

## Compuage Infocom Limited

May 27, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	450.00 (Enhanced from 25.00)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable )	Reaffirmed
Short Term Bank Facilities	510.00 (Enhanced from 75.00)	CARE A3+ (A Three Plus )	Reaffirmed
<b>Total Bank Facilities</b>	<b>960.00</b> <b>(Rs. Nine Hundred Sixty Crore Only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

*The reaffirmation of the ratings assigned to the bank facilities of Compuage Infocom Limited (CIL) continues to derive strengths 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 aforementioned strengths are however tempered by CIL's working capital intensive nature of operations, moderate capital structure and weak debt coverage indicators, thin profit margins inherent to the IT product distribution business, intense competition prevalent in the industry, technological obsolescence risks and foreign exchange fluctuation risks.*

### Key Rating Sensitivities

#### Positives

- Overall gearing of less than 2 times and TOL/TNW less than 2.5 times on a sustained basis
- Improvement in ROCE more than 20% on a sustained basis.

#### Negatives

- Overall gearing of more than 4.00x on a sustained basis.
- Working capital cycle of more than 60 days on a sustained basis impacting the credit profile of the company.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Experience 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 of 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, laptops, 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.

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, laptops, computer peripherals & Other Hardware, mobile handsets and digital cameras which denotes the strong presence of CIL in the IT products segment.

#### **Improving profitability margins although remains thin inherent to trading business**

The total operating income (TOI) of the company decreased by 6% on a y-o-y basis to Rs.4,249crore in FY20 on account of nationwide shutdown in the last 15 days of March which is the peak time for the company to book its revenue. The PBILDT margin of the company has remained on the increasing trend over last 3 years, however, it continues to remain thin, and range bound between 2.06%-2.47% inherent to trading nature of the business. The PAT margin remained below unity for the past 3 years ranging between 0.45%-0.72%.

During 9MFY21, CIL reported a net profit of Rs.13.11crore over the TOI of Rs.2,664.26crore during 9MFY21. Furthermore, PBILDT margin remained stable at 2.31% in 9MFY21 (as compared to 2.27% in 9MFY20).

#### **Prudent risk mitigation practices w.r.t inventory and receivables**

The vendors offer two kind of support for inventory. 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. 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%.

Also, CIL has covered its receivables through credit insurance for sales to mitigate the risk of non-payment by the debtors. Strong 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 distribution/dealership business, due to which CIL has a high leverage. In general, the company has to maintain about 1 to 1.5 months of inventory. The company extends credit of 30 days to 45 days to its resellers and credit of 45days to 60 days to enterprise segment. Hence the average collection period is around 55 days. Generally, the vendors give a line of credit to the company. The utilization of fund-based bank limits remain high at around 95% providing limited liquidity back-up.

##### **Moderate capital structure and weak debt coverage indicators**

The capital structure of the company continues to remain moderate with a TOL/TNW of 3.70x as on March 31, 2020 as against 4.70x as on March 31, 2019; albeit improvement. The overall gearing has improved to 2.35x as on March 31, 2020 from 2.80x as on March 31, 2019. The overall gearing however deteriorated as on December 31, 2020 to 3.28x on account of covid term loan taken by the bank during FY21 to provide liquidity into the system coupled with higher LC acceptances.

The interest coverage ratio of the company remained flat at 1.72x over the past 3 years even on the back of improvement in the PBILDT level, primarily led by increased finance cost with the increase in working capital utilisation. TD/GCA of the company improved from 25.22x in FY18 to 17.08x in FY20 on account of lower LC acceptances, however, it continues to remain high.

##### **Prevailing competition in the IT/ITes distribution business leading to low operating margins**

The IT distribution business remains intensely competitive with a low degree of product differentiation throughout the industry with most of the players supplying computers of limited established brands. Furthermore, the margins in the industry are low as companies provide cost advantages and discounts to clients to achieve higher volumes.

