

Compuage Infocom Limited

May 27, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities (Fund Based)	277.45 (Enhanced from 200.50)	CARE A-; Negative [Single A Minus; Outlook: Negative]	Reaffirmed
Short-term Bank Facilities (Non-Fund Based)	487.00 (Enhanced from 480.05)	CARE A2+ [A Two Plus]	Reaffirmed
Total Facilities	764.45 (Rupees Seven Hundred Sixty Four crore and Forty Five lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Compuage Infocom Limited (CIL) continue to derive strength from CIL's long track record of operations, extensive experience of the promoters in the Indian IT/ITES peripherals distribution business, CIL's established market position and consistent growth in revenue leading to large scale of operations, its diversified product mix, its pan India presence supported by strong distribution network, and its association with vendors having well-established IT hardware/software brands. The ratings also factor in the recent infusion of funds in the company.

The aforementioned strengths are, however, tempered by CIL's leveraged capital structure and weak debt coverage indicators owing to working capital intensive nature of operations; thin profit margins inherent to the IT product distribution business, intense competition prevalent in the industry and technological obsolescence risk.

The ability of the company to sustain the competition in the industry while improving the profitability and liquidity profile remain the key rating sensitivities

Outlook: Negative

The outlook is 'Negative' on account of expected continual stress on the solvency position of the company characterized by increasing working capital requirement. The outlook may be revised to 'Stable' depending on timely infusion of funds leading to improvement in capital structure and debt coverage indicators as envisaged. CARE will also closely monitor infusion of additional funds as planned by the management by September 2019.

Detailed Rationale & Key Rating Drivers

Key Rating Strengths

Long track record of operations and extensive experience of the promoters in IT/ITES distribution business

CIL has well established track record of operating of over three decades in the IT/ITES distribution business with presence across various product segments and across the length and breadth of the country. The company is promoted by Mr. Atul Mehta, (Chairman and Managing Director), a first generation entrepreneur with rich industry experience. Over the years, CIL grew into a multi-location multi-product company with a prominent position as it is placed as among the major IT hardware distributors in India having strong relationships with a large base of vendors (32+ brands and 5 business verticals with different regional distribution coverage) and dealers. The management has been a key driving force behind development of strong relationships with reputed IT hardware/software vendors. Furthermore, the promoters have supported the operations of the company by way of funds infusion through unsecured loans in the past. In March 2019 there was an infusion of equity capital of Rs.16.84 crore in CIL. Further, on May 10, 2019 there was a fund infusion of Rs.10 crore in the form of Cumulative Non-convertible Compulsorily Redeemable Preference shares.

Established market position backed by wide distribution network, well-diversified product mix

CIL has an established market position backed by robust distribution network which consists of 38 branches, 40 warehouses and 67 service centres catering to over 12,000 resellers spread across 1,000 cities/towns in India. CIL continues to pursue tie-ups with well-established and reputed brands like CISCO, HP, Samsung, Microsoft, Apple, Asus etc. During FY18, CIL added complete accessories of Apple and Commscope (Systemax range of copper and fiber connectivity products and information management system) to its product portfolio. Furthermore, during H1FY19, CIL tied-up with CBC

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Corporation, Japan for CCTV surveillance products and ~15 cloud brands catering to the requirement of mid-sized and large enterprise requirements.

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. A strong distribution network along with a well-diversified product helps the company to register consistent growth in revenues.

Consistent growth in scale of operations with thin profitability

For FY19, the total income from operating income increased by 11% to Rs.4,531.36 crore on the back of growth in sales of both computer hardware and telecom products. CIL's profitability margins were in line with those in FY18. The margins were stagnant despite the increase in revenue on account of lower Fixed Deposits interest rates in FY19 as compared to that in FY18 and fluctuations in the foreign currency.

Key Rating Weaknesses

Leveraged capital structure and weak debt coverage indicators

The IT distribution business is highly working capital intensive leading to high gearing. Although CIL's overall gearing improved from 3.30x as on March 31, 2018 to 2.79x as on March 31, 2019 primarily on account of infusion of equity capital of Rs.16.84 crore in March 2019, it continued to remain high. Further, the debt coverage indicators continue to remain weak with interest coverage and total debt to GCA ratios at 1.72x and 22.58x in FY19 as against 1.71x and 25.22x respectively in FY18. With increasing scale of operations, the company's ability to manage its working capital requirement while improving its capital structure remains a key rating monitorable.

Competitive nature of business leading to low profitability 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 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.

Liquidity analysis:

CIL's business is highly working capital intensive in nature. The company funds the working capital requirement through both fund based facility and non-fund based facility. The average month end utilization of the fund based bank limits and the non-fund based bank limits remained high at 91.65% and 90.27% respectively for the twelve months ended April 2019. The limits are required mostly to fund debtors. Average collection period ranges between 45-50 days for the company. However, CIL has taken 100% insurance cover for its debtors.

Analytical approach: Consolidated approach. 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 FY19.

Applicable Criteria

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

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

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

[Rating Methodology-Wholesale Trading](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

About the Company

Compuage Infocom Limited (CIL), promoted by Mr Atul Mehta, in 1987, is a distributor of IT products. CIL's product portfolio includes more than 32 brands of monitors, laptops, PC hardware components, computer peripherals like

printers, scanners, pen drives, software, computer accessories and mobile handsets. These products are sold to system integrators, corporate resellers, Original Equipment Manufacturers (OEMs), system assemblers and large format retailers. The company has a nationwide presence with 38 branches, 40 warehouses 67 Service Centers and a team of over 800 trained professionals catering to more than 12,000 resellers across 1,000 cities/towns in India. The company procures majority of its supplies of computers, computer peripherals and mobile phones from the local units of the vendors.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	4,089.40	4,531.36
PBILD	84.61	93.55
PAT	20.29	22.69
Overall gearing (times)	3.30	2.79
Interest coverage (times)	1.71	1.72

A: 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 Instruments/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-Working Capital Limits	-	-	-	277.45	CARE A-; Negative
Non-fund-based - ST-BG/LC	-	-	-	487.00	CARE A2+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Working Capital Limits	LT	277.45	CARE A-; Negative	-	1)CARE A-; Negative (07-Jan-19)	1)CARE A-; Stable (12-Sep-17) 2)CARE A-; Stable (24-May-17)	1)CARE BBB+ (22-Sep-16)
2.	Non-fund-based - ST-BG/LC	ST	487.00	CARE A2+	-	1)CARE A2+ (07-Jan-19)	1)CARE A2+ (12-Sep-17) 2)CARE A2+ (24-May-17)	1)CARE A2 (22-Sep-16)
3.	Fixed Deposit	LT	-	-	-	1)Withdrawn (07-Jan-19)	1)CARE A-(FD); Stable (12-Sep-17)	-

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. Investors/market intermediaries/regulators or others are welcome to write to

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About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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