Compuage Infocom Limited (Revised)

October 10th, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	450.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short Term Bank Facilities	510.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**960.00 (₹ Nine Hundred Sixty Crore Only)**		

Details of facilities in Annexure-1

The revision in the ratings to the Long-Term Bank facilities of Compuage Infocom Limited (CIL) takes into account delay in equity infusion through rights issue, which was envisaged to be completed by September 30, 2022. The ratings continue to factor in stable scale of operation and profitability in FY22(FY: Refers to a period from April 1 to March 31) and improved scale in Q1FY23 along with moderate overall gearing and debt coverage indicators as on March 31, 2022. The ratings also continue to derive strength from experienced promoters with long track record in IT distribution business and continuous financial support provided by the promoters in the form of unsecured loans. The ratings are further strengthened by CIL's established market position, large scale of operations backed by its presence across various business segments with diversified product mix, strong distribution network, and its association with vendors having well established IT hardware/software brands, and prudent risk mitigation practices followed by the company with respect to the inventory and receivables management.

The above strengths, however, are tempered by CIL's working capital intensive nature of operations marked by near full utilisation of fund-based limits, large debt repayment due in H2FY23; albeit expected to decline going forward, thin profit margins inherent to the IT product distribution business, intense competition prevalent in the industry, technological obsolescence risks and foreign exchange fluctuation risks.

The ratings also take cognizance of the fact that promoters have already brought in Rs 13.60 crores part of promoters' contribution of rights issue, thus resulting in reduced utilisation of working capital limits in September 2022 also that the company is most likely to complete the process by end of the Q3FY23.

Rating Sensitivities

Positive factors: - Factors that could lead to positive rating action/upgrade:

- Overall gearing of less than 1.80 times and TOL/TNW less than 2.5 times on a sustained basis
- Improvement in ROCE more than 20% on a sustained basis.

Negative factors*: Factors that could lead to negative rating action/downgrade*

- Overall gearing of more than 2.75x on a sustained basis.
- Working capital cycle of more than 60 days on a sustained basis resulting in deterioration of company's credit profile
- Delay in fund infusion by way of Rights issue beyond Q3FY23.
- Working capital utilization (Fund Based) over 90% on sustained basis.

Detailed description of the key rating drivers

Key Rating Strength

Experienced promoters with long track record in IT/ITES distribution business

The company is promoted by Mr. Atul Mehta (CEO), along with Mr. Ajay Mehta and Mr. Bhavesh Mehta, who have rich experience of over three decades in the Indian IT/ITes peripherals distribution industry. The promoters and management have been the key driving force that has helped CIL in building vendor relationships with key IT hardware and software vendors. The board of directors comprises professionally qualified personnel with diversified industry experience. Furthermore, the promoters have supported the operations of the company by way of funds infusion through unsecured loans as when needed.

Wide distribution network catering to diversified product mix comprising of various reputed IT hardware and software brands

CIL has an established distribution network & niche presence across India. The company has exclusive contracts with Asus for its entire product range, with HP for its printing products, and with Samsung for products in mobility category. CIL has authorized distributorship of globally reputed IT hardware and software brands like CISCO, HP, Asus, Samsung, Microsoft, and others across product categories like PCs, computer peripherals & Other Hardware, mobile handsets, and digital cameras which denotes the strong presence of CIL in the IT products segment; further greater focus of the company to achieve partnerships with increasingly a greater number of brands in mobility segment will help CIL to achieve revenue growth. Some of key new partners added include Lexmark International, EPPS Infotech, Smartcard Marketing Systems (SKMG), Alcatel-Lucent, Optoma Corporation etc., The company's product mix is diversified owing to its presence across various business segments like sale of computer components and networking, sale of computer software, sale of telecom products and support services.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Prominent position in the Indian IT distribution industry

CIL is among the top 10 companies into IT peripheral trading business based on the market capitalisation. The company have long standing relationship with IT hardware and software brands like CISCO, HP, Asus, Samsung, Microsoft, and others across product categories like PCs, computer peripherals & Other Hardware, mobile handsets and digital cameras which denotes the strong presence of CIL in the IT products segment.

