

Compuage Infocom Limited

March 31, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	450.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short Term Bank Facilities	510.00	CARE A3 (A Three)	Revised from CARE A3+ (A Three Plus)
Total Bank Facilities	960.00 (Rs. Nine Hundred Sixty Crore Only)		

Details of facilities in Annexure-1

The revision in the ratings to the bank facilities of Compuage Infocom Limited (CIL) takes into account decline in scale of operation and profitability in FY21(FY: Refers to a period from April 1 to March 31) along with deterioration in overall gearing and debt coverage indicators as on March 31, 2021. The ratings 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 ratings also factor in increase in CIL's scale of operations during 9MFY22 (refers to the period from April 01 to December 31).

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 FY23, 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 draw comfort from the planned equity infusion of Rs.50 crore through rights issue in early part of FY23.

Rating Sensitivities

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

- 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.

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 of Rs 50 crores by way of Rights issue beyond September 2022

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.

¹Complete 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.

Improved profitability margins although remains thin inherent to trading business

During FY21 the PBILDT margin improved to 2.51% as against 2.37% in FY20 despite decline in revenue from higher margin business segment like enterprise and cloud computing. The PAT margin remained at 0.55% in FY21 as against 0.72% in FY20. led by higher finance charges. During FY21, CIL reported a net profit of Rs. 20.64 crore over the TOI of Rs. 3746.93 crore during FY21. During 9MFY22 the margins to 2.67% from 2.31% in 9MFY21 on account of 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.

Key Rating Weaknesses

Decline in scale of operation during FY21; albeit improvement in 9MFY22

The total operating income (TOI) of the company decreased by 11.87% on a y-o-y basis to Rs. 3746.93 crore in FY21 as against Rs 4249.15 crores on account of decline in revenue from higher margin business segments like enterprise and cloud computing. Furthermore, during 9MFY22 the TOI grew by 10% to Rs 2931.98 crores in FY21 as against Rs 2664.26 crores in 9MFY21 led by improved demand from all segments, primarily the enterprise segment.

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. 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 55 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 97% providing limited liquidity back-up. However, comfort is drawn from the fact that CIL, on consolidated basis, has free cash balance of Rs.7.82 crore (including Liquid Investment) as on March 31, 2021, and Rs 5.77 crores as on September 2021 providing some financial flexibility.

Moderate capital structure and debt coverage indicators:

The capital structure of the company continues to remain moderate with a TOL/TNW of 4.08x as on March 31, 2021, as against 4.63x as on March 31, 2020; albeit improvement. The overall gearing deteriorated to 2.76x as on March 31, 2021, from 2.35x as on March 31, 2020. Rs.40 crore of unsecured loan subordinated to Bank debt has been considered as a part of quasi equity. 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 well as term loan carry lower interest rate as compared to the working capital borrowings. The interest coverage ratio of the company declined to 1.50x due to the decline in PBILDT in absolute terms and higher finance cost, led by increase in working capital utilisation. TD/GCA of the company further declined from 14.52x in FY20 to 25.66x in FY21. Further, during 9MFY22 the interest coverage ratio remained largely stagnant at 1.45x as against 1.48x in 9MFY21. Also, Debt Service Coverage Ratio (DSCR) expected to remain low, given large scheduled repayment of term loan in FY23. Hence, 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. The company has reported a foreign exchange gain of Rs.0.58 crore in FY21 as compared to loss of Rs.1.24crore in FY20.

Liquidity: Adequate

The liquidity position of CIL remains adequate with sufficient gross cash accruals as against its scheduled repayment. The company reported a Gross Cash Accruals (GCA) of Rs 23.76 crore in FY21 and Rs18.88 crore in 9MFY22. During FY23 the company has repayment obligation of Rs 45.11 crores against an expected GCA of Rs 49 crores. Further, the company plans an equity infusion of Rs.50 crore through rights issue in early part of FY23. The current ratio of the company remained moderate at 1.35 times as on March 31, 2021. 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 97% for the past 12 months ending January 2022. The free cash and bank balance of however remained low (Rs.7.82crore as on March 31, 2021).

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 FY21.

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) 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)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(UA)
Total operating income	4,249.15	3,746.70	2931.98
PBILDT	105.16	93.97	78.36
PAT	30.76	20.47	16.33
Overall gearing (times)	2.37	2.73	NA
Interest coverage (times)	1.73	1.49	1.45

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 instrument / 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	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)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)	1)CARE A-; Negative (07-Jan-19)
2	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)CARE A3; ISSUER NOT COOPERATING* (21-Feb-20) 2)Withdrawn (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 (27-May-21) 2)CARE BBB+; Stable (11-May-21)	-	-	-
5	Non-fund-based - ST-ILC/FLC	ST	510.00	CARE A3	1)CARE A3+ (27-May-21) 2)CARE A3+ (11-May-21)	-	-	-

* Long Term / Short Term

Annexure 3: Detailed explanation of covenants of the rated instrument/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 10 th 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	Non-fund-based - ST-ILC/FLC	Simple
2	Fund based-LT- Cash Credit	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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