##### **Technological obsolescence risk**

Technological obsolescence is an inherent risk in any technology related business applicable to the IT distribution business as well. CIL's vendors however continue to provide the company significant support against technological obsolescence. CIL is compensated when a new hardware model / software version is launched, and the existing model is to be sold at a discount. Nonetheless, CIL continues to remain exposed to the risks

associated with inventory holding and stock liquidation, which could have an adverse impact on its profitability in the event of company's inability to achieve timely liquidation of inventory.

#### **Susceptibility to foreign exchange fluctuations**

CIL procures around 97% of its products from local units of the vendors while the remaining is imported. The import value of goods (CIF value) for FY20 was Rs.418.62crore. 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. The company has incurred foreign exchange fluctuation loss of Rs.1.24crore in FY20 as compared to gain of Rs.0.42crore in FY19

**Liquidity: Adequate** – The liquidity position of CIL remain adequate with gross cash accruals of Rs 33.33crore in FY20 and Rs15.83crore in 9MFY21 as against a total repayment obligation of Rs11.57crore in FY21. The current ratio of the company remained moderate at 1.25 times as on March 31, 2020 indicating that the company has sufficient current assets to meet its current liabilities obligation. Further, CIL has availed covid term loan of Rs.33.50 crore during FY21 to provide additional liquidity in the system. Being a trading concern, the company has no additional capital expenditures expected in the future. Its bank limits are utilized to the extent of 95% for the past 12 months ending December 2020 and has sought enhancement in bank lines. The free cash and bank balance of however remained low (~Rs.7crore as on March 31, 2020) with most of the cash/liquid investments are encumbered with banks as margin money.

**Analytical approach:** 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 FY20.

#### **Applicable Criteria**

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Short-term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology: Consolidation](#)

[Rating Methodology: Service Sector Companies](#)

[Rating Methodology – Wholesale Trading](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

#### **About the Company**

Compuage Infocom Limited (CIL), 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. These products are sold to system integrators, corporate resellers, Original Equipment Manufacturers (OEMs), system assemblers and large format retailers. 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. CIL also has 69 service centers across the nation. The company procures majority of its supplies of computers, computer peripherals and mobile phones from the local units of the vendors.

<b>Brief Financials (Rs. Crore)</b>	<b>FY19 (A)</b>	<b>FY20 (A)</b>	<b>9MFY21 (U/A)</b>
Total Operating Income	4,531.36	4249.15	2,664.26
PBILD	93.55	104.91	61.57
PAT	20.40	30.51	13.11
Overall Gearing(times)	2.80	2.35	3.28
Interest Coverage(times)	1.72	1.72	1.48

A: Audited U/A: Un-audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. 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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Working Capital Limits	LT	-	-	-	-	1)Withdrawn (21-Feb-20) 2)CARE BBB; Negative; ISSUER NOT COOPERATING* (21-Feb-20) 3)CARE BBB; Negative; ISSUER NOT COOPERATING* (15-Nov-19) 4)CARE A-; Negative (27-May-19)	1)CARE A-; Negative (07-Jan-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)	1)CARE A2+ (07-Jan-19)
3.	Fixed Deposit	LT	-	-	-	-	-	1)Withdrawn (07-Jan-19)

4.	Fund-based - LT-Cash Credit	LT	450.00	CARE BBB+; Stable	1)CARE BBB+; Stable (11-May-21)	-	-	-
5.	Non-fund-based - ST-ILC/FLC	ST	510.00	CARE A3+	1)CARE A3+ (11-May-21)	-	-	-

**Annexure 3: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Non-fund-based - ST-ILC/FLC	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

#### Mr. Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Manohar Annappanavar

Contact no. : +91-22-6754 3436

Email ID: [manohar.annappanavar@careratings.com](mailto:manohar.annappanavar@careratings.com)

### Business Development Contact

#### Mr. Ankur Sachdeva

Cell: + 91 98196 98985

E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

#### Mr. Saikat Roy

Cell: + 91 98209 98779

E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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