

Compuage Infocom Limited

April 07, 2023

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	450.00	CARE BB; Stable	Revised from CARE BBB-; Stable
Short Term Bank Facilities	510.00	CARE A4	Revised from CARE A3

Details of facilities in Annexure-1

The revision in ratings to the bank facilities of Compuage Infocom Limited (CIL) takes into consideration, the stretched liquidity marked by consistent high working capital utilisation of limits despite inflow from recently completed rights issue in December 2022. The revision also factors in reduced financial flexibility as a result of consistent decline in share price. The ratings also take cognizance of resignation of Company secretary and two Non-executive Independent Directors. The ratings continue to remain tempered by CIL's working capital intensive nature of operations, 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 continue to factor in 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.

Rating Sensitivities: Factors likely to lead to rating actions.

Positive factors

- Overall gearing of less than 2.00 times and TOL/TNW less than 3.00 times on a sustained basis
- Improvement in ROCE more than 20% on a sustained basis.

Negative factors

- Overall gearing of more than 3.00x on a sustained basis.
- Working capital cycle of more than 60 days on a sustained basis resulting in deterioration of company's credit profile
- Working capital utilization (Fund Based) over 95% on sustained basis.

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.

Outlook: Stable

CARE Ratings believes that the company will continue to benefit from the extensive experience of the promoters and established track record in the industry.

Key Rating Weaknesses

Working capital intensive nature of business

Working capital intensity is another inherent characteristic of the IT distribution business, due to which CIL has a high leverage however, strong policies and operational framework has enabled CIL to efficiently manage its working capital cycle. Off late the receivables have been slower thus resulting into stretched liquidity marked by continued higher working capital utilization despite inflow of funds by way of rights issue in December 2023. 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 near to full utilization 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. 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

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

considered as a part of quasi equity. Moreover, in order to improve liquidity position, the company had infused Rs 41.52 crores by way of equity in December 2022.

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.

Consistent decline in share price

Significant reduction in the share price and Market Cap in the recent past, this apart the current market price is also much lower compared to the rights issue price of Rs 20 per share thus indicating reduced financial flexibility.

Resignation of Company Secretary & Non-Executive Independent directors

As per the BSE announcement dated March 29th, 2023, March 30th, 2023, two of the non-executive independent directors namely Mr Vijay Agarwal & Ms. Hetal Kudecha & Company secretary Ms Hasti Pala have resigned.

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.

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 9MFY23 the TOI grew by 14% while the margins also remained largely stable at 2.73% from 2.67% in 9MFY22, led by improved demand from all segments.

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. However, offlate the receivables have been slower in the month of March 2023 thus resulting in near to full utilization of limits. Hence the timely receipt of debtors resulting in to reduced working capital limits remains key monitorable.

Liquidity: Stretched

The liquidity position of the CIL remains stretched marked by near to full utilization of the limits as a result of stretched receivables. The company had achieved GCA of Rs 25 crores against the repayment obligation of Rs 36 crores in 9MFY23. During FY24 & FY25 the company has repayment obligation of Rs 20 crores & Rs 15 crores. Being a trading concern, the company has no additional capital expenditures expected in the future. 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.

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

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

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)	9MFY23(UA)
Total operating income	3,730.13	4,207.50	3354.01
PBILDT	77.41	98.05	91.58
PAT	20.47	26.77	23.06
Overall gearing (times)	2.73	2.22	NA
Interest coverage (times)	1.23	1.32	1.59

A: Audited, UA: Unaudited, NA: Not Available Note: 'the above results are latest financial results 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 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 BB; Stable
Non-fund-based - ST-ILC/FLC		-	-	-	510.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	450.00	CARE BB; Stable	-	1)CARE BBB-; Stable (10-Oct-22)	1)CARE BBB; Stable (31-Mar-22) 2)CARE BBB+; Stable (27-May-21) 3)CARE BBB+; Stable (11-May-21)	-
2	Non-fund-based - ST-ILC/FLC	ST	510.00	CARE A4	-	1)CARE A3 (10-Oct-22)	1)CARE A3 (31-Mar-22) 2)CARE A3+ (27-May-21) 3)CARE A3+ (11-May-21)	-

* Long Term / Short Term

Annexure 3: Detailed explanation of covenants of the rated facilities: NA**Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the 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 CompanyTo 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 us:

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