markets?

Pramod Khera: The point is that first of all for implementation we need to put up a lot of backend infrastructure into place for supporting the schools, logistics of the hardware and the software supports and the man power, etc. So if we try to do all over the country it will be stretching ourselves too thin. Hence we have launched this in Delhi Book Fair in the North we focused on the North. And from whatever little that we understand our education market in India we believe that South is a good market for education, where there are schools in Hyderabad, and schools in Bangalore, etc., we are willing to look at such new interventions. So we are looking at these markets initially and once we are able to stabilize and we have a significant scale in these two markets then we will definitely look at the rest of country also.

Rohit Gala: Sir lastl question on to your print on demand what kind of a contribution can you look at into you H2 coming up?

Mukesh Dhruve: Print on demand is something which is I would say in terms of EBITDA terms it is more than (+20%).

Rohit Gala: And on the top line front?

Mukesh Dhruve: On the top line front our estimates as compared to the previous year we will almost double this year.

Rohit Gala: So I presume you had done around 25 crores?

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Mukesh Dhruve: Correct around 28 to 30 crores and we are expecting almost doubling of that.

Rohit Gala: For the full year?

Mukesh Dhruve: For the full year.

Rohit Gala: Okay, sir. All the best and thanks a lot.

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

Mukesh Dhruve: Thank you everybody and thank you for taking out the time and participating with all of us. I would like to conclude by saying that Pramod has defined the four strategies area and all four of them look to be quite effective and therefore we wish to move forward in these four strategic directions and we look forward to an exciting quarter ahead and the year ahead. Look forward to seeing you in the next quarter. Thank you for participating. Good evening to everybody.

Pramod Khera: Good evening to all. Thank you everybody.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Repro India Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.