Improvement in Scale of operations and profitability margins although remains thin inherent to trading business

During FY22, TOI registered a robust y-o-y growth of 13% to Rs 4207.50 crores as against Rs 3730.36 crores which is mainly driven by strengthening of demand for PCs & IT and IT-enabled services for home learning and to manage the growing workforce in the ongoing work from home scenario, respectively. The major revenue contributor has been from the sale of notebooks, desktops, TFTs and hard disk. During FY22 the PBILDT margins have also improved to 2.33% from 2.08% in FY21 led by increase in revenue contribution from higher margin business segment like enterprise and cloud computing. The PAT margin remained below unity for the past 3 years ranging between 0.45%-0.72%. Furthermore, during Q1FY23 the TOI grew by 42% while the margins also improved to 2.81% from 2.61% as against Q1FY22, led by improved demand from all segments, primarily the enterprise segment.

Prudent risk mitigation practices w.r.t inventory and receivable

As a result of its long-standing association with its suppliers CIL gets two kinds of support for inventory from its vendors. One is stock rotation; wherein certain percentage of the products are returned to the vendors at regular intervals. Hence, the products which are slow moving or not moving products are returned to the vendors on rotation basis. Cisco is one such vendors which offers stock rotation policy. The second is price protection policy. In order for the inventory to sell due to its obsolescence, the vendors offer huge discount on the quoted price to sell the same products. Sometimes these discounts can be as high as 50%. Samsung offers price protection policy, thus reducing the inventory loss to a large extent. Also, CIL has covered its receivables through credit insurance from New India Assurance Company for sales up to Rs. 2,000 crores to mitigate the risk of non-payment by the debtors. Inventory and debtor's management helps CIL, to a certain extent, to get protected from shocks of write-offs.

Key Rating Weaknesses

Working capital intensive nature of business

Working capital intensity is another inherent characteristic of the IT distribution business, however, strong policies and operational framework has enabled CIL to efficiently manage its working capital cycle. Working capital intensity is another inherent characteristic of the distribution/dealership business, due to which CIL has a high leverage. The company extends credit of 30 days to 90 days to its resellers and credit of 45 days to 60 days to enterprise segment. Hence the average collection period is around 46 days. Generally, the vendors give a line of credit to the company. Once the limit is exhausted the company has to open Letter of credit or provide bank guarantee for additional procurement of the products. The utilization of fund-based bank limits remains high at around 90% providing limited liquidity back-up.

Moderate capital structure and debt coverage indicators:

The capital structure of the company continues to remain moderate with a TOL/TNW of 3.09x as on March 31, 2022, as against 3.30x as on March 31, 2022; albeit some marginal improvement. Further the overall gearing ratio improved to 2.32x as on March 31, 2022, from 2.76x as on March 31, 2021. Further the company has also taken long term covid term loan so that they do not face any liquidity issue and reduce the finance cost as the same carry lower interest rate as compared to the working capital borrowings. Furthermore, Total Debt/ GCA has also improved to 21.92 times as on March 31, 2022, from 30.49 times as on March 31, 2021, albeit remain higher. The company has unsecured loan of Rs 40 crores subordinated to Bank debt has been considered as a part of quasi equity. Moreover, in order to improve liquidity position, the company had planned to infuse equity by way of rights issue amounting to Rs.50 crore. The same was envisaged to be completed by Q2FY23, however, there has been delay in said rights issue and same is expected to be completed by Q3FY23. However, the comfort is drawn from the fact that the promoters have brought in Rs.13.60 crore during June 2022 to July 2022 period. Given the large repayment in FY23 coupled with thin profitability, translating in to thin DSCR, timely infusion of funds through rights issue remains critical from credit prescriptive.

Risk of technological obsolescence

Technological obsolescence is an inherent risk in any technology related business and also applies to the IT distribution business. However, CIL's vendors continue to provide the company significant support against technological obsolescence. CIL is compensated when a new model is launched, and the existing model is to be sold at a discount. Nonetheless, CIL continues to remain exposed to the risk associated with inventory holding and stock liquidation, which could have an adverse impact on its profitability

Susceptibility to foreign exchange fluctuations

CIL procures around 97% of its products from local units of the vendors while the remaining is imported. For the products imported (around 3%), the company hedges 100% of its exposure through forward contracts. Further, the company enjoys natural hedge from the goods sold outside India.

