

Compuage Infocom Limited

January 07, 2019

Rating

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
*Medium Term Fixed Deposits (Proposed)	-	-	Withdrawn
Long-term Bank Facilities (FB)	200.50	CARE A-;Negative [Single A Minus; Outlook: Negative]	Reaffirmed
Short-term Bank Facilities (NFB)	480.05	CARE A2+ [A Two Plus]	Reaffirmed
Total Facilities	680.55 [Rupees Six hundred Eighty crore and Fifty Five lakh only]		

Details of instruments/facilities in Annexure-1

*The rating on fixed deposits have been withdrawn as the facility has been fully repaid

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Compuage Infocom Limited (CIL) continue to derive strength from CIL's protracted track record coupled with extensive experience of the promoters in the Indian IT/ITES peripherals 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 and consistent growth in revenue leading to large scale of operations backed by its presence across various business segments leading to diversified product mix, having pan india presence supported by strong distribution network, and its association with vendors having well-established IT hardware/software brands. The credit insurance availed by the company to broadly mitigate receivables risk and moderate liquidity position also provides some comfort to the ratings.

The aforementioned strengths are however tempered by CIL's leveraged capital structure and stress on the 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 risks.

Outlook: Negative

The outlook is revised to Negative from Stable (earlier). 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 in a phased manner i.e. partly by March 2019 and partly by September 2019.

Detailed description of the key rating drivers

Key Rating Strengths

Protracted track record 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 has abundance of experience in various segments/aspects of the industry. 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 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.

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

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 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 while maintaining its profitability margins

Despite presence in an intensely competitive IT distribution industry, CIL on a consolidated basis reported a healthy CAGR growth of 14.5% in revenues over FY16-18. For FY18, the revenues increased 14.5% Y-o-Y to Rs.4,089.40 crore on the back of growth in sales of both computer hardware and telecom products. During FY18, the company added new products which helped to contribute to the topline. CIL continues to maintain profitability margin at ~2% alongside increasing scale of operations. For H1FY19, the company reported a 15.2% Y-o-Y growth in revenues to Rs.2,179.63 crore with PBILDT margin of 2.22%. The company is expected to maintain its growth tempo on the back of strong market position, well established distribution network and its continuous attempt to tie-up with new vendors.

Key Rating Weaknesses**Working capital intensive operations leading to leveraged capital structure albeit liquidity at moderate levels**

The IT distribution business is highly working capital intensive leading to high gearing. CIL's overall gearing has increased from 2.68x as on March 31, 2017 to 3.30x as on March 31, 2018 and further to 3.55x as on September 30, 2018 on account of increased working capital requirement. Besides, the average utilization of fund based bank limits remained high at around 90% for past twelve months ended November 2018 and CIL, on consolidated basis, has free cash balance of Rs.55.29 crore (incl Liquid Investment) as on March 31, 2018 (PY 38.84 crore) providing liquidity at moderate levels. 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 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.

Analytical approach: Consolidated financials of CIL has been considered for arriving at the ratings. CIL has a wholly owned subsidiary i.e. Compuage Infocom (S) Pte. Ltd which has been considered in consolidation of financials

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](#)

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 penetrated over major cities and it 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)	FY17 (A)	FY18 (A)
Total Operating Income	3,570.46	4,089.40
PBILDT	76.16	84.61
PAT	17.45	20.29
Overall Gearing(times)	2.68	3.30
Interest Coverage(times)	1.69	1.71

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

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 care@careratings.com for any clarifications.

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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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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.

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	-	-	-	200.50	CARE A-; Negative
Non-fund-based - ST-BG/LC	-	-	-	480.05	CARE A2+
Fixed Deposit	-	-	-	0.00	Withdrawn

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Working Capital Limits	LT	200.50	CARE A-; Negative	-	1)CARE A-; Stable (12-Sep-17) 2)CARE A-; Stable (24-May-17)	1)CARE BBB+ (22-Sep-16)	1)CARE BBB+ (13-Aug-15)
2.	Non-fund-based - ST-BG/LC	ST	480.05	CARE A2+	-	1)CARE A2+ (12-Sep-17) 2)CARE A2+ (24-May-17)	1)CARE A2 (22-Sep-16)	1)CARE A2 (13-Aug-15)
3.	Fixed Deposit	LT	-	-	-	1)CARE A-(FD); Stable (12-Sep-17)	-	-

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CIN - L67190MH1993PLC071691