India Ratings & Research

Fitch Group

Mr. Arvind Singhal
Chief Financial Officer
Ricoh India Limited
2nd floor, Salcon Aurum Building,
Plot No 4, District Centre Jasola,
New Delhi- 110025.

January 22, 2016

Kind Attn: Mr. Arvind Singhal, Chief Financial Officer

Dear Sir,

Re: INR2bn Non-Convertible Debenture Programme

India Ratings and Research (Ind-Ra) has upgraded Ricoh India Limited's INR2bn Long-Term Non-Convertible Debenture (NCD) to 'IND AA-' from 'IND A'. The Outlook is Stable. The agency also has upgraded the Long-Term Issuer Rating of Ricoh India Limited to 'IND AA-' from 'IND A' with Stable Outlook.

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It will be important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason India Ratings deems sufficient

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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please contact the undersigned at 022 – 4000 1700.

Sincerely,

India Ratings

Sandeep Singh
Senior Director

Sudarshan Shreenivas
Director

India Ratings & Research
A Fitch Group Company

India Ratings Upgrades Ricoh India and its NCDs to 'IND AA-'; Outlook Stable

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JAN 2016

By Rakshit Kachhal

India Ratings and Research (Ind-Ra) has upgraded Ricoh India Limited's Long-Term Issuer Rating to 'IND AA-' from 'IND A'. The Outlook is Stable. The agency has also upgraded the company's INR2bn non-convertible debentures (NCDs) to 'IND AA-'/Stable from 'IND A' and INR3bn commercial paper programme (CP) to 'IND A1+' from 'IND A1'.

KEY RATING DRIVERS

Improved Standalone Operational Performance: The upgrade reflects a significant improvement in Ricoh India's operational performance in FY15 driven by robust revenue growth of 56% yoy to INR16,378m and margin expansion as EBITDA grew 89% yoy to INR1,441m in FY15. This was primarily on account of the higher-than-expected 110% growth in the IT services business. Revenue visibility has also improved as the company has bagged large orders such as system integration projects from India Post, Food Corporation of India, the Rajasthan government, among others.

Funds Infusion from Parent: The ratings also factor in the demonstrated financial support by Ricoh Company Limited, Japan (Ricoh Japan) to Ricoh India in terms of fund infusions through NCDs of INR2bn and CPs of INR2.7bn in FY15. The parent entity has plans to provide further funds to the company to support working capital requirements due to growing business volumes.

Operational and Strategic Linkages: The operational linkages of the company with the parent entity are strong as the Indian subsidiary acts as the front-end office for the parent to expand reach of its products in the local market. The parent also provides subsidy on the core products to Ricoh India to expand its reach in the Indian market. Ricoh India's strategy is also in line with the parent to establish itself as an office solution provider in both products and services.

Ind-Ra believes the company benefits from the parent's strategic intent for the Indian market with its continued support for any future growth led fund requirement. Ricoh India's only long term debt is in form of NCDs from its parent while some of the short term bank limits are also structured as carved out limits from the global limits of the parent entity.

Enhanced Working Capital Requirement: Ricoh India's working capital cycle stretched to 117 days in FY15 from 87 days in FY14. The working capital cycle is likely to remain stretched over the medium term due to changing revenue mix. The company avails around six months of credit on products sourced from the parent entity while a shorter credit period is available from third-party hardware suppliers for the IT services business whose contribution is rapidly increasing in the overall revenue.

Moderate Credit Profile: As expected by Ind-Ra, Ricoh India's credit metrics have remained moderate with the net debt leverage remaining high at 4.47x at FYE15 (FYE14: 4.31x). Also, its fixed charge coverage deteriorated to 1.62x at FYE15 (FYE14: 2.40x) due to higher debt and forex fluctuations impacting the cost of buyers credit for imports from its parent. The company had also incurred one-time charges for the issuance of the NCD and CP in FY15 amounting to INR89m which have been accounted for in our computation of fixed charge coverage. Despite high leverage, Ind-Ra draws comfort from the fact that about 27% of the total debt for the company has been infused by the parent entity to support growth-led fund requirement.

IT Business as Growth Driver: The company's IT business grew to INR10,065m in FY15 (contributing 61% to revenue) from INR4,771m in FY14 (contributing 45% of revenue). It was through the acquisitions of Momentum Infocare India Private Limited and Infoprint Solutions India Private Limited carried out in FY12 that the company developed capabilities in the IT services domain. Ricoh Japan also identifies IT services to be a growth driver and acquired mindSHIFT technologies Inc. USA (February 2014) and Future Tech Limited and Futureware Limited, South Korea (July 2014).

Capitalising a Global Brand: Ricoh India benefits from an established brand as well as advanced technological lineage derived from the parent. Ricoh Japan has a vintage of around 80 years and is a well-recognised brand in the office automation space globally. Ricoh India has been able to constantly grow its market share thereby capturing number one position in the copier based multi-function products and number three position in laser printers in Indian market.

RATING SENSITIVITIES

Positive: A significant improvement in the scale of business coupled with improved EBITDA margins and positive cash flow from operations could lead to a rating upgrade.

Negative: Future developments that could, individually or collectively, lead to a negative rating action include:
- Significant deterioration in the parent's financial profile
- Weakening of the linkages with parent, dilution of equity, reduction in support
- Significant deterioration in Ricoh India's scale of operations and/or stressed EBITDA margins thereby impacting the credit profile

COMPANY PROFILE

Ricoh India was incorporated as a JV between Ricoh Japan and RPG group (RPG Ricoh Limited) in 1993. It was listed in 1998 as Ricoh India Limited with 76% ownership with Ricoh Japan, and the rest of Indian public. Ricoh India is a leading player in the copier based laser MFPs market in India. The company operates through a network of 24 offices and over 2,500 dealers and business associates. During FY15, the company reported revenue of INR16,378m, EBITDA of INR1,441m and profit after tax of INR339m.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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