Liquidity: Adequate

The liquidity position of CIL remains Adequate with gross cash accruals of Rs 30.50 crore in FY22 and Rs 7.01 crore in Q1FY23 as against a total repayment obligation of Rs 45.11 crore in FY23. During FY24 & FY25 the company has repayment obligation of Rs 20 crores & Rs 15 crores. The current ratio of the company remained moderate at 1.35 times as on March 31, 2022, indicating that the company has sufficient current assets to meet its current liabilities obligation. Being a trading concern, the company has no additional capital expenditures expected in the future. Furthermore, CIL also derives comfort from the unutilized lines of cash credit facilities of around Rs.45.00crore (sanctioned limit: Rs.384 crore). Its bank limits are utilized to the extent of 90% for the past 12 months ending July 2022. The free cash and bank balance of however remained low (Rs.5.00crore as on March 31, 2022) with most of the cash/liquid investments are encumbered with banks as margin money.

Analytical approach: Consolidated

CARE has considered the consolidated financials of CIL for analytical purposes owing to financial and operational linkages between the company and its subsidiary. Consolidation includes CIL's wholly owned Singapore based subsidiary, Compuage Infocom (S) Pte Ltd. However, there were minimal operations in Compuage Infocom (S) Pte Ltd. in FY22.

Applicable Criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies
Wholesale Trading

About the Company

Compuage Infocom Limited (CIL)with CIN L99999MH1999PLC135914 and listed on BSE is promoted by Mr Atul Mehta, in 1987, is a distributor of IT products. Today, CIL has established itself as a distributor of major global IT brands. CIL's traded product portfolio comprises of 5 different verticals namely- PCs components & peripherals; Mobility products; Physical safety and security products; Enterprise solutions and Cloud computing. CIL has an established distribution network with a central warehouse located in Chennai and 3 redistribution hubs located at Kolkata, Delhi & Chennai. CIL has niche presence across India with 46 sales offices, 27 warehouses, and a team of 800 professionals catering to more than 12,000+ resellers spread across over 600 cities/towns in India.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23(UA)
Total operating income	3,730.13	4,207.50	942.04
PBILDT	77.41	98.05	25.25
PAT	20.47	26.77	6.16
Overall gearing (times)	2.73	2.22	NA
Interest coverage (times)	1.23	1.32	NA

A: Audited, UA: Unaudited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	450.00	CARE BBB-; Stable
Non-fund-based - ST-ILC/FLC		-	-	-	510.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Working Capital Limits	LT	-	-	-	-	-	1)CARE BBB; Negative; ISSUER NOT COOPERATING* (21-Feb-20) 2)Withdrawn (21-Feb-20) 3)CARE BBB; Negative; ISSUER NOT COOPERATING* (15-Nov-19) 4)CARE A-; Negative (27-May-19)
2	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (21-Feb-20) 2)CARE A3; ISSUER NOT COOPERATING* (21-Feb-20) 3)CARE A3; ISSUER NOT COOPERATING* (15-Nov-19) 4)CARE A2+ (27-May-19)
3	Fund-based - LT-Cash Credit	LT	450.00	CARE BBB-; Stable	-	1)CARE BBB; Stable (31-Mar-22) 2)CARE BBB+; Stable (27-May-21) 3)CARE BBB+; Stable (11-May-21)	-	-
4	Non-fund-based - ST-ILC/FLC	ST	510.00	CARE A3	-	1)CARE A3 (31-Mar-22) 2)CARE A3+ (27-May-21)	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
						3)CARE A3+ (11-May-21)		

* Long Term / Short Term

Annexure 3: Detailed explanation of covenants of the rated facilities:

Name of the Instrument	Detailed explanation
A. Financial covenants	
i) NA	NA
B. Non-financial covenants	
i) Non-Submission of Stock Statement	Monthly stock and book debt statement submit to bank by 10th of succeeding quarter, delay in submission will attract penal interest as applicable, at rates circulated from time to time.
II) Non submission of CMA/Renewal data for the period beyond 3 months	Will attract penal interest as applicable, at rates circulated from time to time.
III) Non submission of Financial Statement of previous year within 6 months of closure of financial year	Will attract penal interest as applicable, at rates circulated from time to time.

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-ILC/FLC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
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